

2012
Mitec Telecom Inc.
First Quarter Report
For the 3-month period ending July 31, 2011



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 a facility in the United States. 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, 2011 (first quarter fiscal 2012). 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 2012 as compared to the three-month period ended on July 31, 2010 (first quarter fiscal 2011).

This MD&A supplements the unaudited condensed interim consolidated financial statements for the period ended July 31, 2011 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, 2011. Mitec's unaudited condensed interim consolidated financial statements and the accompanying notes form part of the first annual audited consolidated financial statements to be prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended April 30, 2012. They have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting as issued by the International Accounting Standard Board ("IASB"). For more information about the conversion to IFRS, please refer to note 20 of the unaudited condensed interim consolidated financial statements for the first quarter of fiscal 2012. All amounts in this MD&A are in thousands of Canadian dollars unless otherwise indicated. This MD&A contains information available to October 11, 2011. 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 27, 2011.

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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Prior to publication, the Board of Directors, on the recommendation of the audit committee, approved Mitec Telecom's condensed consolidated interim 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 solutions that are used in wireless applications with a historical focus on supporting speed, reliability and capacity through technologies designed for 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 competitive multimedia communications area. Mitec works closely with its customers to design and manufacture solutions which will enable them to achieve their respective industry objectives. 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 valuable knowledge base, Mitec positions itself to benefit from the growth in various markets which demand wireless support and invests in research and development (“R&D”) initiatives for new product lines to service these areas. 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 in a variety of different sectors. Mitec also focuses on which wireless technologies can benefit from its knowledge base and expertise so that it can provide a credible, global platform to introduce these innovative wireless solutions to top tier customers worldwide.

Mitec holds a competitive advantage in the military industry with its patented Keragis SSPA technology to address the 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. As well, Mitec believes that should it succeed in achieving qualification objectives, its patented technology may be strong enough to provide the basis for other initiatives, in addition to volume manufacturing, such as joint ventures and other collaborative methods to further exploit its value position.

Mitec’s headquarters are in Montreal, Canada and the Corporation has another operation in Poway, California (U.S.A.). As at July 31, 2011, the Corporation’s global workforce stood at 53 employees.

STRATEGIC INITIATIVES

In October 2010, Mitec’s Board of Directors announced an initiative to separate its various business divisions with the objective of unlocking their respective value and would allow Mitec more opportunity and ability to explore alternatives to create shareholder value.

These actions have provided the Corporation with a mechanism to extract shareholder value and have successfully generated significant non-dilutive cash as the Passive Satcom and China RF divisions were divested. Details on these transactions are described below

Following the divestures, Mitec evaluated its remaining business units, taking industry and market factors into account along with its overall corporate structure. One of the considerations being recommended to shareholders is the transfer of the Corporation’s principal operations into a newly created direct, wholly-owned subsidiary.

The purpose of this transfer is to make Mitec a holding company which will permit greater flexibility in the management of existing and future business operations. Transferring the Corporation’s operations to a

wholly-owned subsidiary will provide additional shareholder benefits, such as attracting investment partners who would otherwise not be able to participate in some of the opportunities the Corporation is cultivating.

In addition to the actions described above, Mitec continues to explore ways to position itself to benefit from the growth of wireless technology. For example, wireless use is becoming widespread in the healthcare industry where it can play a key role in the areas of patient monitoring, infection control, post operative care and drug delivery, among others. Mitec's recent strategic investment in Covalon Technologies Inc. (TSX-V: COV) allows the Corporation to participate in new market opportunities, mitigate execution risk and position itself as a major investor in an under-valued opportunity that has the potential to generate substantial returns to Mitec shareholders.

MAJOR EVENTS

The sale of Mitec's RF conditioning business in Suzhou, China in February, 2011 was a milestone event for the Corporation as it demonstrated that Mitec's previously announced strategy was sound. US\$4.1 million cash proceeds were generated from the sale. It became clear that the sale of this business was a pragmatic decision as many of the customers that Mitec was servicing have continued to pressure other suppliers, resulting in several business failures over the past year.

On May 16, 2011, Mitec completed the sale of its Passive Satcom division for gross proceeds in cash of \$2.9 million. This transaction further strengthened Mitec's balance sheet. Mitec continues to own its North American Wireless, VSAT and military divisions and has entered into agreements to provide volume manufacturing for several of its product lines as part of the transaction with the purchaser of Mitec's China based assets.

On July 11, 2011, Mitec announced that it had been selected to participate in the newest phase of the Kativik Regional Government's ("KRG") infrastructure development program by supplying components to support network infrastructure and services in the Inuit villages of Nunavik, the northernmost region of Quebec. Financial contributors to this phase of the regional infrastructure development program are Industry Canada, the government of Québec, Telesat and the KRG. Deliveries are expected to take place in the second quarter of the fiscal 2012.

On August 24, 2011, Mitec announced that it had executed a strategic alliance and invested \$2,496 in Covalon Technologies Ltd. by way of a private placement in exchange for approximately 9.9% of Covalon's issued and outstanding shares. This strategic relationship will provide Mitec with exposure to a team of highly credible and knowledgeable medical researchers, engineers and scientists who have an established track record of developing patented technologies as well as commercializing and marketing them. The opportunity allows Mitec to access some proprietary products in the health care area, with a valued-added market position already in place which can further be improved upon through the use of wireless technology. This initiative is a very effective way for Mitec to quickly enter into the lucrative and exciting wireless healthcare market, in a manner that mitigates execution risk and allows for maximum collaboration with the objective of improving healthcare and patient experiences.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table presents selected financial information and is derived from our audited consolidated financial statements for each of the eight most recently completed quarters:

<i>(in thousands of dollars, except per share data)</i>	2012 ¹				2011 ¹			2010 ²
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Sales	1,570	1,976	1,629	1,957	2,625	2,624	2,759	3,674
Gross profit	199	716	385	711	366	590	847	888
Research & development expenses	450	(55)	328	490	481	556	767	406
Selling and administrative expenses	1,190	1,035	775	945	830	1,121	1,161	1,056
Net loss from continuing operations	(1,768)	(1,505)	(1,074)	(948)	(1,057)	(4,670)	(1,523)	(794)
Discontinued operations	60	1,150	131	245	(276)	(566)	(782)	(1,043)
Net loss	(1,708)	175	(943)	(703)	(1,333)	(5,236)	(2,305)	(1,837)
Basic and diluted, net loss per share:								
- continuing operations	(0.01)	(0.01)	0.00	0.00	(0.01)	(0.02)	(0.01)	(0.00)
- discontinued operations	0.00	0.01	0.00	0.00	(0.00)	(0.00)	(0.00)	(0.01)
- net loss	(0.01)	0.00	0.00	0.00	(0.01)	(0.02)	(0.01)	(0.01)
Non-recurrent items:								
- Impairment of property, plant and equipment	—	140	—	—	12	34	—	—
- Impairment of goodwill	—	—	—	—	—	1,991	—	—
- Impairment of intangible assets	—	92	—	—	—	724	—	—
Total assets	14,021	16,619	18,841	20,327	19,015	20,704	23,703	26,585
Long-term debt	1,701	1,578	2,510	1,882	1,268	1,157	1,041	955
Cash and short-term investments	3,761	2,521	607	877	521	1,734	1,782	1,648

¹ In accordance with IFRS

² In accordance to Canadian GAAP before the adoption of IFRS

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

	Telecom		Satcom		Consolidated amounts	
	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$
Sales	32	694	1,538	1,931	1,570	2,625
Cost of sales	88	569	1,283	1,690	1,371	2,259
Gross profit	(56)	125	255	241	199	366

RESULTS OF OPERATIONS FOR THE FIRST QUARTER

Sales

For the three-month period ended July 31, 2011, consolidated sales from continuing operations reached \$1.6 million, a decrease of 40%, or \$1.0 million, from \$2.6 million from the first quarter in the previous year. The decrease in the Corporation's sales is largely attributable to a \$0.6 million decrease in the Wireless segment as compared to the same period in the previous year. Although Mitec's Coverage Solutions products have been integrated into state-of-the-art networks in collaboration with Mitec's customers and early commercialization has been successful, Mitec continues to compete in areas where technology is fiercely competitive and its products are vulnerable for not being sufficiently differentiated to provide a value-added benefit. Mitec continues to work with its customers who are committed to supporting their network improvement initiatives using Mitec Coverage Solutions components. However, the consequences of the inability to succeed in convincing the wireless network end user of the value-added benefit that Mitec and its customer can achieve with these components ultimately result in pricing competitiveness which generates unacceptable gross margins. Mitec believes that revising its approach and identifying wireless technologies which can benefit from its knowledge base and expertise in a manner that will allow Mitec to reposition itself so that it can provide the value-added benefit and therefore protect its market position is evident in its recently announced strategic alliance in the health care area.

During the same time, Mitec faced increased competition both in the VSAT and passive markets as the competition introduced more advanced technology, compared with Mitec's portfolio. Mitec reacted quickly to this shortfall and has succeeded in re-establishing itself in the second quarter of fiscal 2012. The military division experienced a 79% increase of its revenue during the current fiscal quarter as compared with same quarter in the previous year as a result of the qualification of 2 more products into U.S. defence programs. This momentum is expected to increase as Mitec's wholly-owned Keragis subsidiary, based in Poway, California, continues to demonstrate its value-added benefit to a variety of existing and new customers.

Revenue for the Wireless segment decreased by \$662, compared to the same quarter from the previous fiscal year, caused mostly by delayed orders as indicated above. For competitive reasons outlined above, the wireless products that were being deployed into field trials both in the United States and in India have not yet generated the volume orders anticipated. The shift in Mitec's wireless sales strategy, introducing a new series of coverage solution product lines developed in prior years which were expected to become the foundation for the North American Wireless sales strategy continues to be delayed. Mitec has succeeded in qualifying several of its coverage solutions with large, international telecom operators and network providers and continues to promote these products in order to achieve profitability and revenue growth. The Corporation's new product lines were developed to address the always increasing demand in bandwidth as well as to resolve network interference issues with both wireless original equipment manufacturers and operators as well as to ensure the Corporation was successful in differentiating itself against increased worldwide competition. These products include single and multi-carrier TMBs and diplexers and high power amplifiers ("TMA's") combinations as well as Distributed Antenna Systems ("DAS").

These results do not consider sales from the RF conditioning segment in China and the sale of the passive Satcom operation division since these business units were sold and their results are presented as discontinued operations.

<i>(in thousands of dollars, except percentages)</i>	2012					2011			2010
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
	\$	\$	\$	\$	\$	\$	\$	\$	
Telecom	32	148	237	147	694	146	227	536	
% of total sales	2.1%	7.5%	14.5%	7.5%	26.5%	5.6%	8.2%	14.6%	
Satcom	1,538	1,828	1,392	1,810	1,931	2,478	2,532	3,138	
% of total sales	97.9%	92.5%	85.5%	92.5%	73.5%	94.4%	91.8%	85.4%	

Geographical Distribution

	North America	Europe	Asia	Other
2012 Q1	66%	8%	8%	18%
2011	52%	13%	14%	21%
2010	61%	22%	10%	7%

Gross profit

Gross profit from continuing operations for the first quarter of fiscal 2012 was \$199, a decrease of \$167 from \$366 in the first quarter of fiscal 2011. The nominal change in gross profit of negative \$0.2 million as compared with the significant reduction in overall revenue of \$1.0 million is further evidence that Mitec has succeeded in focusing in areas that generate acceptable gross margin returns in the areas it continue to support. Mitec expects to transition its business towards sustainable, long term profit initiatives through a corporate re-organization as outlined in its 2011 Notice of Annual and Special Meeting and Management Proxy Circular which has been circulated to Mitec Shareholders and is available for viewing on Mitec's website and on Sedar (www.sedar.com). The consequences of this re-organization will further position Mitec to achieve its objectives as it relates to achieving acceptable gross margin levels.

Telecom gross profit for the first quarter of fiscal 2012 was negative \$0.1 million, a decrease of \$0.2 million from \$0.1 million for the same period in fiscal 2011. Satcom gross profit for fiscal 2011 remained the same as compared with the first quarter of fiscal year 2011 at \$0.2 million.

Keragis' military market space, where the Corporation experiences stronger margins over its other product lines delivered acceptable gross profit during the quarter. The shift in Mitec's wireless sales strategy, introducing a new series of coverage solution product lines developed in prior years, has not yet achieved the anticipated milestones.

<i>(in thousands of dollars, except percentages)</i>	2012 ¹				2011 ¹			2010 ²
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Telecom	(56)	(163)	(98)	67	125	7	(45)	196
% of Telecom sales	(169.8%)	(109.8%)	(41.0%)	45.6%	18.1%	4.9%	(19.8%)	36.5%
Satcom	255	879	483	644	241	583	892	692
% of Satcom sales	16.5%	48.1%	34.6%	35.6%	12.5%	23.5%	35.2%	22.1%

¹ In accordance with IFRS

² In accordance to Canadian GAAP before the adoption of IFRS

Research and Development Expenses

R&D expenses, net of investment tax credits, for the first quarter of fiscal 2012 were \$450 compared with \$481 in the first quarter of fiscal 2011. This level of expense is expected to remain in order to allow the Corporation to achieve technical leadership. The Corporation intends to support R&D either directly or indirectly, to ensure these expenditures result in acceptable long-term profitability, but will remain focused on ensuring that gross margins are acceptable and will not support those product lines which, because of increased competition, market shifts or other variables, will not provide evidence of acceptable long-term profitability. During the last two quarters, several new product lines were introduced and are now entering into commercial sales phases, however, since some opportunities require custom commercialization, additional R&D may be required, which expense must be evaluated to ensure that the related opportunities will continue to provide predicted gross margins to the Corporation.

Selling and Administrative Expenses

Selling and Administrative ("S&A") expenses were \$1.2 million for the first quarter in fiscal 2012 compared with \$0.8 million in the first quarter of fiscal 2011. The increase was a result of various restructuring activities undertaken during the quarter in order to bring the S&A costs in line with current revenue stream. The total value of these restricting activities is expected to be important.

Financial Expenses

Financial expenses were \$325 for the first quarter in fiscal 2012 compared with \$77 in the first quarter of fiscal 2011 to consider the accretion expense related with convertible debentures issued in October, 2009.

Share-based compensation

The amount of the expense totalled \$2 for the first quarter in fiscal 2012, a decrease of \$21 as compared with the first quarter of fiscal 2011. The Corporation did not issue any stock options during the current quarter of fiscal 2012. As at July 31, 2011, a total of 7,796,000 stock options were outstanding, of which 7,400,000 were exercisable.

Loss on disposal and impairment of Property, Plant and Equipment

Management periodically reviews the property, plant and equipment carrying value in light of the Corporation's strategic plan and general business environment. During the first quarter of 2011, the Corporation determined that the carrying value of certain assets consisting mostly of machinery and equipment and furniture and fixtures were no longer recoverable. Consequently, property, plant and equipment with a carrying value of \$nil (2011 – \$12) were written off.

Discontinued Operations

As a result of a divestiture transaction that occurred earlier in 2011 and relating to the operations of Mitec Communications Ltd. and Mitec Telecom (Suzhou) Company Ltd., activity which was included in the Telecom segment, has been reported as discontinued activities. Revenue decreased by \$1.8 million compared to the same period in the previous fiscal year.

On May 16, 2011, the Corporation divested certain assets of its Satcom operations for a cash consideration of \$2,900. The carrying value of the assets disposed on May 16, 2011 was \$2,270. In relation to this transaction, the Corporation incurred incremental direct costs of \$463 resulting in a gain of \$167 recorded in the Condensed Interim Consolidated Statement of Comprehensive Loss. As result of the transaction, the portion of the operations that was included in the Satcom segment has been reported as a discontinued activity in the Condensed Interim Consolidated Statement of Comprehensive Loss. Depreciation relating to property, plant and equipment included in discontinued operations was \$7 (2010 –\$28) and amortization relating to intangibles was \$5 (2010 – \$1).

Net Loss

The net loss from continuing operations for the first quarter of fiscal 2012 was \$1.7 million, or \$0.01 per share, an increase of \$0.4 million compared to a loss of \$1.3 million, or \$0.01 per share, for the period ended July 31, 2010.

Management plans to evaluate its remaining business divisions and provide shareholders with a viable strategy to achieve its objective of allocating its resources in areas that provide long-term sustainable profitability. Part of this strategy involves Mitec re-examining its corporate structure and the conclusion that it is in the best interests of Mitec to recommend to shareholder that they approve the transfer of substantially all of the Corporation's operating assets and liabilities to a newly-created, direct, wholly-owned subsidiary (the "New Sub"), pursuant to an asset transfer agreement (the "Asset Transfer Agreement").

Toward this end, the Board of Directors has unanimously approved, subject to Shareholder approval, the transfer of substantially all of the Corporation's operating assets and liabilities to the New Sub (the "Transfer"). Details of this recommendation are available in Mitec's 2011 Notice of Special and Annual Meeting and Management Proxy Circular which has been circulated to Mitec Shareholders and is available for viewing on Mitec's website and on Sedar (www.sedar.com).

Earnings before Interest, Taxes, Depreciation and Amortization

In addition to discussing earnings measures in accordance with IFRS, 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 IFRS and is therefore unlikely to be comparable to similar measures presented by other companies.

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

	2012				2011			2010
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<i>(in thousands of dollars)</i>								
	\$	\$	\$	\$	\$	\$	\$	\$
Loss from continuing operations	(1,768)	(1,505)	(1,074)	(948)	(1,057)	(4,670)	(1,523)	(794)
Income taxes	—	—	—	—	—	242	(39)	(39)
Amortization and gain and loss on disposal and impairment of property, plant and equipment, intangible assets, goodwill, and investments	151	371	267	258	219	3,074	362	337
Net finance costs	290	192	234	207	187	299	162	221
EBITDA	(1,327)	(942)	(573)	(483)	(651)	(1,055)	(1,038)	(275)
Effect of foreign exchange and stock-based compensation	37	793	122	18	(86)	297	319	38
Adjusted EBITDA	(1,290)	(149)	(451)	(465)	(737)	(758)	(719)	(237)

LIQUIDITY AND CAPITAL RESOURCES

The Corporation had \$3.6 million of cash, cash in escrow, and short-term investments as of July 31, 2011, compared to \$2.5 million as of April 30, 2011. This amount might not be sufficient to cover its operating requirements and its capital expenditures under its current operating structure. The Corporation is pursuing various strategies aimed at ensuring that it continues operating as a going concern in the foreseeable future. Please refer to the "Going concern" section below for a more detailed analysis of the Corporation's strategy with regards to liquidity and capital resources.

Operating Activity Cash Flows

Cash flow from operating activities was negative \$1.9 million in the first quarter of fiscal 2012, a decrease of \$2.5 million from \$0.4 million cash flow generated in the corresponding quarter of fiscal 2011. The decline in sales and the more important net loss explain this decrease in cash flow from operations.

Investing Activity Cash Flows

Cash flow from investing activities was \$2.6 million for the first quarter of fiscal 2012, a consequence of the net proceeds realized on the sale of the Passive Satcom division. Acquisitions of property, plant and equipment were not significant. During the corresponding quarter of fiscal 2011, cash flow used in investing activities was negative \$75.

Financing Activity Cash Flows

Financing activities resulted in a net cash inflow of \$204 in the first quarter of fiscal 2012 following the issuance of 6 million shares. During the corresponding quarter of fiscal 2011, the cash outflow was \$0.6 million, following the repayment of the credit facility.

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 year.

	2012	2011
	\$	\$
Long-term debt, including current portion	1,701	1,578
Shareholders' equity	9,482	11,180
	11,183	12,758

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 \$136.5 million as at July 31, 2011 and a loss from continuing operations in the amount of \$1,768 for the period then ended. Mitec's current financial condition does not allow the Corporation to repay its upcoming debentures, which are due October 19, 2011. 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 financial statements, significant adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used.

During the period, the following transaction, aimed at addressing the uncertainties described above, occurred:

- a. On May 16, 2011, Mitec concluded the sale of certain assets relating to Mitec's legacy Satcom business to a Quebec-based provider of microwave components. Gross proceeds of \$2.9 million in cash were generated from this sale.

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

1. Exploring, with the Board of Directors, potential opportunities relating to the sale of selected business segments, divestiture of certain assets or the acquisition of complementary and synergetic assets or businesses;
2. 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 and long-term profitability;
3. Approaching potential lenders and investors to secure additional debt and/or equity financing.

The Corporation continues to evaluate its remaining business divisions and plans to provide shareholders with a viable strategy to achieve its objective of allocating its resources in areas that provide long-term sustainable profitability. Part of this strategy involves Mitec re-examining its corporate structure and the conclusion that it is in the best interests of Mitec to recommend to shareholder that they approve the transfer of substantially all of the Corporation's operating assets and liabilities to a newly-created, direct, wholly-owned subsidiary (the "New Sub"), pursuant to an asset transfer agreement (the "Asset Transfer Agreement"). Toward this end, the Board of Directors has unanimously approved, subject to Shareholder approval, the transfer of substantially all of the Corporation's operating assets and liabilities to the New Sub (the "Transfer"). Details of this recommendation are available in Mitec's 2011 Notice of Annual and Special Meeting and Management Proxy Circular which has been circulated to Mitec Shareholders and is available for viewing on Mitec's website and on Sedar (www.sedar.com).

Management believes that should the Corporation be successful at achieving its stated objectives, 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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Corporation has adopted IFRS for its first quarter 2012 unaudited condensed interim consolidated financial statements. These condensed interim consolidated financial statements, including the 2011 comparative figures, are prepared in accordance with IFRS and IAS 34, Interim Financial Reporting. During the first quarter of 2012, management finalized its IFRS accounting policy choices. These accounting policies have been disclosed in the condensed interim consolidated financial statements for the three-month period ended July 31, 2011, and have been approved by the Company's Audit Committee. In addition, the Company has finalized its opening balance sheet as well as the unaudited condensed interim consolidated financial statements for each of the 2011 quarters based on these accounting policies.

The Corporation has also completed the changes to business processes, financial systems, accounting policies, disclosure controls and internal controls over financial reporting. No material change in business processes, financial systems, disclosure controls and internal controls over financial reporting resulted from the adoption and implementation of IFRS. The following tables provide a summary of the Canadian GAAP

and the IFRS transitional adjustments that were made to the statement of financial position as at May 1, 2010 and April 30, 2011 as well as to the statement of comprehensive income as at July 31, 2010. Please refer to note 20 to the unaudited condensed interim consolidated financial statements for the three month period ended July 31, 2011 for the complete discussion and reconciliations of the financial statements prepared in accordance with IFRS 1, First-Time Adoption of International Financial Reporting.

Opening financial position May 1, 2010

(in thousands of dollars)

	Notes	Canadian GAAP	IFRS Adjust-ments	IFRS
Assets				
Current				
Cash		1,552		1,552
Cash held in escrow				
Short-term investments, consisting of certificates of deposit		181		181
Trade and other receivables		2,174		2,174
Income tax credits recoverable		755		455
Inventories		3,094		3,094
Prepaid expenses and other assets		320		320
Current assets related to discontinued operations		6,630		6,630
Total current assets		14,406		14,406
Property, plant and equipment		2,104		2,104
Intangible assets		1,720		1,720
Investments		25		25
Non current assets related to discontinued operations	(c)	2,449	(184)	2,265
Total non-current assets		6,298	(184)	6,114
Total assets		20,704	(184)	20,520
Liabilities and Equity				
Current				
Credit facility		733		733
Accounts payable and accrued liabilities		3,777		3,777
Current portion of long-term debt		—		—
Current liabilities related to discontinued operations		2,284		2,284
Total current liabilities		6,794		6,794
Long-term debt		1,157		1,157
Total non-current liabilities		1,157		1,157
Equity				
Common shares		132,142		132,142
Warrants		1,152		1,152
Equity component of convertible debentures		768		768
Contributed surplus		10,802		10,802
Deficit	(a) (b) (c)	(131,427)	(868)	(132,295)
Accumulated other comprehensive loss	(a)	684	684	—
Total equity		12,753	(184)	12,569
Total liabilities and equity		20,704	(184)	20,520

Financial position April 30, 2011

(in thousands of dollars)

Notes	Canadian GAAP	IFRS Adjust-ments	IFRS
		\$	\$
Assets			
Current			
Cash	2,000		2,000
Cash held in escrow	339		339
Short-term investments, consisting of certificates of deposits	182		182
Trade and other receivables	2,886		2,886
Income tax credits recoverable	276		276
Inventories	2,896		2,896
Prepaid expenses and other assets	195		195
Current assets related to discontinued operations	3,910		3,910
Total current assets	12,684		12,684
Property, plant and equipment	1,629		1,629
Intangible assets	1,237		1,237
Non-current assets related to discontinued operations	(c) 1,255	(186)	1,069
Total non-current assets	4,121	(186)	3,935
Total assets	16,805	(186)	16,619
Liabilities and Equity			
Current			
Credit facility			
Accounts payable and accrued liabilities	3,478		3,478
Current portion of long-term debt	1,578		1,578
Current liabilities related to discontinued operations	569		569
Total current liabilities	5,625		5,625
Long-term debt			
Total non-current liabilities			
Equity			
Common shares	132,896		132,896
Equity component of convertible debentures	786		786
Contributed surplus	(b) 12,034	(39)	11,995
Deficit	(a) (b) (c) (134,800)	(19)	(134,819)
Accumulated other comprehensive loss	(a) 264	(128)	136
Total equity	11,180	(186)	10,994
Total liabilities and equity	16,805	(186)	16,619

Reconciliation of comprehensive income for the three-month period ended July 31, 2010

(in thousands of dollars)

	Notes	Canadian GAAP	IFRS Adjust-ments	IFRS
		\$	\$	\$
Sales		2,625		2,625
Cost of sales	(c)	2,258	1	2,259
Gross profit		367	(1)	366
Expenses				
Research and development		481		481
Selling and administrative		830		830
Loss on disposal and impairment of property, plant and equipment		12		12
Share-based compensation	(b)	33	(10)	23
Total expenses		1,356	(10)	1,346
Results from operating activities		(989)	9	(980)
Net finance costs		77		77
Net loss for the period from continuing operations		(1,066)	9	(1,057)
Discontinued operations				
Loss from discontinued operations, net of income taxes		(276)		(276)
Net loss for the year		(1,342)	9	(1,333)
Net change in the unrealized gain on translating financial statements of self-sustaining foreign operations		(32)		(32)
Net change in the unrealized gain on translating financial statements of discontinued operations		60		60
Other comprehensive gain		28		28
Comprehensive loss for the period		(1,314)	9	(1,305)

- (a) Currency translations: These adjustments are the result of the application of IFRS 1 whereby the cumulative translation adjustment balance was brought to zero at the date of transition.
- (b) Share-based payments: These adjustments are the results of the adoption of IFRS 2 relating to the changes in methodology and timing of recognition of share-based payments.
- (c) Depreciation: Following the application of IAS 16, the building was found to comprise separate components for which different depreciation methods and rates are appropriate.
- (d) Income taxes: A number of differences exist between Canadian GAAP and IFRS in regards to deferred tax assets and liabilities, including those related to deferred tax assets or liabilities arising from business combinations but there is no impact from these differences on the balances presented.

Critical accounting policies and estimates

The preparation of consolidated financial statements in accordance with IFRS requires management to adopt accounting policies and to make certain estimates and assumptions that the Company believes are reasonable based upon the information available at the time these decisions are made. Accounting policies and estimates are not significantly different than those disclosed in the financial statements for the year ended April 30, 2011, except for accounting policies and estimates involving foreign currency translation, impairment and stock-based compensation. Refer to the unaudited condensed interim consolidated financial statements for the three-month period ended July 31, 2011, for discussions on accounting policies and estimates that are the most important in assisting, understanding and evaluating the Company's consolidated financial statements.

Change in these estimates and assumptions could have a significant impact on the Company's consolidated financial statements.

Future accounting changes

A number of new standards, interpretations and amendments to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory but not yet effective for the period ended July 31, 2011, but have not been applied in preparing these condensed interim consolidated financial statements.

Many of these are not applicable or are inconsequential to the Company and have been excluded from the discussion below. The following standards and interpretations have been issued by the IASB and the IFRIC and the Company is currently assessing their impact on the financial statements:

International Accounting Standards	Effective Date
IFRS 7 - Financial Instruments: Disclosures	January 1, 2012
IFRS 9 - Financial Instruments	January 1, 2013
IFRS 10 - Consolidated Financial Statements	January 1, 2013
IFRS 13 - Fair Value Measurement	January 1, 2013
IAS 19 - Employee benefits – amendment	January 1, 2013

IFRS 7 - Financial Instruments: Disclosures increases the disclosure requirements for transactions involving transfers of financial assets. The Company will apply the amendment in the first quarter of 2013.

IFRS 9 - Financial Instruments ultimately replaces IAS 39 - Financial Instruments: Recognition and Measurement (“IAS 39”). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of the first phase of the IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities.

IFRS 10 - Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12, Consolidation – Special Purpose Entities and IAS 27, Consolidated and Separate Financial Statements.

IFRS 13 - Fair Value Measurements provides new guidance on fair value measurement and disclosure requirements.

IAS 19 - Employee Benefits. This amendment impacts termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37, Provisions, and when the entity can no longer withdraw the offer of the termination benefits.

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 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, 2011 of the Corporation’s material contractual obligations due per year:

	Accounts payable	Long-term debt	Operating Leases	Total
	\$	\$	\$	\$
1 year	2,637	1,701	237	4,575
2 – 3 years	—	—	210	210
Over 4 years	—	—	2	2
	2,637	1,701	449	4,787

COMMON SHARES, WARRANTS, AND STOCK OPTIONS

As of July 31, 2011, there were 282,666,756 common shares as well as 7,796,000 stock options outstanding.

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.

SUBSEQUENT EVENT

Subsequent to the end of the period, the Corporation invested \$2,496 in Covalon Technologies Ltd. ("Covalon") by way of a private placement in exchange for approximately 9.9% of Covalon's issued and outstanding shares. Jeffrey Mandel, Mitec's Chairman, President and CEO will join Covalon's Board of Directors.

OUTLOOK

As an established and recognized supplier in the satellite and wireless fields, with a stable infrastructure and a valuable knowledge base, Mitec positions itself to benefit from the growth in various markets which demand wireless support and invests in research and development ("R&D") initiatives for new product lines to service these areas, many of which are still in their infancy as the world continue to shift away from wired dependency through a variety of different mediums and applications. Mitec focuses on how it can position itself as a value-added partner with its customers, and avoids areas where intense competition results in technological competitiveness. Mitec uses its scalability and engineering expertise in order to address the demand for bandwidth, speed, capacity and reliability as companies worldwide continue to require solutions for the rapid adoption of wireless connectivity. Mitec also focuses on which wireless technologies can benefit from its knowledge base and expertise so that it can provide a credible, global platform to introduce these innovative wireless solutions to top tier customers worldwide.

Mitec's most recent strategic alliance with Covalon is an opportunity that allows Mitec to access some proprietary products in the health care area, with a valued-added market position already in place which can further be improved upon through the use of wireless technology. This initiative is a very effective way for Mitec to quickly enter into the lucrative and exciting wireless healthcare market, in a manner that mitigates execution risk and allows for maximum collaboration with the objective of improving healthcare and patient experiences.

Mitec clearly holds a competitive advantage in the military industry with its patented Keragis SSPA technology as it grows this business unit to address a billion dollar market for military applications requiring microwave or radar communications that demand power efficiency and large bandwidth in addition to physical and electrical integration. Mitec believes that its patented technology may be strong enough to provide the basis for other types of monetization, in addition to volume manufacturing, such as joint ventures and other collaborative methods to further exploit its value.

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 July 31, 2011, and have concluded that such disclosure controls and procedures were designed and operating effectively.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Management has evaluated the design and effectiveness of its internal controls and procedures over financial reporting (as defined in National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) for the three-month period ended July 31, 2011. The evaluation was based on the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the President and Chief Executive Officer and the Chief Financial Officer of the Corporation with the assistance of other Management and staff members to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the internal controls and procedures over financial reporting were appropriately designed and operating effectively.

The Corporation did not make any material changes to the design of internal controls over financial reporting during the three-month period ended July 31, 2011 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 first quarter of fiscal 2012, the Corporation had no customer who accounted for more than 10% of its sales. Although the Corporation invests considerable effort in maintaining its relationships with its customers, there can be no assurance that Mitec will be able to sell to such customers on an advantageous basis in the future, or that such customers will continue to buy from Mitec. Any changes in their business strategies, changes in timing, or marketing issues, could have a material financial impact on Mitec. 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. This risk substantially decreased further to the sale of subsidiaries.

General Economic Conditions

The continuing turmoil in the global financial markets 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. No customer (2010 – two) accounted for more than 10% of sales for the three-month period ended July 31, 2011 (2010 – 35%) and one customer (2010 – two) accounted for 21% of trade receivables as at July 31, 2011 (2010 – 41%). Two customers represented 87% of Telecom sales for the three-month period ended July 31, 2011 (2010 – one customer represented 66% of Telecom sales).

As at July 31, 2011, the aging of the trade receivable was as follows:

	2011
	\$
Current	1,328
31 – 60 days	13
Over 61 days	311
Accounts receivable	1,652
Less: allowance for doubtful accounts	(97)
	1,555

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, 2011, the Corporation had at its disposal working capital of \$3.6 million (April 30, 2011 - \$2.3 million). The Corporation doesn't have sufficient cash, and working capital available to repay the convertible debentures of \$1,807 on the due date of October 19, 2011 and is in the process of renegotiating

the terms and conditions relating to these convertible debentures. The Corporation anticipates these negotiations will be finalized on or about November 4, 2011. Accounts payable and accrued liabilities are all due within the current operating period.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is not exposed to interest rate risk with its long-term debt since it considers a fixed interest rate.

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

	As at July 31, 2011
	\$
Cash	2,722
Accounts receivable	1,442
Accounts payable and accrued liabilities	968

Based on the above net exposures as at July 31, 2011 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 would result in an increase/(decrease) in net profit and comprehensive income of \$320/(\$320).

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 October 11, 2011. Updated information on Mitec, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

As of October 11, 2011, a total of 282,666,756 common shares were issued and outstanding, as well as a total of 7,796,000 stock options.



MITEC TELECOM INC.
Condensed Interim Consolidated Financial Statements
For the three-month periods ended
July 31, 2011 and 2010
(unaudited)

Mitec Telecom Inc.
Management's comments on unaudited Condensed Interim Consolidated
Financial Statements for the three-month periods ended July 31, 2011 and
2010

Notice of no auditor review of interim financial statements

The accompanying unaudited Condensed Interim Consolidated Financial Statements of the Corporation have been prepared by and are the responsibility of the Corporation's Management.

The Corporation's independent auditor, BDO Canada LLP, has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Dated this 14th day of October 2011.

Mitec Telecom Inc.
Condensed Interim Consolidated Financial Statements
For the three-month periods ended July 31, 2011 and 2010

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Mitec Telecom Inc.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
(in thousands of Canadian dollars)

	Notes	July 31, 2011	April 30, 2011	May 1, 2010
		\$	\$	\$
Assets				
Current assets				
Cash		3,578	2,000	1,552
Cash held in escrow		—	339	—
Short-term investments, consisting of certificates of deposit		183	182	181
Trade and other receivables		2,263	2,886	2,174
Income tax credits receivable		358	276	455
Inventories	6	3,218	2,896	3,094
Prepaid expenses and other assets		305	195	320
Current assets related to discontinued operations	5	1,018	3,910	6,630
Total current assets		10,923	12,684	14,406
Non-current assets				
Property, plant and equipment		1,563	1,629	2,104
Intangible assets		1,183	1,237	1,720
Investments		—	—	25
Non-current assets related to discontinued operations	5	352	1,069	2,265
Total non-current assets		3,098	3,935	6,114
Total assets		14,021	16,619	20,520
Liabilities				
Current liabilities				
Credit facility	9	—	—	733
Accounts payable and accrued liabilities		2,637	3,478	3,777
Current portion of long-term debt	10	1,701	1,578	—
Current liabilities related to discontinued operations		201	569	2,284
Total current liabilities		4,539	5,625	6,794
Non-current liabilities				
Long-term debt	10	—	—	1,157
Total non-current liabilities		—	—	1,157
Total liabilities		4,539	5,625	7,951
Equity				
Common shares	13	133,100	132,896	132,142
Warrants	13	—	—	1,152
Contributed surplus		11,997	11,995	10,802
Equity component of convertible debentures	13	796	786	768
Deficit		(136,527)	(134,819)	(132,295)
Accumulated other comprehensive income		116	136	—
Total equity		9,482	10,994	12,569
Total liabilities and equity		14,021	16,619	20,520

Nature of the Business and Going Concern Uncertainty (Note 2)

Commitments and Contingencies (Note 12)

Subsequent Event (Note 19)

Mitec Telecom Inc.
Condensed Interim Consolidated Statements of Comprehensive Loss
(Unaudited)

(in thousands of Canadian dollars, except per share data)

	Note	For the three months ended	
		July 31, 2011	July 31, 2010
		\$	\$
Sales		1,570	2,625
Cost of sales	7	1,371	2,259
Gross profit		199	366
Expenses	7		
Research and development		450	481
Selling and administrative		1,190	830
Loss on disposal of property, plant and equipment		—	12
Share-based compensation		2	23
Total expenses from operating activities		1,642	1,346
Results from operating activities		(1,443)	(980)
Net finance costs	8	325	77
Loss from continuing operations		(1,768)	(1,057)
Discontinued operations			
Loss from discontinued operations, net of income tax	5	(107)	(276)
Gain on disposal of the discontinued operations, net of income tax	5	167	—
Earnings (loss) from discontinued operations		60	(276)
Net loss for the period		(1,708)	(1,333)
Other comprehensive income (loss), net of income tax			
Net change in the unrealized loss on translating financial statements of foreign operations		(20)	(32)
Net change in the unrealized gain on translating financial statements of discontinued operations		—	60
Other comprehensive income (loss) for the period, net of income tax		(20)	28
Total comprehensive loss for the period		(1,728)	(1,305)
Basic and diluted loss per outstanding common share	13		
- continuing operations		(0.01)	(0.01)
- discontinued operations		0.00	(0.00)
- net loss for the period		(0.01)	(0.01)
Weighted average number of outstanding common shares (in thousands)	13	282,406	220,661

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

Mitec Telecom Inc.
Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)

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

	Common Shares		Warrants		Equity component of convertible debentures	Contributed surplus	Accumulated other comprehensive income - translation reserve	Deficit	Total	
	Note	#(000)	\$	#(000)	\$	\$	\$	\$	\$	
	13						(A)	(A)		
Balance, May 1, 2010		220,667	134,142	23,603	1,152	768	10,802	—	(132,296)	12,568
Total comprehensive loss for the period:										
Net loss for the period		—	—	—	—	—	—	—	(1,333)	(1,333)
Other comprehensive income (loss), net of income tax										
Foreign currency translation difference		—	—	—	—	—	—	(32)	—	(32)
Foreign currency translation difference from discontinued operations		—	—	—	—	—	—	60	—	60
		—	—	—	—	—	—	28	(1,333)	(1,305)
Transactions with shareholders recorded in equity:										
Issued under a convertible debenture financing		—	—	—	—	10	—	—	—	10
Share-based compensation		—	—	—	—	—	23	—	—	—
Total		—	—	—	—	10	23	—	—	33
Balance, July 31, 2010		220,667	132,142	23,603	1,152	778	10,825	28	(133,629)	11,296
Balance, April 30, 2011		276,667	132,896	—	—	786	11,995	136	(134,819)	10,994
Total comprehensive loss for the period:										
Net loss for the period		—	—	—	—	—	—	—	(1,708)	(1,708)
Other comprehensive loss, net of income tax										
Foreign currency translation difference		—	—	—	—	—	—	(20)	—	(20)
		—	—	—	—	—	—	(20)	(1,708)	(1,728)
Transactions with shareholders recorded in equity:										
Issuance of common shares		6,000	204	—	—	—	—	—	—	204
Issued under a convertible debenture financing		—	—	—	—	10	—	—	—	10
Share-based compensation		—	—	—	—	—	2	—	—	2
		6,000	204	—	—	—	2	—	—	216
Balance, July 31, 2011		282,667	133,100	—	—	796	11,997	116	(136,527)	9,482

(A): The total of deficit and accumulated other comprehensive income is \$136,411 (2010 – \$133,601). Accumulated other comprehensive income is comprised only of the unrealized gains and losses on translation of the financial statements of self-sustaining foreign operations since May 1, 2010.

Mitec Telecom Inc.
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	Note	For the three months ended	
		2011	July 31, 2010
		\$	\$
Cash flows from operating activities			
Net loss from continuing operations for the period		(1,768)	(1,056)
Adjustments for :			
Depreciation and amortization		152	246
Impairment of intangible assets		—	12
Share-based compensation		2	24
Accreted interest on convertible debentures	8	133	121
Unrealized foreign exchange loss		(20)	33
Interest expense		158	61
Change in non-cash working capital balances related to operating activities	15	(393)	1,022
Interest paid		(158)	(67)
Interest received		—	6
Net cash from (used in) operating activities		(1,894)	402
Cash flows from investing activities			
Net proceeds on disposal of the discontinued operations , net of incremental cost	5	2,437	—
Additions to property, plant and equipment		—	(73)
Purchase of short-term investments		(182)	(181)
Sale of short-term investments		181	181
Net cash from (used in) investing activities		2,432	(75)
Cash flows from financing activities			
Issuance of shares		204	—
Credit facility		—	(633)
Net cash from (used in) financing activities		204	(633)
Discontinued operations	5	841	(934)
Net increase (decrease) in cash		1,583	(1,208)
Cash, beginning of period		2,000	1,552
Cash, beginning of period related to discontinued operations		—	334
Effect of exchange rate fluctuation on foreign cash		(5)	(5)
Cash, end of period related to discontinued operations		—	302
Cash, end of period		3,578	339

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



1. Reporting Entity

Mitec Telecom Inc. ("Mitec" or the "Corporation") is incorporated under the Canada Business Corporations Act and is domiciled in Canada. The address of the Corporation's registered office is 3299 Jean-Baptiste-Deschamps Blvd, Lachine, Quebec, H8T 3E4.

The Condensed Interim Consolidated Financial Statements of the Corporation as at and for the three months ended July 31, 2011 and 2010 comprise the financial statements of Mitec and those of its subsidiaries, all of which are wholly owned.

The Corporation is a knowledge-based communication equipment provider to the global wireless telecommunications and satellite communications markets.

2. Basis of Preparation

The Corporation prepares its financial statements in accordance with generally accepted accounting principles in Canada as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part 1 ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and requires publicly accountable enterprises to apply International Financial Reporting Standards ("IFRS") effective for years beginning on or after January 1, 2011. Accordingly, the Corporation has commenced reporting on this basis in these financial statements using May 1, 2010 as the transition date. In these financial statements, the term "GAAP" refers to generally accepted accounting principles in Canada before the adoption of IFRS and the term "IFRS" refers to generally accepted accounting principles in Canada after the adoption of IFRS.

a) Statement of compliance

These Condensed Interim Consolidated Financial Statements and the notes thereto have been prepared in accordance with IAS 34 – Interim Financial Reporting. They do not include all of the information required in the full annual financial statements. Certain information and footnote disclosures normally included in annual financial statements were omitted or condensed where such information is not considered material to the understanding of the Corporation's interim financial information. As such, they should be read in conjunction with the consolidated financial statements of the Corporation as at and for the year ended April 30, 2011.

These are the first Condensed Interim Consolidated Financial Statements the Corporation has prepared in accordance with IFRS for periods beginning on or after January 1, 2011, and First-time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in Note 20.

The Condensed Interim Consolidated Financial Statements were authorized for issue by the Audit Committee of the Corporation on October 12, 2011.

b) Basis of measurement and going concern uncertainty

The Condensed Interim Consolidated Financial Statements have been prepared on a going concern basis using the historical cost except for the financial assets classified available-for-sale, which are measured at fair value.

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 \$136,527 at July 31, 2011 and a loss from continuing operations in the amount of \$1,768 for the period then ended. Mitec's current financial conditions does not allow the Corporation to repay its upcoming debentures, which are due October 19, 2011. 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 Condensed 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 Condensed Interim Consolidated Financial Statements, significant adjustments would be necessary in

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the carrying value of assets and liabilities, the reported expenses, and the balance sheet classifications used.

During the period ended July 31, 2011, the Corporation sold certain assets relating to the Corporation's legacy Satcom business for a cash consideration of \$2,900 (Note 5).

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

1. Exploring potential opportunities relating to the sale of selected business segments, divestiture of certain assets of the acquisition of complementary and synergetic assets or businesses;
2. 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;
3. Approaching potential lenders and investors to secure additional debt and/or equity financing.

Management believes that should the Corporation be successful at realigning its Telecom and Satcom business units and/or securing additional funding 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.

- c) **Basis of measurement**
The Condensed Interim Consolidated Financial Statements have been prepared on the historical basis.
- d) **Seasonality**
The results of operations for the interim period are not necessarily indicative of the results of operations for the full year. The Corporation does not expect seasonality to be a material factor in quarterly results, though operating segments within the Corporation may vary more significantly.
- e) **Functional and presentation currency**
These Condensed Interim Consolidated Financial Statements are presented in Canadian dollars, which is the Corporation's functional currency.
- f) **Use of estimates and measurement of uncertainty**
The preparation of financial statements in accordance with IFRS requires Management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses.

Significant areas requiring the use of Management estimates include establishing the Corporation's future cash flow projections for the purpose of evaluating the going concern assumption, determining estimates and assumptions related to impairment tests for property and equipment and intangible assets, estimating the useful life and the residual values of assets, estimating share-based compensation expense, establishing the fair value of debts and warrants, and assessing the recoverability of income tax assets and tax credits.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are made and in any future periods affected. The reported amounts and note disclosures are determined to reflect the most probable set of economic conditions and planned course of action. Consequently, actual results could differ from those estimates.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Condensed Interim Consolidated Financial Statements impact the following areas:

Going concern

Judgment is required in assessing whether the Corporation will be successful in its plans and whether it will meet its cash flow projections.

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Inventory

Judgment is required in assessing inventory obsolescence.

Impairment of non-financial assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Judgment is required in establishing whether there are indicators of impairment related to such non-financial assets. An impairment review requires estimates in a variety of areas including the determination of fair value, selling costs, timing and size of cash flows, long-term growth rates, discount rates, and other valuation variables; the application of these variables in valuation models requires judgment.

3. Significant Accounting Policies

These first Condensed Interim Consolidated Financial Statements in accordance with IFRS have been prepared using the accounting policies the Corporation expects to adopt in its April 30, 2012 consolidated financial statements. These policies have been applied consistently to all periods presented in these Condensed Interim Consolidated Financial Statements, including the opening IFRS statements of financial position as at May 1, 2010, unless otherwise indicated.

Basis of consolidation

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the Condensed Interim Consolidated Financial Statements.

Foreign currency translation

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Corporation's subsidiaries at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated to the functional currency at the rate of exchange prevailing at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Revenue, expenses and non-monetary assets and liabilities that are measured in terms of historical costs are translated at the rate of exchange prevailing at the dates of the transactions.

Foreign exchange gains and losses are included in net finance costs in the determination of profit or loss.

ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized and presented in the comprehensive loss and in the foreign currency translation reserve ("translation reserve") in equity.

When the Corporation disposes of or loses control over a foreign operation, the relevant amount in the cumulative amount of foreign currency translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

Financial instruments

i) Financial assets and liabilities

The Corporation has classified its cash and cash held in escrow, trade and other receivables, and short-term investments as loans and receivables. Investments are classified as "Financial Assets Available-for-Sale" and are measured at fair value with unrealized gains and losses being recognized as other comprehensive income/loss until realized. Trade payables and other liabilities, demand loans and long-term debt are classified as other financial liabilities. Both loans and receivables and other financial liabilities categories are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method.

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ii) Impairment of financial assets

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise or indications that a debtor or issuer will enter bankruptcy. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in equity, to profit or loss. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

iii) Share capital and warrants

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Warrants are classified as equity. Incremental costs directly attributable to the issue of warrants are recognized as a deduction from equity, net of any tax effects.

iv) Compound financial instrument

Compound financial instruments issued by the Corporation comprise convertible debentures that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, losses and gains relating to the financial liability are recognized in profit or loss. Distributions to the equity holders are recognized in equity, net of any tax benefit.

Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Government assistance – Tax credits

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The Corporation is entitled to scientific research and experimental development tax credits ("research tax credits") granted by the Canadian federal government and the government of the province of Quebec. Federal research tax credits, which are non-refundable, are earned on qualified research and development expenditures and can only be used to offset federal income taxes otherwise payable. Provincial research tax credits, which are refundable, are earned on qualified research and development expenditures incurred in the province of Quebec. Research tax credits must be reviewed and approved by the tax authorities and it is possible that the amounts granted will differ from the amounts recorded.

The investment tax credits recorded are based on management's estimates of amounts expected to be recovered and are subject to audit by taxation authorities.

Provided that the Corporation is reasonably certain that the credits will be received, the tax credits for scientific research and experimental development are reflected as a reduction of the expenses to which they relate when there is a reasonable assurance of their realization.

Inventories

Inventories are measured at the lower of cost and net realizable value. Raw materials inventory costs include all costs incurred to bring the materials to their current state and location, including the purchase price, duties, non-refundable taxes and freight. Work-in progress and finished goods include, in addition to the cost of the raw materials incorporated into their manufacture, the costs of labour incurred directly in their manufacture and an allocation of indirect variable overhead, fixed overhead and depreciation on plant and equipment. Costs are assigned to inventory on a first-in, first-out basis. In determining net realizable value, the Corporation considers factors such as current selling price, product lifecycle and future sales volumes. Allowances for slow-moving or obsolete inventory are recorded when considered appropriate.

Property, plant and equipment

i) Recognition and measurement

Property, plant and equipment are measured at cost less applicable investment tax credits, accumulated amortization and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

ii) Recognition subsequent expenditures

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

iii) Depreciation

Depreciation is calculated based on the estimated useful life of assets using the following methods, rates and periods. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term, in which case the lease assets are depreciated over the period of expected use or the basis that is consistent with similarly owned assets. The methods of depreciation and the estimated useful lives for the current and comparative periods are as follows:

Machinery and equipment	10% to 20% declining balance
Building	40 years straight line
Building lay-out	10 years straight line
Leasehold improvements	Term of the lease, straight line
Furniture and fixtures	20% declining balance
Tools and dies	5 year straight line
Computer equipment	30% declining balance

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Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Intangible assets

- i) Finite life intangible assets
Intangible assets that are acquired by the Corporation and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.
- ii) Subsequent expenditures
Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.
- iii) Amortization
Amortization is calculated over the cost of the asset less its residual value.

Amortization is recognized in profit or loss over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The methods of amortization and the estimated useful lives for the current and comparative periods are as follows :

Software	30% declining balance
Patented technology	10 years straight line
Non-patented technology	10 years straight line

Impairment of long-lived assets

The carrying amounts of the Corporation's non-financial assets, other than deferred tax assets, prepaid expenses and tax credits, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGU, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Corporation's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill

Goodwill is measured at cost less accumulated impairment losses. Goodwill is not subject to amortization.

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Acquisitions on or after May 1, 2010

For acquisitions on or after May 1, 2010, the Corporation measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquire, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

Acquisitions prior to May 1, 2010

As part of its transition to IFRS, the Corporation elected not to restate business combinations that occurred on or prior to May 1, 2010.

Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Product warranty

The Corporation records a warranty provision on the sale of certain products. The provision is recognized when the underlying products are sold. This estimate is based on historical repair frequency and related costs. Management reviews the provision on an on-going basis.

Revenue recognition

The Corporation recognizes revenue from the sale of products when persuasive evidence of an arrangement exists, when products are shipped to customers, when the risks and rewards related to the ownership of the product are assumed by the customer, when collection is considered reasonably assured and when the sales price is fixed or determinable.

The Corporation generates revenue from the sale of telecommunication and satellite equipment. Revenues from the sale of equipment are recognized upon shipment and when all significant contractual obligations have been satisfied and collection is reasonably assured. Accruals for warranty costs, sales returns and other allowances at the time of shipment are based upon contract terms and anticipated claims.

Research and development

Research costs, net of related investment tax credits, are expensed as incurred.

Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Corporation intends to and has sufficient resources to complete development and to use or sell the asset. No development costs have been deferred to date.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in the comprehensive loss.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively

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enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Employee benefits

i) Short-term employee benefits

Short-term employee benefits include wages, salaries, compensated absences, and bonuses. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or capitalized if the service rendered is in connection with the creation of a tangible or intangible asset.

A liability is recognized for the amount expected to be paid under short-term cash bonus if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

ii) Defined contribution plans

The Corporation contributes to state-run defined contribution pension plans for employees in which the Corporation pays fixed contributions for eligible employees. The costs of benefits for defined contribution plans are expensed as they are incurred. The Corporation has no legal or constructive obligation to pay any further amounts.

iii) Termination benefits

Termination benefits are recognized as an expense when the Corporation is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan or through a contractual agreement, to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Corporation has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than twelve months after the reporting period, then they are discounted to their present value.

iv) Share-based compensation

A share-based compensation plan has been granted by the Corporation to its directors, officers and employees. Share-based compensation expense is measured based on the fair value at the grant date and recognized over the period that the employees unconditionally become entitled to the awards with a corresponding increase in contributed surplus. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service conditions at the vesting date.

Upon the exercise of the options, any consideration received from plan participants is credited to share capital; the amount originally credited to contributed surplus is also reclassified to share capital.

Leases

Leases entered into are classified as either finance or operating leases.

i) Finance leases:

Leases in which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the leased asset is accounted for in accordance with the accounting policy applicable to related property and equipment category.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

ii) Operating leases:

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Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives for moving expenses and free-rent periods form an integral part of the total lease expense, are deferred and included in other liabilities and recognized in net profit or loss over the term of the lease on a straight-line basis.

Earnings (loss) per share

The Corporation presents basic and diluted earnings per share ("EPS") data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period, adjusted for own shares held if any.

Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held if any, and for the effects of all dilutive potential common shares, which consist of the warrants and share options granted to employees.

Segment reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. All operating segments' operating results are reviewed regularly by the Corporation's Chief Executive Officer ("CEO") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Corporation's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

4. New Standards and Interpretations not yet Adopted

A number of new standards, interpretations and amendments to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory but not yet effective for the period ended July 31, 2011, but have not been applied in preparing these Condensed Interim Consolidated Financial Statements.

Many of these are not applicable or are inconsequential to the Corporation and have been excluded from the discussion below. The following standards and interpretations have been issued by the IASB and the IFRIC and the Corporation is currently assessing their impact on the financial statements:

International Accounting Standards	Effective Date
IFRS 7 - Financial Instruments: Disclosures	January 1, 2012
IFRS 9 - Financial Instruments	January 1, 2013
IFRS 10 - Consolidated Financial Statements	January 1, 2013
IFRS 13 - Fair Value Measurement	January 1, 2013
IAS 19 - Employee benefits – amendment	January 1, 2013

IFRS 7 - Financial Instruments: Disclosures increases the disclosure requirements for transactions involving transfers of financial assets. The Corporation will apply the amendment in the first quarter of 2013.

IFRS 9 - Financial Instruments ultimately replaces IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of the first phase of the IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities.

IFRS 10 - Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the

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consolidation requirements in SIC-12, Consolidation – Special Purpose Entities and IAS 27, Consolidated and Separate Financial Statements.

IFRS 13 - Fair Value Measurements provides new guidance on fair value measurement and disclosure requirements.

IAS 19 - Employee Benefits This amendment impacts termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37, Provisions, and when the entity can no longer withdraw the offer of the termination benefits.

5. Discontinued Operations

On February 28, 2011, the Corporation sold Mitec Communications Ltd. and Mitec Telecom (Suzhou) Company, Ltd. for a cash consideration at closing of \$3,644 and a cash portion of \$339 held in escrow until approval from the Chinese taxation authorization of a change of the registered capital of Mitec Telecom (Suzhou) Company Ltd. The carrying value of the assets and liabilities disposed on February 28, 2011 was \$2,239. In relation to this transaction, an unrealized cumulative translation loss of \$793 was realized and included in the foreign exchange loss in the statements of loss and comprehensive loss. In addition, the Corporation incurred incremental direct costs of \$246 in relation to the disposal resulting in a gain of \$1,498 recorded in the Condensed Interim Consolidated Statements of Comprehensive Loss. The approval of the change of the registered capital took place in July 2011 and the funds were removed from escrow.

As a result of the transaction, the operations of Mitec Communications Ltd. and Mitec Telecom (Suzhou) Company, Ltd. which was included in the Telecom segment have been reported as discontinued activities in the Condensed Interim Consolidated Statements of Comprehensive Loss and are summarized below:

	July 31, 2011	July 31, 2010
	\$	\$
Sales	—	1,817
Gross profit	—	203
Loss from discontinued operations, net of income taxes of nil (2010 – nil)	—	(151)

Amortization relating to property and equipment included in discontinued operations was nil (2010 – \$694) and amortization relating to intangibles was nil (2010 – \$2).

On May 16, 2011, the Corporation sold certain assets of its Satcom operations for a cash consideration of \$2,900. The carrying value of the assets disposed on May 16, 2011 was \$2,270. In relation to this transaction, the Corporation incurred incremental direct costs of \$463 resulting in a gain of \$167 recorded in the Condensed Interim Consolidated Statements of Comprehensive Loss.

As a result of the transaction, the following portion of the operations that was included in the Satcom segment has been reported as a discontinued activity in the Condensed Interim Consolidated Statements of Comprehensive Loss.

	July 31, 2011	July 31, 2010
	\$	\$
Sales	119	1,329
Gross profit	19	260
Loss from discontinued operations, net of income taxes of nil (2010 – nil)	(107)	(125)

Depreciation relating to property, plant and equipment included in discontinued operations was \$7 (2010 –\$28) and amortization relating to intangibles was \$5 (2010 – \$1).

The carrying values of assets of the Satcom operations which were included in the Satcom segment as of the date of the transaction are summarized below:

	\$
Current assets	1,457
Property, plant and equipment	800
Intangible assets	13
	2,270

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The cash flows related to discontinued activities are summarized below:

	July 31, 2011	July 31, 2010
	\$	\$
Operating activities	960	(764)
Investing activities	(119)	(170)
Financing activities	—	—
Increase (decrease) in cash related to discontinued activities	841	(934)

6. Inventories

	July 31, 2011	April 30, 2011	May 1, 2010
	\$	\$	\$
Raw materials and purchased components	1,731	1,736	1,730
Work-in-progress	920	715	986
Finished goods	567	445	378
	3,218	2,896	3,094

Included in cost of sales is an inventory expense of \$1,002 (April 30, 2011 - \$5,057 and May 1, 2010 - \$6,947). Also included in cost of sales is a impairment of inventories of nil (April 30, 2011 - nil and May 1, 2010 - \$310).

7. Analysis of Expenses by Function

	For the three months ended July 31, 2011		
	Cost of sales	Research and development	Selling and administrative
	\$	\$	\$
Expenses per the statements of comprehensive loss	1,371	450	1,190
Allocation of:			
Share-based compensation	—	—	2
	1,371	450	1,192

	For the three months ended July 31, 2010		
	Cost of sales	Research and development	Selling and administrative
	\$	\$	\$
Expenses per the statements of comprehensive loss	2,259	481	830
Allocation of:			
Loss on disposal of property, plant and equipment	12	—	—
Share-based compensation	—	—	23
	2,271	481	853

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8. Net Finance Costs

	For the three months ended	
	2011	July 31, 2010
	\$	\$
Recognized in profit or loss		
Interest income on bank deposits	—	6
Finance income	—	6
Interest on convertible debentures	54	56
Accreted interest on convertible debentures	133	120
Net foreign exchange loss	35	(110)
Other interest and bank charges	103	17
Finance costs	325	83
	325	77

9. Credit Facility

- a) On March 2, 2010, the Corporation entered into a loan and receivables servicing agreement with a Canadian financial institution for an operating line of credit.

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

- i) \$2,500 or,
- ii) 85% of the eligible accounts receivable.

As at July 31, 2011, the Corporation had no borrowing capacity. As at July 31, 2010, the Corporation's borrowing capacity was \$1,320 of which \$100 was drawn. The credit facility bore interest at the applicable prime rate of the financial institution plus 2.5%. The effective interest rate for the three-month period ended July 31, 2010 was 6.5%.

The credit facility was guaranteed by a movable hypothec in the amount of \$3,250 affecting the assets of the Corporation ranking first with respect to trade receivables and of inferior ranking as to all other assets. The credit facility had an expiration date of one year with automatic renewable periods of one year each. In May 2011, the Corporation decided to terminate the agreement and all amounts owed to the Corporation included in other receivables were received.

- b) At July 31, 2011, the Corporation had credit facilities available for its corporate credit cards in the amount of \$55 and for a standby letter of credit to support contingent liability with a landlord in the amount \$100 with a major Canadian bank institution. These credit facilities are short term in nature and are due on demand. The interest rates on the credit card facilities are standard rates and fees while the interest rates on the stand-by letter of credit are 1.5% (2010 – 1.5%). The Corporation has provided security interests in the form of certificates of deposit in the amount of \$175 which have been included in short-term investments. At April 30, 2011, there were no borrowings on the available facilities (2010 – nil).
- c) In September 2010, the Corporation entered into a term-loan facility of \$500 bearing interest at 15% guaranteed by a movable hypothec on all assets of the Corporation including the shares of Keragis Corp. and Mitec Communications Ltd. except for accounts receivable and inventory. The loan was repayable within six months from the date of the draw-down of the facility. The loan was reimbursed in February 2011.

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10. Long-term Debt

	July 31, 2011	April 30, 2011	May 1, 2010
	\$	\$	\$
Convertible debentures bearing interest at 12%, repayable in October 2011	1,701	1,578	1,157
Less: current portion	1,701	1,578	—
	—	—	1,157

Convertible debentures

In October 2009, the Corporation issued \$1,900 of convertible unsecured debentures (“convertible debentures”). Financing charges of \$179 were incurred which are presented as a reduction of the long-term debt and equity components. The convertible debentures bear interest at 12% per annum, payable quarterly, mature in October 2011 and the indebtedness ranks equally with all other indebtedness of the Corporation except for the credit facilities. The convertible debenture holders have the option to convert the principle amount of the convertible debenture into common shares at the price of \$0.06 per common share, at any time in the two-year term of the convertible debentures. Interest paid on the convertible debentures, over the two-year term will total \$445 if the convertible debentures are held to maturity. Subject to regulatory approval, the accrued interest could be paid, upon the convertible debenture holders’ request, in shares based on the equivalent value based on the same terms as the conversion price. As of July 31, 2011, the nominal value of the convertible debentures was \$1,807 (2010 – \$1,857). Mitec anticipates being unable to repay the convertible debentures of \$1,807 on the due date of October 19, 2011 and is in the process of renegotiating the terms and conditions relating to these convertible debentures. The Corporation anticipates these negotiations will be finalised on or about November 4, 2011.

The convertible debentures were accounted for on the basis of their substance and were presented in their component parts of debt and equity. At the issuance, the fair value of the debt component was determined to be \$931 using cash flows discounted based on the borrowings rate of 31%, which represents management’s best estimate of the market interest rate for a similar debenture without conversion option. The residual difference between the proceeds of the debenture and the fair value, represents the value of the equity conversion option included in shareholders’ equity, was measured at \$747. The debt will be accreted to its face value over the term of the debt, with the accretion being recorded in finance costs.

11. Income Taxes

The Corporation recognized no income taxes in the Condensed Interim Consolidated Statements of Comprehensive Loss as it has accumulated losses available to reduce income taxes that would otherwise have been payable for the current period. Furthermore, no deferred tax assets were recognized because Management does not believe that it is more probable than not that these will be realized.

12. Commitment and Contingencies

i) Operating leases

The Corporation rents premises under non-cancellable operating leases for rental of properties and equipment. The leases typically run for a period of 2 to 5 years, with an option to renew the lease after that date. During the period ended July 31, 2011 an amount of \$55 was recognized as an expense in profit or loss in respect of operating leases (2010 – \$91). Of the amount \$41 (2010 – \$56) is included in selling and administrative expenses and \$14 (2010 – \$35) is included in research and development expenses.

Future minimum annual operating leases are as follows:

	July 31, 2011	April 30, 2011	May 1, 2010
	\$	\$	\$
Less than 1 year	237	323	328
Between 1 and 5 years	212	212	436
	449	535	764

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ii) Contingencies

The Corporation is from time to time involved in various claims and legal proceedings arising in the ordinary course of business. 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.

13. Share Capital

i) Authorized

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

Unlimited number of common shares.

Both common and preference shares are without par value.

The holders of common shares are entitled to receive dividends as declared by the Corporation and are entitled to one vote per share at meetings of the Corporation.

The issued and outstanding common shares are disclosed in the Condensed Interim Consolidated Statements of Changes in Equity. All issued shares are fully paid. No preferred shares were issued.

The Corporation has never declared any dividend.

ii) Warrants

Warrants outstanding are as follows:

Exercise Price	July 31, 2011		April 30, 2011		May 1, 2010	
	Expiry date	#(000)	Expiry date	#(000)	Expiry date	#(000)
\$0.10	—	—	—	—	October 30, 2010	4,651
\$0.22	—	—	—	—	October 30, 2010	18,952
	—	—	—	—		23,603

iii) Loss per share

Basic loss per share:

The calculation of basic loss per share is based on the net loss from continuing operations attributable to common shareholders of the Corporation of \$1,768 (2010 - \$1,057) and a weighted average number of common shares outstanding of 282,406 (2010 - 202,667), calculated as follows:

	As at July 31, 2011 #(000)	As at July 31, 2010 #(000)
Issued ordinary	282,406	220,667
Effect of share options exercised	—	—
Weighted average number of common shares outstanding	282,406	220,667

Diluted earnings per share:

The Corporation has three categories of dilutive potential common shares: convertible debentures, share options and warrants. The convertible debt is assumed to have been converted into common shares and the net profit is adjusted to eliminate the interest expense less the tax effect.

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The calculation of diluted earnings per share at July 31, 2011 was based on the net loss from continuing operations attributable to common shareholders of \$1,768 (2010 – \$1,057), and a weighted average number of common shares outstanding. No further adjustment was made because the effects of the convertible debenture as well as all options and warrants were antidilutive. The weighted average number of common is calculated as follows:

Weighted average number of common shares (diluted)

	As at July 31, 2011 Continuing operations	As at July 31, 2010 Continuing operations
	#(000)	#(000)
Weighted average number of common shares outstanding (basic)	282,406	220,667
Options and convertible debentures	—	—
Weighted average number of common shares (diluted)	282,406	220,667

For the periods ended July 31, 2011 and July 31, 2010, the potentially dilutive common shares relating to stock options and convertible debentures totalling 37,500 (2010 – 44,538) were not included in the computation of loss per share because their effect was anti-dilutive.

iv) **Stock option plan**

The Corporation has in place a Stock Option Plan (the “Plan”) for the benefit of key employees, directors and officers of the Corporation. The number of common shares granted to a beneficiary and the vesting period is determined at the discretion of the Board of Directors, which is normally no longer than five years.

The exercise price of any option granted under the Plan is fixed by the Board of Directors at the time of the grant based on the closing price per common share. The term of an option cannot exceed ten years from the date of the grant. Options are not transferable and can only be exercised while the beneficiary remains an employee, director or officer of the Corporation.

As at July 31, 2011, there were 20,445 (2010 – 6,771) options available for issue under the Plan.

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

	As at July 31, 2011		As at July 31, 2010	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
	#(000)	\$	#(000)	\$
Balance, beginning of period	14,039	0.17	15,309	0.18
Changes during the period				
Forfeited	(6,000)	0.17	—	—
Expired	(243)	0.22	(14)	0.79
Balance, end of period	7,796	0.17	15,295	0.18
Options exercisable, end of period	7,400	0.17	13,605	0.19

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The following table provides stock option information as at July 31, 2011:

Exercise Price	Number #(000)	Options outstanding	
		Weighted Average Exercise Price	Weighted Average Life Remaining (years)
\$0.07 to \$0.10	1,710	0.07	5.9
\$0.11 to \$0.16	2,390	0.14	5.5
\$0.17 to \$0.25	3,435	0.17	6.4
\$0.26 to \$0.39	121	0.33	3.9
\$0.80 to \$1.20	20	0.80	1.5
\$1.21 to \$1.80	40	1.68	2.0
\$1.81 to \$2.71	60	1.85	2.6
\$2.72 to \$3.43	20	3.43	0.1
	7,796	0.17	5.9

The weighted average share price at the date of exercise for share options exercised in three-month period ended July 31, 2011 was nil (2010 – nil).

The total expenses relating to share-based compensation expensed in the Condensed Interim Consolidated Statements of Comprehensive Loss were \$2 (2010 – \$23).

14. Related Party Transactions

The only related party transactions that the Corporation incurs are those with key management personnel which include the Chief Executive Officer, the Chief Financial Officer along with other members of the board of directors. They control 1% percent of the voting shares of the Corporation.

Key management personnel compensation is comprised of the following for the three-month periods ended July 31, 2011 and 2010:

	For the three months ended	
	2011	July 31, 2010
	\$	\$
Wages, salaries and other short-term benefits including amounts paid through their holding and/or related companies	118	105
Share-based compensation	1	2
	119	107

The transactions with related parties occurred in the normal course of business. There were no outstanding balances with these related parties as at July 31, 2011.

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15. Supplementary Cash Flows Information

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

	For the three months ended	
	July 31,	
	2011	2010
	\$	\$
Cash held in escrow	339	—
Trade and other receivables	624	344
Accounts payable and accrued liabilities	(842)	148
Income tax recoverable	(82)	376
Inventories	(322)	142
Prepaid expenses and other assets	(110)	12
	(393)	1,022

16. Capital Management

The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern in order to pursue the development and commercialization of its services and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

In its management of capital, the Corporation includes the components of equity and debt as well as the cash and cash equivalents and tax credits receivable balances.

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. To maintain or adjust the capital structure, the Corporation may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to maximize ongoing cash available for development efforts, the Corporation does not pay out dividends.

The Corporation's investment policy is to invest its cash and cash equivalents in term deposits or high-grade investment securities with terms to maturity normally less than 90 days, selected with regard to the expected timing of expenditures from continuing operations.

The Corporation is not subject to any externally imposed capital requirements.

There were no changes in the Corporation's approach to capital management during the period.

	For the three months ended	
	July 31,	
	2011	2010
	\$	\$
Long-term debt, including current portion	1,701	1,578
Shareholders' equity	9,482	11,180
	11,183	12,758

17. Financial Instruments

Certain of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

The Corporation has determined that the carrying amount of its short-term financial assets and liabilities, including cash and cash equivalents, restricted cash and cash equivalents, trade and other receivables, trade payables and other liabilities, demand loans and current portion of debts, approximates their fair value because of the relatively short periods to maturity of these instruments.

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The carrying values of the long-term debts approximate their fair value because the interest rates approximate market rates available for similar instruments. Management believes that no significant change occurred in the risk of these instruments.

18. Segmented Information

Certain of the Corporation's accounting policies and disclosures require the determination of fair value, for

1) Segmented information used by management

Management organizes the Corporation into two principal operating segments for making operating decisions and assessing performance. The operating segments are Wireless Telecommunications ("Telecom") and Satellite and Terrestrial Telecommunications ("Satcom"). The Corporation currently operates in Canada and the 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 earth stations.

Management evaluates 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 periods ended July 31:

	Telecom		Satcom		Unallocated		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$	\$	\$
Sales	32	694	1,538	1,931	—	—	1,570	2,625
Cost of sales	88	569	1,283	1,690	—	—	1,371	2,259
Gross Profit	(56)	125	255	241	—	—	199	366
Interest revenue	—	—	—	—	—	(6)	—	(6)
Interest expense	—	—	—	—	325	83	325	83
Depreciation and amortization	12	39	140	207	—	—	152	246
Other expenses	275	136	702	662	513	302	1,490	1,110
Reporting segment loss before income tax	(343)	(50)	(587)	(628)	(838)	(379)	(1,768)	(1,057)
Income tax expense	—	—	—	—	—	—	—	—
Net loss for the period	(343)	(50)	(587)	(628)	(838)	(379)	(1,768)	(1,057)

The following table presents identifiable balances by segment as at July 31:

	Telecom		Satcom		Unallocated		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$	\$	\$
Current assets	616	1,179	4,618	3,561	2,111	7,865	7,345	12,605
Property and equipment	251	42	1,262	1,916	50	48	1,563	2,006
Intangible assets	2	346	1,181	1,288	—	—	1,183	1,634
Non current assets	—	—	—	—	352	2,430	352	2,430
Cash and cash equivalents	30	33	31	94	3,517	213	3,578	340
Total assets	899	1,599	7,092	6,859	6,030	10,555	14,021	19,015
Total liabilities	119	858	2,473	3,068	1,937	1,368	4,539	5,294

The following table presents identifiable balances by segment as at May 1, 2010 and April 30, 2011:

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	Telecom		Satcom		Unallocated		Total	
	April 30, 2011	May 1, 2010	April 30, 2011	May 1, 2010	April 30, 2011	May 1, 2010	April 30, 2011	May 1, 2010
	\$	\$	\$	\$	\$	\$	\$	\$
Current assets	1,325	1,147	4,466	4,131	4,554	7,576	10,345	12,854
Property and equipment	263	45	1,313	2,009	53	50	1,629	2,104
Intangible assets	2	382	1,235	1,338	—	—	1,237	1,720
Non-current assets	—	—	—	—	1,069	2,290	1,069	2,290
Cash and cash equivalents	30	32	130	243	2,179	1,277	2,339	1,552
Total assets	1,620	1,606	7,144	7,721	7,855	11,193	16,619	20,520
Total liabilities	810	455	2,584	3,223	2,231	4,273	5,625	7,951

The details of non-current assets by geography are provided below:

	Property and equipment	Intangible assets	As at July 31, 2011 Discontinued operations
Canada	\$ 1,412	\$ 106	\$ 352
United States	151	1,077	—
	1,563	1,183	352

	Property and equipment	Intangible assets	As at April 30, 2011 Discontinued operations
Canada	\$ 1,475	\$ 113	\$ 1,069
United States	154	1,124	—
	1,629	1,237	1,069

	Property and equipment	Intangible assets	As at May 1, 2010 Discontinued operations
Canada	\$ 1,907	\$ 405	\$ 1,388
United States	197	1,315	—
China	—	—	902
	2,104	1,720	2,290

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2) Enterprise-wide information

The following table presents sales by destination of the product for the three-month periods ended:

	For the three months ended	
	2011	July 31, 2010
	\$	\$
Canada	175	55
United States	867	1,171
European Union	131	256
China	90	187
Asia outside China	44	90
Sudan	—	671
Other	263	195
	1,570	2,625

19. Subsequent Event

Subsequent to the end of the period, the Corporation invested \$2,496 in Covalon Technologies Ltd. ("Covalon") by ways of a private placement in exchange for approximately 9.9% of Covalon's issued and outstanding shares. Jeffrey Mandel, Mitec's Chairman, President and CEO will join Covalon's Board of Directors.

20. Explanation of Transition to IFRS

As stated in note 2(a), these are the Corporation's first Condensed Interim Consolidated Financial Statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the Condensed Interim Consolidated Financial Statements for the three-month period ended July 31, 2011, the three-month period ended July 31, 2010, the year ended April 30, 2011, and the opening IFRS statements of financial position as at May 1, 2010 ("the Corporation's transition date").

In preparing these Condensed Interim Consolidated Financial Statements in accordance with IFRS 1, the Corporation has applied the following mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

Mandatory exemptions

IFRS 1 prescribes mandatory exceptions to the retrospective application requirements of IFRS. The following exceptions apply to the Corporation.

Estimates:

Estimates made in accordance with IFRS at the transition date, and in the comparative period of the first audited annual IFRS financial statements, must remain consistent with those determined under GAAP with adjustments made only to reflect any differences in accounting policies. Under IFRS 1, the use of hindsight is not permitted to adjust estimates made under GAAP that were based on information that was available at the time the estimate was determined.

Derecognition of Financial Assets and Financial Liabilities:

The derecognition requirements under IFRS are applied prospectively for transactions occurring on or after transition date. Accordingly, any derecognition of non-derivative financial assets or non-derivative financial liabilities in accordance with GAAP are not required to be recognized again on transition to IFRS.

Elective exemptions

1) Business combinations

IFRS 1 provides an exemption that allows an entity to elect not to retrospectively restate business combinations prior to May 1, 2010 in accordance with IFRS 3 - Business Combinations. The Corporation elected not to retrospectively restate those business combinations that occurred prior to the transition date.

Notwithstanding this exemption, the Corporation was required at the transition date to evaluate whether the assets acquired and liabilities assumed meet the recognition criteria in the relevant IFRS, and whether there

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are any assets acquired or liabilities assumed that were not recognized under GAAP for which recognition would be required under IFRS. The requirements of IFRS were then applied to the assets acquired and liabilities from the date of acquisition to the transition date. The Corporation applied these requirements, which resulted in no change to the carrying amount of the net assets acquired or the goodwill generated from business combinations occurring prior to the transition date.

- 2) Share-based payments transactions
The Corporation has elected the exemption to apply IFRS 2 Share-based Payments only to equity instruments that were that were granted after November 7, 2002 and that had not vested on by May 1, 2010.
- 3) Cumulative translation adjustment
Retrospective application of IAS 21, The Effects of Changes in Foreign Exchange Rates, would require the Corporation to determine cumulative currency translation differences from the date a foreign subsidiary was formed or acquired. IFRS 1 allows an entity to elect not to calculate the translation difference retrospectively and to reset the cumulative translation adjustment to zero. As the Corporation elected to use this exemption, the cumulative translation balances for all foreign operations is reset to zero on May 1, 2010. An adjustment of \$684 was recorded from the currency translation account to retained earnings. There is no impact to total shareholders' equity as a result of this election.
- 4) Designation of previously recognized financial instruments
The Corporation has elected to change the designation of certain financial instruments on adoption of IFRS, in certain circumstances. As a result, the Corporation elected to re-designate cash, cash held in escrow from the held-for-trading category to loans and receivables and short-term investments from the available-for-sale category to loans and receivables.
- 5) Statement of cash flows
Consistent with the Corporation's accounting policy choice under IAS 7, Statement of Cash Flows, Interest paid has moved into the body of the statement of cash flows, whereas it was previously disclosed as supplementary information. There are no other material differences between the Condensed Interim Consolidated Statements of Cash Flows presented under IFRS and the statement of cash flows presented under previous GAAP.

An explanation of how the transition from previous GAAP to IFRS has affected the Corporation's financial position and financial performance is set out in the following tables and accompanying notes.

Reconciliation of equity

	Notes	May 1, 2010	July 31, 2010	April 30, 2011
Total equity under GAAP		12,753	11,482	11,180
Adjustments to reported equity				
Foreign currency translation net of income tax	(a)			
Deficit		(684)	(684)	128
Cumulative translation adjustment		684	684	(128)
Share-based compensation	(b)			
Deficit		—	10	39
Cumulative surplus		—	(10)	(39)
Depreciation	(c)			
Deficit		(184)	(184)	(184)
Total assets		12,569	11,298	10,994

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Reconciliation of statements of financial position

	May 1, 2010			April 30, 2011			
	Notes	Canadian GAAP	IFRS Adjust- ments	IFRS	Canadian GAAP	IFRS Adjust- ments	IFRS
						\$	\$
Assets							
Current							
Cash		1,552		1,552	2,000		2,000
Cash held in escrow		—		—	339		339
Short-term investments, consisting of certificates of deposit		181		181	182		182
Trade and other receivables		2,174		2,174	2,886		2,886
Income taxes recoverable		755		455	276		276
Inventories		3,094		3,094	2,896		2,896
Prepaid expenses and other assets		320		320	195		195
Current assets related to discontinued operations		6,630		6,630	3,910		3,910
Total current assets		14,406		14,406	12,684		12,684
Property, plant and equipment		2,104		2,104	1,629		1,629
Intangible assets		1,720		1,720	1,237		1,237
Investments		25		25	—		—
Long-term assets related to discontinued operations	(c)	2,449	(184)	2,265	1,255	(186)	1,069
Total non-current assets		6,298	(184)	6,114	4,121	(186)	3,935
Total assets		20,704	(184)	20,520	16,805	(186)	16,619
Liabilities and Equity							
Current							
Credit facility		733		733	—		—
Accounts payable and accrued liabilities		3,777		3,777	3,478		3,478
Current portion of long-term debt		—		—	1,578		1,578
Current liabilities related to discontinued operations		2,284		2,284	569		569
Total current liabilities		6,794		6,794	5,625		5,625
Long-term debt		1,157		1,157	—		—
Total non-current liabilities		1,157		1,157	—		—
Equity							
Common shares		132,142		132,142	132,896		132,896
Warrants		1,152		1,152	—		—
Equity component of convertible debentures		768		768	786		786
Contributed surplus		10,802		10,802	12,033	(39)	11,994
Deficit	(a)(b)(c)	(131,427)	(868)	(132,295)	(134,799)	(19)	(134,818)
Accumulated other comprehensive loss	(c)	684	684	—	264	(128)	136
Total equity		12,753	(184)	12,569	11,180	(186)	10,994
Total liabilities and equity		20,704	(184)	20,520	16,805	(186)	16,619

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Reconciliation of comprehensive loss for the three month period ended July 31, 2010 and for the year ended April 30, 2011

	April 30, 2011			July 31, 2010			
	Notes	Canadian GAAP	IFRS Adjust- ments	IFRS	Canadian GAAP	IFRS Adjust- ments	IFRS
		\$	\$	\$	\$	\$	\$
Sales		8,188		8,188	2,625		2,625
Cost of sales	(c)	6,005	2	6,007	2,258	1	2,259
Gross profit		2,183	(2)	2,181	367	(1)	366
Expenses							
Research and development		1,247		1,247	481		481
Selling and administrative		3,583		3,583	830		830
Loss on disposal and impairment of property, plant and equipment		152		152	12		12
Loss on disposal and impairment of intangible assets		92		92			
Impairment of investment		25		25			
Share-based compensation	(b)	79	(39)	40	33	(10)	23
Total expenses		5,178	(39)	5,139	1,356	(10)	1,346
Results from operating activities		(2,995)	37	(2,958)	(989)	9	(980)
Net finance costs		1,627		1,627	77		77
Net loss for the period from continuing operations		(4,622)	37	(4,585)	(1,066)	9	(1,057)
Discontinued operations							
Loss from discontinued operations, net of income taxes		(248)		(248)	(276)		(276)
Gain on disposal of the discontinued operations, net of income taxes		1,498		1,498			
		1,250		1,250			
Net loss for the period		(3,372)	37	(3,335)	(1,342)	9	(1,333)
Net change in the unrealized gain on translating financial statements of self-sustaining foreign operations		136		136	(32)		(32)
Net change in the unrealized gain on translating financial statements of discontinued operations		19		19	60		60
Unrealized cumulative translation loss on disposal of self- sustaining foreign operations transferred to earnings during the year	(a)	793	(793)	—	—		—
Other comprehensive gain (loss)		948	(793)	155	28		28
Comprehensive loss for the period		(2,424)	(756)	(3,180)	(1,314)	9	(1,305)

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Notes to the reconciliations:

a) Currency translation

In accordance with IFRS 1, the Corporation has elected to deem all foreign currency translation differences that arose prior to the date of transition in respect of all foreign operations to be nil at the date of transition. The impact arising from this change is summarized as follows:

Condensed Interim Consolidated Statements of Financial Position:

	<u>July 31, 2011</u>	<u>April 30, 2011</u>	<u>May 1, 2010</u>
	\$	\$	\$
Decrease (increase) in translation reserve	(684)	128	(684)
Related tax effect	—	—	—
	(684)	128	(684)

Condensed Interim Consolidated Statements of Comprehensive Loss:

	<u>April 30, 2011</u>	<u>July 31, 2010</u>
	\$	\$
Unrealized cumulative translation loss of disposition of foreign operations transferred to earnings during the year	(793)	—
Decrease in equity	(793)	—

b) Share-based compensation

In certain situations, stock options granted vest in instalments over a specified vesting period. When the only vesting condition is service from the grant date to the vesting date of each tranche awarded, then each instalment should be accounted for as a separate share-based payment arrangement under IFRS, otherwise known as graded vesting. Canadian GAAP permits an entity the accounting policy choice with respect to graded vesting awards. Each instalment can be considered as a separate award, each with a different vesting period, consistent with IFRS, or the arrangement can be treated as a single award with a vesting period based on the average vesting period of the instalments depending on the policy elected.

The Corporation's policy under Canadian GAAP was to treat graded vesting awards under the latter method and, as a result, the following adjustments were required as at the dates shown below:

Condensed Interim Consolidated Statements of Financial Position:

	<u>July 31, 2011</u>	<u>April 30, 2011</u>	<u>May 1, 2010</u>
	\$	\$	\$
Deficit	10	39	—
Contributed surplus	(10)	(39)	—
	—	—	—

Condensed Interim Consolidated Statements of Comprehensive Loss:

	<u>July 31, 2011</u>	<u>April 30, 2011</u>
	\$	\$
Share-based compensation expense	(10)	(39)
Decrease in deficit	10	39

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c) Fixed assets and depreciation

Under IAS 16, When an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately (component accounting).

The building was found to comprise separate components for which different rates of amortization and useful life were appropriate. The Corporation performed its assessment of the various components and concluded that one of the components had a shorter useful life. On transition, this difference resulted in an increase of depreciation of approximately \$184.

Condensed Interim Consolidated Statements of Financial Position:

	July 31, 2011	April 30, 2011	May 1, 2010
	\$	\$	\$
Fixed assets	(184)	(186)	(184)
Deficit	184	186	184
	—	—	—

Condensed Interim Consolidated Statements of Comprehensive Loss:

	July 31, 2010	April 30, 2011
	\$	\$
Depreciation	1	2
Increase in deficit	(1)	(2)

d) Compound instruments

Under IAS 32 and IAS 39, entities with Compound Instruments such as convertible debentures are required to measure the fair value of the liability component first, with the residual allocated to the equity component.

In October 2009, the Corporation issued \$1,900 convertible unsecured debentures bearing interest at 12% that can be converted into common shares at a price of \$0.06 per share. Under Canadian GAAP, the Corporation had determined the fair value of the conversion option first and allocated the residual of the proceeds to the debt component.

Based on comparable debts and with the assistance of valuation specialists, Management has determined that an effective interest rate between 27% - 32% was appropriate to value the debt. As a result no actual adjustment to the components was required since the effective interest rate of 31% that resulted from the Canadian GAAP falls within an acceptable range.

e) Income taxes:

A number of differences exist between Canadian GAAP and IFRS in regards to deferred tax assets and liabilities, including those related to deferred tax assets or liabilities arising from business combinations.

As the Corporation has concluded that it is not more probable than not that it will realize its tax assets, no deferred tax assets have been recognized and there is no impact from the differences between Canadian GAAP and IFRS on the balances presented.

f) Presentation:

(i) The Corporation has elected to present the analysis of expenses by function in the notes to the financial statements.

(ii) Certain revenues, expenses in the Condensed Interim Consolidated Statements of Comprehensive Loss were reclassified to conform to the presentation adopted by the Corporation on transition to IFRS.