

MITEC  
TELECOM INC.  
2009  
ANNUAL  
REPORT



# MESSAGE FROM THE **EXECUTIVE CHAIRMAN**

I am very pleased with the progress Mitec has made over the last year notwithstanding what many have called as the worst economic collapse in recent history. There is no question in my mind that our management team, led by Dan Piergentilli, and all our employees have proven their mettle over the last year.

When the Mitec Board of Directors met to review the Corporation's first quarter in the fall of 2008, management presented a growth strategy that was focused on creating products to serve a range of niche markets with significant upside potential. The strategy involved working with customers who wanted to leverage the growing demand for wireless broadband communication. Having been selected as a preferred supplier for many key customer programs, Mitec has both new and existing customers that are interested in expanding their relationship with us. A strategy focused on their needs was supported unanimously by the Board.

Soon after, we announced a significant supply relationship with one of the world's largest telecom companies that we expected to generate predictable, long-term revenue. Other business relationships continued to develop as well. Mitec continued to focus on its niche strategy for growth as the global recession unfolded—even as telecom equipment providers began to experience difficulty accessing the credit they needed to build out new networks. Despite this, revenue remained stable thanks to our strong cash position, the diversification of our customer base, and the range of our product mix in the wireless, satcom, VSAT and military spaces. This stability allowed us to maintain our crucial research and development commitment throughout the year and to include a similar commitment in our 2010 fiscal budget. The credit crunch eventually eased as a recovery took hold and our customer focus began to pay off.

Throughout fiscal 2009, our President and CEO, Dan Piergentilli maintained a diligent cost containment program and worked with senior management to help ensure the global economic crisis would not expose Mitec to undue vulnerability. Early in 2009 the Board established a Mergers and Acquisitions committee comprised of management, directors and advisors to review opportunities for a transformative transaction(s) that would result in increased shareholder value and ensure Mitec's ongoing future profitability. The committee is reviewing both buy and sell side opportunities as well as joint ventures and mergers.

Our staff have shown a willingness and ability to sustain the Corporation even in the most extreme environment. I want to commend Dan Piergentilli for his leadership in the face of these challenges. I also would like to take this opportunity to express my gratitude to Mitec's employees for their dedication and perseverance. We are committed to executing our growth strategy going forward and confident that our customers and shareholders will benefit.



**JEFFREY A. MANDEL**

Executive Chairman of the Board, Mitec Telecom Inc.

# MESSAGE FROM THE PRESIDENT

Like manufacturing companies around the globe, Mitec faced significant challenges during most of fiscal 2009. However, the Corporation has managed to weather an unprecedented and massive worldwide recession the likes of which many of us have never seen.

Over the last few years, Mitec has redefined its product strategy becoming a scalable, niche developer and manufacturer of next-generation technologies that reduce operating costs by enhancing bandwidth. Refocusing ourselves in this way has given those of our customers who are faced with increased budget constraints a compelling reason to continue purchasing capital equipment. We have also developed a geographically diverse customer base which allows us to take advantage of the economic recovery and infrastructure build-out opportunities in a variety of regions, without being dependent on a recovery in any one area. The result is that we are beginning to see a gradual improvement in demand for our products.

Notable achievements in fiscal 2009 included market acceptance of our Coverage Solutions product line from a variety of customers in the telecom sector around the world. These proven, state-of-the-art solutions use Mitec's unique booster and amplifier technologies to improve and extend broadband signal coverage in rural areas. Our customers see this line as a faster and more cost efficient solution to improving network bandwidth, key factors for winning business in today's challenging economic environment. Rural operators in Canada have had great success with this technology, and we are successfully leveraging these results in the United States and in developing countries where opportunity is significant and large scale success achievable.

Despite poor economic conditions, our satellite communications segment continued to perform consistently as it has over the past several years. We had success with the introduction of our new line of Block Upconverter (or BUC) designs which are gaining traction among customers with new as well as existing satellite networks, where upgrades rather than new capital expenditures are a preferred solution. This new line allows customers in the satcom segment to leverage their existing infrastructure.

Keragis which we integrated into our operations in fiscal 2008 addresses a US\$1 billion military market opportunity. Its patented and disruptive solid state amplifier technology, which delivers extremely strong performance in very compact structures, has been qualified by some of the largest U.S. military participants including the Department of Defense. Over the next several years we expect this division to deliver substantial opportunities and will continue supporting its research and development in both the United States and in Canada.

From a financial perspective, Mitec delivered a third consecutive year of improved net income and cash-flow despite the global economic crisis. My strategy to ensure that Mitec was a lean and efficient company included relocating our Montreal manufacturing facility to a smaller and more affordable site in the late 2008 and expanding our facility in China.

I would like to thank our Board and its Chair, Jeffrey Mandel, for their support and guidance throughout this challenging year. I would also like to recognize the dedication of our employees, without whom our success would not be possible. The members of Mitec's Board and management team believe that bottom line profitability is the key to our future success, and remain committed to achieving this objective going forward.



**DANIEL PIERGENTILI**

President and Chief Executive Officer, Mitec Telecom Inc.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The following management's discussion and analysis ("MD&A") is a narrative explanation, through the eyes of Mitec's management, on how the Corporation performed during the year ended April 30, 2009. It includes a review of the financial condition of Mitec and a review of operations for each of Mitec's operating segments for the year ended April 30, 2009 as compared to the year ended on April 30, 2008.

This MD&A supplements the financial statements for the year ended April 30, 2009 but does not form part of them. It is intended to help the reader understand and assess the significant trends, risks and uncertainties related to the results of operations for each business segment and it should be read in conjunction with the audited consolidated financial statements as at April 30, 2009. Mitec's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts in this MD&A are in Canadian dollars unless otherwise indicated and considers information available until July 28, 2009. Additional information relating to the Corporation can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, which reflect the Corporation's current expectations regarding certain future events. To the extent that any statements in this document contain information that is not historical, the statements are essentially forward-looking and are often identified by words such as "anticipate", "expect", "estimate", "intend", "project", "plan" and "believe". In the interest of providing shareholders and potential investors with information regarding Mitec, including management's assessment of future plans and operations, certain statements in this MD&A are forward-looking and are subject to the risks, uncertainties

and other important factors that could cause the Corporation's actual performance to differ materially from that expressed in or implied by such statements. Such factors include, but are not limited to: the going concern uncertainty; the impact of general economic conditions; industry conditions, including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility; and the impact of accounting policies issued by Canadian standard setters. Some of these items are further discussed in the "Risks and Uncertainties" section of this document and in the Risk Factors section of the Corporation's Annual Information Form dated July 28, 2009.

Although the Corporation believes that the expectations conveyed by the forward-looking statements are based upon information available on the date that such statements were made, there can be no assurance that such expectations will prove to be correct. The reader is cautioned not to rely on these forward-looking statements. The Corporation disclaims any obligation to update these forward-looking statements unless required to do so by applicable Securities laws. All subsequent forward-looking statements, whether written or orally attributable to the Corporation or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements.

## APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

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

## OVERVIEW

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

The Telecom segment consists of designing, manufacturing and selling state-of-the-art RF conditioning and amplifier subsystems for wireless and cellular base stations. These components are distributed worldwide and are integrated into high performing wireless communication infrastructures

that enable voice, data/Internet and some of the core broadband capabilities in today's fast growing multimedia communications area.

The Satcom segment generates revenues from the design, manufacture and sale of RF components and subsystems for Satellite Earth Stations used by direct-to-home TV service providers' very small aperture terminal networks ("VSAT"). It also generates revenues from the sale of solid-state power amplifier technologies, which carries a variety of intellectual property rights and are patent protected, mainly to government and large military system integrators for military radar and communication systems.

Mitec's headquarters are in Montreal, Canada and the Corporation has other operations in Suzhou (China) and Poway (U.S.A.). As at April 30, 2009, the Corporation's global workforce stood at 289 employees.

## **MAJOR EVENTS**

On May 26, 2009, Mitec Telecom launched a new Mandarin language website. This new website reflects Mitec's commitment to its China presence and allows the Corporation to service the local market more effectively.

On April 20, 2009, the Corporation announced it had received a multi-site order from a major Canadian telecom operator. This order resulted from the successful network trial involving the Corporation's coverage solutions products which was announced in February 2009.

On March 16, 2009, the Company announced that it has extended the term of 4,650,000 common share purchase warrants that were issued as part of a private placement which closed on October 18, 2006 and the 19,289,779 common share purchase warrants that were issued as part of a private placement which closed on March 30, 2007, until October 30, 2009.

On February 17, 2009, the Corporation announced that it had received the first order for a network trial from one of Canada's largest telecom operators. The order was for a coverage solution product that has proven effective for enhancing network performance of co-sited wireless services networks. It was the first order for this product from a Canadian telecom operator.

On January 7, 2009, the Corporation announced that it had received the first purchase agreement for fixed wireless components from a new customer and leading telecom provider. It was the first in a series of agreements that the Corporation expects to receive from this customer over a long-term period.

On December 4, 2008, the Corporation announced its intention to carry out a normal course issuer bid through which it proposes to purchase up to 11,033,337 of its common shares, which represents approximately 5% of its issued and outstanding common shares, effective December 8, 2008.

On November 27, 2008, the Corporation announced that it had received a U.S. patent for its solid-state power amplifier technology from the United States Patent and Trademark Office. The technology enables use of high-powered amplifiers in compact structures.

On November 19, 2008, the Corporation announced that it had received orders exceeding \$1.6 million for mobile wireless infrastructure components from two of the world's top five major telecom providers.

On November 13, 2008, the Corporation announced that it had been selected to supply products from its fixed wireless product line to one of the world's largest telecom providers. This deal has the potential to deliver results that equal the Corporation's present day wireless business over the next several years.

On September 19, 2008, the Corporation announced that it had extended the expiry date of 4,650,000 of its common share purchase warrants by a further 6 months, namely until April 3, 2009, given the current turbulent state of the capital markets.

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

On May 20, 2008, the Corporation announced that it had received a \$3 million order for its wireless solution products from a major telecom provider. Deliveries took place over the ensuing two quarters.

## SELECTED QUARTERLY FINANCIAL INFORMATION

The following table presents selected financial information for the current and past fiscal years. Certain comparative figures for 2008 have been reclassified to conform to the presentation adopted in 2009.

(in thousands of dollars, except per share data)

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
Sales	6,927	7,922	10,568	14,931	10,766	9,829	7,978	7,603
Gross profit	1,083	1,897	2,366	3,166	2,399	1,959	1,697	2,063
Research & development expenses	1,122	1,039	1,136	1,013	1,300	1,041	1,129	1,007
Selling and administrative expenses	1,891	1,430	1,714	1,534	1,577	1,563	1,603	1,486
Net profit (loss)	(3,108)	(360)	(1,195)	55	(1,751)	(1,352)	(2,341)	(977)
Loss per share – basic and diluted:								
- Net loss	(0.01)	(0.00)	(0.01)	0.00	(0.01)	(0.01)	(0.01)	(0.01)
Non-recurrent items:								
- Impairment of Property, Plant and Equipment	80	—	351	—	104	—	—	—
- Impairment of Goodwill	1,607	—	—	—	—	—	—	—
- Impairment of Investments	—	—	—	—	450	—	275	—
Total assets	30,321	36,244	39,230	44,027	40,043	40,602	38,864	31,261
Long-term debt	1,215	1,116	1,057	1,067	1,124	1,464	2,112	693
Cash and cash equivalents and short-term investments	4,666	4,040	5,255	3,324	4,861	5,164	4,252	4,418

## RESULTS OF OPERATIONS FOR THE FOURTH QUARTER

### Sales

For the three-month period ended April 30, 2009, consolidated sales were \$6.9 million, a 36% decrease from the fourth quarter of the previous year. The decrease in the Corporation's sales is attributable to the unprecedented worldwide recession that resulted in an immediate lower demand for worldwide communications capital equipment, mainly as a result of the credit crisis and the inability for telecom infrastructure providers to continue to access funds for capital expenditures. Shipments from the Telecom segment, which contributed \$2.2 million of total revenues, decreased by \$3.2 million or 59%, during the fourth quarter as compared with the same period in the previous year, when credit markets were fully operational and the demand for the Corporation's products were very strong both in developing countries and North America. Satcom segment shipments, which contributed 68% of total revenues, were \$4.7 million, a decrease of \$0.7 million, or 13%, compared to the fourth quarter of fiscal 2008. Although the Corporation's Satcom division historically demonstrates more predictable quarterly revenue, it was not immune to the effects that the worldwide recession has had on all telecom manufacturers.

(in thousands of dollars, except percentages)

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
Telecom	2,206	3,101	4,073	10,394	5,360	4,362	2,189	2,973
% of total revenues	31.8%	39.1%	38.5%	69.6%	49.8%	44.4%	27.4%	39.1%
Satcom	4,721	4,821	6,495	4,537	5,406	5,467	5,789	4,630
% of total revenues	68.2%	60.9%	61.5%	30.4%	50.2%	55.6%	72.6%	60.9%

## Gross Profit

Gross profit for the fourth quarter of fiscal 2009 was \$1.1 million, a decrease of \$1.3 million from \$2.4 million in the fourth quarter of fiscal 2008. Although the Corporation was able to initiate a cost containment program during the quarter, because of the rapid onset of the worldwide recession, gross profit was impacted by lower overhead absorption resulting from the velocity in the reduction in orders. Despite economic conditions, the Corporation continued with its launch of new products, which initially result in lower margins because of the extraordinary introduction and marketing costs associated with early stage commercialization. Consequently, gross profit in the Telecom segment was negative \$0.2 million in the fourth quarter of fiscal 2009, a decrease of \$1.1 million from \$0.9 million for the same period last year. Satcom gross profit was \$1.2 million in the fourth quarter of fiscal 2009, a decrease of \$0.3 million from \$1.5 million for the same period last year.

(in thousands of dollars, except percentages)

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
Telecom	(166)	382	571	2,087	903	867	345	737
% of Telecom sales	(7.5 %)	12.3 %	14.0 %	20.1 %	16.8 %	19.9 %	15.8 %	24.8 %
Satcom	1,247	1,515	1,795	1,081	1,496	1,091	1,352	1,327
% of Satcom sales	26.4 %	31.4 %	27.6 %	23.8 %	27.7 %	20.0 %	23.4 %	28.7 %

## Research and Development Expenses

Research and development expenses (“R&D”) net of investment tax credits for the fourth quarter of fiscal 2009 were \$1.1 million, a decrease of 14% from \$1.3 million in the fourth quarter of fiscal 2008. Despite challenging economic conditions, the Corporation continues its commitment to its growth strategy and has not reduced R&D investing in various product lines in order to promote the availability of new products servicing either the mobile or the fixed wireless infrastructure as well as the VSAT and the military markets to ensure Mitec remains ahead of its competitors.

## Selling and Administrative Expenses

The Corporation’s selling and administrative expenses (“SG&A”) for the fourth quarter in fiscal 2009 were \$1.9 million, an increase of 20% from \$1.6 million in the fourth quarter of fiscal 2008. The increase was primarily due to legal settlement agreements that were accrued in the past quarter.

## Net Loss

The loss from continuing operations and the net loss for the fourth quarter of fiscal 2009 was \$3.1 million, or \$0.01 per share, as compared to \$1.8 million, or \$0.01 per share, for the same quarter of fiscal 2008. These results also include a one-time, non-cash, after-tax accounting charge of \$1.1 million for goodwill associated with the prior acquisition of the Corporation’s U.S. operations. Without this adjustment, Mitec’s net loss for the year would have been reduced to \$2.0 million and largely attributable to lower gross profit and higher SG&A expenses resulting from the rapid reduction in revenues which occurred during the quarter, as described above. The impairment of goodwill, totaling \$1.6 million reflected a reduction of value in its subsidiary, Keragis Corporation. The Corporation used a cash flow model with a discount rate of 27% to calculate this impairment, consistent with the conservative approach it uses with respect to all of its financial disclosure. Although Mitec’s Keragis division is gaining traction with some large U.S. military customers, management believes that this impairment charge is appropriate, in light of the current economic environment.

## Earnings before Interest, Taxes, Depreciation and Amortization

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

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

(in thousands of dollars)

				2009				2008
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
Net Profit (Loss)	(3,108)	(360)	(1,195)	55	(1,751)	(1,352)	(2,341)	(977)
Income taxes	(523)	(89)	(14)	(14)	(97)	—	—	—
Amortization and loss on disposal and impairment of property, plant and equipment, intangible assets, deferred charges and investments	2,214	515	972	753	1,305	1,248	823	769
Interest	27	(1)	65	37	36	302	78	24
EBITDA	(1,390)	65	(172)	831	(507)	198	(1,440)	(184)
Effect of foreign exchange and stock-based compensation	(425)	(673)	(95)	94	472	(297)	930	293
Adjusted EBITDA	(1,815)	(608)	(267)	925	(35)	(99)	(510)	109

## SELECTED ANNUAL FINANCIAL INFORMATION

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

(in thousands of dollars, except per share data)

	2009	2008	2007
	\$	\$	\$
Sales	40,348	36,176	33,807
Gross profit	8,512	8,118	5,450
Research & development expenses	4,310	4,477	5,455
Selling and administrative expenses	6,569	6,229	7,339
Restructuring and other expenses	—	—	1,728
Loss from continuing operations	(4,608)	(6,421)	(12,364)
Net loss	(4,608)	(6,421)	(12,372)
Loss per share – basic and diluted:			
- Continuing operations	(0.02)	(0.03)	(0.10)
- Net loss	(0.02)	(0.03)	(0.10)
Total assets	31,321	40,043	33,163
Long-term debt	1,215	1,124	797
Cash, cash equivalents and short-term investments	4,666	4,861	6,361

## RESULTS OF OPERATIONS FOR THE 12-MONTH PERIOD ENDING APRIL 30, 2009

### Fluctuations in operating results

Our results of operations have fluctuated significantly from period to period in the past and are likely to do so in the future. We anticipate that our quarterly and annual results of operations will be impacted for the foreseeable future by several factors, including the acceptance by the market of newly developed products, the progress of the cost-containment program on various fixed expenses, and the completion of various partnership initiatives. Due to these fluctuations, we presently believe that the period-to-period comparisons of our operating results are not a good indication of our future performance.

## Sales

For the twelve-month period ended April 30, 2009, consolidated sales reached \$40.3 million, an increase of 12%, or \$4.2 million, from \$36.2 million in the previous year. The increase in the Corporation's sales - which took place in its Telecom segment in the first half of fiscal 2009 - to \$19.8 million, an improvement of \$4.9 million or 33% compared to the previous year, is attributable to strong industry demand and appeal for the Corporation's products, mainly in developing countries and where network upgrades are a preferred solution. Revenue for the Satcom segment decreased by \$1.0 million to \$20.6 million, or 5% compared to the previous fiscal year. The Corporation was successful in increasing its penetration into the VSAT market with the launch of new products, which have generated significant interest but required a slower sales cycle because of their early level of commercialization. In summary, the Corporation was on track to deliver much better results for fiscal 2009 in all of its divisions in both Telecom and Satcom and believes it has performed as well as could be expected and significantly better than most corporations in the same space, however it was impossible to be immune to the effects of the global recession.

Since the Corporation develops next-generation technologies and manufactures products which reduce operating costs by enhancing bandwidth, this is a compelling reason for certain customers who are facing increased budget constraints to still purchase capital equipment. As well, the Corporation has a geographically diverse customer base that is not exclusively dependent on any one region and this may allow the Corporation to take advantage of economic recovery in any region. Consequently, the Corporation is beginning to see a gradual improvement in demand for its products.

### Geographical Distribution

	North America	Europe	Asia	Other
<b>2009</b>	<b>37%</b>	<b>17%</b>	<b>33%</b>	<b>13%</b>
2008	33%	24%	32%	11%
2007	44%	22%	26%	8%

## Gross profit

Gross profit for fiscal 2009 was \$8.5 million, an increase of \$0.4 million from \$8.1 million in fiscal 2008. Gross profit generated in 2009 was a result of a combination of factors such as increased demand for products in the first half of fiscal 2009, allowing better overhead absorption during that period, unfortunately offset by unprecedented lower sales levels in the second half as a result of the worldwide recession. Other factors that contributed to gross profit performance were sales of newly launched products carrying better gross margins and the cost-containment program, as well as development costs associated with the launch of new products. Telecom gross profit in fiscal 2009 remained at \$2.9 million, no change from fiscal 2008. Satcom gross profit was \$5.6 million, an increase of \$0.3 million from \$5.3 million in fiscal 2008. Satcom's gross margin increased from 24.7% to 27.4% due mainly to larger sales levels in the military market which carry higher gross margins.

(in thousands of dollars, except percentages)

	2009	2008	2007
	\$	\$	\$
Telecom	<b>2,874</b>	2,853	(1,392 )
% of Telecom revenue	<b>14.5%</b>	19.2%	(11.7%)
Satcom	<b>5,638</b>	5,265	6,842
% of Satcom revenue	<b>27.4%</b>	24.7%	31.3%

## Research and Development Expenses

R&D expenses net of investment tax credits for fiscal 2009 were \$4.3 million compared with \$4.5 million in fiscal 2008. This decrease is attributable to lower investments in the wireless sector as products are entering final stages of approval and was offset by an increase in R&D from the new products being developed by the Corporation's military product line associated with its U.S. based Keragis division. The Corporation intends to maintain this level of R&D spending.

## Selling and Administrative Expenses

SG&A expenses were \$6.6 million for fiscal 2009 compared with \$6.2 million in fiscal 2008. This increase was a result of the settlement of some legacy legal matters during the current fiscal year and are not expected to be recurrent.

## Financial Expenses

Financial expenses were \$0.9 million for fiscal 2009, compared with \$0.5 million in fiscal 2008. This increase was a result of a variety of factors, including interest on convertible debentures and accretion expenses. The Corporation paid off the final portion of its long-term debt in fiscal 2009.

## **Amortization of Intangible Assets**

The amortization of intangible assets was \$1.0 million in fiscal 2009, a decrease of \$0.1 million compared to \$1.1 million in fiscal 2008, following the expiry of deferred charges related to the deferred loss on sale and deferred rent on sale and leaseback of a previously rented facility.

## **Stock-based compensation**

The amount of the expense totalled \$0.6 million in fiscal 2009, which is approximately the same amount as in fiscal 2008.

## **Impairment of Property, Plant and Equipment**

Management periodically reviews the property, plant and equipment carrying values in light of its strategic plan and general business environment. During fiscal 2009, following a review of its facilities, the Corporation recognized a write-down of the net book value of these assets of \$0.5 million. For fiscal 2008, a write-down of \$0.1 million was recorded.

## **Impairment of Intangible Assets**

Management periodically reviews the carrying value of the intangible assets and considers whether there is an indication of impairment. In fiscal 2009, it was determined that a write-down of \$50,000 was required and was charged to income. For fiscal 2008, a write-down of \$40,000 was taken.

## **Impairment of Goodwill**

Management periodically reviews the impairment of goodwill based upon a comparison of the carrying amount to the fair value of the reporting unit. The annual impairment test of the goodwill resulting from the acquisition of Keragis was completed on April 30, 2009. As a result of the market value of the Corporation's equity being below its book value, the Corporation tested goodwill for impairment. The Corporation used a cashflow model with a discount rate of 27% and concluded that a pre-tax impairment of \$1,607,000 was required. Management is encouraged with the potential of the Keragis division, which is beginning to gain traction with some large U.S. military customers. Like all other markets, the timing for the new contracts was delayed by the economic downturn, however these delays are beginning to end.

## **Income Tax**

The Corporation recorded an income tax recovery of \$0.6 million in fiscal 2009 relating to the recognition of benefit of losses and the amortization of the acquisition-related intangibles as compared to \$0.1 million in fiscal 2008.

## **Net loss**

The net loss for the year ended April 30, 2009 was \$4.6 million, or \$0.02 per share, an improvement of \$1.8 million compared to a loss of \$6.4 million, or \$0.03 per share, for the year ended April 30, 2008. These results also include a one-time, non-cash, after-tax accounting charge of \$1.1 million for goodwill associated with the prior acquisition of the company's U.S. operations. Without this adjustment, Mitec's net loss for the year would have been reduced to \$3.5 million and largely attributable to lower gross profit and higher SG&A expenses resulting from the rapid reduction in revenues which occurred during the quarter, as described above. The decrease in the net loss is a result of better gross profits generated from operations combined with the positive impact of the restructuring program and the benefit of the foreign exchange related with the balance sheet items.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Corporation had \$4.6 million of cash, cash equivalents and short-term investments as of April 30, 2009, compared to \$4.9 million as of April 30, 2008, which should be sufficient to cover its operating requirements, an outstanding convertible debenture repayment, if required, and its capital expenditures. The Corporation also benefits from a strong working capital balance to support any third party financing, should it be required.

Working capital, excluding cash, cash equivalents, and short-term investments, decreased 11% to \$8.1 million at the end of fiscal 2009 compared to \$9.1 million at the end of the previous fiscal year. The decrease was mostly attributable to large efforts in reducing the inventories and a higher amount of the current portion of the long-term debt.

## **Operating Activity Cash Flows**

Cash flow generated by operating activities was \$0.9 million in fiscal 2009, an improvement of \$2.8 million from negative \$1.9 million in fiscal 2008. Improvements in gross margins and in the cost containment program discussed above were the main contributing factors.

## Investing Activity Cash Flows

Cash flow used in investing activities was \$0.9 million for fiscal 2009, as a result of the acquisition of property, plant and equipment made. During fiscal 2008, cash flow from investing activities was \$1.9 million as a result of the acquisition of Keragis (\$1.2 million) and capital investments (\$0.7 million).

## Financing Activity Cash Flows

Financing activities in resulted in a net cash outflow of \$0.5 million in fiscal 2009, following the repayment of long-term debt issuance. In fiscal 2008, net cash inflows from financing activities were \$2.2 million, following the issuance of \$2.5 million in convertible debentures.

## 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.

## RISKS AND UNCERTAINTIES

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

### Going concern uncertainty

The accompanying consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Corporation has a history of losses over the past eight years and currently does not have the necessary financing in place to support continuing losses. The Corporation has accumulated a deficit of \$119,980,000 as at April 30, 2009. Historically, the Corporation has financed its operating and capital requirements mainly through issuances of debt and equity. The Corporation's continuation as a going concern is dependant upon, among other things, attaining a satisfactory revenue level, the support of its customers, a return to profitable operations and the generation of cash from operations as well as the ability to secure new financing arrangements and new capital. These matters are dependent on a number of items outside of the Corporation's control and there is uncertainty about the Corporation's ability to continue as a going concern.

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

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

1. Approaching potential lenders to secure operational financing;
2. Investigating a range of alternatives to expand its Telecom and Satcom business units;
3. Forming a Merger and Acquisition Committee, comprised of management, directors and advisors to the Corporation in order to explore potential opportunities relating to its expansion and growth.

During the fiscal year ended April 30, 2009, the following transactions, aimed at addressing the uncertainties described above, occurred:

- a. The Corporation announced that it had received a \$3 million order for mobile wireless filters from a major Telecom provider.
- b. The Corporation announced that it has extended the expiry date of 4,650,000 of its common share purchase warrants that were issued as part of a private placement which closed on October 18, 2006 and the 19,289,779 common share purchase warrants that were issued as part of a private placement which closed on March 30, 2007 until October 30, 2009.
- c. The Corporation announced that it been selected to supply products from its fixed wireless product line to one of the world's largest telecom providers through a General Purchase Agreement.
- d. The Corporation announced that it had received orders exceeding \$1.6 million for its Coverage Solutions product line.
- e. The Corporation announced that it had received its first patent for its Keragis, next generation series of solid-state power amplifiers.
- f. The Corporation announced that it had received its first Specific Purchase Agreement to supply products from its fixed wireless product line to one of the world's largest telecom providers.

- g. The Corporation announced that it had received an initial order a network trial for coverage solutions components from a new customer and leading Canadian telecom provider.
- h. The Corporation announced that it had received a follow on order for the network trial for coverage solutions components from a new customer and leading Canadian telecom provider.

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

### **Industry Risk**

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

### **Dependence on a Few Customers**

The Corporation has exposure due to its reliance on certain large contracts and customers. In fiscal 2009, the Corporation's two largest customers accounted for 42% of its sales. The same two customers accounted only for 23% of the sales recorded in the second half of the fiscal year. Although the Corporation invests considerable effort in maintaining its relationships with its customers, there can be no assurance that Mitec will be able to sell to such customers on an advantageous basis in the future, or that such customers will continue to buy from Mitec. Any changes in their business strategies, changes in timing, or marketing issues, could have a material financial impact on Mitec. Mitec is putting increasing emphasis on growing its customer base, and diversifying its sales channels into each business sector, to mitigate this risk. Additionally, Mitec will pursue a strategy of balanced growth, mainly to exploit the counter-cyclical nature of the Telecom and Satcom businesses.

### **Customers' Business**

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

### **Production Risk**

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

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

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

### **Operational Risk**

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

## Technological Changes

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

## Senior Management and Other Key Employees

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

## Cash Repatriation from Foreign Subsidiary

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

## General Economic Conditions

The recent turmoil in the global economic situation represents a risk to the Corporation in that it may impact the ability of the Corporation's customers to finance capital equipment expenditures resulting in delays and possibly increased quarterly fluctuations. It may also adversely affect the business of the Corporation. For example, the curtailment of production activities due to unfavourable economic conditions could result in significant costs associated with temporary layoffs or termination of employees. The Corporation has products and technologies that reduce operating costs by reducing bandwidth costs which results in a compelling reason for certain customers who are facing increased budget constraints to still purchase capital equipment.

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

## FINANCIAL INSTRUMENTS

### Interest Rate

The Corporation has no exposure to interest rate fluctuations with respect to its long-term debt, which bear interest at a fixed rate.

### Foreign Currency Translation

#### a. Canadian operations

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are converted at the historical rate. Revenues and expenses are translated into Canadian dollars at rates of exchange in effect. Exchange gains and losses arising from the translation of foreign currency items are included in the determination of net income/loss.

#### b. Foreign operations

The financial statements of the Corporation's self-sustaining foreign subsidiaries, Mitec Communications Ltd., Mitec Telecom (Suzhou) Company, Ltd. and Keragis Corporation, are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the exchange rates prevailing at the end of the period and revenues and expenses are translated at the average exchange rates during the period. The adjustment arising from the translation of these accounts has been recorded in the accumulated other comprehensive profit (loss) in shareholders' equity. When there is a reduction in the net investment of a self-sustaining foreign subsidiary, a proportionate amount of deferred translation gains and losses is recognized in net income/loss.

## Foreign Exchange Rates

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

	As at April 30, 2009		As at April 30, 2008	
	RMB	US\$	RMB	US\$
Cash and cash equivalents	8,732,993	2,035,822	11,288,477	1,786,176
Accounts receivable	7,987,471	3,059,722	34,184,732	4,924,270
Accounts payable and accrued liabilities	4,345,869	1,092,082	43,342,602	2,082,476

## **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.

## **CONTINGENCIES**

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

In January 1997, the Corporation received notice from attorneys for the residents of a house in Williston, Vermont, of a potential claim alleging property damage and personal injury arising from the presence of certain contaminants in the groundwater beneath their property. The notice alleged that the contaminants came from sources located on a lot leased in the past by Mitec Systems Inc. In February 1999, the Corporation entered into an agreement with the State of Vermont whereby the Corporation has agreed to perform a site investigation and the State has agreed to use its resources to identify all individuals and entities potentially responsible for the site contamination. The State of Vermont also requested that the United States Environmental Protection Agency ("USEPA") ceases its investigation of the site. The site investigation undertaken by the Corporation has been concluded and the data and information collected indicates that there are a number of other possible sources of groundwater contamination. The State of Vermont has stated that it has no funding to undertake the next steps with respect to the groundwater contamination and has asked the USEPA to revive its investigation of the contamination. The USEPA has agreed to do so. In May 2007, USEPA notified Mitec that it considered Mitec to be a potentially responsible party with respect to the Alling Industrial Park contamination and asked if Mitec was willing to enter into negotiations. Mitec commenced confidential settlement negotiations with the USEPA to resolve the agency's cost reimbursement claim. Subsequently, USEPA issued a special notice letter triggering a statutory negotiation period in which a formal demand for reimbursement was made. In response to the negotiations and, in July 2008, a settlement agreement was proposed by the USEPA which is currently being reviewed by Mitec. Even if there remains uncertainty as to the finalization of the actual amount to be paid and certain other terms of the settlement agreement, the Corporation recorded a provision of \$143,000 (US \$120,000) in the current fiscal year.

The Corporation's former landlord in the New Jersey facility has instituted legal action against the Corporation and certain of its sub-tenants for damages to the leased premises. The outcome is presently not determinable; however, a provision of \$36,000 (US \$30,000) has been made in the accounts during the current fiscal year.

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.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

	Long-term debt	Operating leases
	\$	\$
1 year	1,215	416
2 – 3 years	—	720
4 – 5 years	—	138
Over 5 years	—	—
Total contractual obligations	1,215	1,319

The Board of Directors has also mandated its Chairman to review various merger and acquisition opportunities and to actively pursue M&A related financing activities. The Board verbally agreed on compensating the Chairman should he be successful with any of these initiatives. The terms of the total compensation remain to be determined.

## COMMON SHARES, WARRANTS, AND STOCK OPTIONS

As of April 30, 2009, there were 220,666,756 common shares and 37,828,668 warrants outstanding as well as 14,818,050 stock options. During the current fiscal year, the Corporation issued 354,331 common shares resulting from the conversion of some of the outstanding convertible debentures. Also, the Corporation decided to extend the expiry date for 6 months of 4,650,000 outstanding warrants as well as for 19,289,779 warrants to now expire on October 30, 2009.

In fiscal 2009, the Corporation announced its intention to proceed with a normal course issuer bid to purchase up to 18,471,135 common shares of the Corporation representing 5% of the issued shares of such class at November 27, 2008. The bid commenced in December 2008 and may continue to December 2009. In accordance with TSX requirements, a maximum daily repurchase of 10% of previous six month's average daily trading volume may be made, or 223,583 shares as at April 30, 2009. The number of shares purchased and the timing of any such purchases will be determined by the Corporation. All shares purchased by the Corporation will be cancelled. As at April 30, 2009, the Corporation had not purchased any common shares.

## 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.

## CHANGES IN ACCOUNTING POLICIES

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

### Inventories

The new CICA Handbook Section 3031, Inventories replaced Handbook Section 3030, Inventories. It provides more guidance on the measurement and disclosure requirements for inventories. The new policies require inventory to be measured at the lower of cost and net realizable value. The standard provides guidance on the types of costs that can be capitalized and requires the reversal of previous inventory impairment if economic circumstances change. The adoption of the standard did not have a material effect on the Corporation's consolidated financial statements.

### Capital Disclosures

The new CICA Handbook Section 1535, Capital Disclosures. This section establishes standards for disclosing information about an entity's capital and how it is managed in order that a user of the financial statements may evaluate the entity's objectives, policies and processes for managing capital. The adoption of the standard did not have a material effect on the Corporation's consolidated financial statements. Note 20 of the audited consolidated financial statements provides the required information.

### Financial Instruments

The two new CICA Handbook standards, Handbook Section 3862, Financial Instruments Disclosures, and Section 3863, Financial Instruments Presentation, which replace Handbook Section 3861, Financial Instruments Disclosure and Presentation. The new presentation standards carry forward the former presentation requirements and increase the emphasis on the disclosure of risks associated with both recognized and unrecognized financial instruments and how those risks are managed. Notes 21 and Note 22 of the audited consolidated financial statements provide the required information.

## **General Standards on Financial Statements Presentation**

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

## **FUTURE CHANGES IN ACCOUNTING POLICIES**

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

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

### **Financial Statement Concepts**

In February 2008, the CICA issued amendments to Section 1000, Financial Statement Concepts to clarify the criteria for recognition of an asset and the timing of expense recognition, specifically, deleting the guidance permitting the deferral of costs. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Corporation is currently evaluating the effect of this new standard on the Corporation's consolidated financial statements.

### **Business Combinations**

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

### **Consolidated Financial Statements**

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

### **International Financial Reporting Standards**

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

While the Corporation has begun assessing the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## **SIGNIFICANT ACCOUNTING ESTIMATES AND PROVISIONS**

The preparation of financial statements in accordance with generally accepted Canadian accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The reported amounts and note disclosures in the consolidated financial statements are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Significant items subject to estimates and assumptions include, but are not limited to, the estimated useful life of assets, inventory obsolescence, impairment of long-lived assets, goodwill and intangibles with an indefinite life, future income taxes, investment tax credits, revenue recognition, fair value of assets and liabilities acquired

in a business combination, the measurement and determination of stock-based compensation and warrants, discount rate on convertible debentures, legal liabilities, warranty provision, bad debt expense, and allowance for doubtful accounts. Actual results, however, may differ from the estimates used in the consolidated financial statements and such differences could be material. The Corporation's significant accounting policies are discussed in Note 2 of the audited consolidated financial statements; critical estimates inherent in the accounting policies are discussed in the following paragraphs.

### **Inventory Valuation**

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

### **Impairment of Long-Lived Assets**

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

### **Goodwill**

The annual impairment test of the goodwill resulting from the acquisition of Keragis was completed on April 30, 2009. As a result of the market value of the Corporation's equity being below its book value, the Corporation tested goodwill for impairment. The Corporation used a cash flow model with a discount rate of 27% and concluded that that an impairment of \$1,607,000 was required.

### **Allowance for Doubtful Accounts**

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

### **Future Income Taxes Assets**

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

### **Warranty Provision**

The Corporation records a warranty provision on the sale of certain VSAT products, which contain active components. This estimate is based on historical repair frequency and related costs. Management reviews the provision on an on-going basis and the provisions at April 30, 2009 and 2008 were considered adequate.

### **Stock-Based Compensation**

The Corporation estimates the fair value of stock options granted to employees, officers and directors. As at April 30, 2009, a total of 14,818,050 stock options were outstanding, of which 10,770,000 were exercisable. The Corporation uses the fair value method to account for stock options granted to employees, directors and consultants. Options issued to employees, officers and directors are recognized as an expense over the vesting period. The fair value is determined using the Black-Scholes option pricing model. Any consideration paid by employees, officers and directors on exercise of stock options or purchase of stock is credited to share capital.

## **Contingencies and Commitments**

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

## **PROPOSED TRANSACTIONS**

Mitec continually reviews opportunities for mergers, acquisitions and divestitures that could increase shareholder value.

## **RELATED PARTY TRANSACTIONS**

The Board of Directors has mandated its Chairman to review various merger and acquisition opportunities and to actively pursue M&A related financing activities. The Board verbally agreed on compensating the Chairman should he be successful with any of these initiatives. The terms of the total compensation remain to be determined. In addition, over the course of the current fiscal year, consulting fees for Investor Relations Management in the amount of \$37,500 (2008 – nil) were paid to a company controlled by the Chairman of the Board.

## **OUTLOOK**

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

## **DISCLOSURE CONTROLS AND PROCEDURES**

### **Disclosure Controls**

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

The President and Chief Executive Officer and the Chief Financial Officer of the Corporation have evaluated, or caused the evaluation of, under their direct supervision, the effectiveness of the Corporation's disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings) as at April 30, 2009, 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 year ended April 30, 2009. 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 twelve months ended April 30, 2009 that have had a material effect on the Corporation's internal controls over financial reporting. In spite of its evaluation, Management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure of internal controls and procedures occur and/or mistakes happen of a material nature, the Corporation intends to take the steps necessary to minimize the consequences thereof.

## **ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE**

This MD&A was prepared as of July 28, 2009. Updated information on Mitec, including the annual information form, can be found on the SEDAR web site at [www.sedar.com](http://www.sedar.com).

As of July 28, 2009, a total of 220,666,756 common shares and 37,828,668 warrants were issued and outstanding, as well as a total of 14,818,050 stock options.

# CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED APRIL 30, 2009 AND 2008

## MANAGEMENT'S RESPONSIBILITY

### For Financial Information

The accompanying consolidated financial statements of **Mitec Telecom Inc.** and all the information in the annual report are the responsibility of management.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgement. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the Annual Report and has ensured that it is consistent with that in the financial statements.

The Company maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the Company's assets are approximately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through the Audit Committee which consists of three outside directors appointed by the Board. The Committee meets quarterly with management as well as with the independent external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the consolidated financial statements and the external auditors' report thereon and reports its findings to the Board for consideration when the Board approves the financial statements for issuance to the Company's shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors. The external auditors have full and free access to the Audit Committee.

On behalf of the shareholders, the financial statements have been audited by BDO Dunwoody LLP, the external auditors, in accordance with Canadian generally accepted auditing standards.



**DANIEL PIERGENTILI**

President and Chief Executive Officer



**BRUNO DUMAIS**

Vice President, Finance and Chief Financial Officer

## **AUDITORS' REPORT**

### **To the Shareholders of Mitec Telecom Inc.**

We have audited the consolidated balance sheets of Mitec Telecom Inc. as at April 30, 2009 and 2008 and the consolidated statements of loss and comprehensive loss, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at April 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*BDO Dunwoody LLP*

### **CHARTERED ACCOUNTANTS**

Montréal, Québec

July 28, 2009

CA auditor permit No. 10589

## CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)

As at April 30	2009	2008
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	4,485	4,784
Short-term investments, consisting of money market funds	181	77
Trade receivables	5,592	10,036
Other receivables (Note 6)	126	630
Income taxes recoverable (Note 14)	323	839
Inventories (Note 7)	8,088	8,759
Prepaid expenses and other	629	580
	<b>19,424</b>	<b>25,705</b>
<b>Property, plant and equipment</b> (Note 8)	<b>5,493</b>	<b>6,084</b>
<b>Intangible assets</b> (Note 9)	<b>3,263</b>	<b>4,310</b>
<b>Goodwill</b> (Note 10)	<b>1,991</b>	<b>3,598</b>
<b>Investments</b> (Note 11)	<b>25</b>	<b>25</b>
<b>Deferred charges</b>	<b>–</b>	<b>321</b>
<b>Future income tax</b> (Note 14)	<b>125</b>	<b>–</b>
	<b>30,321</b>	<b>40,043</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	5,449	11,373
Current portion of long-term debt (Note 12)	1,215	382
	<b>6,664</b>	<b>11,755</b>
<b>Long-term debt</b> (Note 12)	<b>–</b>	<b>742</b>
<b>Future income tax</b> (Note 14)	<b>–</b>	<b>515</b>
	<b>6,664</b>	<b>13,012</b>
<b>Shareholders' equity</b>		
Common shares (Note 13)	132,142	132,097
Warrants (Note 13)	1,925	1,931
Equity component of convertible debentures (Note 12)	14	46
Contributed surplus	9,836	9,223
Deficit	(119,980)	(115,372)
Accumulated other comprehensive loss	(280)	(894)
	<b>23,657</b>	<b>27,031</b>
	<b>30,321</b>	<b>40,043</b>

**Nature of the Business and Going Concern Uncertainty** (Note 1)

**Commitments and Contingencies** (Note 15)

On behalf of the Board



**Robert Boisjoli, Director**



**Jeffrey Mandel, Director**

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

## CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

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

<b>For the years ended April 30</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>Sales</b> (Note 18)	<b>40,348</b>	36,176
<b>Cost of sales</b> (Note 18)	<b>31,836</b>	28,058
	<b>8,512</b>	8,118
<b>Expenses</b>		
Research and development	<b>4,310</b>	4,477
Selling and administrative	<b>6,569</b>	6,229
Amortization of intangible assets	<b>1,000</b>	1,145
Financial expenses (Note 19)	<b>853</b>	518
Foreign exchange (gain) loss	<b>(1,706)</b>	787
Loss on disposal and impairment of property, plant and equipment (Note 8)	<b>470</b>	104
Impairment of intangible assets (Note 9)	<b>50</b>	40
Impairment of goodwill (Note 10)	<b>1,607</b>	–
Impairment of investments (Note 11)	<b>–</b>	725
Stock-based compensation (Note 13)	<b>607</b>	611
	<b>13,760</b>	14,636
<b>Loss before income taxes</b>	<b>(5,248)</b>	(6,518)
<b>Income tax recovery</b> (Note 14)	<b>(640)</b>	(97)
<b>Net loss for the year</b>	<b>(4,608)</b>	(6,421)
<b>Net change in the unrealized losses on translating financial statements of self sustaining operations</b>	<b>614</b>	23
<b>Comprehensive loss for the year</b>	<b>(3,994)</b>	(6,398)
<b>Basic and diluted loss per common share</b>	<b>(0.02)</b>	(0.03)
<b>Weighted average number of outstanding common shares</b> (Note 13)	<b>220,658,990</b>	197,634,243

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

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

	Common shares		Warrants		Equity component of convertible debentures	Contributed surplus	Deficit	Accumulated other comprehensive loss	Shareholders' equity
	# (000)	\$	# (000)	\$	\$	\$	\$	\$	\$
Note	13	13	13	13	12				
Balance, April 30, 2007	174,502	125,631	27,915	1,311	–	8,645	(108,951)	(917)	25,719
Issued for business acquisition	32,841	4,883	–	–	–	–	–	–	4,883
Issued under a convertible debenture financing	–	–	13,888	753	70	–	–	–	823
Issued upon conversion of convertible debentures	8,832	999	–	–	(24)	–	–	–	975
Stock options exercised	350	72	–	–	–	(33)	–	–	39
Warrants exercised	3,787	512	(3,787)	(133)	–	–	–	–	379
Stock-based compensation	–	–	–	–	–	611	–	–	611
Other comprehensive profit for the year	–	–	–	–	–	–	–	23	23
Net loss for the year	–	–	–	–	–	–	(6,421)	–	(6,421)
Balance, April 30, 2008	220,312	132,097	38,016	1,931	46	9,223	(115,372)	(894)	27,031
Issued upon conversion of convertible debentures	<b>354</b>	<b>45</b>	<b>–</b>	<b>–</b>	<b>(32)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>13</b>
Expired warrants	–	–	<b>(187)</b>	<b>(6)</b>	–	<b>6</b>	–	–	–
Stock-based compensation	–	–	–	–	–	<b>607</b>	–	–	<b>607</b>
Other comprehensive profit for the year	–	–	–	–	–	–	–	<b>614</b>	<b>614</b>
Net loss for the year	–	–	–	–	–	–	<b>(4,608)</b>	–	<b>(4,608)</b>
<b>Balance, April 30, 2009</b>	<b>220,666</b>	<b>132,142</b>	<b>37,829</b>	<b>1,925</b>	<b>14</b>	<b>9,836</b>	<b>(119,980)</b>	<b>(280)</b>	<b>23,657</b>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

For the years ended April 30	2009 \$	2008 \$
<b>Cash flows from operating activities</b>		
Net loss for the year	(4,608)	(6,421)
Items not affecting cash		
Amortization	2,327	3,276
Loss on disposal and impairment of property, plant and equipment (Note 8)	470	211
Impairment of intangible assets (Note 9)	50	40
Impairment of goodwill (Note 10)	1,607	–
Impairment of investments (Note 11)	–	725
Income tax recovery (Note 14)	(640)	(97)
Stock-based compensation	607	611
Accretion expense	636	325
	449	(1,330)
Changes in non-cash working capital balances related to operating activities (Note 17)	435	(571)
	884	(1,901)
<b>Cash flows from investing activities</b>		
Additions to property, plant and equipment	(786)	(619)
Additions to intangible assets	(3)	(64)
Proceeds on disposal of property, plant and equipment	15	48
Business acquisition, net of cash acquired of \$14	–	(1,231)
Purchases of short-term investments	(516)	(229)
Sales of short-term investments	412	227
	(878)	(1,868)
<b>Cash flows from financing activities</b>		
Common shares issued upon exercise of warrants (Note 13)	–	379
Common shares issued upon exercise of stock options (Note 13)	–	39
Convertible debentures issued (Note 12)	–	2,294
Repayment of long-term debt	(458)	(500)
	(458)	2,212
<b>Gain on foreign cash and cash equivalents held</b>	<b>153</b>	<b>55</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(299)</b>	<b>(1,502)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>4,784</b>	<b>6,286</b>
<b>Cash and cash equivalents, end of year</b>	<b>4,485</b>	<b>4,784</b>

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

APRIL 30, 2009 AND 2008

(all tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated)

## 1. NATURE OF THE BUSINESS AND GOING CONCERN UNCERTAINTY

The Corporation is incorporated under the Canada Business Corporations Act and is a knowledge-based communication equipment provider to the global wireless telecommunications and satellite communications markets.

The accompanying consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Corporation has a history of losses over the past eight years and currently does not have the necessary financing in place to support continuing losses. The Corporation has accumulated a deficit of \$119,980,000 at April 30, 2009. Historically, the Corporation financed its operating and capital requirements mainly through issuances of debt and equity. The Corporation's continuation as a going concern is dependant upon, amongst other things, attaining a satisfactory revenue level, the support of its customers, a return to profitable operations and the generation of cash from operations, the ability to secure new financing arrangements and new capital. These matters are dependent on a number of items outside of the Corporation's control and there is significant uncertainty about the Corporation's ability to continue as a going concern.

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

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

1. Approaching potential lenders to secure operational financing;
2. Investigating a range of alternatives to expand its Telecom and Satcom business units;
3. Forming a Merger and Acquisition Committee, comprised of management, directors and advisors of the Corporation in order to explore potential opportunities relating to its expansion and growth.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"), the more significant of which are outlined below:

### Principles of Consolidation

These consolidated financial statements include the accounts of the Corporation and its wholly-owned self-sustaining subsidiaries, Mitec Communications Ltd., Mitec Telecom (Suzhou) Co., Ltd. and Keragis Corporation, using the purchase method. All significant inter-company balances and transactions have been eliminated on consolidation. The Corporation has no interest in variable interest entities.

### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to estimates and assumptions include, but are not limited to, the estimated useful life of assets, inventory obsolescence, impairment of long-lived assets, goodwill and intangibles with an indefinite life, future income taxes, investment

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Use of Estimates (Continued)

tax credits, revenue recognition, fair value of assets and liabilities acquired in a business combination, the measurement and determination of stock-based compensation and warrants, discount rate on convertible debentures, legal liabilities, warranty provision, bad debt expense, and allowance for doubtful accounts. Actual results could differ from those estimates. Significant changes in the assumptions with respect to future business plans and cash flows could result in impairment of goodwill, intangible assets and property and equipment. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

### Cash and Cash Equivalents

Included in cash and cash equivalents are cash and short-term investments with maturity dates of 90 days or less from their date of acquisition. Cash equivalents are carried at fair value.

### Investment Tax Credits

The Corporation incurs research and development expenditures, which are eligible for investment tax credits. 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.

Investment 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

Property, plant and equipment are recorded at cost less applicable investment tax credits and are amortized over their estimated useful lives using the following methods and rates:

Machinery and equipment	10% to 20% declining balance
Buildings	20 years straight line
Leasehold improvements	Term of the lease, straight line
Furniture and fixtures	20% declining balance
Tools and dies	5 years straight line
Computer equipment	30% declining balance
Automobiles	30% declining balance

### Intangible Assets

Intangible assets are recorded at cost and are amortized over their useful lives using the following methods and rates:

Software	30% declining balance
Patented or patent-pending technology and trademarks	10 to 17 years straight line
Non-patented technology	5 to 10 years straight line
Customer relationships	5 years straight line

### Impairment of Long-lived Assets

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

## Goodwill

Goodwill represents the excess at the date of acquisition of the cost of the acquired business over the fair values attributed to the underlying net tangible assets and the identifiable intangible assets. Goodwill is not subject to amortization.

On at least an annual basis and more frequently if events or circumstances indicate that the asset might be impaired, the Corporation subjects goodwill to an impairment test based upon a comparison of the carrying amount to the fair value of the reporting unit. Any impairment in the carrying amount of goodwill is charged to operations in the period such impairment is identified.

Impairment is identified by comparing the fair value of the reporting unit to which the goodwill relates to its carrying value. To the extent a reporting unit's carrying amount exceeds its fair value, the Corporation measures the amount of impairment by the excess of carrying value over the implied fair value of goodwill. The impairment is charged to income in the period in which it is determined.

## Deferred Charges

Deferred charges consist of the deferred loss and the rent-free period related to a sale-leaseback transaction. The deferred loss and rent-free period are amortized over the term of the related lease.

## 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.

## Research and Development

Research costs, net of related investment tax credits, are expensed as incurred. Development costs are charged to operations as incurred unless such costs meet all criteria under GAAP for deferral and amortization. No development costs have been deferred to date.

## Income Taxes

The Corporation uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future tax assets or liabilities are expected to be realized or settled. A valuation allowance is provided to the extent that it is more likely than not that the future income tax assets will not be realized.

## Foreign Currency Translation

### a) Canadian operations

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at the balance sheet dates. Non-monetary assets and liabilities are converted at the historical rate. Revenues and expenses are translated into Canadian dollars at rates of exchange in effect at the time of the transaction. Exchange gains and losses arising from the translation of foreign currency items are included in the determination of net income/loss.

### b) Foreign operations

The financial statements of the Corporation's self-sustaining foreign subsidiaries, Mitec Communications Ltd., Mitec Telecom (Suzhou) Company, Ltd. and Keragis Corporation, are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the exchange rates prevailing at the end of the period and revenues and expenses are translated at the average exchange rates during the period. The adjustment arising from the translation of these accounts has been recorded in the accumulated other comprehensive loss in shareholders' equity. When there is a reduction in the net investment of a self-sustaining foreign subsidiary, a proportionate amount of deferred translation gains and losses is recognized in net income/loss.

## Financial Instruments

The Corporation classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are all recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3840, Related Party Transactions.

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income/loss. Cash and cash equivalents are classified as held-for-trading.

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

### **Financial Instruments (Continued)**

Financial assets classified as available-for-sale are measured at fair value, using quoted market prices when available, with unrealized gains and losses being recognized as other comprehensive income until realized. Investments in private companies are recorded at cost as reliable fair market value is not available for such investments. If an unrealized loss is considered other than temporary, the unrealized loss is recorded in net income/loss. Short-term investments and investments are classified as available-for-sale.

Financial assets classified as loans and receivables are measured at amortized cost, using the effective interest rate method of amortization. The carrying amount of trade receivables and other receivables is a reasonable approximation of fair value due to the short-term nature of these financial instruments.

Other financial liabilities are measured at amortized cost, using the effective interest rate method of amortization. The carrying amount of the accounts payable is a reasonable approximation of fair value due to the short-term nature of this financial instrument. The carrying value of the long-term debt and convertible debentures approximates their fair value and the carrying value of the convertible debentures is being accreted to its face value over the term of the debentures such that they will be recorded at their full value when they become due and payable in less than a year.

The Corporation has elected to account for transaction costs related to the issuance of financial instruments as a reduction of the carrying value of the related financial instruments.

The fair value of these financial instruments is described in Note 21.

### **Stock-based Compensation and Other Stock-based Payments**

The Corporation has a stock-based compensation plan, which is described in Note 13. The Corporation uses the fair value method to account for stock granted to employees, directors and consultants. Options issued to employees, directors and consultants are recognized as an expense over the vesting period. The fair value is determined using the Black-Scholes option pricing model. Any consideration paid on exercise of stock options or purchase of stock is credited to share capital. Forfeitures are recognized in the period an employee is terminated or voluntarily leaves the employment of the Corporation.

### **Earnings (loss) per Share**

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings (loss) per share is calculated using the treasury stock method, giving effect to the exercise of all dilutive factors. The treasury stock method assumes that any proceeds that could be obtained upon the exercise of options or warrants or conversion of the convertible debt would be used to purchase common shares at the average market price during the period.

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

Effective May 1, 2008, the Corporation adopted the following recently introduced CICA Handbook Sections:

### **Inventories**

The new CICA Handbook Section 3031, Inventories replaced Handbook Section 3030, Inventories. It provides more guidance on the measurement and disclosure requirements for inventories. The new policies requires inventory to be measured at the lower of cost and net realizable value. The standard provides guidance on the types of costs that can be capitalized and requires the reversal of previous inventory impairment if economic circumstances change. The adoption of the standard did not have a material effect on the Corporation's consolidated financial statements.

### **Capital Disclosures**

The new CICA Handbook Section 1535, Capital Disclosures establishes standards for disclosing information about an entity's capital and how it is managed in order that a user of the financial statements may evaluate the entity's objectives, policies and processes for managing capital. The adoption of the standard did not have a material effect on the Corporation's consolidated financial statements. Note 20 provides the required information.

### **Financial Instruments**

The two new CICA Handbook standards, Handbook Section 3862, Financial Instruments Disclosures, and Section 3863, Financial Instruments Presentation replace Handbook Section 3861, Financial Instruments - Disclosure and Presentation. The new presentation standard carries forward the former presentation requirements and the new disclosure standard increases the emphasis on the disclosure of risks associated with both recognized and unrecognized financial instruments and how those risks are managed. Notes 21 and 22 provide the required information.

## General Standards of Financial Statement Presentation

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

## 4. NEW ACCOUNTING PRONOUNCEMENTS

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

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

### Financial Statement Concepts

In February 2008, the CICA issued amendments to Section 1000, Financial Statement Concepts to clarify the criteria for recognition of an asset and the timing of expense recognition, specifically, deleting the guidance permitting the deferral of costs. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Corporation is currently evaluating the effect of this new standard on the Corporation's consolidated financial statements.

### Business Combinations

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

### Consolidated Financial Statements

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

### International Financial Reporting Standards

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

## 5. BUSINESS ACQUISITION

Effective September 17, 2007, the Corporation completed the acquisition of the shares of Keragis Corporation for a total consideration of \$6,128,000. Keragis Corporation designs and manufactures innovative amplifier technologies for military radar and communications systems. The acquisition was accounted for under the purchase method and its operating results have been included in these consolidated financial statements since the date of acquisition. The allocation of the purchase price was initially based on the Corporation's best estimates, subject to the completion of a third party valuation. The cash component of the transaction was financed by the issuance of the Convertible debentures.

## 5. BUSINESS ACQUISITION (CONTINUED)

During the fourth quarter of 2008, the Corporation finalized the purchase price allocation for the acquisition. The purchase price of the acquisition was adjusted due to the completion of the third party valuation. The following is a summary of the net assets acquired at fair value:

	<b>\$</b>
Cash	14
Accounts receivable	18
Inventory	85
Property, plant and equipment	60
Intangible assets – Patent-pending technology	2,266
Intangible assets – Customer relationships	777
Goodwill	3,598
	<b>6,818</b>
Accounts payable and accrued liabilities	(78)
Future income tax liabilities	(612)
Net assets acquired	<b>6,128</b>
Consideration represented by:	
Cash (including transaction costs of \$194 000)	1,245
Common shares issued	4,883
	<b>6,128</b>

The patent-pending technology is amortized over 10 years, its expected useful life, by using the straight-line method. The customer relationships are amortized over 5 years by using the straight-line method. The Corporation issued 32,840,625 common shares valued at \$4,883,000.

## 6. OTHER RECEIVABLES

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Commodity taxes receivables	<b>115</b>	110
Note receivable, bearing interest at 10%, due in May 2008	–	264
Other taxes recoverable	–	115
Other	<b>11</b>	141
	<b>126</b>	630

## 7. INVENTORIES

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Raw materials and purchased components	<b>5,343</b>	6,076
Work-in-progress	<b>1,946</b>	1,909
Finished goods	<b>799</b>	774
	<b>8,088</b>	8,759

During the year, the Corporation recorded a write down of inventories of \$714,000 (2008 - \$226,000). Also included in cost of sales is an inventory expense of \$22,985,000 (2008 - \$19,929,000).

## 8. PROPERTY, PLANT AND EQUIPMENT

<b>As at April 30, 2009</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Machinery and equipment	<b>14,367</b>	<b>10,535</b>	<b>3,832</b>
Land and buildings	<b>975</b>	<b>382</b>	<b>593</b>
Leasehold improvements	<b>552</b>	<b>197</b>	<b>355</b>
Furniture and fixtures	<b>1,927</b>	<b>1,643</b>	<b>284</b>
Tools and dies	<b>539</b>	<b>311</b>	<b>228</b>
Computer equipment	<b>1,283</b>	<b>1,088</b>	<b>195</b>
Automobiles	<b>46</b>	<b>40</b>	<b>6</b>
	<b>19,689</b>	<b>14,196</b>	<b>5,493</b>

<b>As at April 30, 2008</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Machinery and equipment	17,417	12,855	4,562
Land and buildings	966	358	608
Leasehold improvements	273	27	246
Furniture and fixtures	2,016	1,732	284
Tools and dies	397	241	156
Computer equipment	1,196	976	220
Automobiles	38	30	8
	22,303	16,219	6,084

Management periodically reviews the property, plant and equipment carrying value in light of the Corporation's strategic plan and general business environment. During the year, 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 \$431,000 (2008 - \$104,000) were written off and a loss on disposal with a carrying value of \$39,000 (2008 - \$107,000) was recorded.

## 9. INTANGIBLE ASSETS

<b>As at April 30, 2009</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Software	<b>4,117</b>	<b>3,733</b>	<b>384</b>
Patented technology, patent-pending technology and trademarks	<b>2,324</b>	<b>387</b>	<b>1,937</b>
Non-patented technology	<b>1,891</b>	<b>1,473</b>	<b>418</b>
Customer relationships	<b>7,314</b>	<b>6,790</b>	<b>524</b>
	<b>15,646</b>	<b>12,383</b>	<b>3,263</b>

<b>As at April 30, 2008</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Software	4,077	3,542	535
Patented technology, patent-pending technology and trademarks	2,388	168	2,220
Non-patented technology	1,891	1,173	718
Customer relationships	7,314	6,477	837
	15,670	11,360	4,310

## 9. INTANGIBLE ASSETS (CONTINUED)

Management periodically reviews the carrying value of the intangible asset portfolio whenever there is an indication of impairment. During the year, the Corporation concluded that the global economic turmoil and decrease in the Corporation's market capitalization were events indicating the carrying amount of certain of the Corporation's intangible assets may not be recoverable. Management performed an impairment analysis as at April 30, 2009 using a cash flow model. After assessment of the estimated undiscounted future cash flows to be generated by these assets, certain intangible assets with a carrying value of \$50,000 (2008 - \$40,000) were written off.

## 10. GOODWILL

The annual impairment test of the goodwill resulting from the acquisition of Keragis (Note 5) was completed on April 30, 2009. As a result of the market value of the Corporation's equity being below its book value, the Corporation tested goodwill for impairment. The Corporation used a cash flow model with a discount rate of 27% and concluded that an impairment of \$1,607,000 (2008 – nil) was required.

## 11. INVESTMENTS

	2009	2008
	\$	\$
Common shares of a private company	25	25

The cost of the investment was \$750,000. In 2008, the Corporation recorded an impairment of \$725,000.

## 12. LONG-TERM DEBT

	2009	2008
	\$	\$
a) Investissement Québec term loan, bearing interest at prime plus 3.5%, repayable in 60 monthly payments of capital and interest of \$62,500, repaid in February 2009	–	382
b) Convertible debentures, bearing interest at 10%, repayable in October 2009	1,215	742
	1,215	1,124
Less: current portion	1,215	382
	–	742

### Convertible Debentures

In October 2007, the Corporation issued \$2.5 million of Convertible unsecured debentures (the "Convertible debentures"). Financing charges of \$206,000 were incurred which are presented as a reduction of the long-term debt and equity components. The Convertible debentures bear interest at 10% per annum, payable annually, mature in October 2009 and are subordinated to all indebtedness of the Corporation except indebtedness that by its terms ranks equally with the Convertible debentures. The Convertible debenture holders have the option to convert the principle amount of the Convertible debentures into common shares at the deemed price defined as the lower of \$0.18 or market price which is defined as the five day weighted average market price calculated prior to the conversion subject to a minimum of \$0.12, per common share, at any time in the two-year term of the Convertible debenture. Interest paid on the Convertible debentures, over the two-year term will total \$500,000 if the Convertible debentures are held to maturity. Subject to regulatory approval, the accrued interest could be paid in shares based on the equivalent value based on the same terms as the conversion price. During the year, Convertible debentures in the amount of \$45,000 (2008 - \$1,055,000) were converted into 354,331 (2008 - 8,791,666) common shares at \$0.127 (2008 - \$0.12) and no common shares (2008 - 40,411) were issued as payment for accrued interest. As of April 30, 2009, the nominal value of the Convertible debentures was \$1,400,000 (2008 - \$1,445,000).

The Convertible debentures were issued with 13,888,889 warrants, each warrant entitling the holder to purchase an additional common share at a price of \$0.18 per share, for a period of two years from the issuance of the warrant. The 13,888,889 warrants have been evaluated at \$753,000 using the Black-Scholes option pricing model which assumes an expected life of two years: volatility of 93%, risk-free interest rate of 4.0% and no dividend yield.

In accordance with Canadian GAAP, the Convertible debentures were accounted for on the basis of their substance and were presented in their component parts of debt, warrants and equity. The debt component was measured, prior to adjustment, at the issue date at the present value of the cash payment of interest and principal under the term of the Convertible debentures using a discount rate of 15%. These components, individually valued as described above, were adjusted on a prorated basis, to arrive

to each component. The difference between the debt component, the warrants and the face value of the Convertible debentures is classified as equity. The debt component is accreted to its face value through a charge to earnings over its term using the effective interest rate method. Issue costs have been allocated between the debt and the equity components of the Convertible debentures.

## 13. SHARE CAPITAL

### 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.

### Issued and outstanding common shares

The issued and outstanding common shares are disclosed in the Consolidated Statements of Shareholders' Equity.

### Warrants

Warrants outstanding are as follows:

Exercise Price	Expiry Date	As at April 30, 2009		As at April 30, 2008	
		#(000)	Expiry Date	# (000)	
\$0.10	<b>October 30, 2009</b>	<b>4,651</b>	October 3, 2008		4,838
\$0.18	<b>October 17, 2009</b>	<b>13,888</b>	October 17, 2009		13,888
\$0.22	<b>October 30, 2009</b>	<b>19,290</b>	March 30, 2009		19,290
		<b>37,829</b>			38,016

During the year, the Corporation decided to extend the expiry date of 4,650,000 warrants by 6 months and did the same for 19,289,779 warrants to expire on October 30, 2009. The modification had no impact on the value of the warrants. The Corporation may oblige the exercise of the 19,289,779 warrants expiring on October 30, 2009 if the closing price of the Corporation's common shares equals or exceeds \$0.35 for a period of 20 consecutive trading days with additional gross proceeds amounting to \$4.2 million. The Corporation may oblige the conversion of the warrants expiring on October 17, 2009 if the closing price of the Corporation's common shares equals or exceed \$0.36 for a period of 20 consecutive trading days with the additional gross proceeds amounting to \$2.5 million.

### Loss per share

Weighted average number of common shares is as follows:

	2009	2008
Weighted average number of common shares outstanding	<b>220,658,990</b>	197,634,243
Net effect of dilutive stock options and warrants	<b>74,899</b>	2,747,831
Weighted average diluted number of common shares outstanding	<b>220,733,889</b>	200,382,074

For the years ending April 30, 2009 and 2008, the potentially dilutive common shares relating to stock options and warrants totaling 62,973,385 (2008 – 52,820,285) were not included in the computation of loss per share because their effect was anti-dilutive.

### 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 April 30, 2009, there were 5,181,950 (2008 - 5,466,050) options available for issue under the Plan.

### 13. SHARE CAPITAL (CONTINUED)

#### Stock option plan (Continued)

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

	As at April 30, 2009		As at April 30, 2008	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
<b>Balance, beginning of year</b>	<b>14,533,950</b>	<b>0.25</b>	6,206,450	0.41
Changes during the year:				
Granted	<b>1,380,000</b>	<b>0.07</b>	9,145,000	0.16
Exercised	—	—	(350,000)	0.11
Forfeited	<b>(527,900)</b>	<b>0.31</b>	(447,500)	0.43
Expired	<b>(568,000)</b>	<b>1.36</b>	(20,000)	8.50
<b>Balance, end of year</b>	<b>14,818,050</b>	<b>0.19</b>	14,533,950	0.25
<b>Options exercisable at end of year</b>	<b>10,770,000</b>	<b>0.21</b>	6,520,517	0.35

The weighted average grant date fair value of options granted in 2009 was \$0.07 (2008 – \$0.16).

The fair value of options granted was determined using the Black-Scholes option pricing model with a weighted average volatility of 98% (2008 – 95%), risk-free interest rate of 2.4% (2008 – 3.6%), dividend yield of nil and an expected life of five years.

Additional information concerning stock options outstanding as at April 30, 2009 is as follows:

Exercise Price	Options Outstanding			Options Exercisable	
	Number	Weighted Average Exercise Price \$	Weighted Average Years to Expiry	Number	Weighted Average Exercise Price \$
\$0.07 to \$0.10	<b>1,340,000</b>	<b>0.07</b>	<b>7.8</b>	<b>293,000</b>	<b>0.07</b>
\$0.11 to \$0.16	<b>6,623,000</b>	<b>0.14</b>	<b>8.0</b>	<b>4,667,950</b>	<b>0.13</b>
\$0.17 to \$0.25	<b>6,255,000</b>	<b>0.17</b>	<b>7.6</b>	<b>5,209,000</b>	<b>0.17</b>
\$0.26 to \$0.39	<b>286,000</b>	<b>0.33</b>	<b>6.1</b>	<b>286,000</b>	<b>0.33</b>
\$0.80 to \$1.20	<b>35,000</b>	<b>0.80</b>	<b>3.7</b>	<b>35,000</b>	<b>0.80</b>
\$1.21 to \$1.80	<b>100,000</b>	<b>1.61</b>	<b>4.9</b>	<b>100,000</b>	<b>1.61</b>
\$1.81 to \$2.71	<b>138,250</b>	<b>1.91</b>	<b>4.2</b>	<b>138,250</b>	<b>1.91</b>
\$2.72 to \$4.06	<b>31,500</b>	<b>3.45</b>	<b>2.6</b>	<b>31,500</b>	<b>3.45</b>
\$4.07 to \$4.51	<b>9,300</b>	<b>4.51</b>	<b>0.6</b>	<b>9,300</b>	<b>4.51</b>
	<b>14,818,050</b>	<b>0.19</b>	<b>7.7</b>	<b>10,770,000</b>	<b>0.21</b>

The total expenses relating to stock-based compensation amortized to consolidated statements of loss were \$607,000 (2008 – \$611,000) for the year.

#### Normal Course Issuer Bid

In 2009, the Corporation announced its intention to proceed with a normal course issuer bid to purchase up to 11,033,337 common shares of the Corporation representing 5% of the issued shares of such class at November 27, 2008. The bid commenced in December 2008 and may continue to December 2009. In accordance with TSX requirements, a maximum daily repurchase of 10% of previous six months average daily trading volume may be made, presenting 223,583 shares as at April 30, 2009. The number of shares purchased and the timing of any such purchases will be determined by the Corporation. All shares purchased by the Corporation will be cancelled.

As at April 30, 2009, the Corporation did not purchase any common shares.

## 14. INCOME TAXES AND GOVERNMENT ASSISTANCE

a) Significant components of the income tax recovery consist of the following:

	2009	2008
	\$	\$
Current income tax expense before the following:	665	85
Benefit of previously unrecognized losses	—	(5)
Benefit of tax holidays in foreign country	(665)	(80)
Current income tax recovery	—	—
Future income tax recovery is made of:		
Temporary differences from acquisition-related intangibles	—	(97)
Recognized benefit of losses	(640)	—
<b>Income tax recovery</b>	<b>(640)</b>	<b>(97)</b>

b) The income tax recovery reported differs from the amount computed by applying Canadian income tax rates to income before income taxes. The reasons for the difference and the related tax effects are as follows:

	2009	2008
	\$	\$
Loss before income taxes	(5,248)	(6,518)
Statutory income tax rate	30.90 %	30.90 %
Expected income tax recovery	(1,622)	(2,014)
Adjustments		
Tax effect of non-deductible stock option compensation	188	189
Tax effect of permanent differences	1,030	187
Tax effect of non-deductible intangible asset amortization	36	52
Income tax rate changes	(282)	
Effect of foreign tax rate differentials	—	(75)
Tax credits and other amounts not taxable in Québec	(15)	(18)
Benefit of previously unrecognized losses	—	(5)
Unrecognized benefit of losses	690	1,667
Benefits of tax holidays in foreign country	(665)	(80)
<b>Income tax recovery</b>	<b>(640)</b>	<b>(97)</b>

c) The tax effects of temporary differences and net operating losses that give rise to future income tax assets and liabilities are as follows:

	2009	2008
	\$	\$
<b>Future income tax liabilities</b>		
Carrying values of property, plant and equipment in excess of tax basis	19	60
Deferred charges and other	—	29
Temporary differences of acquisition-related intangible assets	359	515
<b>Total future income tax liabilities</b>	<b>378</b>	<b>604</b>
<b>Future income tax assets</b>		
Net operating losses carried forward	9,092	12,166
Research and development expenditures carried forward	5,562	4,943
Tax basis of capital assets in excess of carrying value	3,244	3,189
Unrealized capital loss on write down of investments	1,683	1,128
Share issue costs and other	589	429
Total future income tax assets	20,170	21,855
Valuation allowance	(19,667)	(21,766)
<b>Total future income tax assets</b>	<b>503</b>	<b>89</b>
<b>Net future income tax liabilities</b>	<b>—</b>	<b>515</b>
<b>Net future income tax assets</b>	<b>125</b>	<b>—</b>

#### 14. INCOME TAXES AND GOVERNMENT ASSISTANCE (CONTINUED)

The Corporation also has available unrecognized federal (Canada) and provincial research and development expenditures of approximately \$18,500,000 and \$23,350,000 respectively (2008 - \$17,000,000 and \$17,700,000 respectively). These expenditures are available to reduce taxable income and have an unlimited carry-forward period. The Corporation has unrecognized losses carried forward of \$32,700,000 in Canada for federal purposes and \$31,000,000 for provincial purposes. The Corporation has recognized losses carried forward of approximately \$2,745,000 in the United States federally and \$2,946,000 for state purposes. The losses expire as indicated below:

Year of expiry	Federal Canada \$	Provincial Canada \$	Federal United States \$	State United States \$
2010	2,508	2,354	—	—
2011	—	—	—	2
2012	—	—	—	17
2013	—	—	—	48
2014	1,504	1,274	—	106
2015	6,775	6,775	—	—
2016	—	—	—	3
2017	—	—	—	1,232
2018	—	—	—	511
2019	—	—	—	—
2025	—	—	7	—
2026	6,343	6,343	—	—
2027	9,469	8,203	1,187	—
2028	6,036	6,051	512	—
2029	65	—	1,039	1,027
	32,700	31,000	2,745	2,946

In addition, the Corporation has allowable capital losses in Canada of approximately \$20,500,000 (2008 - \$20,500,000) which have not been recognized in the future income tax assets described above. The Corporation also has available unrecognized investment tax credits of approximately \$4,465,000 (2008 - \$3,177,000), which expire in the years 2021 through 2029 as indicated below:

Year of expiry	\$
2021	253
2022	1,110
2023	472
2024	485
2025	413
2026	678
2027	751
2028	184
2029	119
	4,465

The Corporation was audited by the Canada Revenue Agency (“CRA”) with respect to 2001 and 2002 research and development services provided by the US subsidiary to the Corporation. The Corporation was also audited by the CRA with respect to the 1999 to 2004 taxation years in respect of imputed interest on loans made to foreign subsidiaries. In 2008, the Corporation received notices of reassessments from the CRA.

Subsequent to a CRA audit in April 2009 the CRA issued the Corporation notices of reassessment for the 2003 to 2004 taxation years. These reassessments relate primarily to R&D services provided by the US subsidiary to the Corporation as well as management services deemed to have been provided by the Corporation to certain subsidiaries.

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

In April 2009, the Corporation also received a notice of reassessment for the 2005 taxation year with respect to the cash repatriation from its Chinese subsidiary. The Corporation agrees with the reassessment and will not be objecting. The reassessment resulted in the reduction of the net operating loss available for carry-forward by \$4.2 million.

### Government Assistance

The Corporation incurred research and development expenditures some of which are eligible for refundable investment tax credits. The investment tax credits recorded are based on management's estimates of amounts expected to be recovered and are subject to audit by the taxation authorities and, accordingly, these amounts may vary. An amount of \$323,000 (2008 - \$839,000) was recorded as income taxes recoverable at end of year. The investment tax credits, recorded as a reduction of research and development expenditures, were \$125,000 (2008 - \$160,000).

## 15. COMMITMENTS AND CONTINGENCIES

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

	\$
2010	461
2011	419
2012	301
2013	138
	1,319

- b) The Board of Directors has mandated its Chairman to review various Merger and Acquisition opportunities and to actively pursue related financing activities. The Board verbally agreed on compensating the Chairman should he be successful with any of these initiatives. The terms of the total compensation remain to be determined.
- c) In January 1997, the Corporation received notice from attorneys for the residents of a house in Williston, Vermont, of a potential claim alleging property damage and personal injury arising from the presence of certain contaminants in the groundwater beneath their property. The notice alleged that the contaminants came from sources located on a lot leased in the past by Mitec Systems Inc. In February 1999, the Corporation entered into an agreement with the State of Vermont whereby the Corporation has agreed to perform a site investigation and the State has agreed to use its resources to identify all individuals and entities potentially responsible for the site contamination. The State of Vermont also requested that the United States Environmental Protection Agency ("USEPA") cease its investigation of the site. The site investigation undertaken by the Corporation has been concluded and the data and information collected indicates that there are a number of other possible sources of groundwater contamination. The State of Vermont has stated that it has no funding to undertake the next steps with respect to the groundwater contamination and has asked the USEPA to revive its investigation of the contamination. The USEPA has agreed to do so. In May 2007, the USEPA notified Mitec that it considered Mitec to be a potentially responsible party with respect to the Alling Industrial Park contamination and asked if Mitec was willing to enter into negotiations. Mitec commenced confidential settlement negotiations and with the USEPA to resolve the agency's cost reimbursement claim. Subsequently, USEPA issued a special notice letter triggering a statutory negotiation period in which a formal demand for reimbursement was made. In response to the negotiations and, in July 2008, a settlement agreement was proposed by the USEPA which remains under review by Mitec. Even if there remains uncertainty as to the finalization of the actual amount to be paid and certain other terms of the settlement agreement, the Corporation recorded a provision of \$143,000 (US \$120,000) in the current fiscal year.
- d) The Corporation's former landlord in the New Jersey facility has instituted legal action against the Corporation and certain of its sub-tenants for damages to the lease premises. The outcome is presently not determinable; however, a provision of \$36,000 (US \$30,000) has been made in the accounts during the current fiscal year.
- e) 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.

## 16. RELATED PARTY TRANSACTIONS

The Board of Directors has mandated its Chairman to review various Merger and Acquisition opportunities and to actively pursue related financing activities. The Board verbally agreed on compensating the Chairman should he be successful with any of these initiatives. The terms of the total compensation remain to be determined. In addition, over the course of the current fiscal year, consulting fees for Investor Relations Management in the amount of \$37,500 (2008 – nil) were paid to a company controlled by the Chairman of the Board.

## 17. SUPPLEMENTARY INFORMATION

### a) Consolidated statements of cash flows

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

	2009	2008
	\$	\$
Trade and other receivables	4,949	(4,131)
Accounts payable and accrued liabilities	(5,652)	4,743
Income taxes recoverable	516	(273)
Inventories	671	(1,087)
Prepaid expenses and other	(49)	177
	<b>435</b>	<b>(571)</b>
Interest paid	179	113

### b) Consolidated statements of loss

	\$	\$
<b>Amortization of property, plant and equipment is included in:</b>		
Cost of sales	766	978
Selling and administrative and research and development	230	387
	<b>996</b>	<b>1,365</b>
<b>Amortization of intangible assets is included in:</b>		
Cost of sales	10	—
Research and development	59	42
Selling and administrative	941	1,103
	<b>1,010</b>	<b>1,145</b>
<b>Amortization of deferred charges is included in:</b>		
Cost of sales	195	473
Research and development	64	146
Selling and administrative	62	147
	<b>321</b>	<b>766</b>

## 18. SEGMENTED INFORMATION

### a) 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, China 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 years ended April 30:

	Telecom		Satcom		Consolidated Amounts	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
Sales	19,774	14,884	20,574	21,292	40,348	36,176
Cost of sales	16,900	12,032	14,936	16,026	31,836	28,058
Gross profit	2,874	2,852	5,638	5,266	8,512	8,118
Expenses					13,760	14,636
Income tax recovery					(640)	(97)
Net loss for the year					<b>(4,608)</b>	<b>(6,421)</b>

The following table presents assets by segment:

**As at April 30, 2009**

	Telecom \$	Satcom \$	Total \$
Current assets	5,739	10,351	16,090
Long-term assets	2,666	8,207	10,873
Other	8,405	18,558	26,963
<b>Total</b>			<b>30,321</b>

**As at April 30, 2008**

	Telecom \$	Satcom \$	Total \$
Current assets	9,952	10,550	20,502
Long-term assets	4,700	9,291	13,991
Other	14,652	19,841	34,493
<b>Total</b>			<b>40,043</b>

Property, plant and equipment by segment are as follows:

	Telecom		Satcom		Consolidated Amounts	
	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$
Property, plant and equipment	1,882	3,442	3,611	2,642	5,493	6,084
Additions	347	299	439	320	786	619
Amortization	554	898	442	467	996	1,365
Loss on disposal	(39)	(72)	—	(35)	(39)	(107)
Impairment on property, plant and equipment	(397)	(104)	(34)	—	(431)	(104)

Intangible assets and goodwill by segment are as follows:

	Telecom		Satcom		Consolidated Amounts	
	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$
Intangible assets and goodwill	784	1,235	4,470	6,647	5,254	7,882
Additions	(3)	60	—	6,642	(3)	6,702
Amortization	193	487	817	658	1,010	1,145
Impairment of intangible assets and goodwill	(50)	—	(1,607)	(40)	(1,657)	(40)

**b) Enterprise-wide information**

The following table presents sales by destination of the product.

	2009 \$	2008 \$
Canada	1,198	1,026
United States	13,805	10,887
Europe	6,730	8,730
Asia	13,242	11,472
Other	5,373	4,061
	<b>40,348</b>	<b>36,176</b>

## 18. SEGMENTED INFORMATION (CONTINUED)

The following tables present sales, assets and property, plant and equipment, intangible assets and goodwill based on geographic location of production.

	2009	2008
	\$	\$
<b>Sales</b>		
Canada	21,231	22,264
United States	1,605	689
China	18,916	13,892
Inter-country	(1,404)	(669)
	<b>40,348</b>	<b>36,176</b>
<b>Assets</b>		
Canada	22,778	22,595
United States	948	7,010
China	6,595	10,418
United Kingdom	—	20
	<b>30,321</b>	<b>40,043</b>
<b>Property, plant and equipment, goodwill and intangible assets</b>		
Canada	9,065	6,333
United States	1,445	6,488
China	237	1,171
	<b>10,747</b>	<b>13,992</b>

## 19. FINANCIAL EXPENSES

Financial expenses consist of:

	2009	2008
	\$	\$
Interest on long-term debt	18	70
Interest on convertible debentures	140	84
Accretion expense	636	325
Bank charges and other	89	78
Interest income	(30)	(39)
	<b>853</b>	<b>518</b>

## 20. 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.

	2009	2008
	\$	\$
Long-term debt, including current portion	1,215	1,124
Shareholders' equity	23,657	27,031
	<b>24,872</b>	<b>28,155</b>

## 21. FINANCIAL INSTRUMENTS

The classification of financial instruments as of April 30, 2009 and April 30, 2008 and their respective carrying values and fair values are as follows:

	Held-for- trading \$	Available-for- Sale \$	Loans and receivables \$	Other financial liabilities \$	Carrying Value \$	Fair value \$
<b>As at April 30, 2009</b>						
Cash and cash equivalents	4,485				4,485	4,485
Short-term investments		181			181	181
Trade receivables			5,592		5,592	5,592
Other receivables			126		126	126
Investments		25			25	N/A
Accounts payable				5,449	5,449	5,449
Long-term debt and convertible debentures				1,215	1,215	1,215
<b>As at April 30, 2008</b>						
Cash and cash equivalents	4,784				4,784	4,784
Short-term investments		77			77	77
Trade receivables			10,036		10,036	10,036
Other receivables			630		630	630
Investments		25			25	N/A
Accounts payable				11,373	11,373	11,373
Long-term debt and convertible debentures				1,124	1,124	1,124

## 22. FINANCIAL RISK MANAGEMENT

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

### Risk factors

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

### Credit risk

The Corporation is exposed to credit risk in its cash and cash equivalents, short-term investments, trade receivables and other receivables. The Corporation does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of the value of the financial instrument. The Corporation minimizes credit risk on cash and cash equivalents and derivative instruments by depositing with only reputable financial institutions.

The Corporation sells products to customers primarily in Canada, the United States, Europe and Asia. The Corporation performs ongoing credit evaluations of customers and generally does not require collateral. Allowances are maintained for potential credit losses. It is reasonably possible that the actual amount of loss, if any, incurred on trade receivables will differ from management's estimate.

The foreign trade receivables of the Canadian operation are guaranteed by the Export Development Corporation Canada ("EDC") and the Corporation's customer base comprises of many geographically dispersed customers. Two customers (2008 – one) accounted for 42% of sales for the year ended April 30, 2009 (2008 – 31%) and 27% of trade receivables as at April 30, 2009 (2008 – 39%). The same two customers (2008 – one) represented 86% of Telecom sales for the year ended April 30, 2009 (2008 – one customer represented 74% of Telecom sales). As at April 30, 2009, the aging of the trade receivable is as follows:

	\$
Current	1,673
31 – 60 days	2,760
Over 61 days	1,439
Accounts receivable	5,872
Less: allowance for doubtful accounts	(280)
	5,592

## 22. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Liquidity risk

Liquidity risk is the risk the Corporation will not be able to meet its financial obligations as they come due. The Corporation currently settles all of its financial obligations out of cash and cash equivalents. The Corporation's approach in managing liquidity is to ensure as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damages to the actual and budgeted cash flows. Also, the Board of Directors reviews and approves the Corporation's operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on mergers and acquisitions or other major investments or divestitures. In recent years, the Corporation has financed its expansion and sales growth mainly through equity offerings.

As at April 30, 2009, the Corporation had at its disposal working capital of \$12,760,000 (2008 - \$13,950,000). The Corporation has sufficient cash and cash equivalents, and working capital available to meet its financial contractual obligations. Accounts payable, accrued liabilities and convertible debentures are all due within the current operating period.

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

Year of expiry	Long-term debt	Operating leases
	\$	\$
Within 1 year	1,215	461
2 – 3 years	—	720
4 – 5 years	—	138
Over 5 years	—	—
<b>Total contractual obligations</b>	<b>1,215</b>	<b>1,319</b>

Accounts payable of \$5,449,000 are all considered current and are due within the year.

### Foreign currency risk

The Corporation operates internationally and a substantial portion of the expenses is incurred in U.S. dollars. A significant change in the currency exchange rate between the Canadian dollar relative to the U.S. dollar could have a material effect on our results of operations, financial position or cash flows. The Corporation has not hedged its exposure to currency fluctuations. As at April 30, 2009, the Corporation is exposed to currency risk through its cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities denominated in U.S. dollars and Chinese Yuan (RMB) as follows:

	As at April 30, 2009	
	(000s) RMB	(000s) US\$
Cash and cash equivalents	8,733	2,036
Accounts receivable	7,987	3,060
Accounts payables and accrued liabilities	4,346	1,092

Based on the above net exposures as at April 30, 2009 and assuming that all other variables remain constant, a 10% depreciation of the Canadian dollar or a 10% appreciation of the Canadian dollar against the U.S. dollar and the Chinese Yuan would result in an increase/(decrease) in net profit and comprehensive profit of \$695,000/(\$695,000).

### Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. However, a variation of interest rate would not affect results or equity of the Corporation.

## 23. COMPARATIVE FIGURES

Certain comparative figures for 2008 have been reclassified to conform to the presentation adopted in 2009.

# CORPORATE INFORMATION

## **DIRECTORS:**

### **Jeffrey A. Mandel**

Executive Chairman of the Board, Mitec Telecom Inc.  
President, AMR Securities Services Inc.

### **Robert Boisjoli**

President, Atwater Financial Group

### **Hubert R. Marleau**

Managing Director, Palos Capital Corporation

### **David B. Parkes**

President, David B. Parkes & Associates

### **Daniel Piergentili**

President and CEO, Mitec Telecom Inc.

### **Charles R. Spector**

Partner, Fraser Milner Casgrain LLP

## **OFFICERS:**

### **Daniel Piergentili**

President and Chief Executive Officer

### **Bruno Dumais**

Vice-President, Finance and Chief Financial Officer

## **INVESTOR INFORMATION:**

### **Auditors:**

BDO Dunwoody LLP

### **Legal Counsel:**

Fraser Milner Casgrain LLP

### **Transfer Agent and Registrar:**

CIBC-Mellon Trust Company

## **ANNUAL GENERAL MEETING:**

**TUESDAY, OCTOBER 20, 2009, 11:00 AM**

### **Holiday Inn Express & Suites Montreal Airport**

Merchants Villa Room  
10888 Côte-de-Liesse  
Dorval, Québec

## **STOCK SYMBOL:**

MTM

## **LISTING OF STOCK:**

Toronto Stock Exchange

## **YEAR END:**

April 30, 2009

## **SHARES OUTSTANDING:**

220,666,756 as at April 30, 2009

## **INVESTOR RELATIONS:**

### **Jeffrey A. Mandel**

Director, Investor and Corporate Relations  
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