



Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") includes a review of the financial condition of Mitec Telecom Inc. ("Mitec" or "the Company") and a review of operations for each of Mitec's operating segments for the three-month and nine-month periods ended January 31, 2005.

This MD&A 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. It should be read in conjunction with the audited consolidated financial statements dated April 30, 2004. Mitec's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in thousands of Canadian dollars unless otherwise indicated and considers information available until March 9, 2005. To assist the reader, a glossary of defined terms can be found at the end of this MD&A.

FORWARD-LOOKING STATEMENTS

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 Company's actual performance to differ materially from that expressed in or implied by such statements.

Such factors include, but are not limited to: the impact of general economic conditions; industry conditions, including changes in laws and regulations; increased competition; the 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 factors are further discussed on page 5 under Risks and Uncertainties.

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. All subsequent forward-looking statements, whether written or orally attributable to the Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements.

OVERVIEW

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

The Telecom segment consists of designing, manufacturing and selling state-of-the-art radio-frequency ("RF") conditioning and amplifier subsystems for cellular base stations. These components are distributed worldwide and are integrated into high performing wireless communication infrastructures that enable voice, data/internet and ultimately multimedia communications. Mitec's customers in this segment include major players in the industry such as Ericsson, Nokia, Nortel, Microcell (acquired by Rogers), Siemens, Huawei and ZTE.

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). Major customers in this segment are Andrew, CPI, Echostar, Viasat, Astrium, Globecom and BT.

Mitec's headquarters are in Pointe-Claire, Canada and the Company has other operations in Matawan (United States), Dunstable (United Kingdom) and Suzhou (China). As at January 31, 2005, the Company had a global workforce of 448 employees.

The Company made a decision on October 2004 to transfer all research and development activities from both the United States and the United Kingdom to Canada and China. Mitec has maintained a sales team in both these locations.

VISION

Mitec is a prominent designer and integrator of RF products addressing the Telecom and Satcom markets and is serving leading network providers, system integrators and system operators with competitive and innovative high- quality solutions.

Business Strategy

In early 2003, Mitec began the process of restructuring operations to address the changes taking place in the Telecom marketplace. As restructuring activities have been completed, the Company has shifted its focus to growth. The Company sees its growth strategy made up of four elements:

Complete RF Subsystem	<ul style="list-style-type: none">• Integrated RF system – open base station architecture• Combines antenna, power amps, filters, and radio• Software definable multi-modal product
Disruptive Technologies	<ul style="list-style-type: none">• Innovation within existing architectural framework• Use of radically different materials and manufacturing approaches• Products with reduced weight/mass
Bundling of Products	<ul style="list-style-type: none">• Bundling products to create higher value offers• Common protocols, connectivity and consistent OA&M between products
Simple Cost Reduction	<ul style="list-style-type: none">• Tactical margin improvement• 0-12 months time horizon• Focused on RF conditioning, power amplifier products

All the elements of this business strategy are being actively pursued, and are currently at various stages of completion.

Mitec has the following key tactical objectives

Focus on the Growing Telecommunication Market

Mitec intends to apply the technological expertise it has developed over the past 33 years in RF products by continuing to develop products to meet the evolving needs of the Telecom and Satcom infrastructure equipment markets. Mitec intends to be a nimble, mid-sized company.

Achieve Technological Leadership

Mitec intends to continue its efforts to achieve performance leadership in RF products through the design and timely commercialization of on-going advances in amplifiers, multi-carrier amplifiers, RF subsystems, filters, flexible waveguides, and redundancy switching systems, as well as other related products and technologies. Research and development ("R&D") investment is key to maintaining Mitec's technology leadership. R&D investment will continue as Telecom technology continues to evolve and network equipment providers are outsourcing more of their R&D activities. Mitec will continue to be a leader in innovation.

Build Strategic Alliances And Achieve Local Presence

Mitec intends to continue to develop in high growth areas through alliances with established telecommunication network providers and system integrators with a view towards entering into strategic alliances with selected leaders. In part, this is achieved by providing engineering assistance to its customers during the product conception and design stage.

Mitec intends to increase and strengthen its local presence in each of its major markets so that it will be able to offer its full range of products. This does not exclude the possibility of strategic partnerships with other businesses such as contract manufacturers.

Create New Value-Added Products

Mitec intends to further enhance its position in the base station market by expanding the capabilities of its subsystems and multi-function subsystems to encompass a greater portion of the base station functionality. For example, within the Telecom segment, there is an increasing need for monitoring and alarm and control products, which oversee the functioning of the various equipment in satellite earth stations and broadcast transmission sites. Mitec has developed a capability for such products and, over the past seven years, Mitec's activities in this field have progressed to become a distinct department with its own firmware and software engineering capabilities.

Maintain Price Competitiveness

Mitec intends to remain price competitive through enhancing and increasing its use of manufacturing and test automation. This could include the outsourcing of those functions. In addition, management believes that the Company's capabilities in integrating numerous functions into single units will enable the Company to continue to produce high performance products at competitive prices. Mitec will continue to use disruptive technologies to become a trendsetter in achieving performance and price leadership.

Key Performance Drivers

Mitec's success has been related to the following business drivers:

- **Quick reaction/Agility** Mitec continuously demonstrates its ability to react quickly to customer / market dynamics, without sacrificing quality.
- **Tenacious employees** Mitec's workforce has been revitalized and is intensely customer and product focused.
- **Global reach/Localization** Mitec operates in all the major economic zones and is able to present a local face to its customers.

Market Trends

Telecom

Mitec has successfully introduced the new LMR technology for commercial application to a major OEM. The LMR technology delivers cost and functionality benefits to their next generation wireless base station. LMR deployment milestones will occur over subsequent fiscal quarters. Mitec met and delivered to stringent customer delivery requirements the subsystems that were integrated into the India wireless network expansion. Consistent delivery performance was also achieved for the other major European-based OEM.

As anticipated, network deployment awards for our customers in North America were affected by the recent regulatory hearings. Another factor is severe competition in the next generation data and voice applications to service providers. We continue to work with our OEM customers to be in a winning position for the remaining expansion plans for fiscal year 2005. Mitec continues to work with a North American OEM customer to develop a subsystem for deployment in Asia.

After product qualification, Mitec shipped subsystems to a major OEM for incorporation into UMTS applications for Europe. We expect volumes to increase in subsequent quarters, however, we expect stiff competition from the incumbent supplier.

Satcom

Our penetration into the Satcom market stabilized in the third quarter. We received additional orders for earth-based Satcom switching systems from our major customers. The new distribution channels for flexible waveguides have been established and new orders were received in the quarter.

Mitec's determined effort to expand into the SSPA high-powered amplifier market was rewarded with our first deliveries of the SSPA Ku-amplifiers for a major airport network in Asia. New orders for higher-powered units were also received, for delivery in the subsequent quarter, from other integrators. The Satcom group is increasing customer awareness of Mitec as a provider of satellite products through targeted advertising and increased visibility at industry events.

KEY PERFORMANCE INDICATORS

Mitec measures its performance on a company-wide basis through key financial indicators such as:

- Sales
- Gross profit percentage
- EBITDA
- Working capital
- Day sales outstanding (DSO)
- Inventory turns
- Earnings per share (EPS)

CAPABILITY TO DELIVER RESULTS

These items are discussed later in the appropriate sections.

- Technology resources
- Financial strength
- Market presence
- Skilled workforce
- Value-based culture

RISKS AND UNCERTAINTIES

Mitec operates in industry segments that have a variety of risk factors and uncertainties. The Company'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 currently considered immaterial may also adversely affect its business.

Industry Risk

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

Dependence on a Few Customers

The Company has exposure due to its reliance on certain large contracts and customers. For the nine months ended January 31, 2005, the Company's two largest customers accounted for 47% of its sales. Mitec has signed a multi-year letter of intent with one of these customers. Although the Company 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 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 Company 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 Company's ability to meet its obligations.

Financial Capital Risk

Management views the existing revolving credit facility as a source of available liquidity. This facility contains various conditions, covenants and representations with which we must be in compliance in order to borrow funds. As of January 31, 2005, the Company was not in compliance with both the tangible net worth and EBITDA covenants contained in its credit facility. If it becomes necessary to borrow under this facility in the future, there can be no assurance that we will be in compliance with these conditions, covenants and representations.

While management believes that we have adequate capital resources, there can be no assurance that this is the case. For example, if our operational performance varies substantially from our operating plan, our existing capital resources may not be sufficient to fund our operations. To the extent that our capital resources (including our credit facility mentioned above) are insufficient to meet our future capital requirements, we may have to raise additional funds through the sale of our equity securities. We may not be able to raise such additional capital on favourable terms, or at all. If we raise additional

capital by selling our equity, the issuance of such securities could result in significant dilution of our shareholders' equity positions. If adequate funds are not available, we may have to curtail operations significantly.

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.

Cash Repatriation from Foreign Subsidiary

The Company generates a significant amount of cash from its foreign subsidiary. The process to repatriate this cash back to Canada is subject to government laws and restrictions.

General Economic Conditions

Unfavourable economic conditions may adversely affect the business of the Company. 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.

Foreign Exchange Rates

A significant portion of Mitec's sales is denominated in foreign currencies, primarily U.S. dollars and may be adversely affected by any severe currency fluctuations. Mitec occasionally employs foreign exchange forward contracts to manage exposures created when sales are made in foreign currencies. The amount and timing of forward contracts vary with management's expectation of future sales and available foreign exchange facilities.

Environmental Matters

The Company'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 Company's operations and financial situation. The Company monitors these risks through environmental management systems and policies.

Stock Price Fluctuation

The market price of our common stock, like the stock 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 stock has been highly volatile and may continue to be highly volatile.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table presents selected financial information for the third quarter and nine months of the current and past fiscal years

Period ended January 31, 2005

(Amounts in thousands except per share data)

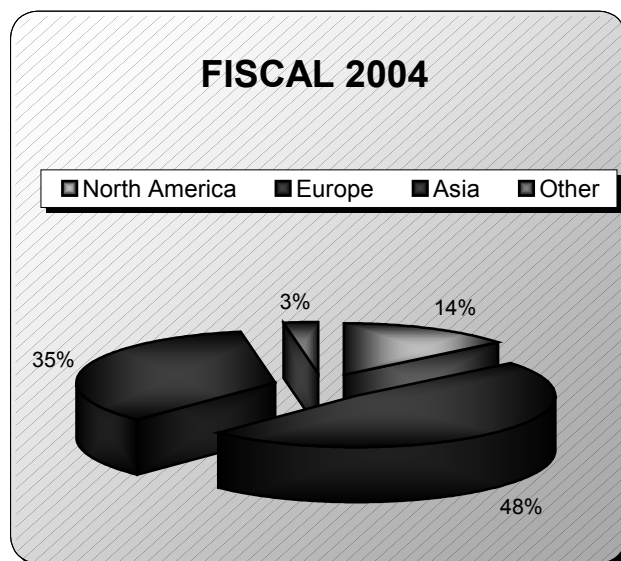
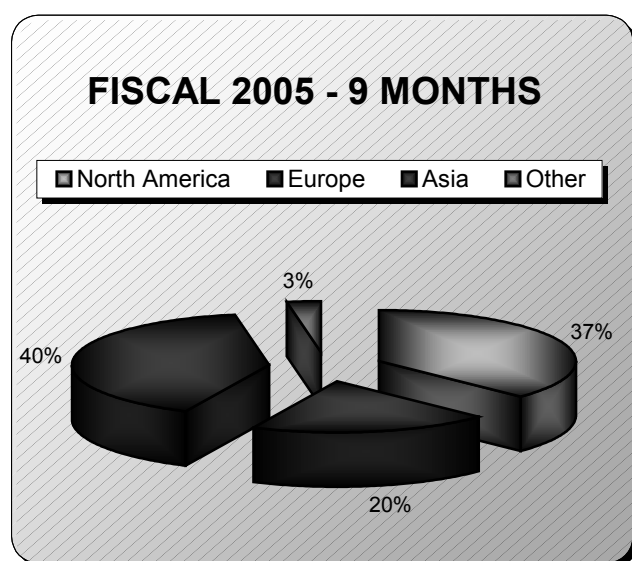
	Q3 FY05	Q3 FY04	YTD Q3 FY05	YTD Q3 FY04
Sales	16,422	21,246	44,132	60,404
Gross profit	3,813	4,061	6,126	12,767
SG&A	2,736	2,917	8,617	8,361
R&D	1,756	2,132	5,925	4,946
Amortization of intangible Assets	560	604	1,663	1,611
Financing expenses	23	193	187	1,843
Services paid by the issuance of stock options	161	-	466	-
Restructuring expenses	687	-	2,010	-
Loss from continuing operations	(1,926)	(1,772)	(12,500)	(4,334)
Net loss	(2,237)	(1,581)	(12,685)	(5,308)
Loss per share - Basic and diluted:				
Continuing operations	(0.03)	(0.03)	(0.17)	(0.09)
Net loss	(0.03)	(0.03)	(0.18)	(0.11)
Total assets	80,998	73,681	80,998	73,681
Long-term debt	2,795	4,757	2,795	4,757
Capital leases	79	818	79	818
Cash and temporary investments	18,852	1,699	18,852	1,699

RESULTS OF OPERATIONS

Sales

Sales for the third quarter in fiscal 2005 declined \$4.8 million from \$21.2 million to \$16.4 million or 22.6% as compared to the same period last year. The Telecom segment, which contributed to 68.2% of total revenues, declined \$6.4 million to \$11.2 million, or 36.4% as compared to the third quarter of fiscal 2004 mainly because of a decline in the North American GSM market. It is expected that sales will increase as we are seeing some improvement in both the Asian and European markets. The Satcom segment, which contributed 31.8% of total revenues, recorded an increase of 42.3% over the same period last year.

Geographical Distribution



Telecom

	Q3 FY05	Q2 FY05	Q1 FY05	Q4 FY04	Q3 FY04
Segment sales (in thousands of dollars)	11,206	9,597	6,078	18,458	17,580
% of total sales	68.2	58.9	53.2	77.2	82.7

Sales in this segment are derived from wireless RF components sold to network equipment providers such as Nortel, Ericsson, and Siemens. With the decline in the North American GSM market, quarterly sales decreased by 36.3% to \$11.2 million.

Also, during the third quarter the company was selected to have its products included in the wireless base stations of a major Chinese OEM. This win is estimated to be worth approximately \$20 million over the next two years.

On a year-to-date basis, sales declined by 47.5% or \$24.3 million to \$26.9 million mainly because of delayed orders, delays in new product introduction and the weak GSM market in North America.

Satcom

	Q3 FY05	Q2 FY05	Q1 FY05	Q4 FY04	Q3 FY04
Segment sales (in thousands of dollars)	5,216	6,686	5,349	5,462	3,666
% of total sales	31.8	41.1	46.8	22.8	17.3

Sales in this segment are derived from the design, manufacture and sale of RF components and subsystems for satellite earth stations used by direct-to-home TV services providers and VSAT networks. Sales in this segment increased by 42.3% from \$3.7million in the third quarter of fiscal 2004 to \$5.2 million in the third quarter of fiscal 2005. The VSAT products continue to fuel the growth by recording sales of \$2.3 million during the current quarter.

On a year-to-date basis sales increased by \$8.0 million or 86.4% to \$17.2 million compared with \$9.3 million for the corresponding period last year for the same reasons mentioned above.

Gross profit

Gross profit for the third quarter of fiscal 2005 was \$3.8 million, down by \$0.3 million from the \$4.1 million generated in the third quarter of fiscal 2004. The decrease was related to the lower volumes recorded in the Telecom segment.

Telecom

	Q3 FY05	Q2 FY05	Q1 FY05	Q4 FY04	Q3 FY04
Gross profit (in thousands of dollars)	2,384	395	(1,700)	3,657	3,062
% of segment sales	21.3	4.1	(28.0)	19.8	17.4

Gross profit decreased by \$0.7 million from \$3.1 million to \$2.4 million as a result of the lower volumes.

On a year-to-date basis, gross profit decreased from \$9.2 million to \$1.1 million, as a result of the lower volumes, an increase of the obsolescence provision for inventory of \$1.5 million and an inventory write-down of \$0.5 million.

Satcom

	Q3 FY05	Q2 FY05	Q1 FY05	Q4 FY04	Q3 FY04
Gross profit (in thousands of dollars)	1,430	2,069	1,549	1,041	999
% of segment sales	27.4	30.9	29.0	19.0	27.3

Gross profit increased \$0.4 million from \$1.0 million in the third quarter of fiscal 2004 to \$1.4 million in the third quarter of fiscal 2005, which is directly attributable to the higher gross profit achieved in the VSAT products. Gross profit as a percent of sales was 27.4%, in line with that of the third quarter of fiscal 2004.

On a year-to-date basis, gross profit increased from \$3.5 million to \$5.0 million as a result of the increase in VSAT sales, although the gross profit as a percent of sales declined from 38% to 29%. This was as a result of the lower gross margins achieved on products produced in the United Kingdom.

Research and Development Expenses, Net of Investment Tax Credits

Research and development expenses net of investment tax credits for the third quarter of fiscal 2005 decreased from \$2.1 million to \$1.8 million as a result of the restructuring of the R&D organization done at the end of the second quarter. The restructuring included the transfer of R&D activities being done in both the United States and the United Kingdom to both Montréal and China.

On a year-to-date basis, R&D costs increased from \$4.9 million to \$5.9 million due to a write-down of non-refundable investment tax credits of \$0.3 million in the second quarter of the current year, as well as additional R&D engineering staff resulting from the acquisition of Wavesat in the second quarter of fiscal 2004.

Selling and administrative expenses

The company's selling and administrative expenses for the third quarter of fiscal 2005 decreased from \$2.9 million to \$2.7 million for the current quarter. This decrease is related to the restructuring of operations in both the United Kingdom and the United States.

On a year-to-date basis, selling and administrative expenses increased \$0.2 million from \$8.4 million to \$8.6 million.

Financial expenses

Financial expenses were nil as compared to \$0.2 million for the third quarter of fiscal 2004. The decrease is as a result of lower interest expense (\$0.1 million) relating to the repayment of long-term debt and a reduction in bank indebtedness in fiscal 2004.

On a year-to-date basis, financial expenses were \$0.2 million compared with \$1.8 million for the same period last year. The decrease is attributable to lower interest expense (from \$1.2 million to \$0.3 million), lower bank fees (from \$0.3 million to \$0.1 million) and lower foreign exchange expense (from \$0.4 million to nil). In addition, the Company recorded interest revenue of \$0.3 million compared with nil for the corresponding period in fiscal 2004.

Amortization of intangible Assets

The amortization of intangible assets was \$0.6 million for the third quarter of fiscal 2005 and \$0.7 million for the third quarter of fiscal 2004. On a year-to-date basis, the expense is \$1.7 million for 9 months in fiscal 2005, consistent with the same period in fiscal 2004.

Non-cash stock-based compensation

Effective May 1, 2004, the Company elected to adopt, on a retroactive basis, the new amendments related to Section 3870 "Stock-based compensation and other stock-based payments". The effect of the amendment requires the recognition of expenses for all employee stock-based compensation transactions. The amount recorded during the quarter was \$0.2 million and \$0.5 million on a year-to-date basis.

Restructuring expenses

Restructuring expenses were \$0.7 million for the quarter and \$2.0 million year-to-date while there were none for the corresponding periods last year. As a result of the transfer of the research and development activities in Matawan, New Jersey and Dunstable, United Kingdom facilities to the Montreal and China facilities, the Company recorded a restructuring charge which consists of severance payments (\$0.4 million), asset impairment (\$0.9 million), and additional costs incurred in the third quarter to implement the restructuring.

Loss from continuing operations

The loss from continuing operations for the third quarter of fiscal 2005 is \$1.9 million as compared to \$1.8 for the same quarter last year, resulting from lower sales and restructuring expenses recorded this quarter, partially offset by a reduction in selling, administrative, R&D and financial expenses. Last year's results were also affected by an impairment charge of \$0.3 million recorded upon the sale and leaseback of the Company's headquarters. On a year-to-date basis, the loss from continuing operations was \$12.5 million as compared to \$4.3 million for the same period last year.

Discontinued operations

Discontinued operations resulted in a loss of \$0.3 million compared to a gain of \$0.2 million for the third quarter last year. The only revenue that is generated from Beve is the rent collected on the real estate. The Company is actively pursuing the sale of the real estate in Sweden and is expecting to conclude a transaction within the next two quarters. On a year-to-date basis, the results of discontinued operations were a loss of \$0.2 million as compared to a loss of \$1.0 million for the same period last year.

Net Loss

The net loss for the quarter was \$2.2 million compared with \$1.6 million for the same quarter last year. The increase is a result of lower sales and restructuring costs, partially offset by lower operating costs

On a year-to-date basis, the net loss is \$12.7 million as compared to \$5.3 million for the same period last year. The increase is as a result of the same reasons mentioned above.

Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)

Mitec calculates EBITDA from continuing operations as follows:

(in thousands of dollars)	Q3 FY05	Q2 FY05	Q1 FY05	Q4 FY04	Q3 FY04
Loss from continuing operations	(1,926)	(4,724)	(5,850)	(1,146)	(1,772)
Income taxes	(184)	(33)	(25)	314	(13)
Amortization	2,003	2,458	1,527	1,578	1,546
Interest	1	21	7	24	251
EBITDA from continuing operations	(106)	(2,278)	(4,341)	770	12

LIQUIDITY AND CAPITAL RESOURCES

Operating cash flow

(In thousands of dollars except as otherwise indicated)	Q3 FY05	Q3 FY04	YTD Q3 FY05	YTD Q3 FY04
Cash flow from operations before working capital changes	(238)	(147)	(5,740)	97
Net changes in non-cash working capital balances related to continuing operations	(1,314)	(3,590)	2,043	(4,216)
Cash flow used in operating activities	(1,076)	(3,737)	(3,697)	(4,119)
Working capital ratio (times)	2.5	8.6	3.0	8.6
Inventory turns (times)	3	6	4	6

Cash flow used by operations before working capital changes was \$0.2 million compared with \$0.1 million of cash flow provided by operations for the same period last year. This was as a result of the increase in the loss recorded for the quarter. However, depreciation of capital assets, amortization of intangible and deferred development costs at \$2.0 million versus \$1.4 million for the same quarter last year did have a positive impact on the cash flow from operations before working capital. In addition, the non-cash expenses including the stock-based compensation expense at \$0.2 million (2004 – nil) also had a positive impact on the cash flow from operations before changes in working capital. On a year-to-date basis, \$5.7 million was used in operations before working capital changes compared with a cash flow generated of \$0.1 million during the same period last year.

The net change in non-cash working capital shows an increase of \$2.3 million from a cash outflow of \$3.6 million for the third quarter of fiscal 2004 to a cash outflow of \$1.3 million for the third quarter of fiscal 2005. This is mainly attributable to a decrease of the accounts receivable balance (from \$15.1 as of October 2004 to \$14.5 million as of January 2005), which was offset by an increase in inventory (from \$14.3 as of October 2004 to \$15.5 million as of January 2005). Accounts payable shows a slight decrease of \$0.2 million due to the lower sales volume compared to the previous quarter. On a year-to-date basis, the substantial decrease of accounts receivable (from \$22.6 million in April 2004 to \$14.5 million in January 2005) is due to the lower sales volume compared with the last quarter of fiscal 2004. The cash inflows from account receivables were compensated by lower account payable balances (from \$18.5 million in April 2004 to

\$14.5 million), which were attributable to payments made to suppliers as a result of the higher activity observed during the last quarter of fiscal 2004.

The working capital ratio shows a substantial increase from 1.3 last year to 2.5 this year as a result of the higher cash and short term investment balances (\$18.8 million versus \$1.7 million for the previous year), combined with a decrease in current liabilities of \$9.8 million (\$31.3 million for the previous year as compared to \$21.5 million for the current year).

Inventory turns were 4 times as compared to 6 times last year. This is a result of reduced sales and higher inventory held over from the GSM slowdown in the first quarter.

Investing Activity Cash Flows

Cash flow used in investing activities was \$3.3 million in the third quarter of fiscal 2005 compared to \$0.2 million in the third quarter of fiscal 2004. This is due to the purchase of an additional \$3.0 million of short-term investments in the current quarter. Capital expenditures for the current period were \$0.3 million as compared with \$0.2 million last year.

On a year-to-date basis, cash flow provided from investing activities was \$4.2 million, which was \$3.8 million higher than the same period last year due mainly to a greater amount of short-term investments (\$5.0 million) being redeemed this year compared to last year.

Financing Activity Cash Flows

Financing activities resulted in a net cash inflow of \$3.0 million for the third quarter fiscal 2005 as compared with a cash inflow of \$5.7 million for the same period last year. In addition to funding the repayment of debt, external financing was raised to meet the funding requirements generated by operating and investing activities. While these latter funding requirements were about the same for the two periods, less external financing was raised during this past quarter as some of the funding was met with cash on hand at the beginning of the period.

On a year-to-date basis, cash flow provided from financing activities of \$6.3 million was \$1.5 million higher than the \$4.8 million provided in the same period last year. This variation is attributable to an increase of bank indebtedness of \$5.5 million compared to a net repayment of \$0.1 million recorded in the corresponding period last year, as well as repayments of long-term debt on capital loans of \$7.9 million in fiscal 2004, compared to \$0.9 million for fiscal 2005. However, this situation was offset by the \$10.7 million raised through the issuance of common shares from financings done in fiscal 2004.

Availability of Capital Resources

As at January 31, 2005, our capital resources consisted of approximately \$18.9 million in cash, cash equivalents and short-term investments. We anticipate that our existing capital resources will permit us to meet our capital and operational requirements through at least January 31, 2006. We base this expectation on our current operating plan, which may change as a result of many factors, including the following:

- greater than expected product development or manufacturing costs;
- changes in the focus and direction of our research and development programs that could result in costly additional research and delay the sale of our products;
- acquisitions of or investment in complementary businesses, products or technologies; and
- failure to attain our target revenue levels, achieve our working capital requirements or derive anticipated cost savings from our manufacturing operations.

Contractual Obligations

The Company's contractual obligations are substantially the same as those disclosed in the MD&A section of its fiscal 2004 annual report ("2004 MD&A").

FINANCIAL INSTRUMENTS

The Company's financial instruments strategy is the same as the one disclosed in its 2004 MD&A.

As of January 31, 2005, there were two foreign exchange contracts outstanding, each to sell US\$1.5 million at a rate of Cdn\$1.403 per US\$. These two contracts mature at a rate of one contract per month, from February 2005 to March 2005.

OFF-BALANCE SHEET ITEMS AND COMMITMENTS

The Company's off-balance sheet items and commitments are substantially the same as those disclosed in its 2004 MD&A.

CHANGE IN ACCOUNTING POLICIES

Stock-Based Compensation and Other Stock-Based Payments

Effective May 1, 2004, the Company elected to adopt, on a retroactive basis, the new amendments related to Section 3870 "Stock-based compensation and other stock-based payments". The effect of the amendment requires the recognition of expenses for all employee stock-based compensation transactions for fiscal years beginning on or after January 1, 2004. This replaces the current disclosure policy. The adoption of this standard has caused a charge to retained earnings of \$403,000 in fiscal 2005. There will be a charge to earnings of approximately \$625,000 for fiscal 2005.

Hedging Relationships

The Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 13 "Hedging relationship", which deals with the identification, documentation, designation and effectiveness of hedges and also the discontinuance of hedge accounting, but does not specify hedge accounting methods.

FUTURE CHANGES IN ACCOUNTING POLICIES

Consolidation of Variable Interest Entities

Accounting Guideline 15 - Consolidation of variable interest entities ("VIE's") applies to annual and interim periods beginning on or after November 1, 2004, Mitec will in the fourth quarter of fiscal 2005] consider whether they are involved with any VIE's and if so determine the financial reporting impact of such involvement. As of the third quarter of fiscal 2005, Mitec was not involved in any VIE's.

SIGNIFICANT ACCOUNTING ESTIMATES AND PROVISIONS

The Company's significant estimates and provisions are substantially the same as those disclosed in its 2004 MD&A, except for the inventory obsolescence provision which has been increased by \$1.6 million to reflect the increasing age of the inventory.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was prepared as of March 9, 2005. Updated information on Mitec, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

As of March 9, 2005, a total of 75,774,773 common shares were issued and outstanding.

GLOSSARY OF DEFINED TERMS

Below you will find certain terms that are used in this MD&A and their definitions.

3G:	Third Generation
DTH:	Direct-to-Home
EGSM:	European Global System Mobility
FY:	Fiscal Year
GSM:	Global System Mobility
LMR:	Lid Mounted Resonator
OA&M	Operations, Administration and Maintenance
OEM:	Original Equipment Manufacturer
PCS:	Personal Communication Service
RFP:	Request for Price
SSPA:	Solid State Power Amplifier
TWT:	Traveling Wave Tube
UMTS:	Universal Mobile Telephone System
VSAT:	Very Small Aperture Terminal
YTD:	Year-to-date

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS

As at January 31, 2005

(In thousands of Canadian dollars)

Unaudited

	As at January 31, 2005 \$	As at April 30, 2004 \$
ASSETS		
Current		
Cash and cash equivalents	10,825	5,255
Short term investments	8,027	13,000
Trade receivables (note 5)	14,535	22,550
Other receivables	2,215	2,521
Income taxes recoverable	1,401	1,019
Inventories	15,463	12,718
Prepaid expenses	1,474	2,081
Future income tax assets	-	88
Current assets related to discontinued operations (note 4)	37	94
Total current assets	53,977	59,326
Capital assets	11,448	13,617
Future income tax assets	-	220
Intangible assets	7,495	8,997
Deferred charges	2,730	4,149
Goodwill	44	44
Note receivable	-	291
Long term assets related to discontinued operations (note 4)	5,304	5,531
	80,998	92,175
Current		
Bank indebtedness (note 6)	5,498	-
Accounts payable and accrued liabilities	14,486	18,535
Current portion of long-term debt (note 6)	1,212	673
Current portion of obligations under capital lease	79	505
Current liabilities related to discontinued operations (note 4)	246	298
Total current liabilities	21,521	20,011
Long-term debt (note 6)	1,583	2,618
Obligations under capital lease	-	27
Long term liabilities related to discontinued operations (note 4)	4,381	4,654
	27,485	27,310
Shareholders' equity		
Common shares (note 7)	114,907	112,860
Warrants (note 7)	1,194	4,332
Contributed surplus (note 7)	5,252	1,531
Deficit	(66,264)	(53,176)
Cumulative translation adjustment	(1,576)	(682)
Total shareholders' equity	53,513	64,865
	80,998	92,175

(See accompanying notes)

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

Periods ended January 31

(In thousands of Canadian dollars)

Unaudited

	For the three months ended		For the nine months ended	
	2005	January 31, 2004	2005	January 31, 2004
	\$	\$		\$
Sales (note 5)	16,422	21,246	44,132	60,404
Cost of sales	12,609	17,185	38,006	47,637
Gross profit	3,813	4,061	6,126	12,767
	23.2%	19.1%	13.9%	21.1%
Expenses				
Selling and administrative	2,736	2,917	8,617	8,361
Research and development	1,756	2,132	5,925	4,946
Interest expense	110	251	313	1,186
Financial expenses	37	55	143	306
Foreign exchange loss (gain)	(15)	(113)	15	351
Interest income	(109)	-	(284)	-
Loss on sale of building	-	-	-	312
Amortization of intangibles	560	604	1,663	1,611
Services paid by the issuance of stock options	161	-	466	-
Restructuring expenses	687	-	2,010	-
	5,923	5,846	18,868	17,073
Loss before income taxes	(2,110)	(1,785)	(12,742)	(4,306)
Income tax expense (recovery)	(184)	(13)	(242)	28
Loss from continuing activities	(1,926)	(1,772)	(12,500)	(4,334)
Discontinued activities	(311)	191	(185)	(974)
Net loss for the period	(2,237)	(1,581)	(12,685)	(5,308)
Basic and diluted loss per common share				
Loss from continuing activities	(0.03)	(0.03)	(0.17)	(0.09)
Loss from discontinued activities	-	-	-	(0.02)
Net loss	(0.03)	(0.03)	(0.18)	(0.11)
Weighted average number of outstanding common shares – basic	73,158,901	55,367,959	72,099,155	48,189,403

(See accompanying notes)

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF DEFICIT

As at January 31, 2005

(In thousands of Canadian dollars)

Unaudited

	For the three months ended		For the nine months ended	
	2005	January 31, 2004	2005	January 31, 2004
	\$	\$		\$
Deficit beginning of the period	(64,027)	(49,901)	(53,176)	(46,174)
Loss for the period	(2,237)	(1,581)	(12,685)	(5,308)
Transitional adjustment for stock-based compensation	-	-	(403)	-
Deficit at the end of the period	(66,264)	(51,482)	(66,264)	(51,482)

(See accompanying notes)

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Periods ended January 31

(In thousands of Canadian dollars)

Unaudited	For the three months ended		For the nine months ended	
	2005	January 31, 2004	2005	January 31, 2004
			\$	\$
OPERATING ACTIVITIES				
Loss from continuing activities	(1,926)	(1,772)	(12,500)	(4,334)
Add items not affecting cash:				
Amortization and write-down of property, plant and equipment, intangible assets and deferred charges	2,003	1,546	5,988	4,152
Loss (gain) on disposal and write-down of property, plant and equipment	-	(7)	(2)	305
Future income tax	-	-	(40)	-
Services paid by the issuance of non-cash stock based options	161	-	466	-
Write-down of recognized non-refundable investment tax credit	-	-	348	-
Other	-	86	-	(26)
	238	(147)	(5,740)	97
Changes in non-cash working capital balances related to operations	(1,314)	(3,590)	2,043	(4,216)
Cash flows relating to operating activities	(1,076)	(3,737)	(3,697)	(4,119)
INVESTING ACTIVITIES				
Additions to property, plant and equipment and intangible assets	(258)	(239)	(739)	(886)
Proceeds on disposal of property, plant and equipment	19	7	55	3,493
Proceeds from sale of a division (net of cash disposed)	-	-	-	132
Business acquisition – Wavesat	-	-	-	(750)
CTA release on sale of subsidiary	-	-	-	(915)
Decrease (Increase) in short-term investments	(3,028)	-	4,973	-
Increase in deferred charges	(1)	(3)	(3)	(647)
Cash flows relating to investing activities	(3,268)	(235)	4,286	427
FINANCING ACTIVITIES				
Increase in bank indebtedness	2,283	7,593	5,498	13,016
Repayment of bank indebtedness	-	-	-	(13,151)
Increase in long-term debt	-	-	-	2,083
Repayment of long-term debt	(178)	(2,751)	(497)	(7,007)
Repayment of obligations under capital lease	(135)	(284)	(442)	(917)
Issuance of common shares and warrants	1,069	1,202	1,773	10,732
Cash flows relating to financing activities	3,039	5,760	6,332	4,756
Cash flows relating to discontinued activities	(15)	(940)	(299)	(1,177)
Effect of exchange rate fluctuations changes on cash	(365)	(148)	(1,052)	116
Net increase (decrease) in cash and cash equivalents	(1,685)	700	5,570	3
Cash and cash equivalents, beginning of the period	12,510	999	5,255	1,696
Cash and cash equivalents, end of the period	10,825	1,699	10,825	1,699
Supplemental Information (note 9)				
Cash and cash equivalents consists of:	10,825	1,699	10,825	1,699
Cash and cash equivalents	10,825	1,699	10,825	1,699

(See accompanying notes)

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2005

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

Unaudited

1. NATURE OF THE BUSINESS AND BASIS OF FINANCIAL STATEMENT PRESENTATION

The Corporation has a history of losses over the past three years and has financed its operating and capital requirements mainly through issuances of debt and equity. The ability to generate sufficient funds for future operations and growth is dependent upon many factors, including financial market conditions, the continued viability of the Corporation's significant customers and a return to profitable operations.

2. SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a consistent basis with the Company's annual consolidated financial statements for the year ended April 30, 2004, except as noted below. For a full description of accounting policies, refers to the Mitec Annual report for the year ended April 30, 2004. Certain comparative figures have been reclassified to conform to the current presentation. These financial statements do not include all of the disclosures, which are required by generally accepted accounting principles applicable to annual financial statements.

STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

Effective May 1, 2004, the Company elected to adopt the new amendments relating to Section 3870 of the Canadian Institute of Chartered Accountants ["CICA"] Handbook entitled "Stock-based compensation and other stock-based payments". The effect of the amendment requires the Company to expense, over the vesting period, the fair value for all employees stock-based compensation transactions since May 1, 2002. As permitted by this amendment, the Company applied this change retroactively, without restatement. This replaces the disclosure option previously adopted by the Company. The impact of this change in accounting policy was a charge of \$403,000 to opening retained earnings and a charge to earnings of approximately \$625,000 in fiscal 2005.

HEDGING RELATIONSHIP

The CICA issued Accounting guideline 13 Hedging relationship (AcG-13), which deals with the identification, documentation, designation and effectiveness of hedges and also the discontinuance of hedge accounting but does not specify hedge accounting methods. The guideline is applicable to hedging relationship in effect in fiscal years beginning on or after July 1, 2003. There was no impact on the Company's net loss related to the implementation of AcG-13.

3. BUSINESS COMBINATION

Effective September 30, 2003, the Company completed the purchase of the Satcom and PCS assets of Wavesat Wireless Inc. for \$3,433,121. The agreement also includes a purchase price adjustment based upon the value of the inventory. This was settled on December 8, 2003. The assets are comprised of inventory, customer orders, customer relationships, and fixed assets. In addition, Mitec assumed capital leases and personnel costs relating to the employees transferred. 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 based on management's estimate of the fair value of assets acquired and liabilities assumed.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2005

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

Unaudited

3. BUSINESS COMBINATION [Cont'd]

Inventory	915
Fixed assets	775
Intangibles	1,887
	<u>3,577</u>
Accrued liabilities	(98)
Obligations under capital lease	(46)
	<u>3,433</u>
Consideration represented by:	
Cash	772
Shares issued	200
Note payable	2,461
	<u>3,433</u>

On March 2, 2004, Mitec reached an agreement with Wavesat Wireless Inc. to pay the note payable prior to maturity. A gain of \$ 147,887 was recognized on settlement.

The number of common shares to be issued was based on a \$200,000 value. This was calculated by using 20 days weighted average share price and represented 188,679 shares.

4. ASSET HELD FOR SALE AND DISCONTINUED OPERATIONS

On May 8 2003, the Board of Directors approved a plan to divest its Swedish subsidiary, Beve, which consisted of most of Mitec's Microwave segment. As a result of the decision, the revenues and the results of Beve have been reported separately in the consolidated statements of operations and previously reported financial statements have been reclassified.

	For the three months ended		For the nine months ended	
	2005	January 31, 2004	2005	January 31, 2004
	\$	\$	\$	\$
Sales	71	96	243	9,054
(Gain) loss of discontinued operations	311	(191)	185	974

The assets and liabilities of the discontinued operations are as follow:

	As at January 31, 2005	As at April 30, 2004
	\$	\$
Current assets	37	94
Land and Building, net	5,292	5,516
Equipment, net	-	3
Future income taxes	12	12
	<u>5,341</u>	<u>5,625</u>
Current liabilities	246	298
Long-term debt relating to the building	4,381	4,654
	<u>4,627</u>	<u>4,952</u>

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2005

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

Unaudited

5. ECONOMIC DEPENDENCE AND CONCENTRATION OF CREDIT RISK

The Corporation is exposed to credit-related losses in the event of non-performance by counter parties to derivative financial instruments, but it does not expect any counter parties to fail to meet their obligations given their high credit ratings. These derivative financial instruments are held by a Canadian chartered bank.

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.

Only one customer accounted for 10% or more of sales for the period ended January 31, 2005 and 10% or more of trade receivables as at January 31, 2005.

Customer	Business segment	For the nine months ended		As at	As at
		2005	January 31, 2004	January 31, 2005	April 30, 2004
		<u>Sales</u>	<u>Trade receivable</u>		
		2005	2004	2005	2004
		%	%	%	%
1	Telecommunications	40%	46%	45%	45%
2	Telecommunications	7%	28%	7%	22%

6. CREDIT AGREEMENTS

As at January 31, 2005 the Corporation was not in compliance with two of the financial covenants under its Canadian credit facility. The Corporation had borrowings under the short-term facility at January 31, 2005 and borrows under a long-term facility. Its ability to utilize both the short and long-term facilities in the future is dependent upon the Corporation meeting or renegotiating certain financial covenants. The Corporation has not pursued waivers of these covenant violations and therefore the long-term portion of \$504,000 has been re-classified to current.

7. SHARE CAPITAL

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

	As at January 31, 2005		As at April 30, 2004	
	Number	Amount	Number	Amount
		\$		\$
Balance, beginning of the year	70,862,914	112,860	43,192,154	70,679
Changes during the period:				
Employee share purchase plan	53	-	144,812	36
Issued for the purchase of a business	-	-	188,679	200
Issued on exercised stock options	127,120	61	171,760	129
Warrants exercised	3,603,999	1,986	7,537,743	5,201
Issued for cash (net of issue costs of \$2,627)	-	-	19,627,766	36,615
Balance, end of the period	74,594,086	114,907	70,862,914	112,860

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2005

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

Unaudited

7. SHARE CAPITAL [Cont'd]

Warrants	As at January 31, 2005		As at April 30, 2004	
	Number	Amount	Number of shares	Amount
		\$		\$
Balance, beginning of year	10,402,356	4,332	14,758,615	5,223
Issued for cash (net of issue costs of \$116)	-	-	3,986,205	1,463
Issued under a loan agreement	-	-	618,279	241
Exercised	(3,603,999)	(275)	(7,537,743)	(1,064)
Expired	(2,536,035)	(2,863)	(1,423,000)	(1,531)
	4,262,322	1,194	10,402,356	4,332
	78,856,408	116,101	81,265,270	117,192

The following table shows warrants by maturity date:

Exercise price	Expiry date	Number of warrants
0.45	04-Feb-05	1,185,190
1.65	09-Oct-05	3,077,132
		4,262,322

The following table is a reconciliation of the denominators for the basic and diluted loss per share:

	For the three months ended		For the nine months ended	
	2005	January 31, 2004	2005	January 31, 2004
Weighted average number of common shares outstanding – basic	73,158,901	55,367,959	72,099,155	48,189,403
Effect of dilutive stock options, warrants	3,800,561	8,539,900	8,460,933	8,957,662
Weighted average number of common shares outstanding - diluted	76,959,462	63,907,859	80,560,088	57,147,065

For the periods ending January 31, 2004 and 2005, the effect of stock options and warrants potentially exercisable on the loss per common share was anti-dilutive, therefore basic and diluted loss per share are the same.

On October 27, 2004, the shareholders approved an amendment to the stock option plan, increasing the total number of options which maybe issued under the plan by 2,500,000 common shares for a total of 7,500,000 common shares.

The following table shows a continuity of the options outstanding:

	As at January 31, 2005	
		\$
Balance beginning of the year	2,854,300	1.65
Granted	1,043,000	1.80
Exercised	(127,120)	0.39
Forfeited	(86,330)	3.34
Balance end of the period	3,683,850	1.70
Option exercisable at the end of the period	1,636,550	2.18

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2005

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

Unaudited

7. SHARE CAPITAL [Cont'd]

Exercise price	Option outstanding			Options exercisable	
	Number	Weighted average exercise price	Weighted average year to expiry	Number	Weighted average exercise price
\$0.31 to \$0.82	1,330,000	0.38	8.1	662,134	0.40
\$1.35 to \$2.10	1,930,500	1.76	9.0	559,366	1.77
\$3.43 to \$3.90	71,500	3.57	6.7	63,200	3.55
\$4.51 to \$4.90	86,900	4.58	5.6	86,900	4.58
\$5.00 to \$6.50	233,950	6.20	2.9	233,950	6.20
\$6.70 to \$9.50	31,000	7.86	2.7	31,000	7.86
	3,683,850	1.70	8.1	1,636,550	2.18

Effective May 1, 2004, the Company began recording compensation expense for awards granted to employees. Compensation expense of \$161,000 has been recognized in the third quarter of fiscal 2005 for stock options granted with a corresponding credit to contributed surplus. The fair value for these options was estimated at the date of grant using a Black-Scholes Option Pricing Model with the following weighted average assumptions:

	For the three months ended		For the nine months ended	
	2005	January 31, 2004	2005	January 31, 2004
	\$	\$	\$	\$
Dividend yield	nil	nil	nil	nil
Expected volatility	1.01	0.93	1.00	0.82
Risk-free interest rate	4.01	4.17	3.99	4.11
Expected life (years)	10.0	10.0	10.0	10.0

The following is a reconciliation of the contributed surplus:

	As at January 31, 2005	As at April 30, 2004
	Amount	Amount
	\$	\$
Balance, beginning of the year	1,531	-
Changes during the year:		
Transitional adjustment for the Stock-based compensation	403	-
Stock based compensation expense	466	-
Adjustment for the options exercised during the period	(11)	-
Warrants expired during the period	2,863	1,531
Balance, end of the period	5,252	1,531

8. RESTRUCTURING EXPENSES

The consolidation of the Matawan, New Jersey and Dunstable, United Kingdom research and development centers into the Montreal and Asian centers forced the Company to record a restructuring charge of \$2.0 million that consists of severance payments (\$0.4 million), asset impairments (\$0.9 million) and closure costs (\$0.7 million).

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2005

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

Unaudited

9. SUPPLEMENTARY CASH FLOW INFORMATION

	For the three months ended		For the nine months ended	
	January 31,		January 31,	
	2005	2004	2005	2004
	\$	\$	\$	\$
Trade receivables and other receivables	(69)	62	8,612	(4,762)
Inventories	(1,170)	(714)	(2,745)	(2,002)
Prepaid expenses	241	198	607	(51)
Income taxes recoverable	(155)	(273)	(382)	(637)
Accounts payable and accrued liabilities	(161)	(2,863)	(4,049)	3,236
	(1,314)	(3,590)	2,043	(4,216)
Interest paid	110	256	252	1,053
Income taxes paid	168	94	345	200
Amortization of property, plant and equipment is included in:				
Cost of goods sold	377	363	1,092	1,159
Selling and administrative expenses	254	328	830	1,012
	631	691	1,922	2,171
Amortization of deferred charges is included in:				
Cost of goods sold	146	40	570	40
Research and development	537	-	728	-
Selling and administrative expenses	41	49	124	79
	724	89	1,422	119

10. SEGMENTED INFORMATION

[a] Segmented information used by management

Mitec operates its business into two principal operating segments for making management decisions and assessing performance. The operating segments are Telecommunications ["Telecom"], Satellite and Terrestrial Telecommunications ["SatCom"]. The Corporation currently operates in Canada, the United States, the United Kingdom and China.

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

SatCom is involved in research, design, development, manufacturing and sale of components, subsystems and multifunction subsystems for satellite and VSAT earth stations.

	For the three months ended			For the nine months ended		
	Telecom	Satcom	Total	Telecom	Satcom	Total
	\$	\$	\$	\$	\$	\$
2005						
Sales	11,206	5,216	16,422	26,881	17,251	44,132
Cost of sales	8,822	3,787	12,609	25,802	12,204	38,006
Gross profit	2,384	1,429	3,813	1,079	5,047	6,126
Expenses			5,923			18,868
Income tax recovery			(184)			(242)
Loss from continuing operations			(1,926)			(12,500)
Discontinued operations			(311)			(185)
Net loss for the period			(2,237)			(12,685)

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2005

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

Unaudited

10. SEGMENTED INFORMATION [Cont'd]

	For the three months ended January 31,			For the nine months ended January 31,		
	Telecom \$	Satcom \$	Total \$	Telecom \$	Satcom \$	Total \$
2004						
Sales	17,580	3,666	21,246	51,149	9,255	60,404
Cost of sales	14,518	2,667	17,185	41,925	5,712	47,637
Gross profit	3,062	999	4,061	9,224	3,543	12,767
Expenses			5,846			17,073
Income tax expense (recovery)			(13)			28
Loss from continuing operations			(1,772)			(4,334)
Discontinued operations			191			(974)
Net loss for the period			(1,581)			(5,308)

(b) Enterprise-wide information

The following table present sales based on geographic location of production

	For the three months ended January 31,		For the nine months ended January 31,	
	2005 \$	2004 \$	2005 \$	2004 \$
Sales				
Canada	11,021	15,184	33,141	42,054
United States	-	809	1,364	3,289
China	6,950	7,082	14,968	19,462
United Kingdom	-	275	565	1,465
Inter-country	(1,549)	(2,104)	(5,906)	(5,866)
	16,422	21,246	44,132	60,404

The following table presents sales by destination of product

	For the three months ended January 31,		For the nine months ended January 31,	
	2005 \$	2004 \$	2005 \$	2004 \$
Canada	713	164	4,939	900
United States	5,416	2,846	14,332	12,538
Europe	3,211	10,185	12,019	25,389
Asia	6,639	7,457	11,089	20,351
Other	443	594	1,753	1,226
	16,422	21,246	44,132	60,404
Amortization of capital assets				
Telecom	467	536	1,436	1,745
Satcom	164	155	486	427
	631	691	1,922	2,172
Amortization of intangible				
Telecom	366	394	1,081	1,150
Satcom	194	210	582	461
	560	604	1,663	1,611

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2005

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

Unaudited

11. COMPARATIVE FIGURES

Certain comparative figures for fiscal 2004 have been reclassified to conform to the presentation adopted in fiscal 2005.