

Transformation Innovation Leadership

ANNUAL REPORT 2004



CORPORATE PROFILE

Founded in 1973, Mitec Telecom Inc. is a leading designer and provider of advanced radio frequency (RF) products. The Company's innovative, highly reliable products address an extensive range of applications in the wireless and satellite communications industries, as well as in the defence, homeland security, medical and industrial spaces. The Company's components and subsystems have been deployed in installations globally, and Mitec is a dependable partner and supplier of choice to many of the world's top-tier equipment and service providers.

The Company's headquarters are in Montreal, Canada. Additional research and development and design operations are located in the United States and the United Kingdom. Mitec's facility in China specializes in research and development, design and manufacturing.

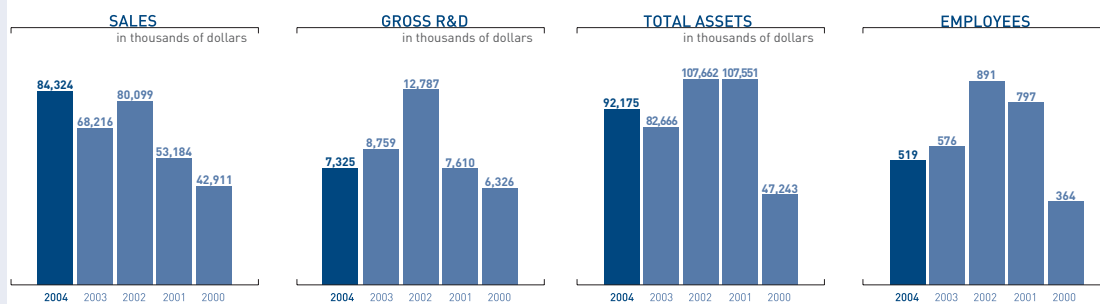
Mitec Telecom is listed on the Toronto Stock Exchange under the symbol **MTM**.
On-line information is available at: www.mitectelecom.com

FINANCIAL HIGHLIGHTS

For the year ended April 30 (in thousands of dollars, except per share data)

	2004	2003	2002	2001	2000
Sales	\$ 84,324	\$ 68,216	\$ 80,099	\$ 53,184	\$ 42,911
Growth	23.6%	(14.8)%	50.6 %	23.9 %	14.7 %
Gross profit	\$ 17,464	\$ 14,798	\$ 14,823	\$ 15,183	\$ 11,959
Gross profit margin	20.7 %	21.7 %	18.5 %	28.5 %	27.9 %
EBITDA	\$ 1,802	\$ (8,484)	\$ (4,003)	\$ 3,815	\$ 1,189
EBITDA margin	2.1 %	(12.4)%	(5.0)%	7.2 %	2.8 %
Net income (loss)	\$ (7,002)	\$ (20,217)	\$ (28,204)	\$ (259)	\$ (628)
Net income margin	(8.3)%	(29.6)%	(35.2)%	(0.5)%	(1.5)%
Fully diluted earnings (loss) per share after goodwill amortization	\$ (0.13)	\$ (0.71)	\$ (1.54)	\$ (0.02)	\$ (0.07)
As at April 30					
Total assets	\$ 92,175	\$ 82,666	\$ 107,662	\$ 107,551	\$ 47,243
Working capital	\$ 39,315	\$ (11,928)	\$ 2,059	\$ 8,576	\$ 10,709
Cash flow from operations ⁽¹⁾	\$ 987	\$ (8,794)	\$ (5,561)	\$ 3,205	\$ 1,778
Shareholders' equity	\$ 64,865	\$ 27,694	\$ 48,204	\$ 45,503	\$ 28,782
Book value per common share	0.92	0.64	2.01	2.91	3.06
Current ratio	3.0	0.8	1.0	1.2	2.0
ROA	(7.6)%	(24.5)%	(26.2)%	(0.2)%	(1.3)%
ROE	(10.8)%	(73.0)%	(58.5)%	(0.6)%	(2.2)%
Long-term debt to equity	5.9 %	32.3 %	15.7 %	11.9 %	19.06 %
Financial leverage ratio	1.4	3.0	2.2	2.4	1.6
Days receivables	77	81	69	74	62
Inventory turnover	5.7	3.7	4.2	3.5	3.52
Shares outstanding at year end (000s)	70,863	43,192	23,972	15,629	9,417

⁽¹⁾ Before change in non-cash working capital balances related to operations.





Rajiv Pancholy: President & CEO

Today we must be able to operate with a steady hand amidst a range of unknowns, and to respond with agility and speed to any circumstances or opportunities that may arise.

Message from the President

When Mitec's 2004 fiscal year began, there was a general air of expectation that we would see the telecom sector recover from its prolonged slump. While there has been growth relative to the preceding period, the opportunities are presenting themselves in an unpredictable fashion. In general, there is shortened visibility of forward opportunities and long-term commitments are increasingly rare. The challenge of the times for wireless telecom equipment suppliers like Mitec is to seek sustainable growth in the face of such volatility.

In part, this market dynamic is being fuelled by accelerated globalization and consolidation. In North America, the effects have been significant. Over the past several months we have seen a sudden, if temporary, rationalization of infrastructure investments, as key wireless service providers explore mergers and acquisitions. In some cases this has led to capex budgets being slashed or purchase decisions being deferred until these initiatives are concluded.

Our industry has also grown hyper-competitive. As opportunities arise in emerging economies, so too does the need to substantially reduce telecom infrastructure costs. Mitec's customers today are no longer concerned with where a product is designed or manufactured: what they want is unquestioned quality, innovative technologies and, above all, price points that match the needs of emerging markets.

It is increasingly clear that the wireless telecom market remains an opportunity for companies that are highly agile, are quick to innovate and leverage new technologies to meet emerging needs, and have an operating model and balance sheet that enables them to withstand market volatility.

In fiscal 2004 Mitec needed to address these issues urgently. Our debt obligations were approaching \$32 million, we were suffering considerable losses, our cash position had improved but was still inadequate, and our traditional customer base needed assurances that we could deliver on their expectations.

Against this backdrop, Mitec undertook perhaps the most profound transformation in its history. While many of the components of this transformation had been put in place in 2003, fiscal 2004 was the year of execution.

First, Mitec concluded the sale of its non-core assets, including its BEVE subsidiary, and was therefore able to consolidate the bulk of its global operations in Montreal and China.

Second, we raised approximately \$41 million in fresh equity. The successful financings demonstrated investor confidence in our streamlining plan and a belief in our potential. Most critically, these initiatives allowed us to eliminate our bank debt and move the Company to a positive cash position.

Third, we made some key leadership changes and strengthened our management team by bringing on experienced executives in the Operations and Sales roles.

With this change in leadership came a new way of thinking and a new way of engaging the current realities of our business. Today we must be able to operate with a steady hand amidst a range of unknowns, and to respond with agility and speed to any circumstances or opportunities that may arise. This is the essence of the corporate culture we have developed over the past year and continue to cultivate.

The success of this corporate transformation — both in terms of people and of approach — engendered other successes.

In fiscal 2004 we acquired the Satcom and PCS assets of Wavesat Wireless Inc., a move that has enabled us to generate growth in both traditional and new markets. The acquisition has strengthened our positioning in the Satcom space and has also provided us with an entry into the wireless service provider market, where we had never been active before. In fact, subsequent to our 2004 fiscal year end, we were awarded a lead contract by Microcell, a major Canadian provider of wireless telecommunications, for our latest-generation GSM booster power amplifiers.

We also began to reach out to other new customers and partners. Winning the confidence of Siemens as their supplier of wireless subsystems for their EGSM/EDGE product is a primary example. Another is the strategic alliance we struck with TenXc Wireless Inc. to jointly develop and commercialize intelligent antenna systems. Our alliance with TenXc also allows us to leverage our highly advanced technology in the carrier market space.

Transformation Innovation Leadership

The inroads we have made into the defense and homeland security marketplace are equally important. In May 2004 we announced a landmark agreement to design and develop critical components for a specialized ultra high frequency subsystem. We are producing these products for a leading developer of hardened communications systems, which is part of a consortium of prominent companies in the defense and security industry. This award underscores our ability to adapt our core technology to new products in new market segments.

In response to the challenge of constant innovation, we introduced a four-pronged program. This umbrella program spawned many new products, lowered the cost of earlier generation products and, most importantly, gave birth to a new way of thinking within Mitec: *Innovation within the existing architectural framework*. This approach, more than anything else, holds out the promise of delivering new value to our customers without imposing major changes to their larger offerings.

Our signature design achievement during the year was the introduction of a pioneering RF technology. This technology's innovative heat flow management architecture will allow us to produce RF components from advanced polymer composites rather than base metal alloys and precious metals, thereby significantly altering the price performance point for these products. As our principal customers expand their wireless network portfolios to target emerging markets, we expect this technology to become a key differentiator.

The other noteworthy aspect of this new technology is the way in which the design process was managed. In addition to our own expertise, we enlisted experts from the aerospace and automotive industries, as well as specialists in advanced polymer materials, to augment and ultimately accelerate the development process. Finally, we have included certain key customers in the next stage of product development, which heralds a new level of customer engagement.

Mitec's new approach also yielded significant operational advances. Over five consecutive quarters we achieved positive EBITDA from continuing operations. In fiscal 2004 as a whole we increased our revenues by 24% and brought our balance sheet back to robust good health. Finally, by year end, the Company was very near the break-even point from continuing operations.

While we were successful in achieving fundamental change in Mitec in fiscal 2004, we fully realize that there is still much work to be done. Going forward, we must focus even more on growing our technology base, strengthening our core competencies and diversifying our product and customer base. The challenge will be to achieve all this while tightly managing costs and addressing shareholder expectations of bottom line growth.

In addition to making changes within Mitec, we will continue to seek out partners who can help us achieve our goals more quickly and work towards a more comprehensive variable-cost business model.

Mitec's commitment to leadership through innovation provides the blueprint for our ongoing growth. In fiscal 2005, we are building our market share through new disruptive technologies. We also expect to broaden our footprint in the defense and homeland security market space, which is a new growth driver for us. In our Satcom segment, we foresee significant continued growth over the coming months as we offer a broader line of integrated solutions and continue to tap into the burgeoning Direct-to-Home broadband market.

Our operational transformation has its governance counterpart. In the current investment environment, corporate accountability has rightfully become a priority, and we are making significant investments in corporate processes and controls in order to align ourselves fully with the provisions of new legislation. We are driven by the conviction that adherence to the principles of transparency and compliance is an essential ingredient of shareholder value.

Transformation Innovation Leadership

Our desire to improve governance and to seek top-tier expertise also led to an expansion of Mitec's Board of Directors. Subsequent to year-end, we welcomed three new independent members: David E. Scott, James C. Cherry and William E. Clift. Mr. Scott has wide-ranging experience in the aerospace and defense industry, Mr. Cherry has a strong financial background and expertise in operating technology-driven, globally-oriented companies, and Mr. Clift is a veteran of the wireless telecom space. Each brings to Mitec a range of competencies that precisely match our corporate direction and goals, and I am convinced that Mitec will benefit handsomely from their experience, knowledge and judgment.

Fiscal 2004 was a continuum of solid achievement, and I would like to take this opportunity to acknowledge the untiring efforts of Mitec's employees worldwide. As before, our task was made a lot easier by the willing engagement and continued support of our Board.

As we embark upon fiscal 2005, our preoccupation is moving from fixing our internal issues to the creation of shareholder value. We are embarking on this journey with a stronger and more confident team and as a company with vastly improved financial resources. To be sure, there will be challenges ahead, but as we have demonstrated in the past year, we are focused, tenacious and determined to succeed.



Rajiv Pancholy
President and Chief Executive Officer

MITEC ANNUAL REPORT 2004
The World of Mitec



Mitec designs and supplies innovative RF technology for **CELLULAR BASE STATIONS**, including 3G products that enable both voice and high-speed data applications.



Mitec's advanced technology can be found in some of the world's most sophisticated, reliable and **SECURE COMMUNICATIONS SYSTEMS.**



MITEC ANNUAL REPORT 2004
The World of Mitec



Mitec provides equipment for earth stations used by **DIRECT-TO-HOME TV** service providers.



Mitec's satcom products enable air-to-air and ground-to-air communications for **DEFENSE AND HOMELAND SECURITY** applications.



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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

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 12-month period ended April 30, 2004 ("fiscal 2004").

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 August 31, 2004.

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 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 factors are further discussed under Risks and Uncertainties below.

Although the Company 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. 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 1973. 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"). Please note that the Wireless business segment was changed to Telecom at the beginning of fiscal 2004 to reflect its broader base of products.

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, 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 British Telecom.

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 April 30, 2004, the Company's global workforce stood at over 500 employees.

MAJOR EVENTS**Sale of Mitec Thailand**

On July 7, 2003, Mitec concluded the sale of all outstanding securities of Mitec Thailand to the local management team for \$1.5 million, of which \$750,000 was received on July 16, 2003. The purchasers issued a non-interest bearing note for the balance of \$750,000, repayable in two instalments of \$375,000 on the first and second anniversaries of the July 16, 2003 closing. On July 26, 2004, \$275,000 was received. The remaining balance will carry interest and should be received before January 31, 2005.

Divestiture of the Beve Group ("Beve")

On August 29, 2003, the Company closed the sale of the business of Beve Electronics to Note AB, a Swedish company. The sale included inventory and equipment with a book value of approximately \$7.4 million and \$0.6 million respectively for proceeds of \$6.1 million (SEK 37 million).

The proceeds of this sale were applied to reduce the Company's bank indebtedness in Sweden and to the payment of trade creditors. The sale did not include the real estate assets, but Mitec did sign long-term leases with Note AB. The expected proceeds of the sale of the remaining Swedish real estate valued at \$6.0 million (SEK 37.3 million) will be used to repay the \$4.7 million (SEK 25.9 million) in outstanding long-term debt.

Acquisition of Wavesat Assets

On September 29, 2003, Mitec acquired the personal communication services (PCS) and Satcom assets of Montreal-based Wavesat, including its inventory, customer purchase orders, customer relationships, and fixed assets. The Company paid \$0.77 million in cash, \$0.2 million in common shares (188,679 shares) and the balance with a \$2.5 million non-interest-bearing note payable in quarterly instalments and maturing in June 2005. As a result of the \$32 million equity offering, the Company repaid the note payable to Wavesat that enabled the Company to record a gain for early repayment.

Issuance of Shares and Warrants

On February 4, 2003, the Company issued 19,179,803 units under a private placement and a public offering. Each unit consists of one common share and one-half share purchase warrant. Each full share purchase warrant entitles the holder to acquire one additional common share of the Company at a price of \$0.45 on or prior to February 4, 2005. The aggregate gross proceeds raised from these two offerings were \$6.1 million, reduced by the issue costs of \$1.1 million. The proceeds were used to fund the restructuring.

On October 9, 2003, the Company issued 7,972,411 units under a private placement at a price of \$1.10 per unit. Each unit consists of one common share and one-half share purchase warrant. Each full share purchase warrant entitles the holder to acquire one additional common share of the Company at a price of \$1.65 on or prior to October 9, 2005. The aggregate gross proceeds raised from the offering were \$8.8 million, reduced by the issue costs of \$0.6 million. The proceeds were invested in working capital and used to repay long-term debt.

On February 10, 2004, the Company issued 10,909,091 shares at a price of \$2.75 per common share for gross proceeds of approximately \$30 million. On March 8, the underwriters also exercised the over-allotment option to acquire an additional 746,264 common shares at \$2.75 per share. Total issue costs were \$2.1 million. The proceeds were partially used to reduce bank indebtedness, repay the balance of sale for the Wavesat acquisition and for general working capital purposes.

Sale – Leaseback Transaction

On October 14, 2003, Mitec concluded the sale-leaseback agreement for its real estate asset located in Pointe-Claire (Canada), site of the Company's headquarters and primary manufacturing center. The building was purchased by a subsidiary of Hydro-Québec's pension fund, for gross proceeds of \$5.9 million. An amount of \$3.3 million was paid in cash and was used to repay the long-term debt collateralized by this real estate. The balance of the proceeds is being realized in the form of free rent for a period of five years.

\$5 million Satcom supply agreement

On November 21, 2003, Mitec signed a \$5 million multi-year supply agreement with an Australasian customer for the supply of high power booster amplifiers to be deployed in Satellite Earth Stations.

Extension of major Telecom supply agreement

On January 9, 2004, Mitec received a multiple-year extension to a major Telecom supply agreement with one of the key network equipment providers. The agreement replaces and extends a previous supply agreement signed in mid-2003 and calls for the supply of both third generation and re-engineered second-generation products.

Letter of intent to supply 4G products

On February 16, 2004, Mitec signed a letter of intent to supply fourth generation subsystems over multiple years to one of North America's key next-generation wireless solution providers. The letter of intent calls for Mitec to supply a range of RF products and subsystems for 4G broadband data networks.

Renegotiation of Banking Agreement

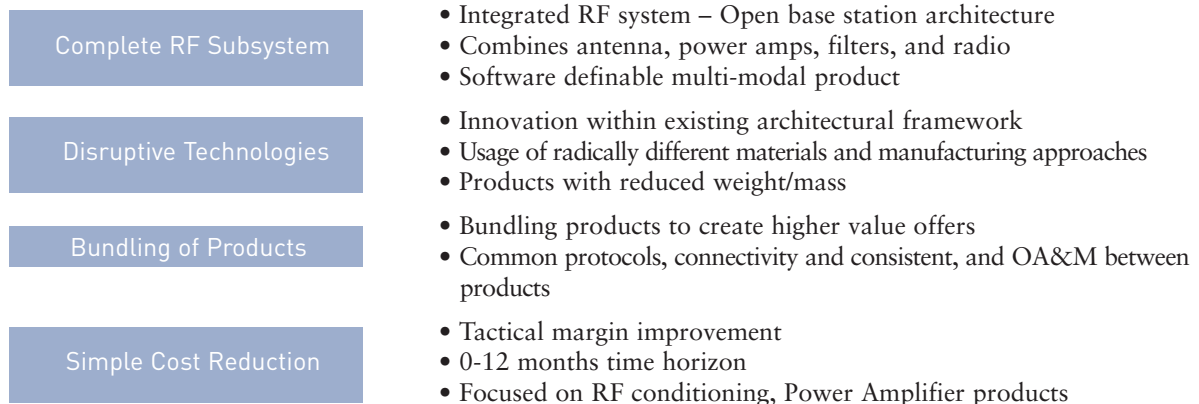
Mitec renegotiated its banking agreement with its Canadian bankers during fiscal 2004 in order to meet its bank covenants. The interest rate on the credit facilities was reduced from prime plus 6% to prime plus 3.75%, and to prime plus 2.75% for the special loan guaranteed by La Financière.

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

As Mitec moves away from the restructuring mode, it continues to focus on growth. The Company sees its growth strategy made up of four elements:



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 31 years in radio frequency (“RF”) products by continuing to develop products to 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, redundancy switching systems and 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 (MFSs) 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/Localisation** Mitec operates in all the major economic zones and is able to present a local face to its customers.

MARKET TRENDS

Telecom

The telecom industry continued to show signs of improvement during the past year, and growth is expected to accelerate starting in late 2004. Capital spending by operators is increasing. Demand for products is growing, primarily driven by emerging economies such as China and India, where 200 million new subscribers are expected within the next three years.

In the near term, carrier and operator consolidation in the telecom industry will continue to fuel intense competition between OEM suppliers as they struggle to sell into a shrinking customer base. This puts increased pressure on product margins. Recent merger activity regarding Telus/Microcell and Cingular/AT&T Wireless threatens to temporarily halt network spending. Finally, uncertainty is heightened by the ongoing governance crisis at Nortel, currently Mitec's largest customer. These factors together add up to a highly volatile and unpredictable telecom market.

Nonetheless, Wireless carriers from around the world believe that the wireless telecom industry is poised for significant expansion over the next five years. The optimism is due in part to renewed interest in third generation (3G) wireless network systems. 3G provides high-speed access to the Internet and multimedia services and allows simultaneous transfer of speech, data, text, pictures, audio and video using wireless devices such as laptop computers, cell phones and personal digital assistants (PDAs). Another positive development is the emergence of more richly-featured and better priced handsets and the ever-growing number of wireless users, which will only be enhanced by the recent US Federal Communications Commission (FCC) ruling that allows cellular phone number portability in the United States. There also remains a significant opportunity for green field network deployment in emerging economies such as China, India and Russia.

Satcom

Over the next five to seven years, growth in the Satcom market is expected to be driven primarily by military spending, with modest growth coming from remote news-gathering, direct-to-home television (DTH), broadband (satellite TV/high-speed Internet) and natural resource exploration.

The need to innovate and integrate products will be key to maintaining the Company's growth strategy. Continuous pricing pressures will come from the smaller firms, which carry lower overheads.

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 in the appropriate sections below.

- Technology resources
- Financial strength
- Market presence
- Skilled workforce
- Value base 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 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. In fiscal 2004, the Company's two largest customers accounted for 74% 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.

Customer's 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 April 30, 2004, the Company was not in compliance with the financial covenants contained in this credit facility. We have negotiated an amendment to this credit facility and established new financial covenants. 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 ANNUAL FINANCIAL INFORMATION

The following table presents selected financial information for the past three fiscal years:

Years ended April 30 (Amounts in thousands except per share data)	2004 \$	2003 \$	2002 \$
Sales	84,324	68,216	80,099
Gross profit	17,464	14,798	14,823
SG&A	11,513	12,341	10,199
R&D	6,744	8,185	10,541
Amortization of intangible assets	2,203	2,145	952
Financing Expenses	1,830	4,154	831
Impairment of building	312	-	-
Others expenses	155	3,531	2,231
Goodwill amortization and write down	-	109	-
Loss from continuing operations	(5,480)	(15,917)	(10,744)
Net loss	(7,002)	(20,217)	(28,204)
Loss per share – basic and diluted:			
– Continuing operations	(0.10)	(0.56)	(0.59)
– Net loss	(0.13)	(0.71)	(1.54)
Total assets	92,175	82,666	107,662
Long-term debt	3,291	7,251	5,841
Capital lease	532	1,706	1,710
Cash and temporary investments	18,255	1,696	2,289

Mitec calculates EBITDA from continuing operations as follows:

Years ended April 30 (Amounts in thousands)	2004 \$	2003 \$	2002 \$
Loss from continuing operations	(5,480)	(15,917)	(10,744)
Income taxes	342	250	175
Amortization	5,730	5,806	5,072
Interest net	1,210	1,268	856
EBITDA from continuing operations	1,802	(8,593)	(4,641)

RESULTS OF OPERATIONS

SALES

Sales for fiscal 2004 increased \$16.1 million to \$84.3 million, or 23.6% as compared to fiscal 2003. The Telecom segment, which contributed 82.5% of total revenues, grew by \$14.1 million to \$69.6 million, or 25.3% compared to fiscal 2003 mainly because of increasing demand in emerging economies. The Satcom segment, which contributed 17.5% of total revenues, grew by \$2.0 million to \$14.7 million, or 16.1% compared to fiscal 2003. Most of this increase can be attributed to the acquisition of the Wavesat assets in the second quarter of fiscal 2004. It is important to note that the sales for fiscal 2004 were affected negatively by the weakness in the U.S. dollar as compared with fiscal 2003.

Total sales in fiscal 2003 decreased by 14.9% to \$68.2 million from \$80.1 million in fiscal 2002. The major reductions came from the Telecom business segment, a decrease of 14.2%, while sales in the Satcom sector remained stable. This reduction was mainly due to the reduced level of spending by wireless carriers.

TELECOM

(Amounts in thousands, except as indicated)

		2004	2003	2002
Sales	\$	69,607	55,538	64,749
% of total revenues	%	82.5	81.4	80.8

Sales in this segment are derived from wireless RF components sold to network equipment providers such as Ericsson and Nortel. The wireless industry showed signs of improvement during fiscal 2004 as a result of capital expenditure spending from the operators. As a result of the increase in demand for products primarily in emerging economies, most notably China, the Telecom sector sales grew 25.3%, from \$55.5 million in fiscal 2003 to \$69.6 million in fiscal 2004.

Sales were down by 14.2% from \$64.7 million in fiscal 2002 to \$55.5 million in fiscal 2003 as the slow down in the telecommunication industry continued. In fiscal 2003, Mitec was able to protect its market share by providing next generation products through its continuing R&D efforts. Many of Mitec's customers are also requesting products to be produced in China and this should bode well for Mitec's Chinese facility, which was acquired from Com Dev in fiscal 2002.

SATCOM

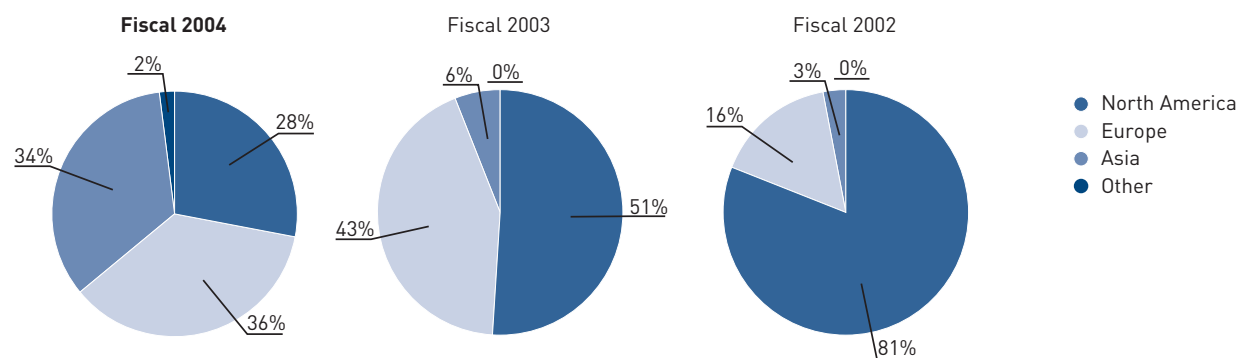
(Amounts in thousands, except as indicated)

		2004	2003	2002
Sales	\$	14,717	12,678	12,725
% of total revenues	%	17.5	18.6	15.9

Sales increased by 16.1% from \$12.7 million in fiscal 2003 to \$14.7 million in the 2004 fiscal year primarily as a result of purchasing the Satcom and PCS assets from Wavesat, which has yielded better-than-expected results as exemplified by the inroads that the Company has made into the VSAT market.

During fiscal 2003, Satcom sales were constant at approximately \$12.7 million. Efforts were made in this segment to expand the customer base, especially in Europe, in order to avoid dependence on a few customers, and to generate additional revenues through higher margin products.

REVENUE BY GEOGRAPHICAL SEGMENT



One of Mitec's objectives was to obtain a balanced geographical market. That objective was met in fiscal 2004. With the continued expansion in the Asian marketplace coupled with Mitec's relationships with its customers, the Company benefited from the expansion.

GROSS PROFIT

Gross profit for fiscal 2004 was up \$2.7 million to \$17.5 million, or 18.0% compared to fiscal 2003. The Telecom segment, which contributed 73.8% of the total gross profit, grew by \$2.0 million to \$12.9 million,

or 17.9% compared to fiscal 2003 mainly because of the increased sales volume. The Satcom segment, which contributed 26.2% of the total gross profit, grew by \$0.7 million to \$4.6 million, or 18.3% compared to fiscal 2003. The gross margin declined to 20.7% in fiscal 2004 from 21.7% in fiscal 2003, reflecting a weaker gross margin in the Telecom segment during fiscal 2004 mainly due to the weaker U.S. dollar and increased price competitiveness. The Company is expecting the gross margins to improve in fiscal 2005 as it introduces composite materials.

TELECOM

(Amounts in thousands, except as indicated)

		2004	2003	2002
Gross profit	\$	12,881	10,925	12,947
Gross margin	%	18.5	19.7	20.0

The gross profit increased 17.9% from \$10.9 million to \$12.9 million as a result of the increased sales volume. However, since most sales are in U.S. dollars, the increase in sales volume was offset somewhat by the weakness of the U.S. dollar. New Product Introduction (NPI) costs had a negative impact on the gross margins. Moreover, the market is still very price competitive. However, the Company expects that the pricing pressure will ease because of requests for new products with different architectures. Consequently, the gross margin declined from 19.7% in fiscal 2003 to 18.5% in fiscal 2004.

In fiscal 2003, Mitec was able to sustain gross profit at 19.7% in the Telecom segment, as compared to 20% in fiscal 2002. Efficiency gains, manpower reductions and increased efforts in the management of the supply chain enabled Mitec to maintain its gross profit in spite of a 14% reduction in sales.

SATCOM

(Amounts in thousands, except as indicated)

		2004	2003	2002
Gross profit	\$	4,583	3,873	1,999
Gross margin	%	31.1	30.5	15.7

Gross profit increased by 18.3% from \$3.9 million in fiscal 2003 to \$4.6 million in fiscal 2004 reflecting increased sales and an improved gross margin. Gross margin increased to 31.1% from 30.5% due to the higher margin products from the Wavesat acquisition.

Gross profit in the Satcom segment nearly doubled from 15.7% generated in fiscal 2002 to 30.5% in fiscal 2003. This was achieved through cost cutting measures and a sales mix of higher margin products including products acquired from the Com Dev acquisition.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expense (R&D) net of investment tax credits for fiscal 2004 decreased 17.6% to \$6.7 million. The expenses decreased mainly because of the restructuring undertaken in fiscal 2003 as well as the capitalization of R&D costs related to the Flarion project in the second quarter of fiscal 2004. The decrease was partially offset due to the additional engineers hired as a result of the purchase of the Wavesat assets in September 2003. The Company expects some slight reductions in fiscal 2005.

SELLING AND ADMINISTRATIVE EXPENSES

The Company's selling and administrative expenses for fiscal 2004 decreased 6.7% to \$11.5 million compared to fiscal 2003. The reduction is attributable to the restructuring efforts started in late fiscal 2003.

FINANCIAL EXPENSES

Financial expenses were \$1.8 million for fiscal 2004 as compared to \$4.2 million in fiscal 2003. This decrease is due to the decrease of \$0.4 million in banking fees charged in 2004 as compared to the banking charges

incurred in fiscal 2003, as well as to the renegotiation of the credit facilities in fiscal 2004. Additionally, interest expense decreased as a result of the debt reduction in the latter part of fiscal 2004. The debt reduction was a result of the \$32 million raised in public equity, which was completed in March 2004.

OTHER EXPENSES

Restructuring expenses were \$0.2 million for fiscal 2004 compared to fiscal 2003 expenses of \$3.5 million. The reduction is due mainly to the restructuring efforts in 2003 related to workforce reductions, and the related costs of severance, which resulted in one-time charges of \$3.5 million in fiscal 2003. In fiscal 2004, we have reversed \$0.4 million of the restructuring provision set up in fiscal 2003 as it was not required. This was included in income in fiscal 2004. This was offset by \$0.6 million of expenses related to an environmental claim.

AMORTIZATION OF INTANGIBLE ASSETS

The amortization of intangible assets increased slightly to \$2.2 million in fiscal 2004 from \$2.1 million in fiscal 2003 as a result of the September 2003 acquisition of the Satcom and PCS assets of Wavesat.

IMPAIRMENT OF BUILDING

The loss on sale of building was \$0.3 million as a result of Mitec's sale-leaseback of its headquarters located in Pointe-Claire.

NET LOSS

The net loss for fiscal 2004 was \$7.0 million, or \$0.13 per share, as compared to \$20.2 million, or \$0.71 per share, in fiscal 2003. The reduction in net loss of \$13.2 million consisted of a reduction in the loss from continuing operations of \$10.4 million and a reduction in the loss from discontinued operations of \$2.8 million. This is a major improvement from last year as the Company has started to move from the restructuring phase to the growth phase.

The consolidated net loss for fiscal 2003 was \$20.2 million or \$0.71 per share as compared to \$28.2 million or \$1.54 per share in fiscal 2002. The reduction in the net loss is the result of the rationalization program started during the first half of fiscal 2003, which resulted in slightly higher margins and reduced operating expenses. In addition, negotiations with the Swedish creditors enabled the Company to record a gain on settlement of liabilities of \$4.6 million.

LOSS FROM CONTINUING OPERATIONS

The loss from continuing operations for fiscal 2004 was \$5.5 million, or \$0.10 per share, as compared to \$15.9 million, or \$0.56 per share, in fiscal 2003. The reduction in loss was the result of several factors including increased sales, lower operating and financial costs, as well as a one-time restructuring charge of \$3.5 million that was recorded in fiscal 2003.

DISCONTINUED OPERATIONS

On August 29, 2003, Mitec concluded the sale of Beve Electronics to Note AB, a Swedish company. The sale included inventory and equipment. The proceeds from this sale directly reduced both Mitec's bank indebtedness and accounts payable. The sale did not include the real estate assets, but Mitec did sign long-term leases with Note AB, securing some of the property's market value. One of the four real estate assets in Sweden was subsequently sold. Beve Electronics constituted most of the microwave segment. This segment has been treated as a discontinued operation. Fiscal 2003 results have been restated to reflect this transaction. The loss attributed to discontinued operations was \$1.5 million for fiscal 2004 compared to \$4.3 million in fiscal 2003. The reduced loss reflects the fact that Beve was sold during fiscal 2004.

SELECTED QUARTERLY FINANCIAL INFORMATION

(Amounts in thousands except per share data)	First Quarter \$	Second Quarter \$	Third Quarter \$	Fourth Quarter \$
For the fiscal year ended April 30, 2004:				
Sales	18,781	20,377	21,246	23,920
Loss from continuing operations	(753)	(1,809)	(1,772)	(1,146)
Net (loss)	(928)	(2,799)	(1,581)	(1,694)
Loss per share – basic and diluted:				
– Continuing operations	(0.03)	(0.02)	(0.03)	(0.02)
– Net loss	(0.04)	(0.04)	(0.03)	(0.03)
For the fiscal year ended April 30, 2003:				
Sales	16,750	18,580	13,368	19,518
Loss from continuing operations	(5,105)	(4,643)	(3,902)	(2,267)
Net (loss)	(6,372)	(5,176)	(4,891)	(3,778)
Loss per share – basic and diluted:				
– Continuing operations	(0.21)	(0.19)	(0.16)	(0.05)
– Net loss	(0.27)	(0.22)	(0.20)	(0.09)

The growth in sales quarter over quarter reflects the improvement generally being seen in the telecommunications market, the Company's new product development and the acquisition of the Wavesat assets. The reduction in net losses over the period is a result not only of the increased sales, but also of significant operational and financial cost savings as a result of the rationalization program started in the first half of fiscal 2003.

LIQUIDITY AND CAPITAL RESOURCES

In fiscal 2004, Mitec entered into several material transactions that realigned its assets, impacted the comparability of its financial statements and changed its financial position as well as the outlook for its future performance. Some of these transactions, including the sale of Beve (Swedish subsidiary), the sale-leaseback of the Company's headquarters, the acquisition of the Wavesat assets, and the private placement and share offerings, had a material impact on the Company's capital resources.

OPERATING ACTIVITY CASH FLOWS

(Amounts in thousands)	2004	2003	2002
Cash flow from operations before changes in working capital	987	(8,794)	(5,561)
Net change in non-cash working capital balances related to continuing operations	(9,026)	8,322	3,265
Cash flow used in operating activities	(8,039)	(472)	(2,296)
Working capital ratio	3.0	0.8	1.0
Inventory turns	6	4	4

Cash flow used in operating activities was \$8.0 million in fiscal 2004 compared to \$0.5 million in fiscal 2003 mainly due to working capital changes, which were partially offset by the improved cash flow from operations. The improvement in cash flow from operations was primarily the result of improved earnings. The change of \$17.3 million in non-cash working capital items resulted mostly from increased accounts receivable, inventories and accounts payable as a result of the increase in sales for the fourth quarter of fiscal 2004 and the acquisition of the PCS assets from Wavesat.

The significant increase in working capital was a direct result of the \$32 million equity financing done in the fourth quarter of fiscal 2004.

Inventory turns increased during fiscal 2004 due not only to higher sales recorded in fiscal 2004, but Management's objective to manage the inventory levels through more efficient supply management tools and supplier agreements.

INVESTING ACTIVITY CASH FLOWS

Cash flow used in investing activities was \$13.2 million in fiscal 2004 compared to \$1.2 million in fiscal 2003. Excluding short-term investments of \$13.0 million, cash flow used in investing activities was \$0.2 million in fiscal 2004 compared to \$1.2 million in fiscal 2003. The decrease is attributable to the proceeds received upon the sale-leaseback of the headquarters.

FINANCING ACTIVITY CASH FLOWS

Financing activities resulted in a net cash flow increase of \$24.9 million in fiscal 2004 compared to \$3.9 million in fiscal 2003. In 2004, the Company raised \$42.4 million through the issuance of units (common shares and warrants) which enabled the Company to reduce debt by a net amount of \$17.5 million.

AVAILABILITY OF CAPITAL RESOURCES

As at April 30, 2004, our capital resources consisted of approximately \$18.3 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 April 30, 2005. 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 or our investment in complementary businesses, products or technologies
- Failure to attain our target revenue levels, achieve our working capital requirements or derive anticipated cost savings from our manufacturing operations

CONTRACTUAL OBLIGATIONS

The following is a summary of the Company's material contractual obligations as at April 30, 2004

(Amounts in thousands of dollars)	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	3,291	673	1,416	1,202	-
Operating leases	3,303	753	1,108	576	866
Total contractual obligations	6,594	1,427	2,524	1,777	866

FINANCIAL INSTRUMENTS

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. During fiscal 2004, Mitec entered into ten foreign exchange contracts for the sale of U.S. \$1.5 million at an exchange rate of 1.35 maturing from March 2004 to December 2004.

OFF-BALANCE SHEET ITEMS AND COMMITMENTS

Mitec's off balance sheet items and commitments consist of:

- Financial derivative instruments in the form of forward foreign exchange contracts
- Letters of credit
- Factoring of Chinese receivables

DERIVATIVE INSTRUMENTS

Please refer to section "Financial Instruments" of this MD&A for a complete description.

LETTERS OF CREDIT

In order to secure the lease payments for the U.S. facility, the Company has issued a \$100,000 U.S. renewable letter of credit for the duration of a 5 year lease.

FACTORING OF RECEIVABLES IN CHINA

Effective March 1, 2004, the Chinese subsidiary has reached an agreement with a local merchant bank to factor its receivables. The agreement ends on December 31, 2005 but is renewable based upon the financial condition of the subsidiary. In the event of a customer non-payment, the subsidiary is liable for the repayment to the merchant bank. As of April 30, 2004, the facility was not used.

CHANGE IN ACCOUNTING POLICIES

A summary of the Company's significant accounting policies can be found in Note 2 of the "Notes to Consolidated Financial Statements". Since the beginning of fiscal 2004, the Company has adopted the following new accounting pronouncement from the Canadian Institute of Chartered Accountants:

DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS

Effective May 1, 2003, the Company prospectively adopted the CICA section 3475 "Disposal of Long-lived Assets and Discontinued Operations" which requires that assets classified as held for sale be measured at the lower of carrying value and fair value less disposal costs. Assets classified as held for sale are not to be amortized while classified as such. It also requires that the results of operations of a component of an enterprise that has been disposed of by either sale or abandonment be reported as discontinued operations. A component of an enterprise comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the enterprise. There was no write-down recorded upon adoption of the pronouncement.

FUTURE CHANGES IN ACCOUNTING POLICIES

STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

Effective May 1, 2004, the Company elected the adoption on a retroactive basis of 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 employees stock-based compensation transactions for fiscal years beginning on or after January 1, 2004. This replaces the disclosure option previously adopted by the Company. The impact of this change in accounting policy will be a charge of \$403,000 to opening retained earnings. Approximately \$500,000 will be a charge to income in fiscal 2005.

HEDGING RELATIONSHIPS

The 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.

SIGNIFICANT ACCOUNTING ESTIMATES AND PROVISIONS

The preparation of financial statements requires the Company to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies in regard

to the level of judgment involved and its potential impact on the Company's reported financial results. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are reasonably likely to occur from period to period, and would materially impact the Company's financial condition, change in financial condition or results of operations. The Company's significant accounting policies are discussed in Note 2 of the "Notes to Consolidated Financial Statements"; critical estimates inherent in the accounting policies are discussed in the following paragraphs.

INVENTORY VALUATION

The Company 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 Company'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 Company periodically assesses the recoverability of long-lived assets when there are indications of potential impairment. In performing this analysis, the Company considers such factors as current economic conditions, trends and future prospects, current market value and other economic factors. A substantial change in estimated undiscounted future cash flows for these assets could materially change their estimated fair values, possibly resulting in additional impairment. A \$0.3 million impairment charge was recorded upon the sale-leaseback transaction of the Company's headquarters.

VALUATION OF INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill are established at the date of acquisition and afterward are assessed annually, and if necessary, written down for any impairment. These determinations involve considerable judgment including those with respect to cash flows, discount rates and asset lives. These determinations will affect the amount of amortization expense to be recognized in future periods on intangible assets.

RESEARCH AND DEVELOPMENT COSTS

When the Company intends to produce a product under development that is clearly defined, has identified costs, is technically feasible and has a clearly defined market or use, and the Company expects to have the financial resources to complete the product, the costs associated with the product are deferred to the extent of their recovery through future sales. The Company regularly reviews the estimates and the likelihood of recovering the costs based on letters of intent received, market conditions and indications received from the customers. The total costs capitalized are compared with the future gross margin less selling and administrative expenses. The estimation may vary from period to period due to the change in the above-mentioned elements. If the Company determines that the recovery of the costs through future sales is no longer likely, any deferred costs not likely to be recovered are charged against earnings in the period.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company 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 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.

INCOME TAXES

The Company accounts for future income tax assets mainly from losses carry-forward and deductible temporary differences. Company's management assesses and reviews the realization of these future income tax assets at least annually, at year-end, 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 carry-forward as well as reasonable tax planning strategies.

RESTRUCTURING PROVISION

When Management and the Board of Directors decides for strategic reasons to exit or streamline a facility, an estimation of a restructuring provision is made. This would include severance costs to employees and operating lease termination costs and any impairment of assets are recorded at the time the decision is taken. As of April 30, 2004, the restructuring provisions recorded were not material.

FOURTH QUARTER 2004 RESULTS

(Amounts in thousands)	Three months ended April 30	
	2004 \$	2003 \$
Sales		
Telecommunications	18,458	15,283
Satcom	5,462	4,235
Total	23,920	19,518
Gross profit	4,697	7,489
R&D	1,911	792
SG&A	3,353	3,394
Net interest expense	24	640
Amortization	1,578	1,503
Net loss from continuing operations	(1,146)	(2,267)
Net loss from discontinued operations	(548)	(1,511)
Net loss	(1,694)	(3,778)
EBITDA from continuing operations	770	497

The net loss for the fourth quarter was \$1.7 million, or \$0.03 per share, compared to \$3.8 million, or \$0.09 per share in fiscal 2003. The reduction in net loss of \$2.1 million consisted of a reduction in the loss from continuing operations of \$1.1 million and a reduction in the loss from discontinued operations of \$1.0 million. This improvement reflects the benefits of the restructuring that began in early fiscal 2003.

The net loss from continuing operations for the fourth quarter was \$1.1 million, or \$0.02 per share, compared to \$2.3 million, or \$0.05 per share in fiscal 2003. The reduction in loss was primarily attributable to increased sales.

Mitec's sales for the fourth quarter reached \$23.9 million, a 23% increase over the \$19.5 million reported in the fourth quarter of fiscal 2003. Strong Telecom sales in Europe and solid VSAT revenues contributed to this growth.

Gross profit for the fourth quarter was \$4.7 million, compared to \$7.5 million in the prior period due primarily to a one-time gain recorded in fiscal 2003, namely a settlement with Com Dev for \$1.0 million. In addition, the strength of the Canadian dollar against the U.S. dollar, pushed down the gross margins.

Operating expenses (R&D and SG&A) for the fourth quarter were \$5.3 million, compared to \$4.2 million in the fourth quarter of fiscal 2003. The increase was due to a settlement of an environmental claim and some severance payments. In addition, the increased headcount of R&D employees from the Wavesat acquisition contributed to increase in operating expenses.

EBITDA from continuing operations was \$0.8 million in the fourth quarter of fiscal 2004 compared to \$0.5 million in the fourth quarter of fiscal 2003, and represented the fifth consecutive quarter of positive EBITDA from continuing operations.

OUTLOOK FOR FISCAL 2005

Mitec will continue to focus on its growth strategy and technological innovation. Partnering with strategic players may constitute an important component of that strategy. Mitec sees its customer base expanding and cost base reducing. Mitec will continue to provide innovative solutions to its customers.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was prepared as of August 31, 2004. Updated information on Mitec, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

At August 31, 2004, a total of 72,172,454 common shares were issued and outstanding.

MANAGEMENTS' RESPONSIBILITY

FOR FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

The accompanying consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles, and the other financial information provided in the Annual Report, which is consistent with the financial statements, are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements include some amounts that are based on management's best estimates and judgement and, in their opinion, present fairly the Corporation's financial position, its results of operations and its cash flows. The Corporation's procedures and internal control systems are designed to provide reasonable assurance that accounting records are reliable and to safeguard the Corporation's assets.

The Audit Committee, consisting of all outside directors, is responsible for reviewing the consolidated financial statements and Annual Report and recommending their approval to the Board of Directors. In order to fulfill its responsibilities, the Audit Committee meets with management and external auditors to discuss internal control over the financial reporting process, significant accounting policies, other financial matters and the results of the examination by the external auditors.

These consolidated financial statements have been audited by the external auditors Ernst & Young LLP, Chartered Accountants, and their report is included herein.



Rajiv Pancholy
President and
Chief Executive Officer



Keith Findlay
Executive Vice-President, Finance
and Chief Financial Officer

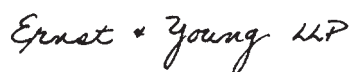
AUDITORS' REPORT

TO THE SHAREHOLDERS OF MITEC TELECOM INC.

We have audited the consolidated balance sheets of Mitec Telecom Inc. as at April 30, 2004 and 2003 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these 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, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Montréal, Canada
June 30, 2004

CONSOLIDATED BALANCE SHEETS

As at April 30 [In thousands of Canadian dollars]

	2004 \$	2003 \$ [Restated - see note 3]
ASSETS [notes 12 and 13]		
Current		
Cash and cash equivalents	5,255	1,696
Short-term investments	13,000	—
Trade receivables	22,550	13,070
Other receivables [note 7]	2,521	2,889
Income taxes recoverable	1,019	295
Inventories [note 8]	12,718	10,564
Prepaid expenses and other	2,081	743
Future income tax assets [note 17]	88	159
Current assets related to discontinued operations [note 3]	94	11,848
Total current assets	59,326	41,264
Property, plant and equipment [note 9]	13,617	22,409
Future income tax assets [note 17]	220	521
Intangible assets [note 10]	8,997	8,981
Deferred charges [note 11]	4,149	850
Note receivable	291	—
Goodwill	44	44
Long-term assets related to discontinued operations [note 3]	5,531	8,597
	92,175	82,666
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 12]	—	10,037
Accounts payable and accrued liabilities	18,535	16,334
Current portion of long-term debt [note 13]	673	6,023
Current portion of obligations under capital lease [note 14]	505	1,181
Current liabilities related to discontinued operations [note 3]	298	19,617
Total current liabilities	20,011	53,192
Long-term debt [note 13]	2,618	1,228
Obligations under capital lease [note 14]	27	525
Long-term liabilities related to discontinued operations [note 3]	4,654	27
	27,310	54,972
Shareholders' equity		
Common shares [note 16]	112,860	70,679
Warrants [note 16]	4,332	5,223
Contributed surplus	1,531	—
Deficit	(53,176)	(46,174)
Cumulative translation adjustment	(682)	(2,034)
Total shareholders' equity	64,865	27,694
	92,175	82,666

Commitments and contingencies [note 19]
See accompanying notes.

On behalf of the Board:



Charles Spector
Director



Hubert R. Marleau
Director

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended April 30

[In thousands of Canadian dollars, except per share data and number of shares]

	2004 \$	2003 \$ [Restated – see note 3]
Sales	84,324	68,216
Cost of sales [notes 9 and 11]	66,860	53,418
Gross profit	17,464	14,798
Expenses		
Selling and administrative [notes 9 and 11]	11,513	12,341
Research and development [note 9]	6,744	8,185
Amortization of intangible assets [note 10]	2,203	2,145
Financial expenses [note 23]	1,830	4,154
Interest income	(155)	—
Impairment of building [note 11]	312	—
Other expenses [note 18]	155	3,531
	22,602	30,356
Loss from continuing operations before income taxes and goodwill amortization and write-down	(5,138)	(15,558)
Income tax expense [note 17]	342	250
Loss from continuing operations before goodwill amortization and write-down	(5,480)	(15,808)
Goodwill amortization and write-down	—	109
Loss from continuing operations	(5,480)	(15,917)
Loss from discontinued operations [note 3]	(1,522)	(4,300)
Net loss for the year	(7,002)	(20,217)
Basic and diluted loss per common common share from continuing operations [note 16]	(0.10)	(0.56)
Basic and diluted (loss) per common share from discontinued operations	(0.03)	(0.15)
Basic and diluted (loss) per common share	(0.13)	(0.71)
Weighted average number of outstanding common shares	53,821,059	28,456,741
See accompanying notes.		

CONSOLIDATED STATEMENTS OF DEFICIT

Years ended April 30

[In thousands of Canadian dollars]

	2004 \$	2003 \$
Retained earnings (deficit), beginning of year	(46,174)	(19,934)
Transitional goodwill adjustment [note 24]	—	(5,161)
Reprising of warrants [note 16]	—	(862)
Net loss for the year	(7,002)	(20,217)
Deficit, end of year	(53,176)	(46,174)
See accompanying notes.		

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended April 30

[In thousands of Canadian dollars]

	2004 \$	2003 \$ [Restated – see note 3]
OPERATING ACTIVITIES		
Loss from continuing operations	(5,480)	(15,917)
Add items not affecting cash		
Amortization of property, plant and equipment, intangible assets, deferred charges, goodwill and goodwill write-down [notes 9, 10 and 11]	5,730	5,806
Loss on disposal and write-down of property, plant and equipment [notes 11 and 18]	365	463
Future income taxes	372	204
Other	—	650
	987	(8,794)
Changes in non-cash working capital balances related to continuing operations [note 21]	(9,026)	8,322
Cash flows used in operating activities	(8,039)	(472)
INVESTING ACTIVITIES		
Additions to property, plant and equipment and intangible assets	(1,336)	(687)
Proceeds on disposal of property, plant and equipment	3,354	48
Proceeds from sale of a subsidiary net of cash disposed	154	—
CTA reduction on sale of a subsidiary	(915)	—
Business acquisitions [note 4]	(772)	—
Increase in deferred charges	(649)	(515)
Purchases of short-term investments	(13,000)	—
Cash flows used in investing activities	(13,164)	(1,154)
FINANCING ACTIVITIES		
Increase in bank indebtedness [note 12]	13,016	446
Repayment of bank indebtedness [note 12]	(23,039)	(1,916)
Issuance of long-term debt [note 13]	2,083	2,650
Repayment of long-term debt [note 13]	(8,357)	(1,290)
Decrease of obligations under capital lease	(1,208)	(1,141)
Issuance of units, common shares and warrants [note 16]	42,380	5,171
Cash flows provided by financing activities	24,875	3,920
Effect of exchange rate fluctuations changes on cash	135	15
Net increase (decrease) in cash and cash equivalents from continuing operations	3,807	2,309
Cash and cash equivalents used in discontinued operations [note 3]	(248)	(2,902)
Cash and cash equivalents, beginning of year	1,696	2,289
Cash and cash equivalents, end of year	5,255	1,696

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2004 and 2003

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

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

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

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

PRINCIPLES OF CONSOLIDATION

These consolidated financial statements include the accounts of the Corporation and its directly and indirectly owned subsidiaries, except for Beve which has been reclassified as a discontinued operation [see note 3]. All significant intercompany accounts and transactions have been eliminated on consolidation.

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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. The reported amounts and note disclosures are determined using management's best estimates based on the assumptions that reflect the most probable set of economic conditions and planned course of action. Actual results could differ from the estimates used in these consolidated financial statements and such differences could be material.

GOVERNMENT ASSISTANCE AND INVESTMENT TAX CREDITS

Government assistance is recorded in the accounts when there is reasonable assurance that the Corporation has complied with, and will continue to comply with, all conditions necessary to obtain the assistance.

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.

Government assistance, including investment tax credits for scientific research and experimental development, is reflected as a reduction in the cost of the assets or expenses to which it relates.

CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents are cash and short-term investments with maturity dates of 90 days or less at the date of acquisition.

SHORT-TERM INVESTMENTS

Short-term investments are recorded at the lower of cost and fair market value determined on a portfolio basis.

INVENTORIES

Raw materials and purchased components are stated at the lower of cost on a first-in, first-out basis and replacement cost. Work-in-process and finished goods are stated at the lower of cost on a first-in, first-out basis and net realizable value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

PROPERTY, PLANT AND EQUIPMENT

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

	Method	Rate
Buildings	Straight-line	20 to 40 years
Machinery and equipment	Declining balance	10% to 20%
Leasehold improvements	Straight-line	Term of the lease plus one renewal term
Furniture and fixtures	Declining balance	20%
Tools and dies	Straight-line	5 years
Computer equipment	Declining balance	30%
Automobiles	Declining balance	25% to 30%
Machinery and equipment under capital lease	Declining balance	10% to 20%

IMPAIRMENT OF LONG-LIVED ASSETS

Property, plant and equipment are regularly reviewed for impairment as well as whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use plus its residual value. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds its fair value generally determined on a discounted cash flow basis.

DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS

Effective May 1, 2003, the Corporation prospectively adopted the CICA section 3475 Disposal of Long-lived Assets and Discontinued Operations which requires that assets classified as held for sale be measured at the lower of carrying value and fair value less disposal costs. Assets classified as held for sale are not to be amortized while classified as such. It also requires that the results of operations of a component of an enterprise that has been disposed of by either sale or abandonment be reported as discontinued operations. A component of an enterprise comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the enterprise.

RESEARCH AND DEVELOPMENT

Research costs, net of related investment tax credits, are expensed as incurred. Development expenditures, net of tax credits, are capitalized, and included in deferred charges, when they meet the appropriate criteria for capitalization in accordance with Canadian generally accepted accounting principles. Amortization of deferred development costs commences with commercial production over the expected useful life of the product not exceeding a 24-month period.

LEASES

Leases entered into by the Corporation in which substantially all of the benefits and risks of ownership are transferred to the Corporation are recorded as capital leases and classified as capital assets and obligations under capital lease. All other leases are classified as operating leases under which leasing costs are expensed in the period in which they are incurred.

GOODWILL

Business combinations are accounted for using the purchase method of accounting. Goodwill represents the excess of the cost of businesses acquired over the fair value of net identifiable assets values at the date of acquisition. Goodwill from business combinations is no longer amortized but instead is reviewed for impairment.

Goodwill at April 30, 2003 and 2004 amounted to \$44,000 net of accumulated amortization, write-offs and the transitional adjustment for change in accounting policy of \$16,171,000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

INTANGIBLE ASSETS

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

	Method	Rate
Computer software	Declining balance	30%
Patented technology and trademarks	Straight-line	10 to 17 years
Customer relationships	Straight-line	5 years
Non-patented technology	Straight-line	10 years

On an ongoing basis, management reviews the carrying value of intangible assets and considers whether there have been events or changes in circumstances that indicate that the carrying value may not be recoverable. 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 intangible assets. Any impairment results in a write-down of intangible assets and a charge to income during the year to the extent that the assets carrying value exceeds its fair value, generally determined on a discounted cash flow basis.

DEFERRED CHARGES

Deferred charges consist of costs relating to obtaining long-term debt. These costs are deferred and amortized over the term of the related debt using the effective yield method. In addition, the deferred charges include the long-term portion of the deferred loss and the rent-free period related to a sale-leaseback transaction amortized over the term of the related lease as well as deferred development costs.

REVENUE RECOGNITION

The Corporation recognizes revenue when products are completed to the customer's specifications, are delivered to the customer and collection is reasonably assured.

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 future income tax assets will not be realized.

FOREIGN CURRENCY TRANSLATION

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, except where these amounts are effectively hedged in which case they are recorded at the hedged rate. Revenues and expenses are translated into Canadian dollars at rates of exchange in effect, including where applicable the hedge rate, at the related transaction dates. Exchange gains and losses arising from the translation of foreign currency items are included in the determination of net income.

FOREIGN OPERATIONS

The accounts of the Corporation's self-sustaining foreign subsidiaries are translated into Canadian dollars using the exchange rates prevailing at the end of the period for assets and liabilities and the average exchange rates during the period for revenue and expenses. The adjustment arising from the translation of these accounts has been deferred and included in shareholders' equity as a cumulative translation adjustment. The change in the cumulative translation adjustment account reflects the effect of foreign exchange rate variations during the year upon the translation of the net assets of the self-sustaining foreign operations.

Accounts of the Corporation's integrated foreign subsidiaries are translated using the temporal method. Under this method, monetary balance sheet items are translated at the rates of exchange in effect at year-end and non-monetary items are translated at historical exchange rates. Revenues and expenses (other than depreciation and amortization, which are translated at the same rates as the related assets) are translated at the rates in effect on the transaction dates or at the average rates of exchange for the period. Translation gains or losses are included in the statement of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

The Corporation has a stock option incentive plan, which is described in note 16. The Corporation has chosen to recognize no compensation when stock options are granted to employees and directors under stock option plans with no cash settlement features. However, direct awards of stock to employees and non-employees and stock option awards granted to non-employees are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of direct awards of stock is determined based on the quoted market price of the Corporation's stock while the fair value of stock options granted are determined using the Black-Scholes Option Pricing Model. Pro forma information regarding net loss has been determined as if the Corporation had accounted for stock options granted to employees after April 30, 2002 under the fair value method [note 16].

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation enters into foreign exchange contracts to reduce its exposure to the volatility in future exchange rates applicable to anticipated revenues in foreign currencies. Gains and losses on contracts designated as hedges of identifiable foreign anticipated revenues are included in income when the related transactions being hedged are recognized.

FINANCIAL EXPENSES

Financial expenses include interest charges on bank and long-term indebtedness, bank charges and fees, discounts and foreign exchange gains and losses.

EARNINGS 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 would be used to purchase common shares at the average market price during the period.

3. DISCONTINUED OPERATIONS

On May 8, 2003, the Board of Directors approved a plan to divest its Swedish subsidiary, Beve, which comprised of most of its Microwave sector. On August 29, 2003, the Corporation closed the sale of the business of Beve Electronics, which comprised most of the Corporation's microwave segment, to Note AB, a Swedish Company. The sale included inventory and equipment with a book value of approximately \$7.4 million and \$0.6 million respectively for estimated proceeds of \$6.1 million.

The proceeds from this sale directly reduced the Corporation's bank indebtedness and were also used to pay trade creditors and accrued compensation. The sale did not include the real estate assets, but the Corporation did sign long-term leases with Note AB. As a result of the decision, the revenues and the results of Beve have been reported as discontinued activities in the consolidated statements of operations and previously reported financial statements have been restated.

	2004 \$	2003 \$
Sales	10,579	32,842
Results of discontinued operations	(1,522)	(4,300)
The assets and liabilities of the discontinued operations are as follows:		
	2004 \$	2003 \$
Current assets	94	11,848
Land and building, net	5,516	6,479
Equipment, net	3	2,106
Future income taxes	12	12
	5,625	20,445
Bank indebtedness	—	5,877
Current liabilities	298	7,456
Long-term debt	4,654	6,284
Obligations under capital lease	—	27
	4,952	19,644

3. DISCONTINUED OPERATIONS [CONT'D]

Cash flows from discontinued operations consist of cash provided from (used in):

	2004 \$	2003 \$
Operating activities	(1,921)	225
Financing activities	9,083	(3,192)
Investing activities	(7,411)	64
Effect of exchange fluctuations on cash	1	1
Decrease in cash and cash equivalents from discontinued operations	(248)	(2,902)

4. BUSINESS ACQUISITION

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 on the value of the inventory settled on December 8, 2003. The assets are comprised of inventory, orders, customer relationships, and fixed assets. In addition, Mitec assumed capital leases and personal 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 is based on management's estimate of the fair value of assets acquired and liabilities assumed.

	\$
Inventory	915
Fixed assets	775
Intangibles	1,887
Accrued personnel costs	3,577
Obligations under capital leases	(98)
	(46)
Net assets acquired	3,433
Consideration represented by:	
Cash	772
Common shares issued	200
Note payable	2,461
	3,433

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

The number of common shares to be issued was based on a \$200,000 value per the agreement divided by 20 days weighted average share price for the 20 trading days immediately prior to the closing and represents 188,679 shares.

5. FINANCIAL INSTRUMENTS

[i] SHORT-TERM FINANCIAL ASSETS AND LIABILITIES

The carrying amounts of these assets and liabilities are a reasonable estimate of the fair values due to the short-term nature of these assets and liabilities.

Short-term financial assets consist of cash and cash equivalents, short-term investments, trade receivables and other receivables. Short-term financial liabilities consist of bank indebtedness and accounts payable and accrued liabilities.

5. FINANCIAL INSTRUMENTS [CONT'D]

[ii] LONG-TERM DEBT

The carrying amounts of the Corporation's long-term debt approximate their fair value because of the floating interest component.

[iii] INTEREST RATE

The Corporation's principal exposure to interest rate fluctuations is with respect to its bank indebtedness and the long-term debt, which bear interest at floating rates.

[iv] EXCHANGE CONTROL RESTRICTIONS

The Corporation's Chinese subsidiary is subject to government approvals should it wish to repatriate funds to the parent company in excess of advances or purchase from the Corporation and its subsidiaries. At April 30, 2004, the Chinese subsidiary's cash on hand is less than the amount of these advances and purchases.

[v] CAPITAL LEASES

The carrying amounts of the Corporation's capital leases approximate their fair value because of their short-term maturities.

[vi] FOREIGN EXCHANGE COLLARS AND FORWARD FOREIGN EXCHANGE CONTRACTS

In fiscal 2004, the Corporation has entered into 10 foreign exchange contracts for the sale of US \$1,500,000 each [for a total of US \$15,000,000] at an exchange rate of 1.35 maturing from March 2004 to December 2004.

In fiscal 2003, the Corporation had entered into foreign exchange collars for the sale of U.S. dollars with a Canadian dollar floor of \$1.58 and ceiling of \$1.607. In total these collars amounted to US \$3,000,000. The collars expired in May and June 2003. Under the terms of the collars, the Corporation bore the exchange risk or benefit on U.S. dollar revenues when the Canadian dollar traded against the U.S. dollar between the floor and ceiling rates

As the foreign exchange collars were initially favourable to the Corporation, they qualified as hedges and constituted financial assets. The fair value of foreign exchange future contracts as at April 30, if settlement were to occur, would be as follows:

	2004 \$	2003 \$
Favourable (unfavourable) foreign exchange futures contracts	(291)	81

6. 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 counterparties to fail to meet their obligations given their high credit ratings.

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 Canada ["EDC"] and the Corporation's customer base comprises many geographically dispersed customers.

Two customers' accounted for 10% or more of sales for the year ended April 30, 2004 and 10% or more of trade receivables as at April 30, 2004 and 2003.

Customer	Business segment [note 22]	Sales		Trade receivables	
		2004 %	2003 %	2004 %	2003 %
		[Restated - see note 3]		[Restated - see note 3]	
#1	Wireless	47	36	45	32
#2	Wireless	27	36	22	27
		74	72	67	59

7. OTHER RECEIVABLES

	2004 \$	2003 \$ [Restated - see note 3]
Employee advances	248	252
Claim receivable	—	995
Commodity taxes receivable	1,764	762
Other	181	880
Note receivable on sale of subsidiary	328	—
	2,521	2,889

The Corporation has made interest-bearing advances to certain employees including senior management and officers of the Corporation primarily for the purchase of the Corporation's common shares at \$3.29 per share. The advances are repayable within two years and are supported by promissory notes and secured by a pledge of the common shares purchased by the employees. Interest is charged at the prime rate. The market value of the shares pledged as collateral was \$1.71 per share at April 30, 2003 [2002 - \$0.31].

On January 8, 2003, in accordance with the purchase agreement the Corporation filed a claim against Com Dev as a result of additional manufacturing costs incurred and charged to cost of sales stemming from conditions existing at the time of the acquisition of Com Dev. At April 30, 2003, negotiations for settlement of this claim were substantially complete and the Corporation signed a release and discharge for the amount of \$995,000 and received payment on June 6, 2003. This amount was recorded as a reduction of cost of sales for the April 30, 2003 year-end.

8. INVENTORIES

	2004 \$	2003 \$ [Restated - see note 3]
Raw materials and purchased components	9,236	7,290
Work-in-process	1,940	2,050
Finished goods	1,542	1,224
	12,718	10,564

9. PROPERTY, PLANT AND EQUIPMENT

	Cost \$	Accumulated amortization \$	Net carrying value \$
2004			
Machinery and equipment	19,711	10,892	8,819
Land and buildings	795	193	602
Leasehold improvements	1,939	1,563	376
Furniture and fixtures	2,591	1,721	870
Tools and dies	1,433	511	922
Computer equipment	2,591	2,404	187
Automobiles	150	84	66
	29,210	17,368	11,842
Machinery and equipment under capital lease	2,996	1,221	1,775
	32,206	18,589	13,617

9. PROPERTY, PLANT AND EQUIPMENT [CONT'D]

	Cost \$	Accumulated amortization \$	Net carrying value \$
2003			
Land	1,082	—	1,082
Machinery and equipment	19,225	10,049	9,176
Buildings	7,817	803	7,014
Leasehold improvements	1,743	1,426	317
Furniture and fixtures	2,705	1,661	1,044
Tools and dies	1,189	452	737
Computer equipment	2,536	2,189	347
Automobiles	114	83	31
	36,411	16,663	19,748
Machinery and equipment under capital lease	3,483	822	2,661
	39,894	17,485	22,409

Amortization for assets under capital leases acquired during the year amounted to nil [2003 - \$1,137,000].

On October 14, 2003, the Corporation entered into a sale-leaseback transaction of their Corporate Headquarters [note 11].

10. INTANGIBLE ASSETS

Intangible assets as at April 30, are as follows:

	Cost \$	Accumulated amortization \$	Net carrying value \$
2004			
Software	4,496	2,924	1,572
Patented technology and trademarks	3,079	676	2,403
Non-patented technology	780	176	604
Customer relationships	6,887	2,469	4,418
	15,242	6,245	8,997
2003			
Software	4,170	2,318	1,852
Patented technology and trademarks	3,066	369	2,697
Non-patented technology	780	98	682
Customer relationships	5,000	1,250	3,750
	13,016	4,035	8,981

11. DEFERRED CHARGES

Deferred charges as at April 30, are as follows:

	Cost \$	Accumulated amortization \$	Net carrying value \$
2004			
Deferred financing charges	642	178	464
Deferred loss on sale and leaseback	796	116	680
Deferred rent on sale and leaseback	2,272	332	1,940
Deferred development costs	1,065	—	1,065
	4,775	626	4,149
2003			
Deferred financing charges	453	68	385
Deferred development costs	465	—	465
	918	68	850

On October 14, 2003, the Corporation entered into a sale-leaseback transaction of their Corporate Headquarters with a pension fund. Proceeds, estimated at \$5,905,000 were comprised of \$3,300,000 less disposition costs of \$235,000 and five years of free rent with an estimated value of \$2,840,000. The proceeds were \$1,306,000 less than the building carrying value. An impairment charge of \$312,000 was recorded in the current period to reflect the excess of the carrying value over the fair value of the property. The remaining loss will be amortized over the term of the lease. The current portions of the deferred loss and the present value of the free rent period have been recorded as prepaid expenses and other.

12. BANK INDEBTEDNESS

Entity	Credit available \$	Credit available \$	Interest rate \$
As at April 30, 2004			
[a] Mitec Telecom Inc.	10,500	—	Prime rate+ 3.75%
[b] Mitec Telecom (Suzhou)	1,656	—	5.04%
	12,156	—	
As at April 30, 2003			
[a] Mitec Telecom Inc.	10,500	9,430	Prime rate + 6%
[c] Mitec Europe	459	432	6.5%
[d] Gigatec AB	—	175	8.4%
	10,959	10,037	

At April 30, 2004 the Corporation was not in compliance with certain of the financial covenants under its Canadian credit facility. Although the Corporation had no borrowings under this facility at April 30, 2004, its ability to utilize this facility in the future is dependent upon the Corporation meeting the covenants.

[a] In addition to the line of credit, on December 17, 2003, Mitec Telecom obtained a foreign exchange facility with a maximum exposure of US \$2,000,000. The line of credit also bears a standby fee of 1.25% per annum. The interest rate and stand-by fee on the line of credit can be reduced to prime + 2.5% and 0.75% respectively if certain performance measures are attained.

On December 19, 2002, the Canadian credit facility was amended to increase the interest rate on the operating loan to prime plus 6%. Additionally, the revolving term loan was limited to \$3,400,000 and the foreign exchange contract facility was cancelled. Certain financial covenants were suspended to October 31, 2003 and the financial institution has committed to provide a special loan facility upon the closing of a financing agreement with La Financière du Québec [see note 13].

12. BANK INDEBTEDNESS [CONT'D]

The collateral provided by the Corporation under these Canadian facilities consists of:

- [i] a first ranking hypothec in the amount of \$25,000,000 on movable assets, both tangible and intangible
 - [ii] a first ranking hypothec in the amount of \$500,000 on certain immovable property with a net book value of \$602,000.
 - [iii] a first ranking hypothec in the amount of \$13,000,000 on short-term investments which was provided subsequent to year-end.
- The Mitec Telecom Inc. credit facility at April 30, 2003 contained restrictive financial covenants and three of the covenants were not met by the Corporation. On July 18, 2003, a waiver of these defaults at April 30, 2003 was received.
- [b] The Mitec Telecom (Suzhou) Co. Ltd. credit facility can be increased by \$3,312,000 [20,000,000 RMB] and is collateralized by receivables.
 - [c] The Mitec Telecom Limited credit facility was collateralized by inventory and accounts receivable of Mitec Telecom Limited. The amount drawn as of April 30, 2003 was \$432,000 [£188,000 GBP] and the credit available was \$459,000 [£200,000].
 - [d] The Gigatec AB credit facility has been cancelled in fiscal 2003 and the balance of \$175,000 [995,000 SEK] was reimbursed during the current year.

13. LONG-TERM DEBT

	2004 \$	2003 \$ <small>[Restated - see note 3]</small>
[i] Clarica Life Insurance Company ["Clarica"] term loan of \$5,000,000, bearing interest at 8.35% [2003 - 8.35%], maturing in 2012 with monthly principal instalments of \$34,722 plus interest and was classified as a current liability in fiscal 2003.	—	2,965
[ii] Canadian bank revolving term loan bearing interest at Canadian prime plus 6%. The loan was reduced by \$181,590 a quarter until January 31, 2004 and \$276,286 a quarter for the next eight quarters and a lump sum payment of \$281,762 three months after the last payment. The loan was collateralized as described in note 12[a] and was classified as a current liability in fiscal 2003.	—	3,036
[iii] La Financière du Québec term loan, bearing interest at prime plus 3½% repayable in 60 monthly payments of \$62,500 commencing 12-months after the disbursement of the funds, in March 2003.	2,458	1,250
[iv] Canadian bank term loan bearing interest at prime plus 2½% guaranteed by La Financière, repayable in 48 equal consecutive monthly instalments commencing in June 2004.	833	—
	3,291	7,251
Less: Current portion	673	6,023
	2,618	1,228

On February 6, 2003, the Corporation accepted a letter of offer for a \$3,750,000 subordinated loan from La Financière du Québec ["La Financière"] which was to be disbursed in three equal tranches. The Corporation received the first tranche during the 2003 fiscal year and the second tranche during the 2004 fiscal year. On January 28, 2004, the Corporation cancelled the third tranche. The Corporation also provided the lender with 2,419,355 warrants to purchase shares at \$0.31 per share for a period of 5 years if the loan was fully disbursed. Due to the cancellation of the third tranche of the loan, only 1,612,903 warrants have been issued to La Financière, under this loan agreement. [note 16]

In addition, La Financière provided a \$1,250,000 loan guarantee to the Canadian bankers' special loan facility. There is a 1% fee for this guarantee and the Corporation provided the guarantor with 322,581 - 5 year warrants to purchase common shares at \$0.31 per share. If less than 50% of the special loan is fully disbursed, La Financière is entitled to 50% of the warrants issued. If between 50% and 75% of the special loan is disbursed then the amount of warrants will be prorated in the same fashion. If more than 75% of the special loan is disbursed, La Financière is entitled to 100% of the warrants.

The loan agreement with La Financière contains certain restrictive financial and other covenants. As at April 30, 2003, one of these covenants was not met. On July 23, 2003, La Financière agreed to tolerate the non-compliance with this covenant.

13. LONG-TERM DEBT [CONT'D]

The required annual principal payments for each of the next five years would be as follows:

	\$
2005	674
2006	708
2007	708
2008	708
Thereafter	493

14. OBLIGATIONS UNDER CAPITAL LEASE

The following is a schedule of future minimum lease payments under capital lease:

	\$
2005	519
2006	28
	547
Less: Imputed interest at rates varying between 6.25% and 9.40%	15
	532
Less: Current portion	505
	27

15. GOVERNMENT GRANTS

The Corporation received grants in respect of certain rental and salary expenditures in the United Kingdom in the amount of \$344,000 [£150,000] in fiscal 2003 which has been recorded as a reduction in expenses. The grant is repayable under certain conditions. The Corporation believes that it will continue to meet the required conditions.

16. 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

	2004		2003	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance, beginning of year	43,192,154	70,679	23,971,998	66,142
Changes during the year:				
Employee share purchase plan	144,812	36	39,753	88
Issuance of shares on business acquisition [note 4]	188,679	200	—	—
Issued on exercise of stock options	171,760	129	600	1
Issued on exercise of warrants	7,537,743	5,201	—	—
Issued for cash [net of issue costs of \$2,627 [2003 - \$923]]	19,627,766	36,615	19,179,803	4,448
Balance, end of year	70,862,914	112,860	43,192,154	70,679

On February 10, 2004, the Corporation issued 10,909,091 shares at a price of \$2.75 per common share for gross proceeds of approximately \$30 million. On March 8, the underwriters also exercised the over-allotment option to acquire an additional 746,264 common shares at \$2.75. Total issue costs were \$2,100,043.

16. SHARE CAPITAL [CONT'D]

On October 9, 2003, the Corporation issued 7,972,411 units under a private placement at a price of \$1.10 per unit. Each unit consists of one common share and one-half share purchase warrant. Each full share purchase warrant entitles the holder to acquire one additional common share of the Corporation at a price of \$1.65 on or prior to October 9, 2005. The aggregate gross proceeds raised from the offering were \$8,769,652 and were reduced by the issue costs, which were \$644,326. The 3,986,205 warrants have been valued at \$1,463,000 net of issue costs of \$116,059 using the Black-Scholes option pricing model which assumed an expected life of two years, volatility of 124%, risk-free interest rate of 3% and no dividend yield, adjusted to account for the warrants limited liquidity. The balance has been allocated to common shares.

On February 4, 2003, the Corporation issued 19,179,803 units under a private placement and a public offering. Each unit consists of one common share and one-half share purchase warrant. Each full share purchase warrant entitles the holder to acquire one additional common share of the Corporation at a price of \$0.45 on or prior to February 4, 2005. The aggregate gross proceeds raised from these two offerings was \$6,137,537 and were reduced by the issue costs of \$1,054,832. The 9,589,902 warrants have been valued at \$635,538 net of issue costs of \$131,854 using the Black-Scholes option pricing model, which assumed an expected life of two years, volatility of 69%, risk-free interest rate of 3.2% and no dividend yield, adjusted to account for the warrants limited liquidity. The balance has been allocated to common shares.

Warrants

	2004		2003	
	Number #	Amount \$	Number #	Amount \$
Balance, beginning of year	14,758,615	5,223	3,959,035	3,532
Repricing of warrants	—	—	—	862
Issued for cash [net of issue costs of \$116, 2003 - \$132]	3,986,205	1,463	9,589,902	635
Issued under a loan agreement	618,279	241	1,209,678	194
Exercised	(7,537,743)	(1,064)	—	—
Expired	(1,423,000)	(1,531)	—	—
Balance, end of year	10,402,356	4,332	14,758,615	5,223

On May 30, 2002, the Corporation amended the terms of the purchase warrants issued on January 30, 2002. The terms were modified so as to lower the exercise price from \$5.04 to \$4.25 per common share and extend the time up to which the common share purchase warrants may be exercised to July 30, 2004. This repricing added \$862,000 to the accounting value of the warrants. The revised Black-Scholes option pricing model, assumed an expected life of 26 months, volatility of 68%, risk-free interest rate of 4.17% and no dividend yield, adjusted to account for the warrants' limited liquidity.

The warrants issued to La Financière for the loan and the guarantee on the special loan have been valued using a Black-Scholes model based on the following assumptions:

	2004		2003
	Guarantee for the special loan	Second Tranche La Financière	First Tranche La Financière
Volatility	81%	81%	74%
Risk-free interest rate	4.0%	3.8%	4.5%
Dividend yield	0%	0%	0%
Expected life (years)	5	5	5

16. SHARE CAPITAL [CONT'D]

Warrants outstanding as at April 30, 2004 is as follows:

Exercise price	Expiry date	Number of warrants
0.45	February 4, 2005	4,714,189
1.65	October 9, 2005	3,152,133
4.25	July 30, 2004	2,536,034
		10,402,356

EARNINGS PER SHARE

Weighted average number of common share are as follows:

	2004 #	2003 #
Weighted average number of common shares outstanding	53,821,059	28,456,741
Net effect of dilutive stock options and warrants	8,777,980	4,809,241
Weighted average diluted number of common shares outstanding	62,599,039	33,265,982

For fiscal years 2004 and 2003, the effect of stock options and warrants potentially exercisable on loss per common share was anti-dilutive, therefore basic and diluted loss per share are the same.

EMPLOYEE SHARE PURCHASE PLAN

An Employee Share Purchase Plan, that was established May 1, 1998 was cancelled during fiscal 2004 and no shares were available under the Plan [2003 - 213,800]. This plan permitted employees to purchase shares in the Corporation at the market price of the shares, at the time of their purchase. For every four shares purchased by an employee, the Corporation contributed one share. During 2004, the Corporation issued 144,812 [2003 - 39,753] common shares for proceeds of \$36,000 [2003 - \$88,000] as part of its Employee Share Purchase Plan.

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 to purchase an aggregate maximum of 4,500,000 common shares. 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 up to 5 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.

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

	2004		2003	
	#	\$	#	\$
Balance, beginning of year	1,403,900	2.91	1,192,950	4.84
Granted	1,919,000	0.93	686,600	0.61
Exercised	(171,760)	(0.75)	(600)	(2.10)
Forfeited	(301,340)	(3.45)	(475,050)	(4.22)
Balance, end of year	2,849,800	1.65	1,403,900	2.91
Options exercisable at end of year	993,050	2.93	715,060	4.58

16. SHARE CAPITAL [CONT'D]

Additional information concerning stock options outstanding as at April 30, 2004 is as follows:

Exercise price	Options outstanding			Options exercisable	
	Number	Weighted average exercise price	Weighted average months to expiry	Number	Weighted average exercise price
\$0.31 to \$0.82	1,472,700	0.38	8.8	432,480	0.42
\$1.68 to \$2.10	914,850	1.71	9.3	116,920	1.87
\$2.83 to \$3.90	76,500	3.56	7.4	57,900	3.53
\$4.25 to \$4.90	100,300	4.59	6.2	100,300	4.59
\$5.00 to \$6.50	242,450	6.21	3.6	242,450	6.21
\$6.70 to \$9.50	43,000	7.80	3.5	43,000	7.80
	2,849,800	1.65	8.3	993,050	2.93

PRO FORMA INFORMATION

Pro forma information regarding net loss and basic loss per share is required and has been determined as if the Corporation had accounted for its employee stock options granted on or after May 1, 2002 under the fair value method. 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:

	2004	2003
Black-Scholes weighted-average assumptions		
Volatility	77%	72%
Risk-free interest rate	4.1%	5.1%
Dividend yield	0%	0%
Expected life (years)	10	10
The impact of these assumptions on the net loss of the Corporation would be:		
Net loss as reported	(7,002)	(20,217)
Pro forma stock-based compensation	(359)	(44)
Net loss pro forma	(7,361)	(20,261)
Basic and diluted loss per share	(0.13)	(0.71)
Pro forma stock-based compensation	(0.01)	(0.00)
Basic and diluted pro forma loss per share	(0.14)	(0.71)

17. INCOME TAXES AND INVESTMENT TAX CREDITS

[a] Significant components of the income tax expense (recovery) consist of the following:

	2004 \$	2003 \$
Current income tax expense before the following:	970	50
Benefit of previously unrecognized losses and temporary differences	970	—
Current income tax expense	—	50
Future income tax expense (recovery) before the following:	—	247
Benefit of previously unrecognized losses and temporary differences	—	(47)
Write-down of deferred tax assets	342	—
Future income tax expense (recovery)	342	200
Income tax expense (recovery)	342	250

17. INCOME TAXES AND INVESTMENT TAX CREDITS [CONT'D]

[b] The income tax expense (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:

	2004 \$	2003 \$ [Restated - see note 3]
Loss from continuing operations before income taxes and goodwill amortization and write-down	(5,138)	(15,558)
Canadian statutory income tax rate	32.50 %	34.50 %
Expected income tax expense (recovery)	(1,670)	(5,368)
Adjustments		
Tax effect of non-deductible intangible asset amortization	105	341
Effect of foreign tax rates	908	386
Tax credits and other amounts not taxable in Quebec	(52)	(40)
Benefit of previously unrecognized losses and temporary differences	(970)	(47)
Write-down of deferred tax assets	342	—
Unrecognized benefit of losses and temporary differences	1,552	4,438
Tax effect of manufacturing and processing tax credit	99	356
Large Corporations Tax and other	28	184
Income tax expense	342	250

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

	2004 \$	2003 \$ [Restated - see note 3]
Future income tax liabilities		
Carrying values of capital assets in excess of tax bases	1,061	1,676
Investment tax credits	446	446
Reserves and other	12	—
Total future income tax liabilities	1,519	2,122
Future income tax assets		
Net operating losses carried forward	5,754	6,462
Research and development expenditures carried forward	3,958	3,091
Provisions and other	1,916	1,437
Total future income tax assets	11,628	10,990
Valuation allowance	(11,238)	(9,625)
Net future income tax assets	390	1,365
Future income tax liabilities in excess of future income tax assets	(1,129)	(757)
Recognized non-refundable investment tax credits	1,437	1,437
Net future income tax assets	308	680

17. INCOME TAXES AND INVESTMENT TAX CREDITS [CONT'D]

The Corporation has unrecognized losses carried forward of approximately \$9,000,000 in the U.K. without expiry, approximately \$150,000 in China which expire in the year 2007, and \$9,000,000 in Canada, which expire in the years 2009, 2010 and 2011. The Corporation also has approximately \$17,000,000 of loss carryforwards relative to discontinued operations in Sweden which are not reflected above. The Corporation has recognized net tax benefits of \$308,000 relative to tax losses in its U.S. subsidiary. The Corporation also has available unrecognized research and development expenditures in Canada of approximately \$12,400,000.

The Corporation also has available unrecognized investment tax credits of approximately \$2,600,000 which expire in the years 2011 through 2013.

The Corporation incurred research and development expenditures some of which are eligible for refundable investment tax credits. The investment tax credits, recorded as a reduction of research and development expenditures, were \$581,000 [2003 – \$574,000].

18. OTHER EXPENSES

In respect of a lawsuit filed in Vermont in 1999 by residents of a home in Williston, Vermont claiming damages arising from the presence of certain contaminants in the groundwater beneath their property, the Corporation settled this lawsuit shortly after year-end. The settlement and related legal fees in the amount of \$585,435 have been recorded as an expense in the current year.

In fiscal 2004, the Corporation was able to complete its initiatives to streamline its operations which commenced in 2003, and was able to recover \$430,902 of the \$3,531,000 restructuring and severance costs recorded in fiscal 2003. This gain results because the Corporation settled its severance and benefits associated with the employees notified of termination in 2003 for \$173,347 less than the \$2,557,000 expensed in 2003 and was able to sell or transfer \$257,510 of capital assets associated with lease cancellation provisions and capital and other asset write-offs of \$974,000 recorded in 2003.

19. 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:

	\$
2005	753
2006	590
2007	518
2008	295
2009	281
Thereafter	866
	3,303

[b] Pursuant to an agreement with one of its suppliers, the Corporation has committed to purchase \$5 million of inventory during the upcoming fiscal year.

[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 1999, they filed a lawsuit in Vermont against the Corporation and two related companies claiming unspecified personal injuries and diminution in value for their residential property. The Corporation has agreed in principal to a settlement of approximately \$240,000 [US \$175,000] [see note 18]. The Corporation is also seeking restitution from the insurance company.

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 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 United States Environmental Protection Agency to revive its investigation of the contamination. The United States Environmental Protection Agency has agreed to do so. The Corporation has hired U.S. legal counsel specializing in environmental matters to assess the merits of this potential claim but the outcome is presently not determinable and therefore no provision has been made in the accounts.

20. RELATED PARTY TRANSACTIONS

In 2003, the Corporation negotiated severance packages with three former officers and shareholders, one of whom was a director and one of whom continues to be a director. These severance packages provided for total payments of \$877,000 of which \$731,000 was paid in 2003 and \$146,000 was paid in the current year.

In 2003, the Corporation sold a residential property in Sweden with a carrying value of approximately \$500,000 to a shareholder, director and former employee for approximately \$373,000.

21. SUPPLEMENTARY CASH FLOW INFORMATION

Changes in non-cash working capital balances related to operations

	2004 \$	2003 \$ [Restated - see note 3]
Trade and other receivables	(8,688)	2,883
Inventories	(1,800)	7,710
Prepaid expenses	(584)	77
Income taxes recoverable	(724)	316
Accounts payable and accrued liabilities	2,770	(2,664)
	(9,026)	8,322

Supplementary information

	2004 \$	2003 \$ [Restated - see note 3]
Interest paid	1,374	1,448
Income taxes paid	367	24
Amortization of property, plant and equipment		
Wireless	2,177	2,956
SatCom	691	512
Other	—	38
	2,868	3,506

Amortization of property, plant and equipment has been accounted for in:

	2004 \$	2003 \$
Cost of goods sold	1,520	1,855
Selling and administration and research and development	1,348	1,651

Amortization of deferred charges has been recorded in:

	2004 \$	2003 \$
Cost of goods sold	412	—
Selling and administrative	247	46
	659	46

22. 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 ["Wireless"], Satellite and Terrestrial Telecommunications ["SatCom"]. The Corporation currently operates in Canada, the United States, the United Kingdom and China.

Wireless 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.

	Wireless \$	SatCom \$	Total \$
2004			
Sales	69,607	14,717	84,324
Cost of sales	56,726	10,134	66,860
Gross profit	12,881	4,583	17,464
Expenses			22,602
Loss before income tax recovery and goodwill amortization and discontinued operations			(5,138)
Income tax expense			342
Goodwill amortization and write-down			—
Loss from discontinued operations [note 3]			(1,522)
Net loss for the year			(7,002)
2003 [Restated - see note 3]			
Sales	55,538	12,678	68,216
Cost of sales	44,613	8,805	53,418
Gross profit	10,925	3,873	14,798
Expenses			30,356
Loss before income tax recovery and goodwill amortization and discontinued operations			(15,558)
Income tax expense			250
Goodwill amortization and write-down			109
Loss from discontinued operations [note 3]			(4,300)
Net loss for the year			(20,217)

22. SEGMENTED INFORMATION [CONT'D]

The following table presents assets by segment:

	Wireless \$	SatCom \$	Total \$
2004			
Current assets	28,870	10,324	39,194
Long-term assets	14,049	8,786	22,835
	42,919	19,110	62,029
Assets relating to discontinued operations [note 3]			5,625
Other			24,521
Total			92,175
2003 [Restated - see note 3]			
Current assets	19,189	6,618	25,807
Long-term assets	22,462	8,972	31,434
	41,651	15,590	57,241
Assets relating to discontinued operations [note 3]			20,445
Other			4,980
Total			82,666

Details of intangible assets by segment are as follows:

	2004			2003		
	Wireless \$	Satcom \$	Total \$	Wireless \$	Satcom \$	Total \$
Beginning balance	5,854	3,127	8,981	7,401	3,598	10,999
Additions	325	1,897	2,222	107	13	120
Amortization	(1,546)	(657)	(2,203)	(1,654)	(491)	(2,145)
Foreign exchange impact	—	(3)	(3)	—	7	7
	4,633	4,364	8,997	5,854	3,127	8,981

[b] Enterprise-wide information

The following table presents sales by destination of the product.

	2004 \$	2003 \$
Canada	1,321	3,438
Europe	30,007	29,396
United States	22,872	31,140
Asia	28,715	4,242
Other	1,409	—
	84,324	68,216

22. SEGMENTED INFORMATION [CONT'D]

The following tables present sales, assets and capital assets, intangible assets and goodwill based on the geographic location of production.

	2004 \$	2003 \$ [Restated - see note 3]
Sales		
Canada	60,836	57,098
United States	4,201	5,566
China	25,825	7,297
United Kingdom	1,748	5,101
Other	—	571
Inter-country	(8,286)	(7,417)
Total	84,324	68,216
Assets		
Canada	70,152	46,842
China	12,789	7,805
United States	2,836	2,963
United Kingdom	761	2,914
Other	12	1,697
Assets relating to discontinued operations [note 3]	5,625	20,445
Total	92,175	82,666
	2004 \$	2003 \$ [Restated - see note 3]
Capital assets, intangible assets and goodwill		
Canada	19,017	26,838
United Kingdom	540	785
United States	1,994	2,321
Other	1,107	1,490
Total	22,658	31,434

23. FINANCIAL EXPENSES

Financial expenses consist of:

	2004 \$	2003 \$ [Restated - see note 3]
Interest on bank indebtedness	880	937
Interest on long-term debt	485	331
Foreign exchange losses	195	1,014
Bank charges and other fees	270	1,872
	1,830	4,154

24. CHANGE IN ACCOUNTING POLICIES

[i] Effective May 1, 2003, the Company prospectively adopted the new CICA Section 3063 accounting recommendation on the impairment of long-lived assets. When the carrying value of a long-lived asset exceeds its net recoverable value which is determined from the sum of undiscounted cash flows expected from its use and disposal, an impairment loss is recognized. The impairment loss to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value generally determined on a discounted cash flow basis. There was no impact on the current year's results of implementing this accounting policy.

Prior to May 1, 2003, asset impairments were recorded to the extent that the amount of an asset's carrying value exceeded its net recoverable amount on an undiscounted cash flow basis.

[ii] The Corporation completed the initial step of the transitional goodwill impairment test of the existing goodwill during the second quarter of fiscal 2003. The test indicated that the carrying amount, including goodwill, for the Swedish reporting unit exceeded its fair value indicating a potential impairment in the goodwill of the reporting unit. This impairment arose as a result of the application of the new CICA recommendations which require the allocation of the estimated discounted cash flows to tangible assets and limited life intangible assets before goodwill.

When performing the transitional goodwill impairment test, the Corporation identified three reporting units: Wireless, Microwave and SatCom. However, no goodwill value was attributed to the SatCom reporting unit. The fair value of the Wireless and Microwave reporting units were estimated by discounting future cash flows of each segment. The Corporation has determined an impairment of \$5,161,000 of goodwill in the Microwave reporting unit, which is included in the loss from discontinued operations, while no impairment was assessed in the Wireless reporting unit. The total impact of this change in accounting policy has been to reduce goodwill by \$5,161,000 and this amount has been charged as a transitional adjustment to the opening 2003 deficit.

25. COMPARATIVE FIGURES

Certain comparative figures for 2003 have been reclassified to conform to the presentation adopted in 2004.

CORPORATE INFORMATION

DIRECTORS

Thomas Kaneb³

Chairman of the Board
of Mitec Telecom Inc.
Chairman of the Board
of Sigma Point Technologies Inc.

James C. Cherry²

President
Aéroports de Montréal

William E. Clift

Former CTO
Cingular Wireless Inc.

Hubert R. Marleau^{1, 2, 3}

President
Palos Capital Corporation

Thomas Nuorimaa

President and CEO
Sahlins (AB)

David E. Scott¹

Senior Partner
Risk Management Partners

Charles R. Spector^{1, 2, 3}

Managing Partner, Montreal
Fraser Milner Casgrain LLP

Rajiv Pancholy^{*}

President and Chief Executive Officer
Mitec Telecom Inc.

^{*} Officer of the Corporation

¹ Compensation Committee

² Audit Committee

³ Corporate Governance Committee

OFFICERS

Rajiv Pancholy

President and Chief Executive Officer

Keith Findlay

Executive Vice-President, Finance,
Chief Financial Officer and Secretary

David Kennedy

Executive Vice-President,
Global Sales & Marketing

Jean-Marc Roberge

Executive Vice-President,
Global Operations

INVESTOR INFORMATION

Auditors

Ernst & Young LLP

Legal Counsel

Fraser Milner Casgrain LLP

Banker

CIBC

Transfer Agent and Registrar

The CIBC-Mellon Trust Company

Annual General Meeting

Wednesday, October 27, 2004
at 11:00 AM
Hotel OMNI
Montreal, Quebec

Stock Symbol

MTM

Listing of Stock

Toronto Stock Exchange

Year End

April 30th

Shares Outstanding (04/30/04)

70,862,914

Investor Relations

Keith Findlay

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