

**First Quarter Report
Fiscal 2006**





Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") includes a review of the financial condition of Mitec Telecom Inc. ("Mitec" or the Corporation") and a review of operations for each of Mitec's operating segments for the 3-month period ended July 31, 2005 (first quarter fiscal 2006).

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, 2005. Mitec's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts in this MD&A are in thousands of Canadian dollars unless otherwise indicated and considers information available until September 2, 2005.

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

Such factors include, but are not limited to: the impact of general economic conditions; industry conditions, including changes in laws and regulations; increased competition; the availability of qualified personnel or management; fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility; and the impact of accounting policies issued by Canadian standard setters. Some of these items are further discussed in the Risk Factors section of our Annual Information Form dated July 29, 2005.

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 Corporation or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements.

PROFILE

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

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

The Satcom segment generates revenues from the design, manufacture and sale of RF components and subsystems for Satellite Earth Stations used by direct-to-home TV service providers' very small aperture terminal networks (VSAT). Major customers in this segment are Andrew, CPI, EchoStar, Viasat, Astrium, Globecom and BT.

Mitec's headquarters are in Pointe-Claire, (Canada) and the Corporation has other operations in Suzhou (China) and Reno (United States). As at July 31, 2005, the Corporation's global workforce stood at 413 employees.

For additional information regarding the Corporation's business strategy market trends, as well as the risk factors it faces, please refer to its Annual Information (AIF) dated July 29, 2005. This is available on the Corporation's web site at www.mitec-telecom.com, on the SEDAR web site at www.sedar.com, or by contacting the Corporation at (514) 694-9000.

MAJOR EVENTS

The Corporation decided, on June 1, 2005, to implement new mandates for its primary manufacturing sites in Suzhou, China and in Montreal, Canada. The production of wireless infrastructure products destined for its customer base of global wireless OEM's has and continues to be transferred to Suzhou's manufacturing facility. This initiative was driven by the need to maximize manufacturing efficiencies, focus on value leadership and maintain proximity to the growing Asian market. The Montreal facility will continue to exploit its highly skilled resources to develop and manufacture Mitec's expanding range of innovative and more complex solutions for wireless operators and the satellite communication markets.

Mitec has successfully initiated the transfer of one of its main product lines to Suzhou and it is expected that these sales will generate better margin rates than in the past. These efforts are on going as Mitec continues to seek additional efficiencies in regards to its production facilities.

Mitec also concluded the sale of its buildings in Sweden that remained following the sale in 2003 of substantially all the assets of its Swedish subsidiary, Beve Electronics. The proceeds of sale, approximately \$3.9 million, were used to repay the remaining debt outstanding associated with these assets. In addition, Mitec reached an agreement to sell the land in Sweden. Although initiated, this transaction has not yet closed due to legislative matters but is expected to close in September.

Mitec also announced some senior management changes in the quarter. In June, its Executive Vice-President of Global Sales and Marketing left the Corporation to pursue other opportunities. In addition, in July, Mitec's President and CEO resigned.

Mitec's long-time CFO was appointed as Interim President and CEO. The Board of Directors firmly believes in the Interim appointee who will provide continuity and leadership which is required to guide Mitec through the challenges of the telecommunications industry.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table presents selected financial information for the first quarter of the current and past fiscal years:

Period ended July 31,	Q1 FY06	Q1 FY05
(Amounts in thousands except per share data)		(restated)
	\$	\$
Sales	13,292	11,427
Gross profit	1,660	(151)
SG&A	3,415	2,970
R&D	1,843	1,940
Amortization of intangible assets	525	551
Financing Expenses	398	137
Services paid by the issuance of stock options	569	319
Loss from continuing operations	(5,179)	(6,043)
Net loss	(5,262)	(5,897)
Loss per share – basic and diluted:		
- Continuing operations	(0.07)	(0.08)
- Net loss	(0.07)	(0.08)
Total assets	58,744	81,175
Long-term debt	2,441	3,149
Capital leases	29	371
Cash and temporary investments	17,205	17,357

RESULTS OF OPERATIONS

Sales

Sales for the first quarter of fiscal 2006 increased \$1.9 million to \$13.3 million, or 16% as compared to the same period a year earlier. The Telecom segment, which contributed 62.9% of total revenues, increased by \$2.3 million to \$8.4 million, or 38% compared to the first quarter of fiscal 2005 mainly due to the sale of excess inventory to a major customer arising from previously committed forecasts from that customer. The Satcom segment, which contributed 37.1% of total revenues, declined by \$0.4 million to \$4.9 million, or 8% compared to the first quarter of fiscal 2005. The majority of the decrease is attributed to fluctuations in customer purchasing trends.

Telecom

	Q1 FY2006	Q4 FY2005	Q3 FY2005	Q2 FY2005	Q1 FY2005
Sales (thousands of dollars)	8,362	8,541	11,206	9,597	6,078
% of total revenues	62.9	64.0	68.2	58.9	53.2

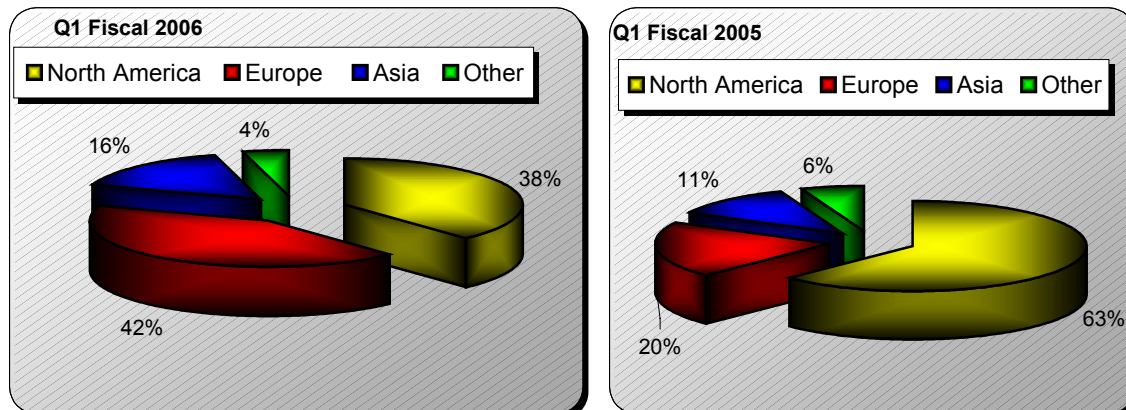
Sales in this segment are derived from wireless RF components sold to network equipment providers such as Ericsson, Nortel and Siemens. The \$2.3 million increase is largely attributable to the sale of excess inventories as previously referred to within this document.

Satcom

	Q1 FY2006	Q4 FY2005	Q3 FY2005	Q2 FY2005	Q1 FY2005
Sales (thousands of dollars)	4,930	4,810	5,216	6,686	5,349
% of total revenues	37.1	36.0	31.8	41.1	46.8

Sales in this segment are derived from the design, manufacture and sale of RF components and subsystems for satellite earth stations used by direct-to-home TV service providers and VSAT networks. The decrease of \$0.4 million is attributable to the general fluctuations in customer purchasing patterns.

Geographical Distribution



The change in the geographic distribution of sales reflects a proportionately smaller decline in North American telecom sales than for European and Asian telecom sales. The sales per geographical location are expected to become more balanced over the course of the fiscal year.

Gross profit

Gross profit for the first quarter of fiscal 2006 was up \$1.8 million from negative \$0.2 million in the first quarter of fiscal 2005 to \$1.7 million. This increase is as a result of the additional volumes recorded in the Telecom segment. The Corporation is expecting to see gross margin improvement over the next few quarters, as costs in the Telecom segment are expected to reduce in light of the transfer of wireless products to its site in Suzhou, China.

Telecom

	Q1 FY2006	Q4 FY2005	Q3 FY2005	Q2 FY2005	Q1 FY2005
Gross profit (thousands of dollars)	215	(2,299)	2,384	395	(1,700)
% of Telecom sales	2.6	(26.9)	21.3	4.1	(28.0)

Gross profit increased \$1.9 million from negative \$1.7 million in the first quarter of fiscal 2005 to \$0.2 million in fiscal 2006. This is a result of higher sales level including the shipment of Power Amplifiers (PA), which generate higher margins than the traditional RF conditioning equipment. The PA's shipped are related to the assets acquired from BWT in March 2005.

Satcom

	Q1 FY2006	Q4 FY2005	Q3 FY2005	Q2 FY2005	Q1 FY2005
Gross profit (thousands of dollars)	1,445	1,578	1,430	2,069	1,549
% of Satcom sales	29.3	32.8	27.4	30.9	29.0

Gross profit decreased by \$0.1 million from \$1.5 million in the first quarter of fiscal 2005 to \$1.4 million in the first quarter of fiscal 2006. Gross margin remained constant at 29.3% versus 29.0%.

Research and Development Expenses

Research and development expense (R&D) net of investment tax credits for the first quarter of fiscal 2006 decreased 5% from \$1.9 million in the first quarter of fiscal 2005 to \$1.8 million. The decrease in expense is attributed to the consolidation of our R&D facilities into the Montreal and Suzhou (China) locations.

Selling and Administrative Expenses

The Corporation's selling and administrative expenses for the first quarter in fiscal 2006 increased 15% from \$3.0 million to 3.4 million. The increase was due primarily to termination payments of \$0.8 million to certain executives during the quarter. Excluding the termination payments, these expenses would have declined 13% compared to the same period last year.

Financial Expenses

Financial expenses were \$0.5 million for the first quarter of fiscal 2006 as compared to \$0.2 million in the first quarter of fiscal 2005. This increase is as a result of foreign exchange losses incurred in the current quarter.

Amortization of Intangible Assets

The amortization of intangible assets decreased slightly to \$0.5 million in the first quarter of fiscal 2006 from \$0.6 million in the first quarter of fiscal 2005 as a result of the write-down of the Amplix intangible assets at April 30, 2005 due to the Corporation's decision not to pursue the linearizer line of business.

Stock-based compensation

The amount of the expense recorded this quarter was \$0.6 million in comparison to \$0.3 million in 2005. The increase is a function of the recognition of this expense over the vesting period of the outstanding options. At this time, the Corporation does not expect to continue incurring this level of expense in the following quarters.

Other Expense

During the quarter, an additional provision of \$0.2 million was recorded to reflect additional losses related to certain lease termination contracts of which the Corporation is currently negotiating.

Loss from Continuing Operations

The loss from continuing operations for the first quarter of fiscal 2006 was \$5.2 million, or \$0.07 per share, as compared to \$6.0 million, or \$0.08 per share, for the same quarter of fiscal 2005. The decrease in the loss from continuing operations is attributable to the same elements noted above.

Discontinued Operations

Discontinued operations resulted in a loss of \$0.1 million as compared to a gain of \$0.1 million in the corresponding quarter last year.

Net Loss

The net loss for the first quarter of fiscal 2006 was \$5.3 million, or \$0.07 per share, as compared to \$5.9 million, or \$0.08 per share, for the first quarter of fiscal 2005. The decrease in the net loss is as a result of the improved gross profit mainly due to product mix. Operating expenses were slightly higher, including the addition of stock-based compensation expense.

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

Mitec calculates EBITDA from continuing operations as follows:

(Amounts in thousands of dollars)	Q1 FY2006	Q4 FY2005	Q3 FY2005 ⁽¹⁾	Q2 FY2005 ⁽¹⁾	Q1 FY2005 ⁽¹⁾
Loss from continuing operations	(5,179)	(10,428)	(2,059)	(4,848)	(6,043)
Income taxes	(149)	(137)	(184)	(33)	(25)
Amortization and loss on write-down of PPE					
Intangibles and goodwill	1,369	3,415	2,003	2,458	1,527
Interest	(15)	(5)	1	21	7
EBITDA from continuing operations	(3,974)	(7,155)	(239)	(2,402)	(4,534)

⁽¹⁾ Restated to give effect to the corrected vesting period of stock-based compensation.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activity Cash Flows

(Amounts in thousands except as otherwise indicated)	Q1 FY06	Q1 FY05
	\$	\$
Cash flow from operations before working capital changes	(3,241)	(4,188)
Net change in non-cash working capital balances related to continuing operations	2,973	3,472
Cash flow used in operating activities	(268)	(716)
Working capital ratio	2.2	3.4
Inventory turns	4.4	3.4

Cash flow used in operating activities before working capital changes was \$3.2 million in the first quarter of fiscal 2006 compared to a use of \$4.2 million in the first quarter of fiscal 2005. This is mainly due to the reduction in loss from continuing operations.

The net change in non-cash working capital shows a decrease of \$0.5 million from a cash inflow of \$3.5 million for the first quarter of fiscal 2005 to a cash inflow of \$3.0 million for the first quarter of fiscal 2006. This is mainly attributable to a significant reduction in the accounts receivable balance (from \$13.3 million as of April 2005 to \$9.1 million as of July 2005), as well as a reduction in inventories (from \$11.7 million to \$9.3 million as of July 2005) which was offset by a decrease in accounts payable (from \$14.0 million as of April 2005 to \$11.0 million as of July 2005).

Investing Activity Cash Flows

Cash flow used in investing activities was \$0.1 million in the first quarter of fiscal 2006 compared to a cash outflow of \$0.2 million in the first quarter of fiscal 2005, which relates mostly to capital expenditures.

Financing Activity Cash Flows

Financing activities resulted in a net cash inflow \$0.2 million, reflecting the net impact of funds borrowed and funds used to repay debt and capital leases during the quarter. In 2005, these activities led to an inflow of \$0.3 million, mainly due to the issuance of common shares.

Availability of Capital Resources

As at July 31, 2005, our capital resources consisted of approximately \$17.2 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 the next twelve months. We base this expectation on our current operating plan, which may change as a result of many factors, including the following:

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

As at July 31, 2005, the Corporation was not in compliance with its financial covenant under its Canadian credit facility. The Corporation is currently renegotiating its covenant structure and expects to resolve the issue shortly. The Corporation's proposal is under review and the recommendations are favourable. As such, it is anticipated that this will not result in a default situation, although the Corporation has reclassified \$399,000 of long-term debt to current.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Corporation's contractual obligations are substantially the same as those disclosed in the Management's Discussion and Analysis section of its fiscal 2005 annual report.

FINANCIAL INSTRUMENTS

The Corporation's financial instruments strategy is the same as the one disclosed in the Management's Discussion and Analysis section of its fiscal 2005 annual report.

OFF-BALANCE SHEET ITEMS

The Corporation's off-balance sheet items are substantially the same as those disclosed in the Management's Discussion and Analysis section of its fiscal 2005 annual report.

CHANGE IN ACCOUNTING POLICIES

Other than those disclosed in its Management Discussion and Analysis section of its 2005 annual report, the Corporation has not implemented additional changes in accounting policies.

FUTURE CHANGES IN ACCOUNTING POLICIES

There are no changes to accounting policies that the Corporation is currently considering that would have a material impact on Mitec.

SIGNIFICANT ACCOUNTING ESTIMATES AND PROVISIONS

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The reported amounts and note disclosures in the consolidated financial statements are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results, however, may differ from the estimates used in the consolidated financial and such differences could be material. Details of our significant accounting estimates and provisions were reported in the Management's Discussion and Analysis of its 2005 annual report. They continued to apply for the quarter ended July 31, 2005.

RELATED PARTY TRANSACTIONS

The Corporation's related party transactions are substantially the same as those described in the Management's Discussion and Analysis of its fiscal 2005 annual report.

PROPOSED TRANSACTIONS

The Company continually reviews opportunities for mergers and acquisitions that could increase shareholder value. At the present time, the Company has not entered into any signed definitive agreements involving the acquisition or disposition by the Company of assets or businesses.

OUTLOOK

In light of the Corporation's ongoing comprehensive review of its activities and the continuing discussions with key customers, management believes that revenues in the current fiscal year will likely be approximately 20% lower than the original guidance of \$65-\$75 million. However, the Corporation expects that the agreements signed in fiscal 2005 will begin to generate higher revenues in the Telecom business in the second half of the current fiscal year, and that the Satcom business will continue to grow. It is the Corporation's objective to be cash-flow positive by the fourth quarter.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was prepared as of September 2, 2005. Updated information on Mitec, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

As of September 2, 2005, a total of 76,405,263 common shares were issued and outstanding, as well as 3,484,100 stock options and 3,077,132 warrants.

MITEC TELECOM INC.
INTERIM CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars)

Unaudited

	As at July 31, 2005 \$	As at April 30, 2005 \$
ASSETS		
Current		
Cash and cash equivalents	4,976	5,569
Short term investments	12,229	12,229
Trade receivables (note 5)	9,101	13,270
Other receivables	1,373	1,025
Investment tax credits recoverable	1,580	1,316
Inventories	9,280	11,713
Prepaid expenses	594	614
Current assets related to discontinued operations (note 4)	388	4,212
Total current assets	39,521	49,948
Capital Assets	10,545	11,017
Intangible assets	5,727	6,263
Deferred charges	2,951	3,224
	58,744	70,452
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	6,053	5,678
Accounts payable and accrued liabilities	11,010	14,047
Current portion of long-term debt (note 6)	1,107	708
Current portion of obligations under capital lease	29	48
Current liabilities related to discontinued activities (note 4)	87	4,477
Total current liabilities	18,286	24,958
Long-term debt (note 6)	1,334	1,910
	19,620	26,868
Shareholders' equity		
Common shares (note 7)	116,357	116,357
Warrants (note 7)	1,129	1,129
Contributed surplus (note 7)	6,723	6,154
Deficit	(83,779)	(78,517)
Cumulative translation adjustment	(1,306)	(1,539)
Total shareholders' equity	39,124	43,584
	58,744	70,452

(See accompanying notes)

MITEC TELECOM INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands of Canadian dollars)
 Unaudited

	For the three months ended July 31	
	2005	2004 (restated – note 7)
	\$	\$
Sales (note 5)	13,292	11,427
Cost of sales	11,632	11,578
Gross profit	1,660	(151)
	12.5%	(1.3)%
Expenses		
Selling and administrative	3,415	2,970
Research and development	1,843	1,940
Amortization of intangible assets	525	551
Financial expenses (note 10)	530	234
Interest Income	(132)	(97)
Services paid by the issuance of stock options (note 7)	569	319
Other expenses	238	-
	6,988	5,917
Loss before income taxes	(5,328)	(6,068)
Income tax expense (recovery)	(149)	(25)
Loss from continuing activities	(5,179)	(6,043)
Gain (Loss) from discontinued activities	(83)	146
Net loss for the period	(5,262)	(5,897)
Basic and diluted loss per common share		
Loss from continuing activities	(0.07)	(0.08)
Loss from discontinued activities	(0.00)	0.00
Net loss	(0.07)	(0.08)
Weighted average number of outstanding common shares – basic	76,405,263	71,114,675

(See accompanying notes)

MITEC TELECOM INC.
INTERIM CONSOLIDATED STATEMENTS OF DEFICIT

(In thousands of Canadian dollars)
Unaudited

	For the three months ended July 31	
	2005	2004
		(restated – note 7)
	\$	\$
Deficit beginning of the period	(78,517)	(53,176)
Loss for the period	(5,262)	(5,897)
Transitional adjustment for stock-based compensation	-	(690)
Deficit at the end of the period	(83,779)	(59,763)

(See accompanying notes)

MITEC TELECOM INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars)
 Unaudited

For the three months ended July 31

	2005	2004
	\$	(restated – note 7) \$
OPERATING ACTIVITIES		
Loss from continuing activities	(5,179)	(6,043)
Add items not affecting cash:		
Amortization of property, plant and equipment, intangible assets and deferred charges	1,369	1,527
Future income tax	-	9
Services paid by the issuance of stock options	569	319
	(3,241)	(4,188)
Changes in non-cash working capital balances related to operations	2,973	(3,472)
Cash flows relating to operating activities	(268)	(716)
INVESTING ACTIVITIES		
Additions to property, plant and equipments and intangible assets	(87)	(205)
Proceeds on disposal of property, plant and equipment	13	-
Increase in deferred charges	-	(1)
Cash flows relating to investing activities	(74)	(206)
FINANCING ACTIVITIES		
Increase in bank indebtedness	1,034	247
Repayment of bank indebtedness	(659)	-
Repayment of long-term debt	(177)	(142)
Repayment of obligations under capital lease	(19)	(159)
Issuance of common shares	-	403
Cash flows relating to financing activities	179	349
Cash flows relating to discontinued activities	(347)	(223)
Effect of exchange rate fluctuations changes on cash and cash equivalents	(83)	(102)
Net increase (decrease) in cash and cash equivalents	(593)	(898)
Cash and cash equivalents, beginning of the period	5,569	5,255
Cash and cash equivalents, end of the period	4,976	4,357

Supplemental Information (note 8)

(See accompanying notes)

MITEC TELECOM INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2005

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

Unaudited

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

The Corporation has a history of losses over the past four 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. In addition the Corporation was not in compliance with its covenant of its credit facility and is in the process of re-negotiating this facility.

2. SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a consistent basis with the Company's annual consolidated financial statements for the year ended April 30, 2005. For a full description of accounting policies, refers to the Mitec Annual report for the year ended April 30, 2005. These financial statements do not include all of the disclosures, which are required by generally accepted accounting principles applicable to annual financial statements.

3. BUSINESS COMBINATION

On March 9, 2005, the Company completed the purchase of the assets of Broadband Wireless LLC for \$1,588,000. The acquisition was accounted for under the purchase method and its operating results have been included in the 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.

Cash	78
Accounts Receivable	183
Inventory	149
Plant and equipment	41
Acquired customer contract	158
Non-patented intellectual property	1,111
	1,720
Accounts payable and accrued liabilities	(132)
Net assets acquired:	1,588
Consideration represented by:	
Cash	864
Common shares issued [630,490 common shares]	724
	1,588

4. DISCONTINUED ACTIVITIES

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 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. On July 1, 2005, the Corporation concluded the sale of its buildings and reached an agreement to sell the land and as such, the Corporation reclassified its land, building and the related long term debt related to discontinued operations to short-term at April 30, 2005. The net proceeds received after expenses were approximately \$3.9 million, which were used to reimburse the outstanding loan associated with these assets. In addition, Mitec has reached an agreement to sell the land in Sweden for approximately \$353,000. Mitec no longer retains any on-going operational commitments in Sweden. As a result of the sale of all of the real estate assets in Sweden, the Corporation has included, as part of their loss from discontinued operations an impairment charge of \$1,033,000 for the year ended April 30, 2005.

MITEC TELECOM INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2005

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

Unaudited

4. DISCONTINUED ACTIVITIES (continued)

	For the three months ended July 31,	
	2005	2004
	\$	\$
Sales	-	93
Loss (gain) of discontinued operations	83	(146)

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

	July 31,	April 30,
	2005	2005
	\$	\$
Current assets	388	12
Land and Building, net	-	4,200
	388	4,212
Current liabilities	87	4,477
Long-term debt relating to the building	-	-
	87	4,477

5. ECONOMIC DEPENDENCE AND CONCENTRATION OF CREDIT RISK

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

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

The foreign trade receivables of the Canadian operation are guaranteed by the Export Development Corporation Canada ["EDC"] and the Corporation's customer base comprises of many geographically dispersed customers.

One customer accounted for 10% or more of sales for the period ended July 31, 2005 and July 31, 2004 and 10% or more of trade receivables as at July 31, 2005 and April 30, 2005

Customer	Business segment	Sales		As at July 31	Trade receivable
		For the three months ended July 31	As at July 31	As at July 31	As at April 30
		2005	2004	2005	2005
		%	%	%	%
1	Telecom	50%	36%	33%	41%

6. CREDIT FACILITIES

The Corporation has a credit facility with a major Canadian Charter bank, which provides a \$6,000,000 current facility of which \$5,556,000 was utilized at July 31, 2005, and \$608,000 of term debt. The Corporation was not in compliance with the covenant of this facility at July 31, 2005 and is in the process of re-negotiating this facility. As a result the Corporation has reclassified \$399,000 of long-term debt to current.

MITEC TELECOM INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2005

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

Unaudited

7. SHARE CAPITAL

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

Unlimited number of common shares.

Issued and outstanding common shares

	July 31, 2005		April 30, 2005	
	Number	Amount \$	Number	Amount \$
Balance, beginning of the period	76,405,263	116,357	70,862.94	112,860
Changes during the period:				
Employee share purchase plan	-	-	53	-
Issued for stock options	-	-	104,800	43
Warrants exercised	-	-	595,312	420
Balance, end of the period	76,405,263	116,357	76,405,263	116,357

Warrants	As of July 31, 2005		As of April 30, 2005	
	Number	Amount \$	Number of shares	Amount \$
Balance, beginning of period	3,077,132	1,129	10,402,356	4,332
Exercised	-	-	(4,784,686)	(340)
Expired	-	-	(2,540,538)	(2,863)
	3,077,132	1,129	3,077,132	1,129

The following table shows warrants by maturity date:

Exercise price	Expiry date	Amount of warrants
1.65	09-Oct-05	3,077,133
		<u>3,077,133</u>

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

The following table shows a continuity of the options outstanding:

	As of July 31, 2005	
		\$
Balance beginning of the period	3,703,850	1.65
Forfeited	(217,750)	1.78
Balance end of the period	3,486,100	1.69
Options exercisable at the end of the period	2,724,133	1.76

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7. SHARE CAPITAL (continued)

Exercise price	Options outstanding			Options exercisable	
	Number	Weighted average exercise price	Weighted average year to expiry	Number	Weighted average exercise price
\$0.31 to \$0.82	1,350,000	0.39	7.6	1,155,133	0.37
\$1.68 to \$2.10	1,714,750	1.76	8.5	1,151,950	1.78
\$2.83 to \$3.90	71,500	3.57	6.2	67,200	3.58
\$4.25 to \$4.90	88,900	4.58	5.1	86,900	4.58
\$5.00 to \$6.50	231,950	6.21	2.4	231,950	6.21
\$6.70 to \$9.50	31,000	7.86	2.2	31,000	7.86
	3,486,100	1.69	7.6	2,724,133	1.76

Effective May 1, 2004, the Company adopted the new amendments relating to Section 3870 of the Canadian Institute of Chartered Accountants ["CICA"] Handbook entitled "Stock-based compensation and other stock-based payments". The effect of the amendment requires the Company to expense, over the vesting period, the fair value for all employees stock-based compensation transactions since May 1, 2002. As permitted by this amendment, the Company applied this change retroactively, without restatement. The impact of this change in accounting policy was a charge of \$690,000 to opening deficit for fiscal 2005 with a corresponding credit of \$102,000 to share capital for those options already exercised prior to May 1, 2004 and a credit of \$588,000 to contributed surplus for those options not yet exercised. Compensation expense of \$569,000 has been recognized in the first quarter of fiscal 2006 with corresponding credit to contributed surplus (2005-\$319 000). The stock-based compensation previously reported in 2005 was \$126,000 and was restated to \$319,000. This was due to a recalculation to reflect the expense over the proper vesting period. The fair value of options granted was determined using the Black-Scholes option pricing model with a volatility of 87%, a risk-free interest rate of 4%, a dividend yield of nil and an expected life of the option of seven years.

8. SUPPLEMENTARY CASH FLOW INFORMATION

	2005	For the 3 months ended July 31, 2004
	\$	\$
Accounts receivable and other receivable	3,821	10,810
Inventories	2,433	(2,145)
Prepaid expenses	20	174
Income tax recoverable	(264)	(232)
Accounts payable and accrued liabilities	(3,037)	(5,135)
	2,973	3,472
Interest paid	113	60
Income taxes paid	-	102
Amortization of property, plant and equipment is included in:		
Cost of goods sold	337	355
Selling and administrative expenses	180	273
	517	628
Amortization of deferred charges is included in:		
Cost of goods sold	123	310
Research and development	89	
Selling and administrative expenses	62	38
	274	348
Amortization of intangible assets is included in:		
Cost of goods sold	53	-
Amortization of intangibles	525	551
	578	551

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9. SEGMENTED INFORMATION

[a] Segmented information used by management

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

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

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

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

	Telecom	For the 3 months ended July 31,	
	\$	Satcom	Total
		\$	\$
2005			
Sales	8,362	4,930	13,292
Cost of sales	8,147	3,485	11,632
Gross profit	215	1,445	1,660
Expenses			6,988
Income tax recovery			(149)
Loss from continuing operations			(5,179)
Discontinued operations			(83)
Net loss for the period			(5,262)

	Telecom	For the 3 months ended July 31,	
	\$	Satcom	Total
		\$	(Restated – note 6)\$
2004			
Sales	6,078	5,349	11,427
Cost of sales	7,778	3,800	11,578
Gross profit	(1,700)	1,549	(151)
Expenses			5,917
Income tax expense			(25)
Loss from continuing operations			(6,043)
Discontinued operations			146
Net loss for the period			(5,897)

(b) Enterprise-wide information

The following table present sales based on geographic location of production

	For the three months ended July 31,	
	2005	2004
	\$	\$
Sales		
Canada	11,622	10,311
United States	367	726
China	3,557	2,878
United Kingdom	-	185
Inter-country	(2,254)	(2,673)
	13,292	11,427

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9. SEGMENTED INFORMATION (continued)

The following table presents sales by destination of product

	For the three months ended July 31,	
	2005	2004
	\$	\$
Canada	1,300	1,255
United States	3,740	4,784
Europe	5,614	2,930
Asia	2,100	1,621
Other	538	837
	13,292	11,427
Amortization of capital assets		
Telecom	349	468
Satcom	168	159
	517	627
Amortization of intangible assets		
Telecom	462	357
Satcom	116	194
	578	551

10. FINANCIAL EXPENSES

	2005	2004
	\$	\$
Interest on bank indebtedness	72	45
Interest on long-term debt	45	59
Foreign exchange	368	89
Bank charges and other fees	45	41
	530	234