



Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") includes a review of the financial condition of Mitec Telecom Inc. ("Mitec" or the Company") and a review of operations for each of Mitec's operating segments for the 3-month period ended July 31, 2004 (first quarter fiscal 2005).

This MD&A is intended to help the reader understand and assess the significant trends, risks and uncertainties related to the results of operations for each business segment. It should be read in conjunction with the audited consolidated financial statements dated April 30, 2004. Mitec's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in thousands of Canadian dollars unless otherwise indicated and considers information available until September 14, 2004. To assist the reader, a glossary of defined terms can be found at the end of this MD&A.

FORWARD-LOOKING STATEMENTS

In the interest of providing shareholders and potential investors with information regarding Mitec, including management's assessment of future plans and operations, certain statements in this MD&A are forward-looking and are subject to the risks, uncertainties and other important factors that could cause the Company's actual performance to differ materially from that expressed in or implied by such statements.

Such factors include, but are not limited to: the impact of general economic conditions; industry conditions, including changes in laws and regulations; increased competition; the availability of qualified personnel or management; fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility; and the impact of accounting policies issued by Canadian standard setters. Some of these factors are further discussed under Risks and Uncertainties below.

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").

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 BT.

Mitec's headquarters are in Pointe-Claire, Canada and the Company has other operations in Matawan (United States), Dunstable (United Kingdom) and Suzhou (China). As at July 31, 2004, the Company's global workforce stood at 494 employees.

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:

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

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

Mitec has the following key tactical objectives

Focus on the Growing Telecommunication Market

Mitec intends to apply the technological expertise it has developed over the past 32 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, and 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 to encompass a greater portion of the base station functionality. For example, within the Telecom segment, there is an increasing need for monitoring and alarm and control products, which oversee the functioning of the various equipment in satellite earth stations and broadcast transmission sites. Mitec has developed a capability for such products and, over the past seven years, Mitec's activities in this field have progressed to become a distinct department with its own firmware and software engineering capabilities.

Maintain Price Competitiveness

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

Key Performance Drivers

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

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

Market Trends

Telecom

Overall, the telecom market continues to be strong. Carriers are driven by two major factors: i) subscriber base growth and ii) monthly revenue per customer increase.

OEM manufacturers are responding to carrier needs by developing solutions that will enable the evolution to higher revenue services, as well as the capacity to deliver low cost services so that the customer base will grow. Operationally, the OEM continues to drive their profitability through revenue growth, product evolution, operational and sub system cost reduction. The demands for sub system cost reduction are downloaded onto suppliers such as Mitec. Product evolution, due to the overall market condition, is relatively rapid and is service provider focused.

The sub-system suppliers for the telecom market in North America have experienced a slow down due to service provider consolidation. More specifically, the Cingular and ATT merger has caused some initial delays of network expansions and trials of new 3G services that will generate higher revenue per user. Also, network growth was slowed by the capital expenditures of some providers being used for territory and infrastructure acquisition instead of intrinsic capital expansion. The market is expected to turn around over the next few months with new RFPs being awarded for network upgrades and expansion.

The Western European market is showing growth in 3G services. Our customer base is deploying UMTS solutions for this market. Eastern Europe is expected to continue to grow for coverage and adoption of users. The Tier 1 OEM suppliers as well as the Tier II manufacturers from China are hotly contesting the Eastern Europe market.

Satcom

The Satcom markets in which Mitec participates can be identified as three major groups: connectivity components, switching and combining networks products, and VSAT power amplifiers.

The connectivity component market is driven by growth in applications for the military, high power earth station and hub applications. Although there is growth in the marketplace, there is continuing price and performance pressure due to competitors in the mass production market, as well as small, well-focused shops that deliver precision machining for the network connectivity components such as output arms and connectors.

Switching and combining network products are experiencing growth due to the rise in military and entertainment sector spending. Mitec's competition in this sector is typically from the small, well-focused satcom suppliers.

The VSAT power amplifier market is currently growing. VSAT is becoming a preferred technology to meet the connectivity requirements arise in widely dispersed areas,. There is stiff competition for low power VSAT solutions. Mitec is well positioned in the mid range power amplifier VSAT market. The high-power Satcom market, once dominated by the TWT manufacturers, is starting to diminish. The TWT manufacturers are undertaking plans to migrate to SSPA solutions to meet market demands for lower costs and higher reliability.

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. For the three months ended July 31, 2004, the Company's two largest customers accounted for 42% of its sales. Mitec has signed a multi-year letter of intent with one of these customers. Although the Company invests considerable effort in maintaining its relationships with its customers, there can be no assurance that Mitec will be able to sell to such customers on an advantageous basis in the future, or that such customers will continue to buy from Mitec. Any changes in their business strategies, changes in timing, or marketing issues, could have a material financial impact on Mitec. Mitec is putting increasing emphasis on growing its customer base, and diversifying its sales channels into each sector, to mitigate this risk. Additionally, Mitec will pursue a strategy of balanced growth, mainly to exploit the counter-cyclical nature of the telecom and satcom businesses.

Customers' Business

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

Production Risk

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

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

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

Operational Risk

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

Financial Capital Risk

Management views the existing revolving credit facility as a source of available liquidity. This facility contains various conditions, covenants and representations with which we must be in compliance in order to borrow funds. As of July 31, 2004, the Company was not in compliance with one of the financial covenants contained in its credit facility. If it becomes necessary to borrow under this facility in the future, there can be no assurance that we will be in compliance with these conditions, covenants and representations.

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

Technological Changes

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

Cash Repatriation from Foreign Subsidiary

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

General Economic Conditions

Unfavourable economic conditions may adversely affect the business of the Company. For example, the curtailment of production activities due to unfavourable economic conditions could result in significant costs associated with temporary layoffs or termination of employees.

Foreign Exchange Rates

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

Environmental Matters

The Company's activities are subject to environmental laws and regulations associated with risks to human health and the environment. Changes to these laws and regulations could have a significant adverse effect on the Company's operations and financial situation. The Company monitors these risks through environmental management systems and policies.

Stock Price Fluctuation

The market price of our common stock, like the stock prices of many companies in the telecommunications industry, is subject to wide fluctuation in response to a variety of factors, including: actual or anticipated operating results; announcements of technological innovations; announcements of new products or new contracts by us, our competitors or customers; government regulatory action; developments with respect to wireless telecommunications; and general market conditions and other factors. In addition, the stock market has from time to time experienced significant price and volume fluctuations. These fluctuations have particularly affected the market prices for the shares of technology companies and have often been unrelated to the operating performance of particular companies. The market price of our common stock has been highly volatile and may continue to be highly volatile.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

Period ended July 31, (Amounts in thousands except per share data)	Q1 FY05	Q1 FY04
	\$	\$
Sales	11,427	18,781
Gross profit	(151)	4,524
SG&A	2,970	2,448
R&D	1,940	1,655
Amortization of intangible assets	551	511
Financing Expenses	137	617
Services paid by the issuance of stock options	126	-
Loss from continuing operations	(5,850)	(753)
Net loss	(5,704)	(928)
Loss per share – basic and diluted:		
- Continuing operations	(0.08)	(0.02)
- Net loss	(0.08)	(0.02)
Total assets	81,175	84,786
Long-term debt	3,149	8,481
Capital leases	371	1,358
Cash and temporary investments	17,357	1,055

RESULTS OF OPERATIONS

Sales

Sales for the first quarter in fiscal 2005 decreased \$7.4 million to \$11.4 million, or 39.2% as compared to the same period a year earlier. The Telecom segment, which contributed 53.2% of total revenues, declined by \$10.2 million to \$6.1 million, or 62.7% compared to the first quarter of fiscal 2004 mainly because of delayed orders from our major customers. The sales levels are expected to increase significantly over the next three quarters. The Satcom segment, which contributed 46.8% of total revenues, grew by \$2.9 million to \$5.3 million, or 116.7% compared to the first quarter of fiscal 2004. The majority of the increase is attributed to the VSAT product sales, which are products that were obtained as part of the Wavesat acquisition.

Telecom

(Amounts in thousands, except as indicated)	Q1 FY2005	Q4 FY2004	Q3 FY2004	Q2 FY2004	Q1 FY2004
Sales	6,078	18,458	17,580	17,256	16,313
% of total revenues	53.2	77.2	82.7	84.7	86.9

Sales in this segment are derived from wireless RF components sold to network equipment providers such as Ericsson and Nortel. As a result of the delays with new product introductions and a push out of customers' orders, the sales in this segment declined by \$10.2 million compared to the first quarter of fiscal 2004. In addition, the strength of the Canadian dollar against the U.S. dollar also had a negative effect on sales. This decline was offset somewhat through increased sales of EGSM conditioning products.

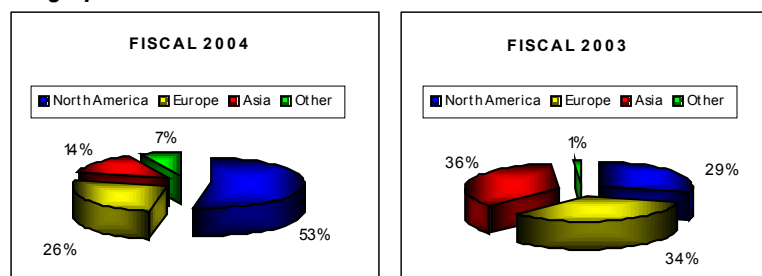
On August 26, 2004 Mitec received an order for its GSM booster Power Amplifier from Microcell Solutions Inc. Shipments are scheduled for second quarter. This order marks Mitec's first direct sales into the Wireless Operator market.

Satcom

(Amounts in thousands, except as indicated)	Q1 FY2005	Q4 FY2004	Q3 FY2004	Q2 FY2004	Q1 FY2004
Sales	5,349	5,462	3,666	3,121	2,468
% of total revenues	46.8	22.8	17.3	15.3	13.1

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. Sales in this segment have more than doubled from \$2.5 million to \$5.3 million this year primarily because of the \$2.6 million VSAT sales recorded this quarter.

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 2005 was down \$4.7 million from \$4.5 million in the first quarter of fiscal 2004 to negative \$0.2 million due to the low volumes recorded in the Telecom segment. The Company is expecting to see gross margin improvement over the next few quarters, as sales are expected to increase and costs are expected to come down with the use of composite materials in certain products.

Telecom

(Amounts in thousands, except as indicated)	Q1 FY2005	Q4 FY2004	Q3 FY2004	Q2 FY2004	Q1 FY2004
Gross profit	(1,700)	3,657	3,062	2,601	3,561
%	(28.0)	19.8	17.4	15.1	21.8

The gross profit decreased \$5.3 million from \$3.6 million in the first quarter of fiscal 2004 to negative \$1.7 million as a result of lower sales, an increase in the obsolescence provision for inventory of \$0.7 million, and an inventory write-off of \$0.4 million to bring inventory to its net realizable value.

Satcom

(Amounts in thousands, except as indicated)	Q1 FY2005	Q4 FY2004	Q3 FY2004	Q2 FY2004	Q1 FY2004
Gross profit	1,549	1,041	999	1,581	963
%	29.0	19.0	27.3	50.6	39.0

Gross profit increased by 60.9% from \$1.0 million in the first quarter of fiscal 2004 to \$1.5 million in the first quarter of fiscal 2005. This was caused by an increase in sales. Gross margin decreased from 39.0% to 29.0% due to a change in product mix.

Research and Development Expenses

Research and development expense (R&D) net of investment tax credits for the first quarter of fiscal 2005 increased 17.2% from \$1.7 million in the first quarter of fiscal 2004 to \$1.9 million. The increase in expense was as a result of the increase in RF Engineers hired in conjunction with the Wavesat acquisition. In addition, the company started to amortize deferred development costs for both Flarion and UMTS/DDM for an amount of \$130,000.

Selling and Administrative Expenses

The Company's selling and administrative expenses for the first quarter in fiscal 2005 increased 21.3% from \$2.4 million to 3.0 million. The increase is attributable to higher commissions paid for the increase in Satcom sales, as well as higher legal and professional fees.

Financial Expenses

Financial expenses were \$0.1 million for the first quarter of fiscal 2005 as compared to \$0.6 million in the first quarter of fiscal 2004. This decrease is as a result of lower interest expense (\$0.5 million) resulting from the repayment of long-term debt and bank indebtedness in fiscal 2004.

Amortization of Intangible Assets

The amortization of intangible assets increased slightly to \$0.6 million in the first quarter of fiscal 2005 from \$0.5 million in the first quarter of fiscal 2004 as a result of the September 2003 acquisition of the Satcom and PCS assets of Wavesat.

Stock-based compensation

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 employee stock-based compensation transactions. The amount of the expense recorded this quarter was \$0.1 million.

Loss from Continuing Operations

The loss from continuing operations for the first quarter of fiscal 2005 was \$5.9 million, or \$0.08 per share, as compared to \$0.8 million, or \$0.02 per share, for the same quarter of fiscal 2004. The increase in the loss from continuing operations is attributable to the same elements noted above.

Discontinued Operations

Discontinued operations recorded a gain of \$0.1 million as compared to a loss of \$0.2 million in the corresponding quarter last year. The reduction is explained by the fact that the Company's Swedish subsidiary is no longer active and is only recording rental income. In addition, the Company recorded foreign exchange gain of \$0.2 million on the net investments in Sweden.

Net Loss

The net loss for the first quarter of fiscal 2005 was \$5.7 million, or \$0.08 per share, as compared to \$0.9 million, or \$0.02 per share, for the first quarter of fiscal 2004. The increase in the net loss is as a result of the low gross profit mainly due to low sales. 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)	Q1 FY2005	Q4 FY2004	Q3 FY2004	Q2 FY2004	Q1 FY2004
Loss from continuing operations	(5,850)	(1,146)	(1,772)	(1,809)	(753)
Income taxes	(25)	314	(13)	(5)	46
Amortization	1,527	1,578	1,546	1,381	1,225
Interest	7	24	251	451	484
EBITDA from continuing operations	(4,341)	770	12	18	1002

LIQUIDITY AND CAPITAL RESOURCES

Operating Activity Cash Flows

(Amounts in thousands)	Q1 FY05	Q1 FY04
	\$	\$
Cash flow from operations before working capital changes	(4,188)	472
Net change in non-cash working capital balances related to continuing operations	3,472	(2,436)
Cash flow used in operating activities	(716)	(1,964)
Working capital ratio	3.4	1
Inventory turns	3	5

Cash flow used in operating activities before working capital changes was \$4.2 million in the first quarter of fiscal 2005 compared to a cash inflow of \$0.5 million in the first quarter of fiscal 2004. This is mainly due to the increase loss from continuing operations. The increase in loss from continuing operations was partially offset by an increase in amortization and depreciation due to the sale-leaseback transaction and the acquisition of the PCS assets of Wavesat in September 2003.

The net change in non-cash working capital shows an increase of \$5.9 million from a cash outflow of \$2.4 million for the first quarter of fiscal 2004 to a cash inflow of \$3.5 million for the first quarter of fiscal 2005. This is mainly attributable to an appreciable reduction of the accounts receivable balance (from \$22.6 as of April 2004 to \$12.5 million as of July 2004), which was offset by an increase in inventory (from \$12.7 as of April 2004 to \$14.9 million as of July 2004). This increase was due to delayed orders from a major customer. Accounts payable shows a decrease of \$5.1 million due to the lower sales volume and increasing payments for supplier discounts.

The working capital ratio shows a substantial increase from 1.0 last year to 3.4 this year as a result of the \$32 million equity financing that was done in February 2004.

Investing Activity Cash Flows

Cash flow used in investing activities was \$0.2 million in the first quarter of fiscal 2005 compared to a cash inflow of 0.2 million in the first quarter of fiscal 2004. In the first quarter of fiscal 2004, there was a net cash inflow relating to the sale of a subsidiary. Capital expenditures for the current period were \$0.2 million as compared with \$0.1 million last year.

Financing Activity Cash Flows

Financing activities resulted in a net cash inflow \$0.3 million, reflecting the net impact of funds raised and funds used to repay debt and capital leases during the quarter.

Availability of Capital Resources

As at July 31, 2004, our capital resources consisted of approximately \$17.4 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 July 31, 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 of or investment in complementary businesses, products or technologies; and
- failure to attain our target revenue levels, achieve our working capital requirements or derive anticipated cost savings from our manufacturing operations.

Contractual Obligations

The Company's contractual obligations are substantially the same as those disclosed in the Management's Discussion and Analysis section of its fiscal 2004 annual report.

FINANCIAL INSTRUMENTS

The Company's financial instruments strategy is the same as the one disclosed in the Management's Discussion and Analysis section of its Fiscal 2004 Annual report.

As of July 31, 2004, there were outstanding five foreign exchange contracts, each to sell US\$1.5 million at a rate of Cdn\$1.35 per US\$. The five contracts mature at a rate of one contract per month until December 2004.

During the quarter, the Company concluded three additional contracts to sell US\$1.5 million at an average rate of Cdn\$1.4030 per US\$. The contracts mature at a rate of one per month from January 2005 to March 2005.

OFF-BALANCE SHEET ITEMS AND COMMITMENTS

The Company's off-balance sheet items and commitments are substantially the same as those disclosed in the Management's Discussion and Analysis section of its fiscal 2004 annual report.

CHANGE 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 employee stock-based compensation transactions for fiscal years beginning on or after January 1, 2004. This replaces the current disclosure policy. The adoption of this standard has caused a charge to retained earnings of \$403,000. There will be a charge to earnings of approximately \$500,000 for 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.

FUTURE CHANGES IN ACCOUNTING POLICIES

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

SIGNIFICANT ACCOUNTING ESTIMATES AND PROVISIONS

The Company's significant estimates and provisions are substantially the same as those disclosed in the Management's Discussion and Analysis section of its fiscal 2004 annual report except the inventory obsolescence provision which has been increased by \$0.5 million to reflect the increasing age of the inventory.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was prepared as of September 14, 2004. Updated information on Mitec, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

As of September 14, 2004, a total of 72,172,454 common shares were issued and outstanding.

GLOSSARY OF DEFINED TERMS

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

3G:	Third Generation
DTH:	Direct-to-Home
EGSM:	European Global System Mobility
GSM:	Global System Mobility
OEM:	Original Equipment Manufacturer
PCS:	Personal Communication Service
RFP:	Request for Price
SSPA:	Solid State Power Amplifier
TWT:	Traveling Wave Tube
UMTS:	Universal Mobile Telephone System
VSAT:	Very Small Aperture Terminal

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS

As at July 31, 2004

(In thousands of Canadian dollars)

Unaudited

	<u>As at</u> July 31, 2004 \$	<u>As at</u> April 30, 2004 \$
ASSETS		
Current		
Cash and cash equivalents	4,357	5,255
Short term investments	13,000	13,000
Trade receivables	12,509	22,550
Other receivables	2,043	2,521
Income taxes recoverable	1,251	1,019
Inventories	14,863	12,718
Prepaid expenses	1,907	2,081
Future income tax assets	85	88
Current assets related to discontinued operations (note 4)	39	94
Total current assets	50,054	59,326
Capital assets	13,162	13,617
Future income tax assets	214	220
Intangible assets	8,447	8,997
Deferred charges	3,801	4,149
Goodwill	44	44
Note receivable	-	291
Long term assets related to discontinued operations (note 4)	5,453	5,531
	81,175	92,175
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (note 6)	247	-
Accounts payable and accrued liabilities	13,400	18,535
Current portion of long-term debt (note 6)	708	673
Current portion of obligations under capital lease	360	505
Current liabilities related to discontinued activities (note 4)	215	298
Total current liabilities	14,930	20,011
Long-term debt (note 6)	2,441	2,618
Obligations under capital lease	11	27
Long term liabilities related to discontinued (note 4)	4,413	4,654
	21,795	27,310
Shareholders' equity		
Common shares (note 7)	113,323	112,860
Warrants (note 7)	1,407	4,332
Contributed surplus (note 7)	4,916	1,531
Deficit	(59,283)	(53,176)
Cumulative translation adjustment	(983)	(682)
Total shareholders' equity	59,380	64,865
	81,175	92,175

(See accompanying notes)

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

As at July 31, 2004

(In thousands of Canadian dollars)

Unaudited

	For the three months ended	
	2004	2003
	\$	\$
Sales	11,427	18,781
Cost of sales	11,578	14,257
Gross profit	(151)	4,524
	(1.3)%	24.1%
Expenses		
Selling and administrative	2,970	2,448
Research and development	1,940	1,655
Interest expense	104	484
Financial expenses	41	50
Foreign exchange loss (gain)	89	83
Interest income	(97)	-
Amortization of intangibles and deferred charges	551	511
Services paid by the issuance of stock options	126	-
	5,724	5,231
Loss before income taxes	(5,875)	(707)
Income tax expense (recovery)	(25)	46
Loss from continuing activities	(5,850)	(753)
Discontinued activities	(146)	175
Net loss for the period	(5,704)	(928)
Basic and diluted loss per common share		
Loss from continuing activities	(0.08)	(0.02)
Net loss	(0.08)	(0.02)
Weighted average number of outstanding common shares – basic	71,114,675	43,219,116

(See accompanying notes)

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF DEFICIT

As at July 31, 2004

(In thousands of Canadian dollars)

Unaudited

	For the three months ended	
	2004	2003
	\$	\$
Deficit beginning of the period	(53,176)	(46,174)
Loss for the period	(5,704)	(928)
Transitional adjustment for stock-based compensation	(403)	-
Deficit at the end of the period	(59,283)	(47,102)

(See accompanying notes)

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Periods ended July 31

(In thousands of Canadian dollars)

Unaudited

For the three months ended**2004****2003**

\$

\$

OPERATING ACTIVITIES

Loss from continuing activities

(5,850)

(753)

Add items not affecting cash:

Amortization of property, plant and equipment,
intangible assets and deferred charges

1,527

1,225

Future income tax

9

-

Services paid by the issuance of stock options

126

-

(4,188)

472

Changes in non-cash working capital balances related to
operations

3,472

(2,436)

Cash flows relating to operating activities**(716)****(1,964)****INVESTING ACTIVITIES**Additions to property, plant and equipments and intangible
assets

(205)

(130)

Proceeds on disposal of property, plant and equipment

-

172

Proceeds from sale of a division (net of cash disposed)

-

132

Increase in deferred charges

(1)

(23)

Cash flows relating to investing activities**(206)****151****FINANCING ACTIVITIES**

Increase in bank indebtedness

247

621

Repayment of bank indebtedness

-

(1,555)

Increase in long-term debt

-

2,083

Repayment of long-term debt

(142)

(854)

Repayment of obligations under capital lease

(159)

(335)

Issuance of common shares

403

11

Cash flows relating to financing activities**349****(29)****Cash flows relating to discontinued activities****(223)****815**

Effect of exchange rate fluctuations changes on cash

(102)

229

Net increase (decrease) in cash and cash equivalents

(898)

(798)

Cash and cash equivalents, beginning of the period

5,255

1,853

Cash and cash equivalents, end of the period**4,357****1,055**

Supplemental Information (note 8)

(See accompanying notes)

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2004

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

Unaudited

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

Effective May 1, 2004, the Company elected to adopt on a retroactive basis, the new amendments relating 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. This replaces the disclosure option previously adopted by the Company. The impact of this change in accounting policy was a charge of \$403,000 to opening retained earnings and will be a charge to earnings of approximately \$500,000 in fiscal 2005.

HEDGING RELATIONSHIP

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

3. ASSETS HELD FOR SALE AND DISCONTINUED ACTIVITIES

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

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2004

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

Unaudited

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

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

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

4. DISCONTINUED ACTIVITIES

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

	For the three months ended July 31,	
	2004	2003
	\$	\$
Sales	93	6,147
(Gain) loss of discontinued operations	(146)	175

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

	July 31, 2004	April 30, 2004
	\$	\$
Current assets	39	94
Land and Building, net	5,440	5,516
Equipment, net	1	3
Future income taxes	12	12
	<hr/>	<hr/>
	5,492	5,625
Current liabilities	215	298
Long-term debt relating to the building	4,413	4,654
	<hr/>	<hr/>
	4,628	4,952

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2004

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

Unaudited

5. ECONOMIC DEPENDENCE AND CONCENTRATION OF CREDIT RISK

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

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

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

Two customers' accounted for 10% or more of sales for the period ended July 31, 2004 and 10% or more of trade receivables as at July 31, 2004 and April 30, 2004.

Customer	Business segment	For the three months ended July 31		As of April 30, 2004	
		2004	<u>Sales</u> 2003	2004	<u>Trade receivable</u> 2004
		%	%	%	%
1	Telecommunications	36%	47%	40%	45%
2	Telecommunications	6%	23%	4%	22%

6. CREDIT AGREEMENTS

As at July 31, 2004 the Corporation was not in compliance with one of the financial covenants under its Canadian credit facility. The Corporation had no borrowings under the short-term facility at July 31, 2004 but borrows under the long-term facility (\$833, 000 guaranteed by Lafinancière), its ability to utilize the short term facility facility in the future is dependent upon the Corporation meeting the covenants. As of September 14, 2004, a waiver was received for the long-term borrowing.

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, 2004		April 30, 2004	
	Number	Amount	Number	Amount
		\$		\$
Balance, beginning of the period	70,862,914	112,860	43,192,154	70,679
Changes during the period:				
Employee share purchase plan	53	-	144,812	36
Issued for the purchase of a business	-	-	188,679	200
Issued for stock options	104,800	43	171,760	129
Warrants exercised	595,312	420	7,537,743	5,201
Issued for cash (net of issue costs of \$2,627)	-	-	19,627,766	36,615
Balance, end of the period	71,563,079	113,323	70,862,914	112,860

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2004

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

Unaudited

Warrants	As of July 31, 2004		As of April 30, 2004	
	Number	Amount \$	Number of shares	Amount \$
Balance, beginning of period	10,402,356	4,332	14,758,615	5,223
Issued for cash (net of issue costs of \$116)			3,986,205	1,463
Issued under a loan agreement			618,279	241
Exercised	(595,312)	(62)	(7,537,743)	(1,064)
Expired	(2,536,035)	(2,863)	(1,423,000)	(1,531)
	7,271,009	1,407	10,402,356	4,332
	78,834,088	114,730	81,265,270	117,192

The following table shows warrants by maturity date:

Exercise price	Expiry date	Amount of warrants
0.45	04-Feb-05	4,193,877
1.65	09-Oct-05	3,077,133
4.25	30-Jul-04	-
		7,271,009

For period ending July 31, 2003 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 option outstanding:

	As of July 31, 2004	
		\$
Balance beginning of the period	2,849,800	1.65
Granted	680,000	1.85
Exercised	(104,800)	0.35
Forfeited	(18,200)	1.98
Balance end of the period	3,406,800	1.73
Option exercisable at the end of the period	1,297,384	2.48

Exercise price	Option outstanding		Options exercisable	
	Number	Weighted average exercise price	Number	Weighted average exercise price
\$0.31 to \$0.82	1,364,200	0.39	601,414	0.39
\$1.68 to \$2.10	1,582,350	1.77	250,320	1.86
\$2.83 to \$3.90	76,500	3.56	61,900	3.56
\$4.25 to \$4.90	98,300	4.59	98,300	4.59
\$5.00 to \$6.50	242,450	6.21	242,450	6.21
\$6.70 to \$9.50	43,000	7.80	43,000	7.80
	3,406,800	1.73	1,297,384	2.48

Effective May 1, 2004, the Company began prospectively recording compensation expense for awards granted to employees. Compensation expense of \$126,000 has been recognized in the first quarter of fiscal 2005 for stock options granted with a corresponding credit to contributed surplus. The expense was based on the fair value of the options at the grant date determined using the Black-Scholes option pricing model with a volatility factor of 99%, a risk free interest-rate of 4.01%, a dividend yield of nil and an expected life of 10 years.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2004

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

Unaudited

8. SUPPLEMENTARY CASH FLOW INFORMATION

	2004	For the 3 months ended July 31, 2003
	\$	\$
Accounts receivable and other receivable	10,810	(3,981)
Inventories	(2,145)	(317)
Prepaid expenses	174	(882)
Income tax recoverable	(232)	(72)
Accounts payable and accrued liabilities	(5,135)	2,816
	3,472	(2,436)
Interest paid	60	482
Income taxes paid	102	43
Amortization of property, plant and equipment is included in:		
Cost of goods sold	355	410
Selling and administrative expenses	273	303
	628	713
Amortization of deferred charges is included in:		
Cost of goods sold	311	-
Selling and administrative expenses	38	30
	349	30

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

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

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

	Telecom	Satcom	Total
	\$	\$	\$
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			5,724
Income tax recovery			(25)
Loss from continuing operations			(5,850)
Discontinued operations			(146)
Net loss for the period			(5,704)

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2004

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

Unaudited

	Telecom \$	Satcom \$	For the 3 months ended July 31, Total \$
2003			
Sales	16,313	2,468	18,781
Cost of sales	12,752	1,505	14,257
Gross profit	3,561	963	4,524
Expenses			5,231
Income tax expense			46
Loss from continuing operations			(753)
Discontinued operations			175
Net loss for the period			(928)

(b) Enterprise-wide information

The following table present sales based on geographic location of production

	For the three months ended July 31, 2004 \$	2003 \$
Sales		
Canada	10,311	11,678
United States	726	1,187
China	2,878	7,082
United Kingdom	185	438
Other	-	-
Inter-country	(2,673)	(1,604)
	11,427	18,781

The following table presents sales by destination of product

	For the three months ended July 31, 2004 \$	2003 \$
Canada	1,255	349
United States	4,784	5,169
Europe	2,930	6,396
Asia	1,621	6,731
Other	837	137
	11,427	18,781
Amortization of capital assets		
Telecom	468	579
Satcom	159	134
	627	713
Amortization of intangible		
Telecom	357	373
Satcom	194	108
	551	481