

**Second 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 and 6-month periods ended October 31, 2005 (second quarter of 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 and Mitec's interim consolidated financial statements for the 3-month and 6-month periods ended October 31, 2005. Mitec's interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements. All amounts in this MD&A are in thousands of Canadian dollars unless otherwise indicated and considers information available until December 9, 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 Nortel, Ericsson, Siemens, Huawei, Lucent, ADC, Radioframe 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, Alcatel, 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 October 31, 2005, the Corporation's global workforce stood at 388 employees.

For additional information regarding the Corporation's business strategy, as well as the risk factors it faces, please refer to its Annual Information Form (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

On October 3, 2005, Mitec announced that it was streamlining its organizational structure in order to sharpen the focus of its business activities, and named the Corporation's new management team. It also announced the departure of its Executive Vice President, Global Operations, effective October 14, 2005.

On October 18, 2005, Mitec announced that its Board of Directors had engaged Orion Securities Inc. to assist the Corporation in exploring strategic alternatives in order to maximize shareholder value and allow both the Telecom and Satcom segments to realize their full potential.

At its Annual General Meeting on October 20, 2005, the Corporation outlined a series of operational initiatives to rebuild the Corporation's value proposition. These initiatives include revamping the organizational structure, empowering a new leadership team, rebuilding customer relationships and developing a better-focused product and market strategy. Prior to the meeting, the Board named Keith Findlay as President and CEO and appointed Stefano Bazzocchi to the position of Vice President Finance and CFO. Additionally, Robert Mitchell was named Vice President of the Satcom business unit, Rob Harper was appointed Vice President of the Telecom business unit and Jeff Joseph was named Vice President of Business Development (Telecom).

On November 3, 2005, the Corporation announced further organizational changes and streamlining activities. It announced that David Embery, Vice President Asia-Pacific and General Manager of its Suzhou operations, had left the Corporation. Mitec also announced that it had appointed Marc Desjardins as Deputy General Manager and Director of Operations at the Suzhou manufacturing facility. Further, the Corporation reported that it had laid off 14 employees in Montreal.

On December 9, 2005, Mitec announced that it had secured two new contracts for its multi-carrier power amplifier (MCPA) products. The contracts are valued at over CDN\$1.0 million. The first contract, awarded by a North American provider of converged platform solutions for wireless operators, calls for dual band MCPAs which are designed to serve the base station hoteling market. The second contract was awarded by an Asian OEM of wireless systems, and calls for both 150W and 200W MCPAs, which will be integrated into Tower Mounted Amplifiers (TMAs) for Asian operator deployment. Deliveries for both contracts are scheduled to commence in December 2005.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table presents selected financial information for the 3-month and the 6-month periods of the current and past fiscal years:

Periods ended October 31				
(Amounts in thousands except per share data)	Q2 FY06	Q2 FY05 (restated)	YTD FY06	YTD FY05 (restated)
Sales	9,518	16,283	22,810	27,710
Gross profit	635	2,464	2,295	2,313
SG&A	2,897	2,911	6,312	5,881
R&D	1,694	2,229	3,537	4,169
Amortization of intangible assets	525	552	1,050	1,103
Financing expenses	273	27	671	164
Services paid by the issuance of stock options	103	303	672	622
Restructuring expenses	80	1,323	318	1,323
Loss from continuing activities	(4,788)	(4,848)	(9,967)	(10,891)
Net loss	(4,735)	(4,868)	(9,997)	(10,765)
Loss per share - basic and diluted:				
- Continuing activities	(0.06)	(0.07)	(0.13)	(0.15)
- Net loss	(0.06)	(0.07)	(0.13)	(0.15)
Total assets	52,088	80,016	52,088	80,016
Long-term debt	2,264	2,972	2,264	2,972
Capital leases	12	213	12	213
Cash and temporary investments	13,689	17,509	13,689	17,509

RESULTS OF OPERATIONS

Sales

Sales for the second quarter of fiscal 2006 decreased by \$6.8 million to \$9.5 million, or 42% as compared to the same period a year earlier. Sales in the Telecom segment, which contributed 47.7% of total revenues, decreased by \$5.1 million to \$4.5 million, or 53% compared to the second quarter of fiscal 2005. Sales in the Satcom segment, which contributed 52.3 % of total revenues, declined by \$1.7 million to \$5.0 million, or 26% compared to the second quarter of fiscal 2005. Both segments were negatively impacted by the rise of the Canadian dollar in relation to its US counterpart in comparison to 2005 levels.

Telecom

	Q2 FY2006	Q1 FY2006	Q4 FY2005	Q3 FY2005	Q2 FY2005
Sales (thousands of dollars)	4,544	8,362	8,541	11,206	9,597
% of total revenues	47.7	62.9	64.0	68.2	58.9

Sales in this segment are derived from wireless RF components sold to network equipment providers such as Ericsson, Nortel and Siemens. The \$5.1 million decrease in sales is attributable to a large OEM exiting the CDMA market as well as another customer's declining market share in the North American GSM market space. In future quarters, the Corporation anticipates being able to compensate for this revenue shortfall by sales of products derived from its LMR technology platform. This decrease would have been more substantial were it not for the offsetting nature of power amplifier sales in the quarter. On a year to date basis, sales decreased by \$2.8 million or 18%, which was mainly due to the above noted reasons. In addition, the short fall was offset by the sale of excess inventory in the first quarter to a major customer arising from previously committed forecasts from that customer.

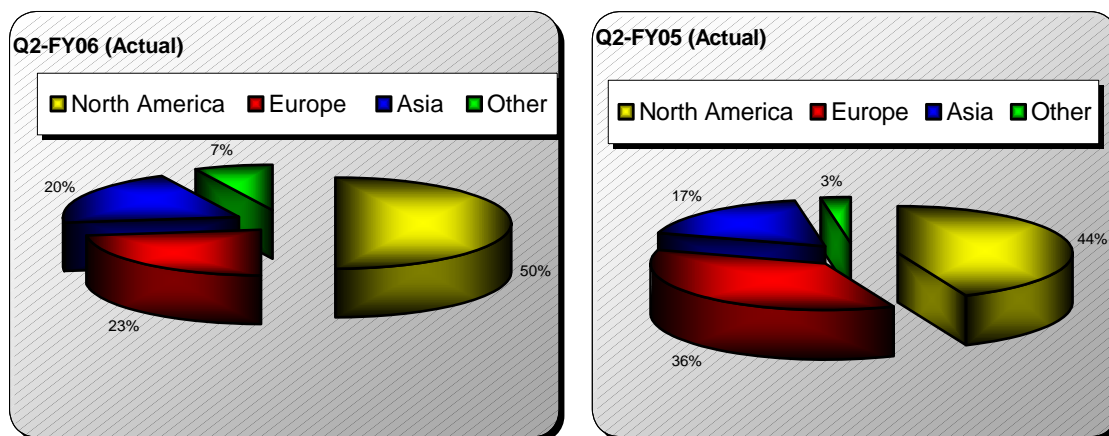
Satcom

	Q2 FY2006	Q1 FY2006	Q4 FY2005	Q3 FY2005	Q2 FY2005
Sales (thousands of dollars)	4,974	4,930	4,810	5,216	6,686
% of total revenues	53.3	37.1	36.0	31.8	41.1

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. The sales decrease of \$1.7 million in the second quarter of fiscal 2006 is attributable to the timing of opportunities for application engineered products and a lower capital spending pattern from large customers during this quarter.

On a year to date basis, sales have decreased by \$2.1 million or 18%, which is mainly due to general fluctuations in customer purchasing trends. Mitec expects to see this shortfall recovered in the quarters to come.

Geographical Distribution



The change in the geographic distribution of sales reflects an increase in North American sales and this is attributable to a major OEM exiting CDMA which was destined for the Asian market. The sales per geographical location are expected to become more balanced over the course of the fiscal year.

Gross profit

Gross profit for the second quarter of fiscal 2006 was down \$1.9 million from \$2.5 million in the second quarter of fiscal 2005 to \$0.6 million. On a year to date basis, gross profit for fiscal 2006 was substantially

the same as it was in the comparable period of last year. This current quarter decrease is a direct result of lower sales activity, which results in unabsorbed overhead and provisions that were recorded to consider excess inventory and obsolescence in the amount of \$0.3 million.

Telecom

	Q2 FY2006	Q1 FY2006	Q4 FY2005	Q3 FY2005	Q2 FY2005
Gross profit (thousands of dollars)	(825)	215	(2,299)	2,384	395
% of Telecom sales	(18.2)	2.6	(26.9)	21.3	4.1

Gross profit decreased from \$0.4 million in the second quarter of fiscal 2005 to negative \$0.8 million in fiscal 2006 mainly due to lower volumes and to the provisioning of excess and obsolete inventory. The margins will improve in the coming quarters as the benefit of the transfer of the production of the wireless conditioning products to the low cost manufacturing facility in China is realized.

Satcom

	Q2 FY2006	Q1 FY2006	Q4 FY2005	Q3 FY2005	Q2 FY2005
Gross profit (thousands of dollars)	1,460	1,445	1,578	1,430	2,069
% of Satcom sales	29.3	29.3	32.8	27.4	30.9

Gross profit decreased from \$2.1 million in the second quarter of fiscal 2005 to \$1.5 million in the second quarter of fiscal 2006, which is directly attributable to the decrease in sales. Gross margin remained essentially constant at 29.3% versus 30.9%. The slight variance can be explained by a shift in product mix. On a year to date basis, gross profit decreased by \$0.7 million, which is also attributable to the decrease in sales levels.

Research and Development Expenses

Research and development expense (R&D) decreased 24% from \$2.2 million in the second quarter of fiscal 2005 to \$1.7 million in the second quarter of 2006. The decrease in R&D expense is attributable to the consolidation of the R&D facilities into the Montreal, Suzhou (China) and Reno (USA) locations. On a year to date basis, R&D costs have decreased by \$0.7 million, from \$4.2 million in fiscal 2005 to \$3.5 million in fiscal 2006 for the same reasons stated above.

Selling and Administrative Expenses

The Corporation's selling and administrative expenses remained unchanged to \$2.9 million in the second quarter of 2005 and in the second quarter of 2006. The slight decrease reflects the implementation of the cost cutting measures announced during the past quarter. These efforts were offset by termination payments related to two executives and certain other employees during the quarter, amounting to \$0.35 million. On a year to date basis, termination payments amounted to \$1.15 million.

Financial Expenses

Financial expenses were \$0.3 million for the second quarter of fiscal 2006 as compared to \$0.1 million in the second quarter of fiscal 2005. This increase is as a result of a foreign exchange losses incurred in the current quarter. On a year to date basis, financial expenses increased by \$0.5 million, which is directly attributable to foreign exchange losses.

Amortization of Intangible Assets

The amortization of intangible assets remained stable at \$0.5 million in the second quarter of fiscal 2006. On a year to date basis, the amortization expense also was stable.

Stock-Based Compensation

The amount of the expense recorded in the second quarter of 2006 was \$0.1 million in comparison to \$0.3 million in second quarter of fiscal 2005. The decrease is a function of the recognition of this expense over the vesting period of the outstanding options at that time. On a year to date basis, the compensation expense was \$0.7 million in fiscal 2006 in comparison to \$0.6 million in fiscal 2005.

Restructuring and Other Expense

During the quarter, an additional expense of \$ 0.1 million was recorded to reflect additional losses related to certain lease termination contracts of which the Corporation has now concluded. In the comparable quarter of 2005, the Corporation incurred restructuring expenses of \$1.3 million. The consolidation of the research and development facilities in Matawan, New Jersey and Dunstable, United Kingdom into the Montreal and China facilities resulted in the Corporation recording a restructuring charge which consisted of severance payments (\$0.4 million) and an asset impairment charge (\$0.9 million).

Loss from Continuing Activities

The loss from continuing activities for the second quarter of fiscal 2006 was \$4.8 million, or \$0.06 per share, as compared to \$4.8 million, or \$0.07 per share, for the same quarter of fiscal 2005. The decrease in the loss from continuing operations is a function of the cost reduction initiatives described previously in this document.

Discontinued Activities

Discontinued activities resulted in a gain of \$0.1 million as compared to almost nil in the corresponding quarter last year.

Net Loss

The net loss for the second quarter of fiscal 2006 was \$4.7 million, or \$0.06 per share, as compared to \$4.9 million, or \$0.07 per share, for the first quarter of fiscal 2005. The decrease in the net loss is as a result of the implementation of the cost reduction measures announced during the past months to decrease operating expenses, offset by the reduced sales levels.

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

Mitec calculates EBITDA from continuing operations as follows:

(Amounts in thousands of dollars)	Q2 FY2006	Q1 FY2006	Q4 FY2005 ⁽¹⁾	Q3 FY2005 ⁽¹⁾	Q2 FY2005 ⁽¹⁾
Loss from continuing activities	(4,788)	(5,179)	(10,428)	(2,059)	(4,848)
Income taxes	(149)	(149)	(137)	(184)	(33)
Amortization and loss on write-down of PPE					
Intangibles, goodwill and deferred charges	1,319	1,369	3,415	2,003	2,458
Interest	77	(15)	(5)	1	21
EBITDA from continuing activities	(3,541)	(3,974)	(7,155)	(239)	(2,402)

⁽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)	Q2 FY06	Q2 FY05 YTD	Q2 FY06 YTD	Q2 FY05
Cash flow from operations before working capital changes	(3,341)	(1,790)	(6,582)	(5,978)
Net changes in non-cash working capital balances related to continuing operations	640	(115)	3,613	3,357
Cash flow used in operating activities	(2,701)	(1,905)	(2,969)	(2,621)

Cash flow used in operating activities before working capital changes totalled \$3.3 million in the second quarter of fiscal 2006 compared to a use of \$1.8 million in the second quarter of fiscal 2005. This is mainly due to the non-recurring impairment charge of \$0.9 million recorded in the second quarter of 2005 related to the consolidation of research and development facilities into the Montreal and China locations.

The net change in non-cash working capital shows an increase of \$0.7 million from a cash outflow of \$0.1 million for the second quarter of fiscal 2005 as compared to a cash inflow of \$0.6 million for the second quarter of fiscal 2006. This is mainly attributable to a significant reduction in the accounts receivable balance (from \$9.1 million as of July 2005 to \$7.5 million as of October 2005), which was offset by a decrease in accounts payable (from \$11 million as of July 2005 to \$9.8 million as of October 2005).

Investing Activity Cash Flows

Cash flow provided by investing activities was \$6.1 million in the second quarter of fiscal 2006 compared to a cash inflow of \$7.8 million in the second quarter of fiscal 2005, which relates mostly to the sale of short-term investments.

Financing Activity Cash Flows

Financing activities resulted in a net cash outflow \$0.7 million, reflecting the repayment of indebtedness during the quarter. In 2005, these activities led to an inflow of \$2.9 million, mainly due to the increase of bank indebtedness.

Availability of Capital Resources

As at October 31, 2005, our capital resources consisted of approximately \$13.7 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 delays in 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 October 31, 2005, the Corporation was in compliance with its financial covenant under its Canadian credit facility.

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 except for the conclusion of lease termination agreements in Matawan, New Jersey. The Corporation no longer has these obligations, which would have amounted to approximately \$2.5 million over the next 8 years.

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. 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 sale and available foreign exchange facilities. During the quarter, Mitec entered into 3 foreign exchange contracts for the sale of U.S. \$1.0 million at an exchange rate of CDN \$1.18 per US \$, at a rate of one per month from October 2005 to December 2005.

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 October 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 transactions 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

Given its current view of business trends, the Corporation believes that its previously issued guidance can be reaffirmed. The Corporation's efforts to rebuild its customer base are resulting in new opportunities, and the other initiatives launched by the Corporation over the past five months, including the revamping of its organizational structure and the shift of the production of its wireless conditioning products to its Suzhou facility, should begin to have a significant impact on results. The Corporation believes it remains on-track to be cash flow positive in the fourth quarter of the current fiscal year.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

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

As of December 9, 2005, a total of 76,405,263 common shares were issued and outstanding, as well as 2,634,100 stock options.

MITEC TELECOM INC.
INTERIM CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars)

Unaudited

	As at October 31, 2005	As at April 30, 2005
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	7,577	5,569
Short term investments	6,112	12,229
Trade receivables	7,527	13,270
Other receivables	1,021	1,025
Investment tax credits recoverable	1,647	1,316
Inventories	9,253	11,713
Prepaid expenses	623	614
Current assets related to discontinued activities (note 4)	373	4,212
Total current assets	34,133	49,948
Capital assets	10,105	11,017
Intangible assets	5,173	6,263
Deferred charges	2,677	3,224
	52,088	70,452
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (note 6)	5,533	5,678
Accounts payable and accrued liabilities	9,793	14,047
Current portion of long-term debt	708	708
Current portion of obligations under capital lease	12	48
Current liabilities related to discontinued activities (note 4)	99	4,477
Total current liabilities	16,145	24,958
Long-term debt	1,556	1,910
	17,701	26,868
Shareholders' equity		
Common shares (note 7)	116,357	116,357
Warrants (note 7)	-	1,129
Contributed surplus (note 7)	7,955	6,154
Deficit	(88,514)	(78,517)
Cumulative translation adjustment	(1,411)	(1,539)
Total shareholders' equity	34,387	43,584
	52,088	70,452

(See accompanying notes)

MITEC TELECOM INC.
INTERIM CONSOLIDATED STATEMENTS OF
OPERATIONS

(In thousands of Canadian dollars)

Unaudited

	For the three months ended		For the six months ended	
	2005	October 31, 2004 (restated - note 7)	2005	October 31, 2004 (restated - note 7)
	\$	\$	\$	\$
Sales (note 5)	9,518	16,283	22,810	27,710
Cost of sales	8,883	13,819	20,515	25,397
Gross profit	635	2,464	2,295	2,313
Expenses				
Selling and administrative	2,897	2,911	6,312	5,881
Research and development	1,694	2,229	3,537	4,169
Amortization of intangibles	525	552	1,050	1,103
Financial expenses (note 10)	311	105	841	339
Interest income	(38)	(78)	(170)	(175)
Services paid by the issuance of stock options (note 7)	103	303	672	622
Restructuring expenses	80	1,323	318	1,323
	5,572	7,345	12,560	13,262
Loss before income taxes	(4,937)	(4,881)	(10,265)	(10,949)
Income tax expense (recovery)	(149)	(33)	(298)	(58)
Loss from continuing activities	(4,788)	(4,848)	(9,967)	(10,891)
Gain (Loss) from discontinued activities	53	(20)	(30)	126
Net loss for the period	(4,735)	(4,868)	(9,997)	(10,765)
Basic and diluted loss per common share				
Loss from continuing activities	(0.06)	(0.07)	(0.13)	(0.15)
Loss from discontinued activities	(0.00)	(0.00)	(0.00)	(0.00)
Net loss	(0.06)	(0.07)	(0.13)	(0.15)
Weighted average number of outstanding common shares – basic	76,405,263	72,021,445	76,405,263	71,569,283

(See accompanying notes)

MITEC TELECOM INC.
INTERIM CONSOLIDATED STATEMENTS OF DEFICIT

(In thousands of Canadian dollars)

Unaudited

	For the three months ended		For the six months ended	
	2005	October 31, 2004 (restated - note 7)	2005	October 31, 2004 (restated - note 7)
	\$	\$	\$	\$
Deficit, beginning of the period	(83,779)	(59,283)	(78,517)	(53,176)
Loss for the period	(4,735)	(4,868)	(9,997)	(10,765)
Transitional adjustment for stock-based compensation	-	-	-	(690)
Deficit, end of the period	(88,514)	(64,151)	(88,514)	(64,631)

(See accompanying notes)

MITEC TELECOM INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH
FLOWS

(In thousands of Canadian dollars)

Unaudited

	For the three months ended		For the six months ended	
	2005	October 31, 2004 (restated - note 7)	2005	October 31, 2004 (restated - note 7)
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Loss from continuing activities	(4,788)	(4,848)	(9,967)	(10,891)
Add items not affecting cash:				
Amortization and write-down of property, plant and equipment, intangible assets and deferred charges	1,319	2,458	2,688	3,985
Loss (gain) on disposal of property, plant and equipment	25	(2)	25	(2)
Future income tax	-	(49)	-	(40)
Services paid by the issuance of stock options	103	303	672	622
Write-down of recognized non-refundable investment tax credit	-	348	-	348
	(3,341)	(1,790)	(6,582)	(5,978)
Changes in non-cash working capital balances related to operations	640	(115)	3,613	3,357
Cash flows relating to operating activities	(2,701)	(1,905)	(2,969)	(2,621)
INVESTING ACTIVITIES				
Additions to property, plant and equipments and intangible assets	(372)	(276)	(459)	(481)
Proceeds on disposal of property, plant and equipment	252	36	265	36
Increase in deferred charges	-	(1)	-	(2)
Purchase of short-term investments	(6,177)	-	(6,177)	-
Sale of short-term investments	12,294	8,001	12,294	8,001
Cash flows relating to investing activities	5,997	7,760	5,923	7,554
FINANCING ACTIVITIES				
Increase in bank indebtedness	836	2,968	1,870	3,215
Repayment of bank indebtedness	(1,356)	-	(2,015)	-
Repayment of long-term debt	(177)	(177)	(354)	(319)
Repayment of obligations under capital lease	(11)	(148)	(30)	(307)
Issuance of common shares	-	301	-	704
Cash flows relating to financing activities	(708)	2,944	(529)	3,293
Cash flows relating to discontinued activities	(236)	(61)	(584)	(284)
Effect of exchange rate fluctuations changes on cash	249	(585)	167	(687)
Net increase (decrease) in cash and cash equivalents	2,601	8,153	2,008	7,255
Cash and cash equivalents, beginning of the period	4,976	4,357	5,569	5,255
Cash and cash equivalents, end of the period	7,577	12,510	7,577	12,510

Supplemental Information (note 8)
(See accompanying notes)

MITEC TELECOM INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 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 is incorporated under the Canada Business Corporation 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 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.

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
	<hr/>
	1,720
Accounts payable and accrued liabilities	(132)
	<hr/>
Net assets acquired:	1,588
	<hr/>
Consideration represented by:	
Cash	864
Common shares issued [630,490 common shares]	724
	<hr/>
	1,588
	<hr/>

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 activities an impairment charge of \$1,033,000 for the year ended April 30, 2005.

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4. DISCONTINUED ACTIVITIES (continued)

	For the three months ended		For the six months ended	
	October 31,		October 31,	
	2005	2004	2005	2004
	\$	\$	\$	\$
Sales	-	80	-	173
Gain (loss) of discontinued activities	53	(20)	(30)	126

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

	As at October 31,	As at April 30,
	2005	2005
	\$	\$
Current assets	373	12
Land and Building, net	-	4,200
	373	4,212
Current liabilities	99	4,477
	99	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 41% of sales for the period ended October 31, 2005 (2004 – 35%) and 35% of trade receivables as at October 31, 2005 (April 30, 2005 – 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 \$5,533,000 was utilized at October 31, 2005, and a \$555,000 term facility. The Corporation was in compliance with the covenant of this facility as at October 31, 2005.

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7. SHARE CAPITAL

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

Unlimited number of common shares.

Issued and outstanding common shares

	As at October 31, 2005		As at April 30, 2005	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance, beginning of the period	76,405,263	116,357	70,862,914	112,860
Changes during the period:				
Transitional provision, stock-based compensation	-	-	-	102
Employee share purchase plan	-	-	53	-
Issuance of shares on business acquisition (note 3)	-	-	630,490	724
Transfer from contributed surplus upon exercise of options	-	-	-	40
Issued on exercise of stock options	-	-	127,120	49
Issued on exercise of warrants	-	-	4,784,686	2,582
Balance, end of the period	76,405,263	116,357	76,405,263	116,357

Warrants

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

On October 9, 2005, the warrants expired and the value associated with these warrants was transferred to contributed surplus.

For period ending October 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 at October 31, 2005	
		\$
Balance, beginning of the period	3,703,850	1.69
Granted	500,000	0.34
Forfeited	(1,569,750)	1.03
Balance, end of the period	2,634,100	1.83
Options exercisable, end of the period	1,614,366	2.43

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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	1,050,000	0.41	8.6	407,733	0.47
\$0.83 to \$2.10	1,162,750	1.76	8.2	789,283	1.77
\$2.11 to \$3.90	71,500	3.57	5.9	67,500	3.58
\$3.91 to \$4.90	86,900	4.58	4.8	86,900	4.58
\$4.91 to \$6.50	231,950	6.21	2.2	231,950	6.21
\$6.51 to \$9.50	31,000	7.86	2.0	31,000	7.86
	2,634,100	1.83	7.6	1,614,366	2.43

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 exercised prior to May 1, 2004 and a credit of \$588,000 to contributed surplus for those options not yet exercised. Stock-based compensation expense for the three months period ending October 31, 2005 was \$103,000 (2004 - \$303,000) and for the six months period ending October 31, 2005 was \$672,000 (2004 - \$622,000). The stock-based compensation previously reported for the three months period ending October 31, 2005 was \$179,000 and was restated to \$303,000 and for the six months periods ending October 31, 2005 was \$305,000 and was restated to \$622,000. 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.

The following is a reconciliation of the contributed surplus

	As at October 31, 2005	As at April 30, 2005
	\$	\$
Balance, beginning of the year	6,154	1,531
Changes during the period:		
Transitional adjustment for Stock-based compensation	-	588
Stock-based compensation expense	672	1,212
Transferred to common shares upon exercise of options	-	(40)
Warrants which expired during the period	1,129	2,863
Balance, end of the period	7,955	6,154

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8. SUPPLEMENTARY CASH FLOW INFORMATION

	For the three months ended		For the six months ended	
	2005	October 31, 2004	2005	October 31, 2004
	\$	\$	\$	\$
Accounts receivable and other receivables	1,926	(2,129)	5,747	8,681
Inventories	27	570	2,460	(1,575)
Prepaid expenses	(29)	192	(9)	366
Income tax recoverable	(67)	5	(331)	(227)
Accounts payable and accrued liabilities	(1,217)	1,247	(4,254)	(3,888)
	<u>640</u>	<u>(115)</u>	<u>3,613</u>	<u>3,357</u>
Interest paid	151	82	264	142
Income taxes paid	-	75	-	177
Amortization of property, plant and equipment is included in:				
Cost of goods sold	315	360	652	715
Selling and administrative expenses	161	303	341	576
	<u>476</u>	<u>663</u>	<u>993</u>	<u>1,291</u>
Amortization of intangible assets				
Cost of goods sold	44	-	97	-
Amortization of intangible assets	525	552	1,050	1,103
	<u>569</u>	<u>552</u>	<u>1,147</u>	<u>1,103</u>
Amortization of deferred charges is included in:				
Cost of goods sold	122	246	245	424
Research and development	89	58	178	191
Selling and administrative expenses	63	45	125	83
	<u>274</u>	<u>349</u>	<u>548</u>	<u>698</u>

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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 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.

Information pertaining to each segment for the three months periods ended October 31

	Telecom		Satcom		Consolidated amounts	
	2005	2004	2005	2004	2005	2004
					(restated – note 7)	
	\$	\$	\$	\$	\$	\$
Sales	4,544	9,597	4,974	6,686	9,518	16,283
Cost of sales	5,369	9,202	3,514	4,617	8,883	13,819
Gross profit	(825)	395	1,460	2,069	635	2,464
Expenses					5,572	7,345
Income tax recovery					(149)	(33)
Loss from continuing activities					(4,788)	(4,848)
Discontinued activities					53	(20)
Net loss for the period					(4,735)	(4,868)

Information pertaining to each segment for the six months periods ended October 31

	Telecom		Satcom		Consolidated amounts	
	2005	2004	2005	2004	2005	2004
					(restated – note 7)	
	\$	\$	\$	\$	\$	\$
Sales	12,906	15,675	9,904	12,035	22,810	27,710
Cost of sales	13,516	16,980	6,999	8,417	20,515	25,397
Gross profit	(610)	(1,305)	2,905	3,618	2,295	2,313
Expenses					12,560	13,262
Income tax recovery					(298)	(58)
Loss from continuing activities					(9,967)	(10,891)
Discontinued activities					(30)	126
Net loss for the period					(9,997)	(10,765)

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9. SEGMENTED INFORMATION (continued)
(b) Enterprise-wide information

The following table present sales based on geographic location of production

	For the three months ended		For the six months ended	
	October 31,		October 31,	
	2005	2004	2005	2004
	\$	\$	\$	\$
Sales				
Canada	9,181	11,809	20,803	22,120
United States	352	638	719	1,364
China	2,419	5,140	5,976	8,018
United Kingdom	-	380	-	565
Inter-country	(2,434)	(1,684)	(4,688)	(4,357)
	9,518	16,283	22,810	27,710

The following table presents sales by destination of product

	For the three months ended		For the six months ended	
	October 31,		October 31,	
	2005	2004	2005	2004
	\$	\$	\$	\$
Canada	1,101	2,970	2,401	4,226
United States	3,653	4,132	7,393	8,916
Europe	2,192	5,878	7,806	8,808
Asia	1,873	2,829	3,973	4,450
Other	699	474	1,237	1,310
	9,518	16,283	22,810	27,710
Amortization of capital assets				
Telecom	391	500	740	969
Satcom	85	163	253	322
	476	663	993	1,291
Amortization of intangible				
Telecom	449	358	915	715
Satcom	120	194	232	388
	569	552	1,147	1,103

10. FINANCIAL EXPENSES

	For the three months ended		For the three months ended	
	October 31,		October 31,	
	2005	2004	2005	2004
	\$	\$	\$	\$
Interest on bank indebtedness	70	48	142	93
Interest on long-term debt	45	51	90	110
Foreign exchange	174	(59)	542	30
Bank charges and other fees	22	65	67	106
	311	105	841	339