

**Third 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 9-month periods ended January 31, 2006 (third 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 9-month periods ended January 31, 2006. 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 March 2, 2006.

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 and Terrestrial 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 January 31, 2006, the Corporation's global workforce stood at 377 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.mitectelecom.com, on the SEDAR web site at www.sedar.com, or by contacting the Corporation at (514) 694-9000.

MAJOR EVENTS

On December 9, 2005, Mitec announced that it had won two new contracts for both its multi-carrier power amplifier (MCPA) products and single-carrier power amplifiers (SCPA). The contracts were valued at over CDN\$1.0 million and deliveries commenced in December.

On January 11, 2006, the Corporation announced that it has received initial purchase orders valued approximately CDN\$1.2 million from a major Tier 1 OEM for a new product derived from the Company's proprietary Lid Mounted Resonator (LMR) radio frequency filter technology. Deliveries of the LMR products were scheduled to begin immediately with volume production anticipated to commence in April 2006.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table presents selected financial information for the 3-month and the 9-month periods of the current and past fiscal years:

Periods ended January 31				
(Amounts in thousands except per share data)	Q3 FY06	Q3 FY05 (restated)	YTD FY06	YTD FY05 (restated)
Sales	11,350	16,422	34,160	44,132
Gross profit	1,806	3,813	4,101	6,126
SG&A	2,074	2,736	8,386	8,617
R&D	1,849	1,756	5,386	5,925
Amortization of intangible assets	527	560	1,577	1,663
Financing expenses	167	23	838	187
Services paid by the issuance of stock options	113	295	785	917
Restructuring expenses	-	687	318	2,010
Income tax expense (recovery)	(147)	(184)	(445)	(242)
Loss from continuing activities	(2,777)	(2,060)	(12,744)	(12,951)
Net loss	(2,799)	(2,371)	(12,796)	(13,136)
Loss per share - basic and diluted:				
- Continuing activities	(0.04)	(0.03)	(0.17)	(0.18)
- Net loss	(0.04)	(0.03)	(0.17)	(0.18)
Total assets			49,593	80,998
Long-term debt			2,085	2,795
Capital leases			10	79
Cash and temporary investments			13,088	18,852

RESULTS OF OPERATIONS

Sales

Sales for the third quarter of fiscal 2006 decreased by \$5.0 million to \$11.4 million, or 31% as compared to the same period a year earlier. Sales in the Telecom segment, which contributed 53.6% of total revenues, decreased by \$5.1 million to \$6.1 million, or 46% compared to the third quarter of fiscal 2005. Sales in the Satcom segment, which contributed 46.4% of total revenues, increased by \$0.1 million to \$5.3 million, or 1% compared to the third quarter of fiscal 2005. Both segments were negatively impacted by the rise of the Canadian dollar in relation to the US dollar in fiscal 2006.

Telecom

	Q3 FY2006	Q2 FY2006	Q1 FY2006	Q4 FY2005	Q3 FY2005
Sales (thousands of dollars)	6,084	4,544	8,362	8,541	11,206
% of total revenues	53.6	47.7	62.9	64.0	68.2

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 in sales decrease 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. In future quarters, we anticipate being able to compensate for this revenue shortfall by sales of products derived from our 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 \$8.0 million or 29%, 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.

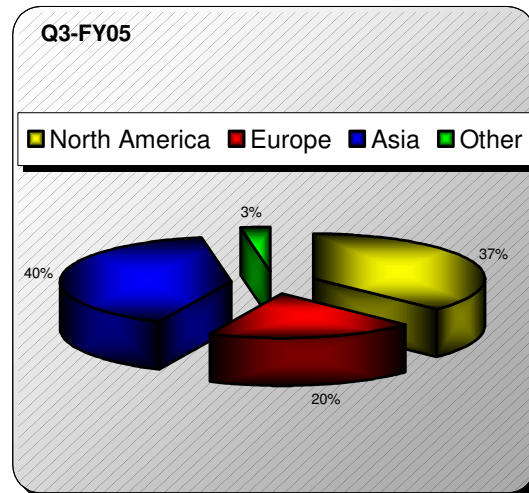
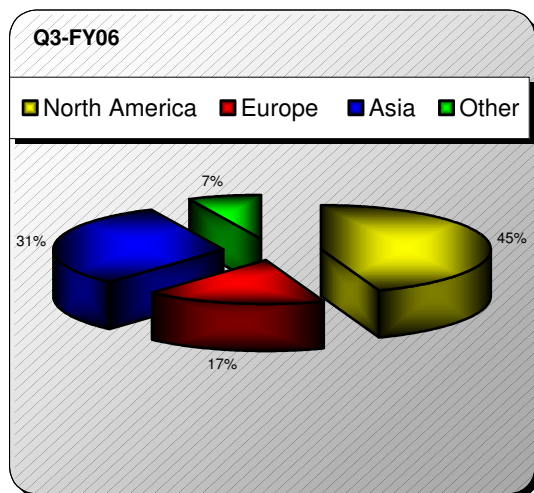
Satcom

	Q3 FY2006	Q2 FY2006	Q1 FY2006	Q4 FY2005	Q3 FY2005
Sales (thousands of dollars)	5,266	4,974	4,930	4,810	5,216
% of total revenues	46.4	53.3	37.1	36.0	31.8

Sales in this segment are derived from the design, manufacture and sale of RF components and subsystems for satellite earth stations used by direct-to-home TV service providers and VSAT networks. The sales increase of \$0.1 million in the third quarter of fiscal 2006 is attributable to the timing of customer spending patterns.

On a year to date basis, sales have decreased by \$2.1 million or 12%, which is mainly due to general fluctuations in opportunities for application engineered products. 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 the CDMA market primarily in Asia. The sales per geographical location are expected to become more balanced over the course of the fiscal year.

Gross profit

Gross profit for the third quarter of fiscal 2006 was down \$2.0 million from \$3.8 million in the third quarter of fiscal 2005 to \$1.8 million. On a year to date basis, gross profit for fiscal 2006 was down \$2.0 million from \$6.1 million to \$4.1 million. This current quarter decrease is a direct result of lower sales activity, which results in a higher overhead component in costs of sales.

Telecom

	Q3 FY2006	Q2 FY2006	Q1 FY2006	Q4 FY2005	Q3 FY2005
Gross profit (thousands of dollars)	274	(825)	215	(2,299)	2,384
% of Telecom sales	4.5	(18.2)	2.6	(26.9)	21.3

Gross profit decreased from \$2.4 million in the third quarter of fiscal 2005 to \$0.3 million in fiscal 2006 mainly due to lower volumes. The margins have improved as the benefit of the transfer of the production of the wireless conditioning products to the low cost manufacturing facility in China is being realized.

Satcom

	Q3 FY2006	Q2FY2006	Q1FY2006	Q4 FY2005	Q3 FY2005
Gross profit (thousands of dollars)	1,532	1,460	1,445	1,578	1,430
% of Satcom sales	29.1	29.3	29.3	32.8	27.4

Gross profit increased from \$1.4 million in the third quarter of fiscal 2005 to \$1.5 million in the third quarter of fiscal 2006, which is attributable to a favourable product mix. Gross margin decreased from \$5.0 million to \$4.4 million on a yearly basis mainly due to lower sales volume.

Research and Development Expenses

Research and development expense (R&D) increased 5% from \$1.8 million in the third quarter of fiscal 2005 to \$1.9 million in the third quarter of 2006. The increase in R&D expense is attributable to expanded efforts in designing new products. On a year to date basis, R&D costs have decreased by \$0.5 million, from \$5.9 million in fiscal 2005 to \$5.4 million in fiscal 2006 to reflect the consolidation of the R&D facilities into the Montreal, Suzhou (China) and Reno locations. Mitec expects this level of spending to continue into quarters to come.

Selling and Administrative Expenses

The Corporation's selling and administrative expenses decreased 24% from \$2.7 million in the third quarter of 2005 to \$2.1 million in the third quarter of 2006. The decrease reflects the implementation of the cost cutting measures announced during the past quarters. On a year to date basis, termination payments related to executives and certain other employees amounting to \$1.15 million have partially offset these efforts.

Financial Expenses

Financial expenses were \$0.3 million for the third quarter of fiscal 2006 as compared to \$0.1 million in the third 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 \$0.7 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 third 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 third quarter of 2006 was \$0.1 million in comparison to \$0.3 million in third 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 \$0.8 million in fiscal 2006 in comparison to \$0.9 million in fiscal 2005.

Restructuring and Other Expense

During the quarter, no additional expense was recorded compared to \$1.3 million in the comparable quarter of 2005. 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) in fiscal 2005.

Loss from Continuing Activities

The loss from continuing activities for the third quarter of fiscal 2006 was \$2.8 million, or \$0.04 per share, as compared to \$2.1 million, or \$0.03 per share, for the same quarter of fiscal 2005. The increase in the loss from continuing operations is a function of the decrease in the sales volume, which was offset partially by cost reduction initiatives described previously in this document.

Net Loss

The net loss for the third quarter of fiscal 2006 was \$2.8 million, or \$0.04 per share, as compared to \$2.4 million, or \$0.03 per share, for the first quarter of fiscal 2005. The increase 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)	Q3 FY2006	Q2 FY2006	Q1 FY2006	Q4 FY2005 ⁽¹⁾	Q3 FY2005 ⁽¹⁾
Loss from continuing activities	(2,777)	(4,788)	(5,179)	(10,428)	(2,060)
Income taxes	(147)	(149)	(149)	(137)	(184)
Amortization and loss on write-down of PPE					
Intangibles, goodwill and deferred charges	1,276	1,319	1,369	3,415	2,003
Interest	36	77	(15)	(5)	1
EBITDA from continuing activities	(1,612)	(3,541)	(3,974)	(7,155)	(240)

⁽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 of dollars)	Q3 FY06	Q3 FY05	YTD Q3FY06	YTD Q3 FY05
Cash flow from operations before working capital changes	(1,387)	238	(7,969)	(5,740)
Net changes in non-cash working capital balances related to continuing operations	807	(1,314)	4,420	2,043
Cash flow used in operating activities	(580)	(1,076)	(3,549)	(3,697)

Cash flow used in operating activities before working capital changes totalled \$1.4 million in the third quarter of fiscal 2006 compared to a generation of \$0.2 million in the third quarter of fiscal 2005. This is mainly due to the lower sales volume recognized in the third quarter of 2006.

The net change in non-cash working capital shows an increase of \$2.1 million from a cash outflow of \$1.3 million for the third quarter of fiscal 2005 as compared to a cash inflow of \$0.8 million for the third quarter of fiscal 2006. This is mainly attributable to a significant reduction in the inventories (from \$9.2 million as of January 31, 2005 to \$7.4 million as of January 31, 2006), which was offset by an increase in accounts receivable (from \$7.8 million as of January 31, 2005 to \$9.6 million as of January 31, 2006).

Investing Activity Cash Flows

Cash flow provided by investing activities was \$0.6 million in the third quarter of fiscal 2006 compared to a cash outflow of \$3.3 million in the third 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 inflow of \$0.3 million, reflecting the increase of bank indebtedness during the quarter. In 2005, these activities led to an inflow of \$3.0 million, mainly due to the increase of bank indebtedness and the issuance of common shares and warrants.

Availability of Capital Resources

As at January 31, 2006, our capital resources consisted of approximately \$13.1 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 January 31, 2006, the Corporation was not in compliance with its financial covenant under its credit facility with its Canadian Charter bank. As such, the Corporation has reclassified its long-term obligation with this bank to current.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Corporation's contractual obligations are substantially the same as those disclosed in the Management's Discussion and Analysis section of its fiscal 2005 annual report except for the conclusion in the second quarter of 2006 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 1 additional exchange contract for the sale of U.S. \$1.0 million at CDN \$1.1691 maturing in January 2006. During the quarter, 3 contracts, at rates varying between CDN \$1.1691 and 1.18 per US \$, came to term.

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

The Corporation has not implemented additional changes in accounting policies.

PROPOSED CHANGES IN ACCOUNTING POLICIES

Section 1530 establishes standards for reporting and display of comprehensive income. It does not address issues of recognition or measurements for comprehensive income and its components.

Section 3855, Financial Instruments - recognition and Measurement - Section 3855 establishes standards for the recognition and measurement of all financial instruments, provides a characteristics-based definition of a derivative instrument, provides criteria to be used to determine when a financial instrument should be recognized, and provides criteria to be used to determine when a financial liability is considered to be extinguished.

Section 3865, Hedges - Section 3865 establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional however the Company has followed hedge accounting for hedges previously entered into.

These three Sections are effective for fiscal years beginning on or after October 1, 2006. An entity adopting these Sections for a fiscal year beginning before October 1, 2006 must adopt all the Sections simultaneously.

Section 3831, Non-Monetary Transaction - In June 2005, the CICA released a new Handbooks Section 3831, Non-Monetary Transaction, effective for fiscal periods beginning on or after January 1, 2006. This standard requires all non-monetary transactions to be measured at fair value unless they meet one of four very specific criteria. Commercial substance replaces culmination of the earnings process as the test for fair value measurement. A transaction has commercial substance if it causes an identifiable and measurable change in the economic circumstances of the entity. Commercial substance is a function of the cash flows expected by the reporting entity.

The corporation has not yet determined the impact, if any, of the adoption of these standards on its results from operations or financial position.

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 January 31, 2006.

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 and the deferral or delay of certain revenue opportunities in the Satcom segment, the Corporation is lowering its guidance for fiscal 2006 by approximately 15%. Becoming cash-flow positive remains the primary objective, but given current revenue guidance, Management expects that meeting this objective will also be pushed out. Fiscal 2006 has been devoted to reducing operating costs and improving efficiency. The new business plan which will be finalized by year-end will provide a product and market strategy focused on making Mitec profitable in fiscal 2007.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was prepared as of March 2, 2006. Updated information on Mitec, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

As of March 2, 2006 a total of 76,405,263 common shares were issued and outstanding, as well as 2,584,500 stock options.

MITEC TELECOM INC.
INTERIM CONSOLIDATED BALANCE SHEETS
(In thousands of Canadian dollars)

Unaudited

	As at January 31, 2006 \$	As at April 30, 2005 \$
ASSETS		
Current		
Cash and cash equivalents	7,642	5,569
Short term investments	5,446	12,229
Trade receivables	9,609	13,270
Other receivables	420	1,025
Investment tax credits recoverable	1,515	1,316
Inventories	7,437	11,713
Prepaid expenses	425	614
Current assets related to discontinued activities (note 4)	363	4,212
Total current assets	32,857	49,948
Capital assets	9,620	11,017
Intangible assets	4,713	6,263
Deferred charges	2,403	3,224
	49,593	70,452
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (note 6)	6,032	5,678
Accounts payable and accrued liabilities	9,935	14,047
Current portion of long-term debt (note 6)	1,002	708
Current portion of obligations under capital lease	10	48
Current liabilities related to discontinued activities (note 4)	99	4,477
Total current liabilities	17,078	24,958
Long-term debt (note 6)	1,083	1,910
	18,161	26,868
Shareholders' equity		
Common shares (note 7)	116,357	116,357
Warrants (note 7)	-	1,129
Contributed surplus (note 7)	8,068	6,154
Deficit	(91,313)	(78,517)
Cumulative translation adjustment	(1,680)	(1,539)
Total shareholders' equity	31,432	43,584
	49,593	70,452

(See accompanying notes)

MITEC TELECOM INC.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands of Canadian dollars, except for amounts per share)
Unaudited

	For the three months ended		For the nine months ended	
	January 31,		January 31,	
	2006	2005	2006	2005
	(restated - note 7)		(restated - note 7)	
	\$	\$	\$	\$
Sales (note 5)	11,350	16,422	34,160	44,132
Cost of sales	9,544	12,609	30,059	38,006
Gross profit	1,806	3,813	4,101	6,126
Expenses				
Selling and administrative	2,074	2,736	8,386	8,617
Research and development	1,849	1,756	5,386	5,925
Amortization of intangibles	527	560	1,577	1,663
Financial expenses (note 10)	254	132	1,095	471
Interest Income	-	-	-	-
Equity loss	-	-	-	-
Interest income	(87)	(109)	(257)	(284)
Services paid by the issuance of stock options (note 7)	113	295	785	917
Restructuring expenses	-	687	318	2,010
	4,730	6,057	17,290	19,319
Loss before income taxes	(2,924)	(2,244)	(13,189)	(13,193)
Income tax expense (recovery)	(147)	(184)	(445)	(242)
Loss from continuing activities	(2,777)	(2,060)	(12,744)	(12,951)
Loss from discontinued activities	(22)	(311)	(52)	(185)
Net loss for the period	(2,799)	(2,371)	(12,796)	(13,136)
Basic and diluted loss per common share				
Loss from continuing activities	(0.04)	(0.03)	(0.17)	(0.18)
Loss from discontinued activities	(0.00)	(0.00)	(0.00)	(0.00)
Net loss	(0.04)	(0.03)	(0.17)	(0.18)
Weighted average number of outstanding common shares – basic	76,405,263	73,158,901	76,405,263	72,099,155

(See accompanying notes)

MITEC TELECOM INC.
INTERIM CONSOLIDATED STATEMENTS OF DEFICIT
(In thousands of Canadian dollars)

	For the three months ended		For the nine months ended	
	January 31,		January 31,	
	2006	2005	2006	2005
	(restated - note 7)		(restated - note 7)	
	\$	\$	\$	\$
Deficit, beginning of the period	(88,514)	(64,631)	(78,517)	(53,176)
Loss for the period	(2,799)	(2,371)	(12,796)	(13,136)
Transitional adjustment for stock-based compensation	-	-	-	(690)
Deficit, end of the period	(91,313)	(67,002)	(91,313)	(67,002)

(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 nine months ended	
	2006	January 31, 2005 (restated - note 7)	2006	January 31, 2005 (restated - note 7)
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Loss from continuing activities	(2,777)	(2,060)	(12,744)	(12,951)
Add items not affecting cash:				
Amortization and write-down of property, plant and equipment, intangible assets and deferred charges	1,276	2,003	3,964	5,988
Loss (gain) on disposal of property, plant and equipment	1	-	26	(2)
Future income tax	-	-	-	(40)
Services paid by the issuance of stock options	113	295	785	917
Write-down of recognized non-refundable investment tax credit	-	-	-	348
	(1,387)	238	(7,969)	(5,740)
Changes in non-cash working capital balances related to operations	807	(1,314)	4,420	2,043
Cash flows relating to operating activities	(580)	(1,076)	(3,549)	(3,697)
INVESTING ACTIVITIES				
Additions to property, plant and equipments and intangible assets	(131)	(258)	(334)	(739)
Proceeds on disposal of property, plant and equipment	46	19	54	55
Increase in deferred charges	-	(1)	-	(3)
Purchase of short-term investments	(6,921)	(3,028)	(13,098)	-
Sale of short-term investments	7,587	-	19,881	4,973
Cash flows relating to investing activities	581	(3,268)	6,503	4,286
FINANCING ACTIVITIES				
Increase in bank indebtedness	977	2,283	2,847	5,498
Repayment of bank indebtedness	(478)	-	(2,493)	-
Repayment of long-term debt	(179)	(178)	(533)	(497)
Repayment of obligations under capital lease	(2)	(135)	(32)	(442)
Issuance of common shares and warrants	-	1,069	-	1,773
Cash flows relating to financing activities	318	3,039	(211)	6,332
Cash flows relating to discontinued activities	103	(15)	(481)	(299)
Effect of exchange rate fluctuations changes on cash	(357)	(365)	(189)	(1,052)
Net increase (decrease) in cash and cash equivalents	65	(1,685)	2,073	5,570
Cash and cash equivalents, beginning of the period	7,577	12,510	5,569	5,255
Cash and cash equivalents, end of the period	7,642	10,825	7,642	10,825

Supplemental Information (note 8)

(See accompanying notes)

MITEC TELECOM INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2006

(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 satellite telecommunications 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 for interim financial statements on a consistent basis with the Company's annual consolidated financial statements for the year ended April 30, 2005. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the unaudited interim financial statements. Such adjustments are of a normal and recurring nature. The results of operations for the interim periods are not necessarily indicative of the operating results for the full year. For a full description of accounting policies, please refer 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
Accounts payable and accrued liabilities	(132)
Net assets acquired:	1,588

Consideration represented by:

Cash	864
Common shares issued [630,490 common shares]	724
	1,588

4. DISCONTINUED ACTIVITIES

On May 8, 2003, the Board of Directors approved a plan to divest its Swedish subsidiary, Beve Electronics AB («Beve»), which comprised of most of its Microwave sector. On August 29, 2003, the Corporation closed the sale of the business of Beve, 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

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4. DISCONTINUED ACTIVITIES (continued)

estate assets in Sweden, the Corporation had included, as part of their loss from discontinued activities an impairment charge of \$1,033,000 for the year ended April 30, 2005.

	For the three months ended		For the nine months ended	
	2006	January 31, 2005	2006	January 31, 2005
	\$	\$	\$	\$
Sales	-	71	-	243
Gain (loss) of discontinued activities	(22)	(311)	(52)	(185)
The assets and liabilities of the discontinued activities are as follow:		As at January 31, 2006		As at April 30, 2005
		\$		\$
Current assets		363		12
Land and Building, net		-		4,200
		363		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 39% of sales for the period ended January 31, 2006 (2005 – 40%) and 37% of trade receivables as at January 31, 2006 (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 \$5,720,000 was utilized at January 31, 2006, and a \$503,000 term facility. The Corporation was not in compliance with the financial covenant of this facility as at January 31, 2006. As a result, the Corporation has reclassified the long-term portion of the term facility in the amount of \$295,000 to current.

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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 January 31, 2006		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 January 31, 2006		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 January 31, 2006 and 2005, the effect of stock options and warrants potentially exercisable on the loss per common share was anti-dilutive, therefore basic and diluted loss per share are the same.

The following table shows a continuity of the options outstanding:

	As at January 31, 2006	
		\$
Balance, beginning of the period	3,703,850	1.69
Granted	725,000	0.35
Forfeited	(1,844,350)	1.10
Balance, end of the period	2,584,500	1.74
Options exercisable, end of the period	1,588,366	2.31

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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	1,210,000	0.40	8.7	547,733	0.45
\$0.83 to \$2.10	957,250	1.76	8.0	623,383	1.77
\$2.11 to \$3.90	71,500	3.57	5.7	71,500	3.57
\$3.91 to \$4.90	84,800	4.58	4.6	84,800	4.58
\$4.91 to \$6.50	229,950	6.21	1.9	229,950	6.21
\$6.51 to \$9.50	31,000	7.86	1.7	31,000	7.86
	2,584,500	1.74	7.5	1,588,366	2.31

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 January 31, 2006 was \$113,000 (2005 - \$295,000) and for the nine months period ending January 31, 2006 was \$785,000 (2005 - \$917,000). The stock-based compensation previously reported for the three months period ending January 31, 2005 was \$161,000 and was restated to \$295,000 and for the nine months periods ending January 31, 2006 was \$466,000 and was restated to \$917,000. 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 January 31, 2006 \$	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	785	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	8,068	6,154

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8. SUPPLEMENTARY CASH FLOW INFORMATION

	For the three months ended		For the nine months ended	
	2006	January 31, 2005	2006	January 31, 2005
	\$	\$	\$	\$
Accounts receivable and other receivables	(1,481)	(69)	4,266	8,612
Inventories	1,816	(1,170)	4,276	(2,745)
Prepaid expenses	520	241	189	607
Investment tax credits recoverable	(190)	(155)	(199)	(382)
Accounts payable and accrued liabilities	142	(161)	(4,112)	(4,049)
	807	(1,314)	4,420	2,043
Interest paid	123	110	355	252
Income taxes paid	-	168	-	345
Amortization of property, plant and equipment is included in:				
Cost of goods sold	327	377	979	1,092
Selling and administrative expenses	149	254	490	830
	476	631	1,469	1,922
Amortization of intangible assets				
Cost of goods sold	-	-	97	-
Amortization of intangible assets	527	560	1,577	1,663
	527	560	1,674	1,663
Amortization of deferred charges is included in:				
Cost of goods sold	122	146	367	570
Selling and administrative expenses and research and development	151	578	454	852
	273	724	821	1,422

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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"], and 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 January 31

	Telecom		Satcom		Consolidated amounts	
	2006	2005	2006	2005	2006	2005
					(restated – note 7)	
	\$	\$	\$	\$	\$	\$
Sales	6,084	11,206	5,266	5,216	11,350	16,422
Cost of sales	5,810	8,822	3,734	3,787	9,544	12,609
Gross profit	274	2,384	1,532	1,429	1,806	3,813
Expenses					4,730	6,057
Income tax recovery					(147)	(184)
Loss from continuing activities					(2,777)	(2,060)
Discontinued activities					(22)	(311)
Net loss for the period					(2,799)	(2,371)

Information pertaining to each segment for the nine months periods ended January 31

	Telecom		Satcom		Consolidated amounts	
	2006	2005	2006	2005	2006	2005
					(restated– note 7)	
	\$	\$	\$	\$	\$	\$
Sales	18,990	26,881	15,170	17,251	34,160	44,132
Cost of sales	19,326	25,802	10,733	12,204	30,059	38,006
Gross profit	(336)	1,079	4,437	5,047	4,101	6,126
Expenses					17,290	19,319
Income tax recovery					(445)	(242)
Loss from continuing activities					(12,744)	(12,951)
Discontinued activities					(52)	(185)
Net loss for the period					(12,796)	(13,136)

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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 nine months ended	
	January 31,		January 31,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Sales				
Canada	7,346	11,021	28,149	33,141
United States	145	-	864	1,364
China	4,932	6,950	10,908	14,968
United Kingdom	-	-	-	565
Inter-country	(1,073)	(1,549)	(5,761)	(5,906)
	11,350	16,422	34,160	44,132

The following table presents sales by destination of product

	For the three months ended		For the nine months ended	
	January 31,		January 31,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Canada	883	713	3,283	4,939
United States	4,166	5,416	11,559	14,332
Europe	1,963	3,211	9,769	12,019
Asia	3,544	6,639	7,517	11,089
Other	794	443	2,032	1,753
	11,350	16,422	34,160	44,132
Amortization of capital assets				
Telecom	337	467	1,077	1,436
Satcom	139	164	392	486
	476	631	1,469	1,922
Amortization of intangible				
Telecom	411	366	1,326	1,081
Satcom	116	194	348	582
	527	560	1,674	1,663

10. FINANCIAL EXPENSES

	For the three months ended		For the nine months ended	
	January 31,		January 31,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Interest on bank indebtedness	76	60	218	153
Interest on long-term debt	47	50	137	160
Foreign exchange	117	(15)	659	15
Bank charges and other fees	14	37	81	143
	254	132	1,095	471