



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 12-month period ended April 30, 2006 ("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, 2006. Mitec's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Corporation reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated and considers information available until July 28, 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 lack of availability of qualified personnel or management; fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility; and the impact of accounting policies issued by Canadian standard setters. Some of these factors are further discussed under Risks and Uncertainties below.

Although the Corporation believes that the expectations conveyed by the forward-looking statements are based upon information available on the date that such statements were made, there can be no assurance that such expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Corporation or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements.

OVERVIEW

Mitec Telecom Inc. was incorporated in 1972. 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, Siemens, Huawei, ADC, Radioframe and Lucent.

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 Datapath.

The Corporation has a history of losses over the past five years and currently does not have the necessary financing in place to support continuing losses. Historically, the Corporation has financed its operating and capital requirements mainly through issuances of debt and equity. The Corporation's continuation as a going concern is dependant upon, amongst other things, attaining a satisfactory revenue level, the support of its customers, a return to profitable operations and the generation of cash from operations, the ability to secure new financing arrangements and new capital. These matters are dependent on a number of items outside of the Corporation's control and there is significant uncertainty about the Corporation's ability to continue as a going concern.

Mitec's headquarters are in Pointe-Claire, Canada and the Corporation has other operations in Suzhou (China) and Reno (United States). As at April 30, 2006, the Corporation's global workforce stood at 425 employees.

MAJOR EVENTS

On June 4, 2005 Mitec announced that the Corporation was implementing new mandates for its primary manufacturing sites in Suzhou and Montreal. The production of most of its wireless infrastructure products destined for its customer base of global wireless OEMs has been transferred to its Suzhou manufacturing facility. This move was driven by the need to maximize manufacturing efficiencies, focus on value leadership and maintain close proximity to the growing Asian market for these products. The Montreal facility will exploit its highly skilled resources to develop and manufacture the Corporation's expanding range of innovative and more complex solutions for wireless operators and the satellite communications market. In addition, the Corporation also announced that its Executive Vice-President of Global Sales and Marketing, David Kennedy, left the Corporation to pursue other opportunities.

On July 1, 2005 Mitec concluded the sale of its buildings in Sweden that remained following the sale in 2003 of substantially all the assets of its Swedish subsidiary BEVE Electronics. The proceeds of the sale, approximately \$3.9 million, were used to fully repay the remaining debt outstanding associated with these assets. In addition, Mitec reached an agreement to sell the land in Sweden for approximately \$0.4 million. A non-cash adjustment of \$1.0 million was made to the 2005 fourth quarter results to adjust the book value for the net value realized in Canadian dollars and the proceeds from the sale of land were received on May 24, 2006.

On July 21, 2005, Mitec announced that its President and CEO, Rajiv Panchioly resigned. The Board of Directors named Mitec's long-time CFO, Keith Findlay, as its interim CEO. Stefano Bazzocchi was also appointed Acting CFO. The Board expressed its firm belief that Mr. Findlay will provide continuity and leadership required to guide Mitec through the challenges of the telecommunications industry.

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, Jean Marc Roberge, 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 secured two new contracts for its multi-carrier power amplifier (MCPA) products. The contracts are valued at over \$1.0 million. The first contract, awarded by a North American provider of converged platform solutions for wireless operators, calls for dual band MCPAs that 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 commenced in December 2005.

On January 11, 2006, the Corporation announced that it received initial purchase orders valued approximately \$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.

On April 3, 2006, Mitec announced that it received new purchase orders for its Block Up-Converters (BUCS) valued at approximately \$1.5 million. The first order is from a global satellite communications company that delivers complete solutions to customers in broadcasting, telecommunications, Internet, industry and government markets. Mitec's BUCs, as well as redundancy kits and other accessories, will be deployed by a European telecom operator in Africa to support a network for remote cellular backhaul. The second purchase order is from a worldwide systems integrator specializing in customized satellite earth terminals and mission-critical network solutions for governments and businesses. Mitec's products will ultimately be deployed in defence applications.

On April 20, 2006, Mitec announced that its high-power block up converters (BUCs) were selected to support a network for GSM backhaul in Africa. Mitec's C-Band BUCs were jointly selected by a major Asian network provider and a prominent Asian network operator, who are partnering to provide the network. Deliveries are scheduled to commence in the first quarter of fiscal 2007.

On May 12, 2006, Mitec announced that Jeffrey A. Mandel was appointed to its Board of Directors.

On May 23, 2006, Mitec announced that it commenced volume production of a new radio frequency filter product derived from the Company's proprietary Lid Mounted Resonator (LMR) technology, and that it received purchase orders for its filter products from a major Tier 1 OEM valued at approximately \$2.1 million. This customer has committed to make Mitec its prime supplier of filter products for its next-generation base stations.

On July 28, Mitec's Board of Directors announced that David Scott left the Board in order to concentrate on his other business obligations. Hubert Marleau, who has been a member of the Company's Board since 1996, has been appointed Interim Chair.

MARKET TRENDS

Telecom

While spending on wireless networks continued on a global basis Mitec saw major impacts to its revenues because of its customer base. One major customer exited the IS97 CDMA market while the second customer saw a lower than expected level of sales on its new GSM platform. Going forward, Mitec is seeing a stronger demand in the forecasts provided for this new platform. The sales team continues to work with new OEM's in order to grow the OEM side of the business.

GSM base station network hardware continues to be commoditized and OEM's with scale along with a large market share are capable of keeping the pace of base station price erosions due to decreasing ARPU (Average Revenue Per User). OEM mergers are driven by this factor with the Alcatel / Lucent and Nokia / Siemens mergers being prime examples. The Nokia / Siemens merger will create a wireless behemoth similar in many aspects to Ericsson. Mitec expects to see more mergers of this nature with the implications to our OEM business yet to be foreseen.

Overall, GSM infrastructure continues to be built out in developing nations and with this comes the need for network enhancement products. Mitec continues to deliver booster amplifiers into the China Mobile network through an integrator. Over the past year, Mitec has seen increased bidding activity with respect to this type of product.

WCDMA HSDPA networks are delivering the data rates originally envisioned for 3G networks and these networks will continue to roll out over the next few years on a global basis. While Mitec does not have a direct OEM play here, Mitec expects to benefit from second tier players who provide coverage expansion solutions. Mitec has started to roll out its WCDMA product line and the products have been well received to date.

NGN (Next Generation Network) markets continue to offer up next generation wireless last mile solutions, yet there is still no clear indication which standard will lead the way. Much attention is focused around 802.16e backed by Intel but there are other camps with WCDMA LTE (Long Term Evolution), backed by Ericsson, along with CDMA Rev B and FOFDM, backed by Qualcomm. While highly speculative, there are considerable opportunities for Mitec.

Overall wireless networks continue to evolve and, as a result, the business environment is in a state of continuous flux. Operators have to face network evolution to facilitate content provisioning with the hopes of driving revenues and profitability. OEM's have to deliver these networks with cost effective evolution paths between rapidly changing standards.

Satcom

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

Mitec's VSAT Block Up Converter (BUC) and Solid State Power Amplifier (SSPA) products and solutions are expected to contribute to revenue growth over the next 12-18 months. These products are suitable for both commercial and military applications and are priced competitively with respect to the market. Mitec's BUC and SSPA products are well positioned in the more niche high power segment of the market where there is less competition.

SSPA system solutions offer good value to customers in terms of dollars per watt and long term reliability when compared to the more conventional Traveling Wave Tube (TWT) solution supplied by others. Over the next 3-5 years, the Satcom industry is expected to transition more towards SSPAs for both new installations and replacement applications. The TWT replacement market is larger than the new SSPA market and Mitec's SSPA products offer a more robust solution for demanding military applications. Mitec's discrete SSPA and SSPA system solutions are well positioned to address this market.

On the commercial side of the market, there is a trend towards very large waveguide switching and combining networks for large teleports and DBS uplinks or very small antenna hub-mounted systems used as VSAT hubs. The market for medium-sized systems is flat or in slight decline, but the market for smaller antenna hub-mounted systems is expected to increase over the next 2-3 years and compensate for the decline in medium-sized systems. Ordinarily this market shift would cause a decline in Mitec's network sales, but by integrating small waveguide networks with SSPAs as SSPA solutions, the increased sales value of the smaller systems should compensate for this market shift. Mitec is also seeing an increase number of BUC opportunities for MESH Network VSAT systems used for cellular backhaul for projects in developing countries.

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

BUSINESS STRATEGY

Mitec's core competence in the development and manufacture of leading RF hardware remains key as the world increasingly moves towards wireless as the preferred connection medium at network edges. With a challenging year behind us, Mitec will continue to focus on niche opportunities that will contribute high gross margins.

Focusing Research and Development ("R&D") on active products and technologies (power amplifiers, SSPA's and BUC's)

- Higher gross margin PA markets.
- High commonality of design resources within the development team.
- Reduce the Time to Market for new designs.

Market diversification:

- Broadcast Arena (SDARS).
- Operator based network coverage and expansion products.
- Develop BUC and SSPA products for the military markets.

Customer diversification:

- New cost structure with all wireless OEM filter products manufactured in China.
- Leverage initiatives from disruptive technologies (LMR) as a cost enabling technology for product diversification within existing OEM's.
- Grow market share by penetrating into new OEM's on the basis of innovative cost solutions.

The Corporation has the following key objectives:

Focus on the Growing Telecommunication Market

Mitec intends to apply the technological expertise it has developed over the past 33 years in radio frequency ("RF") products by continuing to develop products for Telecom and Satcom infrastructure equipment markets.

Achieve Technological Leadership

Mitec intends to continue its efforts to achieve performance leadership in RF products through the design and timely commercialization of on-going advances in amplifiers, multi-carrier amplifiers, RF subsystems, filters, flexible waveguides, redundancy switching systems and other related products and technologies. 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, as demonstrated by its success in establishing the LMR technology.

Create New Value-Added Products

Mitec intends to further enhance its position in the base station market by expanding the capabilities of its subsystems and multi-function subsystems (MFSs) to encompass a greater portion of the base station functionality. For example, within the Telecom segment, there is an increasing need for monitoring and alarm and control products, which oversee the functioning of the varied equipment in satellite earth stations and broadcast transmission sites. Mitec has developed a capability for such products and Mitec's activities in this field have progressed to become a distinct department with its own firmware and software engineering capabilities. In our Satcom segment, promising advances have been made regarding the SRS/SSPA product lines and we foresee our clients benefiting from the bundling effect of these products.

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 Corporation's capabilities in integrating numerous functions into single units will enable the Corporation 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.

SELECTED ANNUAL FINANCIAL INFORMATION

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

Years ended April 30 (Amounts in thousands except per share data)	2006	2005	2004
	\$	\$	\$
Sales	44,510	57,483	84,324
Gross profit	5,346	5,405	17,464
SG&A	9,147	12,303	11,513
R&D	7,335	7,919	6,744
Amortization of intangible assets	2,118	2,239	2,203
Financing expenses	1,286	789	1,830
Impairment of building	-	-	312
Restructuring and other expenses	1,764	2,222	155
Write-down on property, plant and equipment	470	930	-
Write-down of intangible assets and goodwill	363	1,943	-
Loss from continuing operations	(17,042)	(23,378)	(5,480)
Net loss	(17,163)	(24,651)	(7,002)
Loss per share – basic and diluted:			
- Continuing operations	(0.22)	(0.32)	(0.10)
- Net loss	(0.22)	(0.34)	(0.13)
Cash dividend paid	-	-	-
Total assets	46,972	70,452	92,175
Long-term debt	1,911	2,618	3,291
Cash and temporary investments	11,557	17,798	18,255

Mitec calculates EBITDA from continuing operations as follows:

Years ended April 30 (Amounts in thousands)	2006	2005	2004
	\$	\$	\$
Loss from continuing operations	(17,042)	(23,378)	(5,480)
Income taxes	(594)	(379)	342
Amortization	5,283	6,530	5,730
Loss on disposal and write down of property, plant and equipment	563	930	365
Loss on write-down of intangible assets and goodwill	363	1,943	-
Interest	142	24	1,210
EBITDA from continuing operations	<u>(11,285)</u>	<u>(14,330)</u>	<u>2,167</u>

RESULTS OF OPERATIONS

Sales

Sales for fiscal 2006 decreased \$13.0 million to \$44.5 million, or 22.6% as compared to fiscal 2005. The Telecom segment, which contributed 55% of total revenues, decreased by \$10.9 million to \$24.5 million, or 31% compared to fiscal 2005 mainly because of decreased demand from customers. The Satcom segment, which contributed 45% of total revenues, decreased by \$2.1 million to \$20 million, or 10% compared to fiscal 2005. Most of this decrease can be attributed to general fluctuations in opportunities for application engineered products. Both segments were negatively impacted by the rise of the Canadian dollar in relation to the US dollar in fiscal 2006.

Total sales in fiscal 2005 decreased by 32% to \$57.5 million from \$84.3 million in fiscal 2004. The major decrease came from the Telecom business segment, a decrease of 49%, while sales in the Satcom sector offset the decrease by showing an increase of 50%.

Telecom

(Amounts in thousands, except as indicated)		2006	2005	2004
Sales	\$	24,542	35,422	69,607
% of total revenues	%	55.1	61.6	82.5

Sales in this segment are derived from wireless RF components sold to network equipment providers such as Ericsson, Nortel and Siemens. The \$10.9 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. This decrease would have been more substantial were it not for the offsetting nature of power amplifier sales in the year to customers such as Radioframe, CMT and ADC/OpenCell. In addition, the shortfall was partially offset by the sale of excess inventory in the first quarter to a major customer arising from previously committed forecasts from that customer.

Sales were down by 49% from \$69.6 million in fiscal 2004 to \$35.4 million in fiscal 2005 this was mainly due to pushed out orders, delays in new product introductions and the weak GSM market in North America.

Satcom

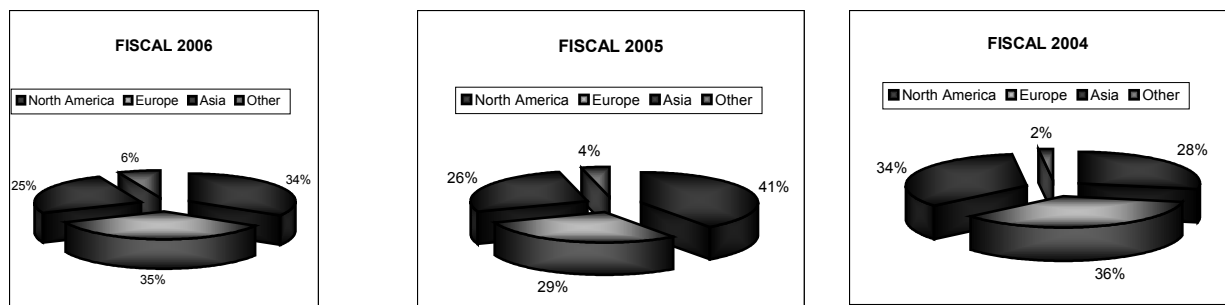
(Amounts in thousands, except as indicated)		2006	2005	2004
Sales	\$	19,968	22,061	14,717
% of total revenues	%	44.9	38.4	17.5

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 decreased by 10% from \$22.1 million in fiscal 2005 to \$20.0 million in the 2006 fiscal year. The decrease is

attributable to the timing of customer purchasing patterns as well as to general fluctuations in opportunities for application engineering products.

During fiscal 2005, Satcom sales increased by 50% from \$14.7 million to \$22.1 million. This increase was primarily due to increased VSAT product sales, which stemmed from the purchase of the Satcom and PCS assets from Wavesat in 2004.

Revenue By Geographical Segment



One of Mitec's objectives is to obtain a balanced geographical market. That objective continued to be met in fiscal 2006 with the continued expansion in the Asian marketplace.

Gross Profit

Gross profit for fiscal 2006 of \$5.3 million remained relatively stable as compared to 2005. The gross profit in the Telecom segment, increased by \$0.9 million to \$(0.3) million, or 75% compared to fiscal 2005. The Satcom segment decreased by \$1.0 million to \$5.6 million, or 15% compared to fiscal 2005. The overall gross margin increased to 12% in fiscal 2006 from 9% in fiscal 2005, mainly due to the margin improvement due to the transfer of the RF conditioning manufacturing to China, as well as improved product mix.

Telecom

(Amounts in thousands, except as indicated)		2006	2005	2004
Gross profit	\$	(267)	(1,220)	12,881
Gross margin	%	(1.0)	(3.4)	18.5

The gross profit increased 75% from \$(1.2) million to \$(0.3) million mainly as a result of the transfer of wireless product manufacturing to China. This impact was offset by lower sales activity, which resulted in a reduced overhead absorption.

In fiscal 2005, Mitec experienced a gross margin of (3.4)% in the Telecom segment, as compared to 18.5% in fiscal 2004. This decline was attributable to certain end of life inventory provisions, inventory ramp up costs and obsolescence write-downs. In 2005, these amounted to approximately \$3.4 million.

Satcom

(Amounts in thousands, except as indicated)		2006	2005	2004
Gross profit	\$	5,613	6,625	4,583
Gross margin	%	28.1	30.0	31.1

Gross profit decreased by 15% from \$6.6 million in fiscal 2005 to \$5.6 million in fiscal 2006 reflecting decreased sales. Gross margin decreased slightly to 28.1% from 30% due to the product mix and to reduced sales levels leading to decreased overhead absorption.

Gross profit in the Satcom segment increased from \$4.6 million in fiscal 2004 to \$6.6 million in fiscal 2005. This was achieved through cost cutting measures and a sales mix of higher margin products including a higher proportion of VSAT products that were acquired from Wavesat in 2004.

Research and Development Expenses

R&D, net of investment tax credits, for fiscal 2006 decreased 7% to \$7.3 million. The decrease is mainly due to the consolidation of the R&D facilities into the Montreal, Suzhou (China) and Reno locations executed in fiscal 2005. The anticipated savings were offset by continued efforts in designing and maintaining new and existing products as well as a write-down of non-refundable tax credits of \$0.6 million.

Amortization of Intangible Assets

The amortization of intangible assets decreased slightly from \$2.2 million in fiscal 2005 compared to \$2.1 million in 2006.

Selling and Administrative Expenses

The Corporation's selling and administrative expenses for fiscal 2006 decreased 26% to \$9.1 million as compared to fiscal 2005. The decrease was mainly due to cost cutting measures implemented during the previous quarters.

Financial Expenses

Financial expenses were \$1.3 million for fiscal 2006 as compared to \$0.8 million in fiscal 2005. This increase is as a result of foreign exchange losses incurred in the year.

In addition, the Corporation recorded interest revenue of \$0.3 million compared to \$0.4 million in 2005.

Write-Down of Property, Plant and Equipment

Management periodically reviews the property, plant and equipment carrying value in light of the Corporation's strategic plan and general business environment. During the year, it was determined that a write-off of net book value of \$0.5 million (cost of \$1.9 million net of accumulated depreciation of \$1.4 million) was required and was charged to income.

In 2005, as a result of the closure of the New Jersey (United States) and Dunstable (United Kingdom) research and development facilities, management recorded an impairment charge on property, plant and equipment with a carrying value of \$0.9 million.

Write-Down of Intangible Assets and Goodwill

Management periodically reviews the carrying value of the intangible asset portfolio whenever there is an indication of impairment. In the current year, management determined that the carrying value of the customer relationships with specific customers in the Telecom segment was impaired, as the volume of sales to certain customers no longer supported the carrying value. An impairment charge in the amount of \$0.4 million was recorded. In addition, the Corporation wrote-off certain software licenses which it no longer considered useful with a net book value of \$13,000 (cost of \$429,000 net of accumulated amortization of \$416,000).

In 2005, management made a decision to no longer pursue its linearizer product line; pursuant to this decision, the Corporation wrote-off the related intangible asset with a net value of \$1.9 million (cost of \$2.8 million net of accumulated amortization of \$0.9 million), through a charge to income. As a result of the closure of the facilities in the United Kingdom in 2005, the Corporation determined that the goodwill related to the original acquisition in the United Kingdom was impaired and wrote off the related goodwill, which had a net book value of \$44,000.

Restructuring and Other Expenses

Restructuring expenses and other expenses were \$1.8 million for fiscal 2006 compared to fiscal 2005 expenses of \$2.2 million. The charge in 2005 is related to restructuring charges caused by the closure of the New Jersey (US) and Dunstable (UK) research and development facilities, which have been consolidated into the Montreal and China facilities. These charges consisted of severance payments of \$0.4 million, property plant and equipment impairments of \$0.9 million (see write-down of Property, Plant and Equipment section) and closure costs including lease termination costs of \$1.5 million. During the year, the Corporation recorded additional lease termination costs of \$0.3 million, which were all paid in the year.

In addition, during the year, the Corporation incurred termination costs related to certain executives and total payments incurred in the year amounted to \$1.2 million.

Pursuant to the Corporation's Board of Director's decision, the Corporation engaged an external financial consultant to aid it in the evaluation of certain strategic alternatives. The Corporation has accrued \$0.2 million for these services.

In 2003, Mitec sold its subsidiary in Thailand and recorded a balance of sale receivable. The second instalment of \$0.375 million was due in July 2004, with the third and final instalment of \$0.375 million due in July 2005. The Corporation agreed to postpone the July 2004 payment to January 2005 in exchange for making the instalments interest bearing. The Corporation received approximately half of the amount due for the second instalment in January 2005. As a result of delays in the payments and concern about the purchaser's ability to pay these instalments on a timely basis, the Corporation has taken a provision of \$0.3 million against the remainder of the receivable. In January 2006, the Corporation collected the balance of sale and therefore concluded the transaction.

Non-Cash Stock-Based Compensation

Effective May 1, 2004, the Corporation elected to adopt, on a retroactive basis, the new amendments related to section 3870 of the CICA Handbook "Stock-Based Compensation and Other Stock-based payments". The effect of the amendment requires the recognition of expenses for all employees, management and director compensation transactions. The amount recorded during the year was \$0.9 million (\$1.2 million in 2005). Included in the current year expense was a charge of \$0.5 million due to the vesting of certain options related to the termination of certain executives.

Net Loss

The net loss for fiscal 2006 was \$17.2 million, or \$0.22 per share, as compared to \$24.7 million, or \$0.34 per share, in fiscal 2005. The decrease in net loss of \$7.5 million consisted of a decrease in the loss from continuing operations of \$6.3 million and a reduction in the loss from discontinued operations of \$1.2 million.

Loss From Continuing Operations

The loss from continuing operations for fiscal 2006 was \$17.0 million, or \$0.22 per share, as compared to \$23.4 million, or \$0.32 per share, in fiscal 2005. The decrease in loss was the result of several factors including decreased operating costs, better margins on lesser sales, and lesser write-downs of intangible assets and various obsolescence and end of life inventory provisions.

DISCONTINUED OPERATIONS

On August 29, 2003, Mitec concluded the sale of Beve Electronics AB to Note AB, a Swedish Corporation. The sale included inventory and equipment. The proceeds from this sale directly reduced both Mitec's bank indebtedness and accounts payable. The sale did not include the real estate assets, but Mitec did sign long-term leases with Note AB, securing some of the property's market value.

This segment has been treated as a discontinued operation. The loss attributed to discontinued operations was \$1.3 million for fiscal 2005 compared to \$0.1 million in fiscal 2006.

SELECTED QUARTERLY FINANCIAL INFORMATION

(Amounts in thousands except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	\$	\$	\$	\$
<i>For the fiscal year ended April 30, 2006</i>				
Sales	13,292	9,518	11,350	10,350
Loss from continuing operations	(5,179)	(4,788)	(2,777)	(4,298)
Net (loss)	(5,262)	(4,735)	(2,799)	(4,367)
Loss per share – basic and diluted:				
- Continuing operations	(0.07)	(0.06)	(0.04)	(0.06)
- Net loss	(0.07)	(0.06)	(0.04)	(0.06)
<i>For the fiscal year ended April 30, 2005</i>				
Sales	11,427	16,283	16,422	13,351
Loss from continuing operations	(6,043)	(4,848)	(2,060)	(10,428)
Net (loss)	(5,897)	(4,868)	(2,371)	(11,516)
Loss per share – basic and diluted:				
- Continuing operations	(0.08)	(0.07)	(0.03)	(0.14)
- Net loss	(0.08)	(0.07)	(0.03)	(0.15)

LIQUIDITY AND CAPITAL RESOURCES

Operating Activity Cash Flows

(Amounts in thousands)	2006	2005	2004
	\$	\$	\$
Cash flow from operations	(9,990)	(12,409)	987
Net change in non-cash working capital balances related to continuing operations	5,210	7,696	(9,026)
Cash flow used in operating activities	(4,780)	(4,713)	(8,039)

Operating Cash Flows

Cash flow used by operations before working capital changes was \$10 million compared with \$12.4 million in 2005. This was a direct result of the decrease in the loss recorded in the year.

The net change in non-cash working capital shows an inflow of \$5.2 million as compared to an inflow of \$7.7 million in 2005. This is mainly as a result of the reduction in accounts receivable and inventory. This is offset by an outflow relating to the decrease in the accounts payable of the Corporation.

Investing Activities

Cash flow generated from investing activities was \$1.8 million as compared to a usage of \$1.1 million in 2005. The change is due to the net sale of investments somewhat offset by reduced capital expenditures in 2006 as opposed to more significant capital expenditures in 2005 as well as a business acquisition.

Financing Activities

Financing activities resulted in a net cash outflow of \$0.4 million as compared to a net inflow of \$6.8 million in 2005. In 2005, the Corporation drew on its line of credit in the amount of \$6.0 million, and repaid long-term debt. The Corporation also received inflows of \$2.3 million as a result of the exercising of warrants and stock options into common shares. These events did not reoccur in 2006.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following is a summary of the Corporation's material contractual obligations.*

(Amounts in thousands of dollars)	Payments due by period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Long-term debt	1,911	953	958	-	-
Operating leases	171	86	79	6	-
Total contractual obligations	2,082	1,039	1,037	6	-

* All data as at April 30, 2006

On March 9, 2005, the Corporation purchased the assets of Broadband Wireless LLC. Pursuant to the asset purchase agreement, the Corporation is committed to a royalty arrangement with the vendor. The Corporation is committed to sales royalties of US \$12 per unit sold, for a 3-year period commencing on the first anniversary of the closing date to a maximum of US \$1.2 million. The royalty payments will be charged against the cost of sales when the related products are sold.

FINANCIAL INSTRUMENTS

In fiscal 2005, the Corporation entered into 3 foreign exchange contracts for the sale of US \$1.5 million each (for a total of US \$4.5 million) at an exchange rate of 1.4030 maturing from January 2005 to March 2005. During the year, the Corporation concluded five additional contracts to sell US \$6.0 million at an average rate of \$1.169 per US\$. The contracts matured at a rate of one per month from November 2005 to February 2006. The company did not have any open contracts as at April 30, 2006.

OFF-BALANCE SHEET ITEMS

At April 30, 2006, Mitec did not have any off balance sheet items.

CHANGE IN ACCOUNTING POLICIES

A summary of the Corporation's significant accounting policies can be found in Note 2 of the "Notes to Consolidated Financial Statements". On May 1, 2005, the Corporation adopted the CICA's recommendations on Consolidation of Variable Interest Entities ["VIEs"]. These recommendations provide a new framework for identifying VIEs and determining when a company should include the assets, liabilities and results of operations of VIEs in its consolidated financial statements. Management has concluded that the Corporation did not have any VIEs for the year ended April 30, 2006.

SUBSEQUENT EVENTS

On May 24, 2006, the Corporation collected the remaining proceeds from the sale of the land held in Sweden in the amount of \$0.2million.

On July 5, 2006, the Corporation sold its Swedish corporate entities for a nominal amount. As a result, the Corporation will lose the benefit of certain unrecorded tax assets including losses carried forward.

On July 5, 2006, the Corporation reimbursed its bank indebtedness in the amount of \$6.1 million. Funds to reimburse this facility were obtained by selling certain of its short-term investments.

PROPOSED CHANGES IN ACCOUNTING POLICIES

Section 1530 – Comprehensive Income of the CICA Handbook 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, 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, 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.

In June 2005, the CICA released a new Handbook 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.

PROPOSED TRANSACTIONS

On a continual basis, Management and the Board of Directors review opportunities for mergers, acquisitions or divestures that could increase shareholder value. At the present time, the Corporation has not entered into any signed definitive agreements involving the acquisition or disposition by the Corporation of assets or businesses.

SIGNIFICANT ACCOUNTING ESTIMATES AND PROVISIONS

The preparation of financial statements requires the Corporation to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies in regard to the level of judgment involved and its potential impact on the Corporation's reported financial results. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are

reasonably likely to occur from period to period, and would materially impact the Corporation's financial condition, change in financial condition or results of operations. The Corporation's significant accounting policies are discussed in Note 2 of the "Notes to Consolidated Financial Statements"; critical estimates inherent in the accounting policies are discussed in the following paragraphs.

Inventory Valuation

The Corporation records a provision to reflect management's best estimate of the net realizable value of the inventory. The provision is calculated considering inventory aging and current and future expectations with respect to product offerings. Assumptions underlying the allowance for inventory obsolescence include future sales trends and offerings. The estimate of the Corporation's allowance for inventory obsolescence could materially change from period to period due to changes in product offering and customer acceptance of those products. Management reviews the entire provision to assess whether, based on economic conditions, it is adequate.

Impairment of Long-Lived Assets

The Corporation assesses the recoverability of long-lived assets when there are indications of potential impairment. In performing this analysis, the Corporation considers such factors as current economic conditions, trends and future prospects, current market value and other economic factors, in preparing its estimated undiscounted future cash flows. These estimates could materially change the resulting cash flows and estimated fair values usually based on discounted cash to determine impairment. During the year, it was determined that a write-off of net book value of \$0.5 million was required and charged to income.

Valuation of Intangible Assets and Goodwill

Intangible assets and goodwill are established at the date of acquisition and afterward are assessed annually or whenever there is an indication of impairment, and if necessary, written down for any impairment. These determinations involve considerable judgment including those with respect to cash flows, discount rates and asset lives. These determinations will affect the impairment write-off, if any, and the amount of amortization expense to be recognized in future periods. A \$1.9 million write-off was recorded in 2005 due to management's decision to no longer pursue its linearizer product line. In addition, as a result of the closure of the facilities in the UK, the Corporation deemed that the goodwill related to the original acquisition in the UK was impaired and wrote-off the related goodwill, which had a net carrying value of \$44 thousands. In 2006, the Corporation wrote-down its intangibles related to customer relationships with a charge of \$0.4 million due to the fact that it was deemed non-recoverable.

Research and Development Costs

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

Allowance for Doubtful Accounts

The Corporation records an allowance for doubtful accounts to reflect Management's best estimate of losses inherent to its portfolio of receivables as of the balance sheet date although the majority of its receivables are insured. The calculation takes into consideration payment records, collection attempts, bankruptcy filings and economic events. Management believes that the allowance of doubtful accounts is adequate to cover anticipated losses under current

conditions. However, significant deterioration in any of the above factors, or in the health of the economy, could significantly change these expectations.

Income Taxes

The Corporation accounts for future income tax assets mainly from losses carried-forward and deductible temporary differences. Management assesses and reviews the realization of these future income tax assets to determine whether a valuation allowance or provision is required. Based on that assessment, it is determined whether it is more likely than not that all or a portion of the future income tax assets will be realized. Factors taken into account include future income based on internal forecasts, losses in recent years and their expiry dates, history of losses carried-forward as well as reasonable tax planning strategies.

Restructuring Provision

When Management and the Board of Directors decide for strategic reasons to exit or streamline a facility, an estimation of a restructuring provision is made. This would include severance costs to employees and operating lease termination costs and any impairment of assets are recorded at the time the decision is taken. As of April 30, 2006, the restructuring provisions recorded were considered adequate.

Warranty Provision

The Corporation records a warranty provision on the sale of certain VSAT products, which contain active components. This estimate is based on historical repair frequency and related costs. Management reviews the provision on an on-going basis and the provisions at April 30, 2006 were considered adequate.

Stock-Based Compensation

The Corporation estimates the fair value of stock options granted to employees, officers and Directors. As at April 30, 2006 a total of 2,403,500 stock options were outstanding, of which 1,421,366 were exercisable. Effective May 1, 2004, the Corporation retroactively and without restatement, recorded the compensation expense for options granted based on their fair value determined using the Black-Scholes option pricing model. Volatility of the Corporation's shares, the prevailing risk-free interest rate, the expected dividend yield and the expected life of the options are estimates made by Management considered in the calculation.

CERTIFICATION ON DISCLOSURE CONTROLS AND POLICIES AND OTHER CORPORATE GOVERNANCE POLICIES

At April 30, 2006, Management proceeded with its certification on disclosure controls and procedures by its Chief Executive Officer and Chief Financial Officer.

Disclosure controls and procedures have the general objective of seeking to ensure that information disclosable by the Corporation in its reports, regulatory statements, filings and other communications is recorded, processed, summarized and reported on a timely basis. This information also includes controls to ensure compliance with Canadian disclosure requirements beyond the Corporation's consolidated financial statements.

The Disclosure Policy Committee of the Board of Directors has the responsibility to ensure that management has access to all information that must be disclosed in the Corporation's public reporting to provide accurate and complete information to security holders.

It also ensures that the CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures for the Corporation and they have:

- designed such disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Corporation, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared; and
- evaluated the effectiveness of the Corporation's disclosure controls and procedures as of the end of the period covered by the annual filings and concluded that the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluations are adequate.

The required certification on disclosure controls and procedures was filed on SEDAR.

The Corporation has a Code of Business Conduct, which establishes a high standard for ethical behavior throughout the Corporation, as well as a Whistleblower Policy, which encourages and enables employees to raise any serious concerns, particularly in relation to the violation of laws within the Corporation, without fear of reprisal or discrimination.

RISKS AND UNCERTAINTIES

Mitec operates in industry segments that have a variety of risk factors and uncertainties. The Corporation'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 presently or currently immaterial may also adversely affect its business in the future.

Going Concern Uncertainty

The accompanying consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Corporation has a history of losses over the past five years and currently does not have the necessary financing in place to support continuing losses. Historically, the Corporation has financed its operating and capital requirements mainly through issuances of debt and equity. The Corporation's continuation as a going concern is dependant upon, amongst other things, attaining a satisfactory revenue level, the support of its customers, a return to profitable operations and the generation of cash from operations, the ability to secure new financing arrangements and new capital. These matters are dependent on a number of items outside of the Corporation's control and there is significant uncertainty about the Corporation's ability to continue as a going concern.

The consolidated financial statements do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. If the going concern basis was not appropriate for these consolidated statements, significant adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses, and the balance sheet classifications used.

Management's plans with respect to the uncertainties described are as follows:

1. Continuing negotiations with financial institutions to obtain additional financing;
2. Approaching potential investors to secure additional financing;
3. Investigating a range of alternatives for its Telecom and Satcom business units which could include asset or business dispositions, and;
4. Rationalizing operations to reduce expenses.

Management believes that with the above plans and the continued support of the Corporation's current shareholders and customers, it will be able to continue operating as a going concern. There can, however, be no assurance that such plans will be sufficient to continue to operate as a going concern.

Industry Risk

Our success in the commercial wireless market depends in large part on investments by our customers in 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 Corporation has exposure due to its reliance on certain large contracts and customers. In fiscal 2006, the Corporation's largest customer accounted for 41% of its sales. Mitec has signed a multi-year letter of intent with this customer. Although the Corporation 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 business 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 Corporation 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 Corporation's ability to meet its obligations.

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 Corporation generates cash from its foreign subsidiary. The process to repatriate this cash back to Canada is subject to government laws and could be restricted.

General Economic Conditions

Unfavourable economic conditions may adversely affect the business of the Corporation. 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 Corporation'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 Corporation's operations and financial situation. The Corporation 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.

FOURTH QUARTER 2006 RESULTS

Three-month periods ended April 30 (Amounts in thousands)	2006	2005
	\$	\$
Sales		
Telecommunications	5,552	8,541
Satcom	4,798	4,810
Total	10,350	13,351
Gross profit	1,245	(721)
R&D	1,949	1,994
SG&A	1,976	3,686
Net interest expense	44	(4)
Write-down of property, plant and equipment	470	930
Write-down of intangibles and goodwill	363	1,943
Net loss from continuing operations	(4,298)	(10,428)
Net loss from discontinued operations	(69)	(1,088)
Net loss	(4,367)	(11,516)
EBITDA from continuing operations	(2,185)	(7,155)

The net loss for the fourth quarter was \$4.3 million, or \$0.06 per share, compared to \$11.5 million, or \$0.15 per share in fiscal 2005. The decrease in net loss of \$7.2 million consisted of a decrease in the loss from continuing operations of \$6.2 million and a decrease in the loss from discontinued operations of \$1.0 million.

The net loss from continuing operations for the fourth quarter was \$4.2 million, or \$0.05 per share, compared to \$10.4 million, or \$0.14 per share in fiscal 2005. The decrease in loss was primarily attributable to decreased operating costs, improved margins on lesser sales and to less significant special charges incurred.

Mitec's sales for the fourth quarter reached \$10.4 million, a 22% decrease over the \$13.4 million reported in the fourth quarter of fiscal 2005. Weak Telecom sales to a Tier 1 customer as it transitions to a new base station platform contributed to this decrease.

Gross profit for the fourth quarter was \$1.2 million, compared to \$(0.7) million in the prior period due primarily to inventory obsolescence and end of life provisions recorded in the Telecom segment in 2005. In addition, Mitec's transfer of certain manufacturing to its Chinese facility led to anticipated improvements in gross margins. Operating expenses for the fourth quarter were significantly curtailed to \$3.9 million, compared to \$5.7 million in the fourth quarter of fiscal 2005.

EBITDA from continuing operations was \$(2.2) million in the fourth quarter of fiscal 2006 compared to \$(7.2) million in the fourth quarter of fiscal 2005. EBITDA from continuing operations was positively impacted by the results of the operations.

OUTLOOK FOR FISCAL 2007

In fiscal 2007, Mitec will continue to augment its product and technology portfolio in both its Telecom and Satcom segments, and will pursue further diversification of its customer and revenue base, primarily through the penetration of operator-centric markets worldwide. The Corporation will also aggressively focus its efforts on higher margin niche markets, principally in the defense and broadcast spaces. Growth will be driven in large part by the Corporation's growing portfolio of specialized power amplifier product offerings, and the opportunity pipeline in the Satcom business is expected to continue to increase as a result of the Corporation's ongoing efforts to expand its customer base in Europe and Asia-Pacific.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was prepared as of July 28, 2006. Updated information on Mitec, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

At July 28 2006, a total of 76,405,263 common shares were issued and outstanding, as well as 2,284,050 stock options.

MANAGEMENT'S RESPONSIBILITY

For financial statements and other financial information

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

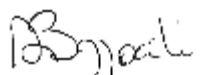
The consolidated financial statements include some amounts that are based on management's best estimates and judgement and, in their opinion, present fairly the Corporation's financial position, its results of operations and its cash flows. The Corporation's procedures and internal control systems are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

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

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



Keith Findlay
President and
Chief Executive Officer



Stefano Bazzocchi
Vice-President Finance and
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of
Mitec Telecom Inc.

We have audited the consolidated balance sheets of **Mitec Telecom Inc.** as at April 30, 2006 and 2005 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at April 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Montréal, Canada,
July 6, 2006

Chartered Accountants

Mitec Telecom Inc.Incorporated under the *Canada Business Corporations Act***CONSOLIDATED BALANCE SHEETS***[note 1]*

As at April 30

[In thousands of Canadian dollars]


	2006	2005
	\$	\$
ASSETS <i>[notes 12 and 13]</i>		
Current		
Cash and cash equivalents <i>[note 21[iv]]</i>	1,468	5,569
Short-term investments <i>[note 6 and 12]</i>	10,089	12,229
Trade receivables	10,849	13,270
Other receivables <i>[note 7]</i>	632	1,025
Income taxes recoverable	1,075	1,316
Inventories <i>[note 8]</i>	7,546	11,713
Prepaid expenses and other	491	614
Current assets related to discontinued operations <i>[note 3]</i>	278	4,212
Total current assets	32,428	49,948
Property, plant and equipment <i>[note 9]</i>	8,564	11,017
Intangible assets <i>[note 10]</i>	3,851	6,263
Deferred charges <i>[note 11]</i>	2,129	3,224
	46,972	70,452
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness <i>[note 12]</i>	6,016	5,678
Accounts payable and accrued liabilities	11,912	14,047
Current portion of long-term debt <i>[note 13]</i>	953	708
Current portion of obligations under capital lease	—	48
Current liabilities related to discontinued operations <i>[note 3]</i>	63	4,477
Total current liabilities	18,944	24,958
Long-term debt <i>[note 13]</i>	958	1,910
	19,902	26,868
Shareholders' equity		
Common shares <i>[note 14]</i>	116,357	116,357
Warrants <i>[note 14]</i>	—	1,129
Contributed surplus <i>[note 14]</i>	8,126	6,154
Deficit	(95,680)	(78,517)
Cumulative translation adjustment	(1,733)	(1,539)
Total shareholders' equity	27,070	43,584
	46,972	70,452

Commitments and contingencies *[note 17]**See accompanying notes*

On behalf of the Board:



Director



Director

Mitec Telecom Inc.**CONSOLIDATED STATEMENTS OF OPERATIONS***[note 1]*

Years ended April 30

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

	2006	2005
	\$	\$
Sales	44,510	57,483
Cost of sales <i>[note 19]</i>	39,164	52,078
Gross profit	5,346	5,405
Expenses		
Selling and administrative <i>[note 19]</i>	9,147	12,303
Research and development <i>[note 15]</i>	7,335	7,919
Amortization of intangible assets <i>[note 10]</i>	2,118	2,239
Financial expenses <i>[note 20]</i>	1,286	789
Interest income	(344)	(395)
Write-down of property, plant and equipment <i>[note 9]</i>	470	930
Write-down of intangible assets <i>[note 10]</i>	363	1,899
Write-down of goodwill <i>[note 10]</i>	—	44
Restructuring and other expenses <i>[note 16]</i>	1,764	2,222
Stock-based compensation <i>[note 14]</i>	843	1,212
	22,982	29,162
Loss from continuing operations before income taxes	(17,636)	(23,757)
Income tax recovery <i>[note 15]</i>	(594)	(379)
Loss from continuing operations	(17,042)	(23,378)
Loss from discontinued operations <i>[note 3]</i>	(121)	(1,273)
Net loss for the year	(17,163)	(24,651)
Basic and diluted loss per common share from continuing operations <i>[note 14]</i>	(0.22)	(0.32)
Basic and diluted loss per common share from discontinued operations	(0.00)	(0.02)
Basic and diluted loss per common share	(0.22)	(0.34)
Weighted average number of outstanding common shares	76,405,263	73,040,106

See accompanying notes

Mitec Telecom Inc.

CONSOLIDATED STATEMENTS OF DEFICIT

[note 1]

Years ended April 30
[In thousands of Canadian dollars]

	2006	2005
	\$	\$
Deficit, beginning of year	(78,517)	(53,176)
Transitional adjustment for stock based compensation <i>[note 14]</i>	—	(690)
Net loss for the year	(17,163)	(24,651)
Deficit, end of year	(95,680)	(78,517)

See accompanying notes

Mitec Telecom Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[note 1]

Years ended April 30

[In thousands of Canadian dollars]

	2006 \$	2005 \$
OPERATING ACTIVITIES		
Loss from continuing operations	(17,042)	(23,378)
Add items not affecting cash		
Amortization of property, plant and equipment, intangible assets and deferred charges <i>[note 18]</i>	5,283	6,530
Loss on disposal and write-down of property, plant and equipment <i>[note 16]</i>	563	930
Write-down of intangible assets <i>[note 10]</i>	363	1,899
Write-down of goodwill <i>[note 10]</i>	—	44
Future income taxes	—	(308)
Stock-based compensation	843	1,212
Write-down of recognized non refundable investment tax credits	—	662
	(9,990)	(12,409)
Changes in non-cash working capital balances related to continuing operations <i>[note 18]</i>	5,210	7,696
Cash flows used in operating activities	(4,780)	(4,713)
INVESTING ACTIVITIES		
Additions to property, plant and equipment and intangible assets	(468)	(1,169)
Proceeds on disposal of property, plant and equipment	142	140
Business acquisition <i>[note 4]</i>	—	(864)
Increase in deferred charges	—	(5)
Purchases of short-term investments	(23,187)	(43,584)
Sale or maturity of short-term investments	25,327	44,355
Cash flows provided (used) in investing activities	1,814	(1,127)
FINANCING ACTIVITIES		
Increase in bank indebtedness	3,665	6,060
Repayment of bank indebtedness	(3,327)	(382)
Repayment of long-term debt	(707)	(673)
Decrease of obligations under capital lease	(46)	(474)
Issuance of units, common shares and warrants <i>[note 14]</i>	—	2,291
Cash flows provided (used) by financing activities	(415)	6,822
Effect of exchange rate fluctuations changes on cash and cash equivalents	(349)	(220)
Net increase (decrease) in cash and cash equivalents from continuing operations	(3,730)	762
Cash and cash equivalents used in discontinued operations <i>[note 3]</i>	(371)	(448)
Cash and cash equivalents, beginning of year	5,569	5,255
Cash and cash equivalents, end of year	1,468	5,569

See accompanying notes

Mitec Telecom Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. NATURE OF THE BUSINESS AND GOING CONCERN UNCERTAINTY

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

The accompanying consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Corporation has a history of losses over the past five years and currently does not have the necessary financing in place to support continuing losses. Historically, the Corporation financed its operating and capital requirements mainly through issuances of debt and equity. The Corporation's continuation as a going concern is dependant upon, amongst other things, attaining a satisfactory revenue level, the support of its customers, a return to profitable operations and the generation of cash from operations, the ability to secure new financing arrangements and new capital. These matters are dependent on a number of items outside of the Corporation's control and there is significant uncertainty about the Corporation's ability to continue as a going concern.

The consolidated financial statements do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. If the going concern basis was not appropriate for these consolidated statements, significant adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses, and the balance sheet classifications used.

Management's plans with respect to the uncertainties described are as follows:

1. Continuing negotiations with financial institutions to obtain additional financing;
2. approaching potential investors to secure additional financing;
3. investigating a range of alternatives for its Telecom and Satcom business units; which could include asset or business dispositions, and
4. rationalizing operations to reduce expenses.

Management believes that with the above plans and the continued support of the Corporation's current shareholders and customers, they will be able to continue operating as a going concern. There can, however, be no assurance that such plans will be sufficient to continue to operate as a going concern.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of consolidation

These consolidated financial statements include the accounts of the Corporation and its subsidiaries. All significant intercompany accounts and transactions have been eliminated on consolidation.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. The reported amounts and note disclosures are determined using management's best estimates based on the assumptions that reflect the most probable set of economic conditions and planned course of action. Actual results could differ from the estimates used in these consolidated financial statements and such differences could be material.

Government assistance and investment tax credits

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

The Corporation incurs research and development expenditures, which are eligible for investment tax credits. The investment tax credits recorded are based on management's estimates of amounts expected to be recovered and are subject to audit by taxation authorities.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Cash and cash equivalents

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

Short-term investments

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

Inventories

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

Property, plant and equipment

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Intangible assets

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

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

Impairment of long-lived assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Management reviews the carrying value of the assets and considers whether an impairment charge should be recorded. The review is based on the assessment of technological changes, the Corporation's intended use and on the projected estimated undiscounted cash flows expected to be generated from the underlying assets. Any impairment results in a write-down of the assets and a charge to income during the year to the extent that the assets carrying value exceeds its fair value, generally determined on a discounted cash flow basis.

Disposal of long-lived assets and discontinued operations

Assets classified as held for sale are measured at the lower of carrying value and fair value less disposal costs. Assets classified as held for sale are not to be amortized while classified as such. The results of operations of a component of the Corporation that has been disposed of by either sale or abandonment are reported as discontinued operations and comprise operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Corporation.

Research and development

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Leases

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

Deferred charges

Deferred charges consist of costs relating to obtaining long-term debt, the deferred loss and the rent-free period related to a sale-leaseback transaction and deferred development costs. The deferred financing costs are deferred and amortized over the term of the related debt using the effective yield method, the deferred loss and rent-free period are amortized over the term of the related lease and the deferred developed costs over 24 months following the first commercial sales.

Revenue recognition

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

Engineering and product development services are recognized on the percentage of completion basis over the life of the contract. The percentage of completion method requires the use of estimates to determine the recorded amount of revenues. The excess (deficiency) of revenues recognized on a contract over the related billings is recognized as work in progress (deferred revenues). Provisions are made for the entire amount of expected contract losses in the period in which they are first determinable.

Income taxes

The Corporation uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future tax assets or liabilities are expected to be realized or settled. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[All tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated]

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Foreign currency translation

Canadian operations

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

Foreign operations

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

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

Stock-based compensation and other stock-based payments

The Corporation has a stock-based compensation plan, which is described in note 14. Effective May 1, 2004, the Corporation applied the fair value method to expense all stock options awarded since May 1, 2002. Options issued to employees, officers and directors are recognized as an expense over the vesting period. Options issued to consultants are recognized as an expense at the earlier of the vesting date or over the period over which the services are performed. The fair value is determined using the Black-Scholes option pricing model. Any consideration paid by employees, officers and directors on exercise of stock options or purchase of stock is credited to share capital.

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[All tabular amounts are in thousands of Canadian dollars, except per share and share data, unless otherwise stated]

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

For options issued prior to May 1, 2002, no compensation expense was or has been recognized for this plan when stock or stock options were issued to employees, officers and directors.

Derivative financial instruments

Derivative financial instruments are utilized by the Corporation in the management of its foreign currency exposure. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Corporation enters into offsetting forward exchange contracts when it is appropriate. The Corporation uses hedge accounting for these transactions where the hedge is judged effective and the required documentation is maintained. During the year, no hedges were deemed effective and the derivatives were recorded at fair value on the balance sheet with changes in fair value recorded in the statement of operations under financial expenses. Changes in the fair values of the forward contracts partially offset the corresponding translation gains and losses on the related foreign currency denominated monetary assets and liabilities.

Financial expenses

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

Earnings per share

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings (loss) per share is calculated using the treasury stock method, giving effect to the exercise of all dilutive factors. The treasury stock method assumes that any proceeds that could be obtained upon the exercise of options would be used to purchase common shares at the average market price during the period.

Consolidation of variable interest entities

On May 1, 2005, the Corporation adopted the CICA's recommendations on Consolidation of Variable Interest Entities ["VIEs"]. These recommendations provide a new framework for identifying VIEs and determining when a company should include the assets, liabilities and results of operations of VIEs in its consolidated financial statements. Management has concluded that the Corporation did not have any VIEs for the year ended April 30, 2006.

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3. DISCONTINUED OPERATIONS

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 included inventory and equipment with a book value of approximately \$7.4 million and \$0.6 million respectively for estimated proceeds of \$6.1 million. The proceeds from this sale directly reduced the Corporation's bank indebtedness and were also used to pay trade creditors and accrued compensation. The sale did not include the real estate assets, but the Corporation did sign long-term leases with Note AB. As a result of the decision, the revenues and the results of Beve have been reported as discontinued activities in the consolidated statements of operations. 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. Subsequent to year-end, the Corporation received the proceeds from the sale of the land and sold its Swedish corporate entities.

	2006	2005
	\$	\$
Loss from discontinued operations	121	1,273

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

	2006	2005
	\$	\$
Current assets	278	12
Land and building, net of accumulated amortization	—	4,200
	278	4,212
Current liabilities	63	4,477
	63	4,477
Cash flows from discontinued operations consist of cash provided from (used in):		
Operating activities	3,959	(19)
Financing activities	(4,296)	(358)
Investing activities	—	—
Effect of exchange fluctuations on cash	(34)	(71)
Decrease in cash and cash equivalents from discontinued operations	(371)	(448)

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4. BUSINESS ACQUISITION

Effective 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 these consolidated financial statements since the date of acquisition.

The allocation of the purchase price is based on management's estimate of the fair value of assets acquired and liabilities assumed.

	\$
Cash	78
Accounts Receivable	183
Inventory	149
Plant and equipment	41
Acquired customer contract	158
Non-patented intellectual property	1,111
	1,720
Accounts payable and accrued liabilities	(132)
Net assets acquired	1,588

Consideration represented by:

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

The non-patented technology will be amortized over 5 years, its expected useful life. The profit on acquired customer contract will be amortized over the life of the contract, estimated at less than 12 months [note 10].

The number of common shares issued was based on a US \$600,000 value per the purchase agreement divided by 30 days weighted average share price for the 30 trading days immediately prior to the closing and represents 630,490 shares. The 3 days weighted average share price for the 3 trading days immediately prior to the closing was not significantly different from the 30 day weighted average share price.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

One customer accounted for 41% [2005 – 42%] of sales for the year ended April 30, 2006 and 43% [2005 – 41%] of trade receivables as at April 30, 2006.

6. SHORT-TERM INVESTMENTS

Short-term investments are comprised of two [2005 – two] investments in commercial paper of large investment grade public companies. The market value of these investments was 10,878,000 [2005 – \$12,368,000].

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7. OTHER RECEIVABLES

	2006	2005
	\$	\$
Advances to employees and officer	133	148
Commodity taxes receivable	366	334
Other taxes recoverable	108	—
Amount due under contract	—	206
Note receivable on sale of subsidiary	—	206
Other	25	131
	632	1,025

The Corporation has made interest-bearing advances to certain employees including senior management and officers of the Corporation primarily for the purchase of the Corporation's common shares at \$3.29 per share. The advances are repayable within two years and are supported by promissory notes and secured by a pledge of the common shares purchased by the employees. Interest is charged at the prime rate. The market value of the shares pledged as collateral was \$0.31 per share at April 30, 2006 [2005 – \$0.76].

8. INVENTORIES

	2006	2005
	\$	\$
Raw materials and purchased components	5,896	6,883
Work-in-process	1,183	1,426
Finished goods	467	3,404
	7,546	11,713

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9. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	Net carrying value
	\$	\$	\$
2006			
Machinery and equipment	17,949	11,165	6,784
Land and buildings	812	273	539
Leasehold improvements	637	602	35
Furniture and fixtures	2,128	1,647	481
Tools and dies	907	713	194
Computer equipment	1,622	1,141	481
Automobiles	115	65	50
	24,170	15,606	8,564
2005			
Machinery and equipment	16,893	9,443	7,450
Land and buildings	804	233	571
Leasehold improvements	1,534	1,446	88
Furniture and fixtures	2,244	1,598	646
Tools and dies	998	664	334
Computer equipment	2,814	2,067	747
Automobiles	117	70	47
	25,404	15,521	9,883
Machinery and equipment under capital lease	2,509	1,375	1,134
	27,913	16,896	11,017

The Corporation did not enter into any new capital leases in 2006 and 2005. Amortization expense for machinery and equipment under capital lease amounted to nil [2005 – \$641,000].

Management periodically reviews the property, plant and equipment carrying value in light of the Corporation's strategic plan and general business environment. During the year, management determined that a write-off of property, plant and equipment with a net carrying value of \$470,000 [cost of \$1,900,000 net of accumulated amortization of \$1,430,000] was required. The impairment test is performed using management's best estimates of future cash flows and accordingly such estimates are subject to measurement uncertainty.

In 2005, as a result of the closure of the New Jersey [United States] and Dunstable [United Kingdom] research and development facilities management recorded an impairment charge on property, plant and equipment with a carrying value of \$930,000.

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10. INTANGIBLE ASSETS

Intangible assets as at April 30, are as follows:

	Cost	Accumulated amortization	Net carrying value
	\$	\$	\$
2006			
Software	4,388	3,359	1,029
Patented technology and trademarks	288	83	205
Non-patented technology	1,891	586	1,305
Customer relationships	6,537	5,225	1,312
Acquired customer contract	158	158	—
	13,262	9,411	3,851
2005			
Software	4,689	3,389	1,300
Patented technology and trademarks	275	68	207
Non-patented technology	1,891	270	1,621
Customer relationships	6,887	3,849	3,038
Acquired customer contract	158	61	97
	13,900	7,637	6,263

Management periodically reviews the carrying value of the intangible asset portfolio whenever there is an indication of impairment. In the current year, management determined that the carrying value of the customer relationships with specific customers in the Telecom segment was impaired as the volume of sales to certain customers no longer supported the carrying value. An impairment charge in the amount of \$350,000 was recorded. In addition, the Corporation wrote-off certain software licenses which it no longer considered useful with a net book value of \$13,000 [cost of \$429,000 net of accumulated amortization of \$416,000]. The impairment test is performed using management's best estimates of future cash flows and accordingly such estimates are subject to measurement uncertainty.

In 2005, management made a decision to no longer pursue its linearizer product line; pursuant to this decision, the Corporation wrote-off the related intangible asset with a net carrying value of \$1,899,000 [cost of \$2,814,000 net of accumulated amortization of \$915,000], through a charge to income. As a result of the closure of the facilities in the United Kingdom in 2005, the Corporation determined that the goodwill related to the original acquisition in the United Kingdom was impaired and wrote off the related goodwill, which had a net book value of \$44,000.

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10. INTANGIBLE ASSETS [Cont'd]

Included in cost of sales is \$97,000 [2005 – \$61,000] of amortization related to acquired customer contract.

11. DEFERRED CHARGES

Deferred charges as at April 30, are as follows:

	Cost	Accumulated	Net carrying
	\$	amortization	value
	\$	\$	\$
2006			
Deferred financing charges	647	372	275
Deferred loss on sale and leaseback	995	514	481
Deferred rent on sale and leaseback	2,840	1,467	1,373
Deferred development costs	1,065	1,065	—
	5,547	3,418	2,129
2005			
Deferred financing charges	647	275	372
Deferred loss on sale and leaseback	995	315	680
Deferred rent on sale and leaseback	2,840	900	1,940
Deferred development costs	1,065	833	232
	5,547	2,323	3,224

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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12. BANK INDEBTEDNESS

	Credit available \$	Credit used \$	Interest rate
As at April 30, 2006			
Mitec Telecom Inc.	6,000	6,016	Prime
	6,000	6,016	
As at April 30, 2005			
Mitec Telecom Inc.	6,000	5,678	Prime
	6,000	5,678	

Effective November 30, 2005, the Corporation amended its credit agreement with a Canadian Chartered Bank and revised its financial covenant. At April 30, 2006, the Corporation was not in compliance with this covenant [note 22].

As a result of the non-compliance with the financial covenants, the Corporation reclassified the long-term portion of the Canadian bank term facility in the amount of \$243,000 to current [note 13].

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

- i. a first ranking hypothec in the amount of \$25,000,000 on movable assets, both tangible and intangible
- ii. a first ranking hypothec in the amount of \$600,000 on certain immovable property with a net book value of \$539,000 on April 30, 2006.
- iii. a first ranking hypothec on short-term investments in the amount of \$ 10,000,000.

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13. LONG-TERM DEBT

	2006	2005
	\$	\$
[i] Canadian bank term loan <i>[note 12]</i> bearing interest at prime plus 0.75% guaranteed by La Financière, repayable in 48 equal consecutive monthly instalments commencing in June 2004	452	660
[ii] La Financière du Quebec term loan, bearing interest at prime plus 3 ½% repayable in 60 monthly payments of \$62,500 commencing 12-months after the disbursement of the funds, in March 2003	1,459	1,958
	1,911	2,618
Less: Current portion	953	708
	958	1,910

The required annual principal payments for each of the next three years are as follows:

	\$
2007	953
2008	500
2009	458

The Corporation is required to comply with certain financial covenants with respect to its term loan with La Financière. At April 30, 2006, the Corporation has complied with these covenants.

As disclosed in note 12, the Corporation was not in compliance with the covenants of the Canadian bank term loan and the balance has been classified as current. The Corporation is required to maintain compensating cash balances or short-term investments with the Canadian bank.

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14. SHARE CAPITAL

Authorized

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

Unlimited number of common shares.

Issued and outstanding common shares

	2006		2005	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance, beginning of year	76,405,263	116,357	70,862,914	112,860
Changes during the year:				
Transitional provision, stock-based compensation	—	—	—	102
Employee share purchase plan	—	—	53	—
Issuance of shares on business acquisition [note 4]	—	—	630,490	724
Transfer from contributed surplus upon exercise of stock options]	—	—	—	40
Issued on exercise of stock options	—	—	127,120	49
Issued on exercise of warrants	—	—	4,784,686	2,582
Balance, end of year	76,405,263	116,357	76,405,263	116,357

On March 9, 2005, the Corporation issued 630,490 shares at a price of \$1.15 per common share as partial consideration for the acquisition of Broadband Wireless LLC [note 4].

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14. SHARE CAPITAL [Cont'd]

Warrants

	2006		2005	
	Number #	Amount \$	Number #	Amount \$
Balance, beginning of year	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 year	—	—	3,077,132	1,129

Earnings per share

Weighted average number of common shares are as follows:

	2006 #	2005 #
Weighted average number of common shares outstanding	76,405,263	73,040,106
Net effect of dilutive stock options and warrants	57,242	3,693,424
Weighted average diluted number of common shares outstanding	76,462,505	76,733,530

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

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14. SHARE CAPITAL [Cont'd]

Stock option plan

The Corporation has in place a Stock Option Plan [the "Plan"] for the benefit of key employees, directors and officers of the Corporation. On October 27, 2004, the shareholders approved an amendment to the stock option plan, increasing the total number of options which may be issued under the plan by 2,500,000 common shares for a total of 7,000,000 common shares. The number of common shares granted to a beneficiary and the vesting period is determined at the discretion of the Board of Directors, which is normally no longer than 5 years.

The exercise price of any option granted under the Plan is fixed by the Board of Directors at the time of the grant based on the closing price per common share. The term of an option cannot exceed ten years from the date of the grant. Options are not transferable and can only be exercised while the beneficiary remains an employee, director or officer of the Corporation.

As at April 30, 2006, there were 4,201,254 [2,900,904 in 2005] options available for issue under the plan.

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

	2006		2005	
	#	\$	#	\$
Balance, beginning of year	3,703,850	1.69	2,849,800	1.65
Granted	725,000	0.34	1,067,500	1.79
Exercised	—		(127,120)	0.39
Forfeited	(2,025,350)	1.12	(86,330)	3.34
Balance, end of year	2,403,500	1.76	3,703,850	1.69
Options exercisable at end of year	1,421,366	2.42	1,749,550	2.13

The weighted average grant date fair value of options granted in 2006 was \$0.27 [\$0.26 in 2005].

The fair value of options granted was determined using the Black-Scholes option pricing model with a volatility of 90% [87% in 2005], a risk-free interest rate of 5.75% [4% in 2005], a dividend yield of nil and an expected life of the option of seven years.

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14. SHARE CAPITAL [Cont'd]

Additional information concerning stock options outstanding as at April 30, 2006 is as follows:

Exercise price	Options outstanding			Options exercisable	
	Number	Weighted average exercise price	Weighted average years to expiry	Number	Weighted average exercise price
\$0.31 to \$0.82	1,140,000	0.39	8.5	485,733	0.43
\$0.83 to \$2.10	846,750	1.75	7.7	518,883	1.76
\$2.11 to \$3.90	71,500	3.57	5.4	71,500	3.57
\$3.91 to \$4.90	84,800	4.58	3.6	84,800	4.58
\$4.91 to \$6.50	229,450	6.21	1.1	229,450	6.21
\$6.51 to \$9.50	31,000	7.86	1.5	31,000	7.86
\$0.31 to \$9.50	2,403,500	1.76	7.3	1,421,366	2.42

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 is a charge of \$690,000 to opening deficit for fiscal 2005 with a corresponding credit of \$102,000 to share capital for those options already exercised prior to May 1, 2004 and a credit of \$588,000 to contributed surplus for those options not yet exercised.

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14. SHARE CAPITAL [Cont'd]

Contributed surplus

	2006 \$	2005 \$
Balance, beginning of year	6,154	1,531
Changes during the year:		
Transitional provision, stock-based compensation [see stock option plan]	—	588
Warrants expired	1,129	2,863
Stock-based compensation	843	1,212
Transferred to common shares upon exercise of options	—	(40)
Balance, end of year	8,126	6,154

15. INCOME TAXES AND GOVERNMENT ASSISTANCE

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

	2006 \$	2005 \$
Current income tax expense before the following:	57	146
Benefit of previously unrecognized losses and temporary differences	(57)	171
Current income tax recovery	—	(25)
Future income tax expense before the following:	(594)	(662)
Write-down of deferred tax assets	—	308
Future income tax recovery	(594)	(354)
Income tax recovery	(594)	(379)

Mitec Telecom Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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15. INCOME TAXES AND GOVERNMENT ASSISTANCE [Cont'd]

[b] The income tax expense (recovery) reported differs from the amount computed by applying Canadian income tax rates to income before income taxes. The reasons for the difference and the related tax effects are as follows:

	2006	2005
	\$	\$
Loss from continuing operations before income taxes	(17,636)	(23,757)
Canadian statutory income tax rate	32.0%	31.1%
Expected income tax expense (recovery)	(5,643)	(7,388)
Adjustments		
Tax effect of non-deductible stock option compensation	270	376
Recovery of previously recognized future tax liabilities	(594)	(662)
Tax effect of non-deductible intangible asset amortization	149	113
Effect of foreign tax rates	(340)	(323)
Tax credits and other amounts not taxable in Quebec	(49)	(19)
Benefit of previously unrecognized losses and temporary differences	(57)	(171)
Write-down of deferred tax assets	—	308
Unrecognized benefit of losses and temporary differences	5,643	7,352
Other	27	35
Income tax expense (recovery)	(594)	(379)

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

	2006	2005
	\$	\$
Future income tax liabilities		
Carrying values of capital assets in excess of tax bases	27	309
Investment tax credits	58	240
Reserves and other	229	316
Total future income tax liabilities	314	865

Mitec Telecom Inc.

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15. INCOME TAXES AND GOVERNMENT ASSISTANCE [Cont'd]

	2006	2005
	\$	\$
Future income tax assets		
Net operating losses carried forward	7,282	9,681
Research and development expenditures carried forward	6,773	5,282
Provisions and other	4,429	4,392
Total future income tax assets	18,484	19,355
Valuation allowance	(18,351)	(19,265)
Net future income tax assets	133	90
Future income tax liabilities in excess of future income tax assets	181	775
Recognized non-refundable investment tax credits	181	775
Net future income tax assets	—	—

The Corporation has unrecognized losses carried forward of approximately \$5,700,000 in the U.K. without expiry, approximately \$2,000,000 in China which expire in the year 2007, \$12,000,000 in Canada, which expire in the years 2009 to 2016 and approximately \$2,700,000 in the United States which expire in the years 2025 and 2026. In addition, the Corporation has unrealized capital losses in Canada related to its investment in Sweden of approximately \$6,000,000 which have not been recognized in the future income tax assets described above. These capital losses will be recognized in the future income tax assets when there is a realized capital loss upon the wind up of all entities in Sweden. The Corporation also has approximately \$15,000,000 of loss carry forwards relative to discontinued operations in Sweden which are not reflected above. The Corporation also has available unrecognized research and development expenditures in Canada of approximately \$19,000,000.

The Corporation also has available unrecognized investment tax credits of approximately \$4,500,000 which expire in the years 2011 through 2016.

Government assistance

The Corporation incurred research and development expenditures some of which are eligible for refundable investment tax credits. The investment tax credits, recorded as a reduction of research and development expenditures, were \$491,000 [2005 – \$214,000] and are subject to audit by the taxation authorities.

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16. RESTRUCTURING AND OTHER EXPENSES

The closure of the New Jersey [United States] and Dunstable, [United Kingdom] research and development facilities in the year ended April 30, 2005 and the consolidation of these facilities into the Montreal and Asian centers resulted in a restructuring charge of \$1,922,000 in addition to the write-off of property, plant and equipment [note 9]. This charge consists of severance payments of \$400,000 and closure costs including lease termination costs of \$1,522,000. The related unpaid balance of \$775,000 was included in accounts payable and accrued liabilities at April 30, 2005 all of which was paid during the year. In addition, a provision of \$300,000 was taken against the note receivable related to the sale of its Thai subsidiary.

During the year, the Corporation incurred additional lease termination costs at its New Jersey facility in the amount of \$348,000 and no longer has any rental obligations at this facility. In addition, during the year, the Corporation recorded and paid termination costs related to certain executives amounting to \$1,216,000. Further, the immediate vesting of these executives options increased the stock-based compensation expense in the current year by approximately \$490,000.

Pursuant to the Corporation's Board of Directors' decision, the Corporation engaged an external financial consultant to aid it in the evaluation of certain strategic alternatives. The Corporation has accrued \$200,000 for these services.

17. COMMITMENTS AND CONTINGENCIES

[a] The Corporation and its subsidiaries are committed under operating leases for rental of properties and equipment. Future minimum annual rentals are as follows:

	\$
2007	86
2008	35
2009	22
2010	22
Thereafter	6
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17. COMMITMENTS AND CONTINGENCIES [Cont'd]

- [b] In January 1997, the Corporation received notice from attorneys for the residents of a house in Williston, Vermont, of a potential claim alleging property damage and personal injury arising from the presence of certain contaminants in the groundwater beneath their property. The notice alleged that the contaminants came from sources located on a lot leased in the past by Mitec Systems, Inc. In 1999, they filed a lawsuit in Vermont against the Corporation and two related companies claiming unspecified personal injuries and diminution in value for their residential property. The Corporation settled this legal action for approximately \$240,000 [US \$175,000] and recorded the settlement and associated legal fees in 2004. The Corporation is seeking restitution from its insurance company and the insurance company has claimed recoupment of certain fees from the Corporation.

In February 1999, the Corporation entered into an agreement with the State of Vermont whereby the Corporation has agreed to perform a site investigation and the State has agreed to use its resources to identify all individuals and entities potentially responsible for the site contamination. The State of Vermont also requested that the United States Environmental Protection Agency cease its investigation of the site. The site investigation undertaken by the Corporation has been concluded and the data and information collected indicates that there are a number of other possible sources of groundwater contamination. The State of Vermont has stated that it has no funding to undertake the next steps with respect to the groundwater contamination and has asked the United States Environmental Protection Agency to revive its investigation of the contamination. The United States Environmental Protection Agency has agreed to do so. The Corporation has hired U.S. legal counsel specializing in environmental matters to assess the merits of this potential claim but the outcome is presently not determinable and therefore no provision has been made in the accounts.

- [c] On March 9, 2005, the Corporation purchased the assets of Broadband Wireless LLC. Pursuant to the asset purchase agreement, the Corporation is committed to a royalty arrangement with the vendor. The Corporation is committed to sales royalties of US\$12 per unit sold, for a 3 year period commencing on the first anniversary of the closing date to a maximum of US \$1.2 million. The royalty payments, will be charged against the cost of sales when the related products are sold and to date the Corporation has accrued US\$12,000.
- [d] The Corporation's former landlord in the New Jersey facility has instituted legal action against the Corporation and certain of its sub-tenants for damages to the leased premises. The outcome is presently not determinable and therefore no provision has been made in the accounts.

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18. SUPPLEMENTARY CASH FLOW INFORMATION

Changes in non-cash working capital balances related to operations

	2006	2005
	\$	\$
Trade and other receivables	2,814	10,776
Inventories	4,167	1,005
Prepaid expenses and other	123	700
Income taxes recoverable	241	(297)
Accounts payable and accrued liabilities	(2,135)	(4,488)
	5,210	7,696

Supplementary information

	2006	2005
	\$	\$
Interest paid	486	418
Income taxes paid	—	365
Amortization of property, plant and equipment		
Telecom	1,403	1,900
Satcom	570	633
	1,973	2,533

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

	2006	2005
	\$	\$
Cost of sales	1,338	1,511
Selling and administration and research and development expenses	635	1,022
	1,973	2,533

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18. SUPPLEMENTARY CASH FLOW INFORMATION [Cont'd]

Amortization of deferred charges has been recorded in:

	2006	2005
	\$	\$
Cost of sales	490	966
Selling and administrative expenses	605	731
	1,095	1,697

19. SEGMENTED INFORMATION

[a] Segmented information used by management

Management organizes the Corporation into two principal operating segments for making operating decisions and assessing performance. The operating segments are Telecommunications ["Telecom" formerly named the "Wireless" segment], 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 earth stations.

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19. SEGMENTED INFORMATION [Cont'd]

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

	Telecom \$	Satcom \$	Total \$
2006			
Sales	24,542	19,968	44,510
Cost of sales	24,809	14,355	39,164
Gross profit	(267)	5,613	5,346
Expenses			22,982
Loss before income tax expense and discontinued operations			(17,636)
Income tax recovery			(594)
Loss from discontinued operations <i>[note 3]</i>			(121)
Net loss for the year			(17,163)
2005			
Sales	35,422	22,061	57,483
Cost of sales	36,642	15,436	52,078
Gross profit	(1,220)	6,625	5,405
Expenses			29,162
Loss before income tax expense and discontinued operations			(23,757)
Income tax recovery			(379)
Loss from discontinued operations <i>[note 3]</i>			(1,273)
Net loss for the year			(24,651)

Mitec Telecom Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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19. SEGMENTED INFORMATION [Cont'd]

The following table presents assets by segment:

	Telecom \$	Satcom \$	Total \$
2006			
Current assets	9,186	10,017	19,203
Long-term assets	8,016	4,398	12,414
	17,202	14,415	31,617
Assets relating to discontinued operations <i>[note 3]</i>			278
Other			15,077
Total			46,972
2005			
Current assets	16,139	10,290	26,429
Long-term assets	11,715	5,567	17,282
	27,854	15,857	43,711
Assets relating to discontinued operations <i>[note 3]</i>			4,212
Other			22,529
Total			70,452

Details of intangible assets by segment are as follows:

	2006			2005		
	Telecom \$	Satcom \$	Total \$	Telecom \$	Satcom \$	Total \$
Beginning balance	4,577	1,686	6,263	4,633	4,364	8,997
Additions	130	30	160	1,468	2	1,470
Amortization	(1,750)	(465)	(2,215)	(1,524)	(776)	(2,300)
Write-down of intangible assets	(363)	—	(363)	—	(1,899)	(1,899)
Foreign exchange impact	—	6	6	—	(5)	(5)
	2,594	1,257	3,851	4,577	1,686	6,263

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19. SEGMENTED INFORMATION [Cont'd]

[b] Enterprise-wide information

The following table presents sales by destination of the product.

	2006 \$	2005 \$
Canada	3,533	5,572
Europe	15,553	16,899
United States	11,468	17,471
Asia	11,096	15,226
Other	2,860	2,315
	44,510	57,483

The following tables present sales, assets and property, plant and equipment and intangible assets based on the geographic location of production.

	2006 \$	2005 \$
Sales		
Canada	34,872	42,850
China	14,863	20,272
United States	1,031	1,778
United Kingdom	—	565
Inter-country	(6,256)	(7,982)
Total	44,510	57,483
Assets		
Canada	35,992	53,996
China	8,398	9,908
United States	2,138	2,008
United Kingdom	166	328
Assets relating to discontinued operations [note 3]	278	4,212
Total	46,972	70,452

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19. SEGMENTED INFORMATION [Cont'd]

	2006	2005
	\$	\$
<hr/>		
Property, plant and equipment and intangible assets		
Canada	10,196	14,831
China	1,120	1,004
United Kingdom	925	306
United States	174	1,139
Total	12,415	17,280

20. FINANCIAL EXPENSES

Financial expenses consist of:

	2006	2005
	\$	\$
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Interest on bank indebtedness	303	210
Interest on long-term debt	183	209
Foreign exchange losses	695	186
Bank charges and other fees	105	184
	1,286	789

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21. FINANCIAL INSTRUMENTS

[i] Short-term financial assets and liabilities

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

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

[ii] Long-term debt

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

[iii] Interest rate

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

[iv] Exchange control restrictions

The Corporation's Chinese subsidiary is subject to government approvals should it wish to repatriate funds to the parent company in excess of authorized advances from the Corporation and its subsidiaries. At April 30, 2006, the Chinese subsidiary's cash on hand in the amount of \$1.1 million was less than the amount of the authorized advances of \$2.3 million.

[v] Forward foreign exchange contracts

During the year, the Corporation concluded five contracts to sell a total US \$6 million at an average rate of \$1.169 per US\$. The contracts matured at a rate of one per month from November 2005 to February 2006. In fiscal 2005, the Corporation entered into 3 foreign exchange contracts for the sale of US \$1,500,000 each [for a total of US \$4,500,000] at an exchange rate of \$1.403 per US\$ maturing from January 2005 to March 2005. The Company does not have any open contracts as at April 30, 2006.

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22. SUBSEQUENT EVENTS

- [i] On May 24, 2006, the Corporation collected the remaining proceeds from the sale of the land and building held in Sweden in the amount of \$240,000.
- [ii] On July 5, 2006, the Corporation has agreed to sell its Swedish corporate entities for a nominal amount. As a result, the Corporation has lost the benefit certain unrecorded tax assets including losses carried forward.
- [iii] On July 5, 2006, the Corporation reimbursed its bank indebtedness in the amount of \$6,100,000.. Funds to reimburse this facility were obtained by selling certain of its short-term investments.

23. COMPARATIVE FIGURES

Certain comparative figures for 2005 have been reclassified to conform to the presentation adopted in 2006.