



1 voice
MITEC • BEVE

JOINING FORCES TO BECOME A GLOBAL PARTNER



FIRST INTERIM REPORT
QUARTER ENDED JULY 31, 2001

1 message to shareholders

Fiscal 2002 is off to a solid start. Led by strong wireless product sales, both consolidated revenue and earnings grew significantly during the first quarter ended July 31, 2001. We offer our customers a substantial pipeline of radio frequency products that can meet the increasing worldwide demand for wireless infrastructure technology.

We are making progress in executing the strategic goals that we have set out and in building on our fiscal 2001 results. Wireless product sales almost tripled from last year and significantly improved our earnings. Our focused research and development, production and sales initiatives have also substantially contributed to MITEC•BEVE's positioning in the wireless infrastructure industry.

Our other goals for the current fiscal year include the full integration of Mitec and BEVE. As part of the integration process, the Company's new organizational structure includes two divisions: the Americas Division and the Europe & Asia Division.

For the present, we see a certain level of investments in 2G and 2.5G wireless infrastructures. This segment has been less impacted by the current slowdown of the telecommunications industry, especially in emerging economies where some of our customers are very active. Traffic flow on wireless networks is driven mainly by the increase in subscribers. Additionally, the merger with BEVE gives us a broad geographical presence that, in the current year and beyond, will significantly assist us in providing our expanding base of European customers with the next generations of wireless products.

As part of our continued integration strategy, we are in the midst of developing 3G products in our Montreal's R&D labs and plan to have flexible manufacturing to benefit our European and North American customers.

While the wireless segment was strong, microwave and satcom revenues were softer during the past first quarter. Indications are that satcom revenues will recover in the second quarter. We also expect to see a partial recovery in the microwave segment during the second half of the year.

On behalf of our Board of Directors I thank our employees, customers, suppliers and shareholders for their support. I am delighted that MITEC•BEVE continues to attract increased attention from the investment community, additional analysts and the media. Our objective is to continue to build this fine organization in the wireless telecom industry and to reward those who have been kind enough to invest in us.

Myer Bentob
President and Chief Executive Officer
September 6, 2001

financial highlights

(in thousands of CDN dollars
except per share data)

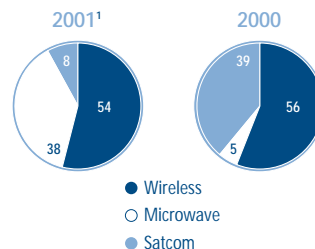
	For the three months ended	
	July 31, 2001 ¹	July 31, 2000
Sales	\$ 36,721	\$ 12,196
Gross margin	8,454	3,683
Research and development	2,582	1,567
EBITDA	3,837	1,124
Cash earnings ²	1,421	74
Cash earnings per share	0.09	0.01
Net earnings per share	0.04	0.00

¹ Includes BEVE Invest AB, which combined with Mitec Telecom in February 2001.

² Net income before goodwill amortization.

sales breakdown by product segments

[in percentages of total sales]
three months ended July 31



¹ Includes BEVE Invest AB, which combined with Mitec Telecom in February 2001.

1 management's discussion and analysis of financial condition and results of operations

This discussion and analysis is to assist readers in their assessment and understanding of the consolidated results of operations and the financial position of Mitec Telecom Inc. (the "Corporation").

Information with respect to the April 30, 2001 consolidated balance sheet is derived from the Corporation's complete audited consolidated financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended April 30, 2001. These consolidated financial statements have been prepared using the same accounting principles used in the audited consolidated financial statements for the year ended April 30, 2001, except for the change in accounting policy for earnings per share.

[as a percentage of sales]	For the three months ended	
	July 31, 2001	July 31, 2000
Sales	100.0%	100.0%
Gross profit	23.0%	30.2%
Research and development	7.0%	12.9%
Selling and administrative	8.6%	14.1%
Financial expenses & interest, net	1.4%	1.2%
Income tax expense	2.1%	1.3%
Net income before goodwill	3.9%	0.7%
Goodwill and equity loss	2.0%	0.5%
Net income after goodwill	1.9%	0.2%

results of operations

Sales

Total sales for the three months ended July 31, 2001 increased by 201.1% to \$36.7 million as compared to \$12.2 million a year earlier. Of this increase, \$12.8 million or 104.9% related to the BEVE acquisition which occurred during the 4th quarter of fiscal 2001, hence its results were not included a year earlier.

Wireless

As a result of an unexpected increase demand of 2G and 2.5G products especially in emerging economies where some of our customers are very active, the wireless segment grew 194%.

Microwave

With BEVE's \$12.8 million in sales, this segment experienced significant growth for the quarter when compared to the prior year.

Satcom

Weaker demand for earth stations, saw sales in this segment fall by 41.7%.

Cost of Sales and Gross Profit

The Corporation's gross profit for the three months ended July 31, 2001 was \$8.5 million as compared to \$3.7 million a year earlier. This represents a 130% increase.

Gross profit as a percentage of sales for the Wireless, Microwave and Satcom segments were as follows:

	For the three months ended	
	July 31, 2001	July 31, 2000
Wireless	32.2%	19.0%
Microwave	10.9%	48.0%
Satcom	18.4%	43.1%
TOTAL	23.0%	30.0%

Wireless

Gross margins increased in this segment as a result of increased production efficiencies achieved mainly as a result to the transfer of production from one of the Company's subsidiary during last year.

Microwave

With the inclusion of BEVE, a contract manufacturer with lower gross margins, we saw our gross margins decrease. As at April 30, 2001 year-end, margins in this sector were 13.8%. As BEVE begins to manufacture more value-added products gross margins are expected to increase in the future.

Satcom

As a result of the lower sales volumes, this segment incurred higher unit overhead costs, which resulted in lower gross margins for this segment.

Research and Development

Mitec's research and development ("R&D"), net of investment tax credits for the quarter was \$2.6 million, an increase of 64.8% over the previous year.

This increase in R&D resulted from the Corporation's focus on technology to support its growth strategy of 2G, 2.5G and 3G products.

Selling and Administrative Expenses

The Corporation's selling and administrative expenses for the three months ended July 31, 2001 increased 88% to \$3.2 million as compared to \$1.7 million a year earlier. The majority of this increase resulted from including BEVE's results.

Financial Expenses and Interest Income

Mitec's financial expenses and interest income for the three months ended July 31, 2001 was \$0.5 million as compared to \$0.2 million a year earlier which represented a 150% increase. This increase is a result of the interest expense in BEVE.

Income Tax Expense

Income tax for the three months ended July 31, 2001 resulted in an expense of \$0.8 million as compared to \$0.2 million a year earlier. The increase is attributed to the higher income generated.

Goodwill Amortization and Equity Loss

Goodwill amortization and equity loss for the three months ended July 31, 2001 was \$0.7 million as compared to \$0.1 million a year earlier. This increase related to the goodwill on the acquisition of BEVE, which is being amortized over five years beginning in the fourth quarter of fiscal 2001.

Net Income

Net income for the three months ended July 31, 2001 was \$0.7 million as compared to a net income of \$21,000 a year earlier. The Corporation's return to profitability is as a result of higher sales which increased gross margins significantly compared to the prior year.

financial condition, liquidity and capital resources

Liquidity and Capital Resources

Mitec's bank indebtedness increased by \$1.4 million for the three months ended July 31, 2001 from \$9.7 million to \$11.1 million.

The turnaround in Mitec's operations is apparent as cash flows generated from operating activities before changes in working capital increased from \$0.8 million in 2001 to \$3.3 million in 2002.

The Corporation's receivables decreased from \$25.3 million as at April 30, 2001 to \$18.5 million as at July 31, 2001 and inventory increased from \$29.3 million to \$31.0 million. This decrease in investment was offset by a reduction in accounts payable and accrued liabilities which went from \$36.7 million to \$28.4 million. Mainly as a result of this, working capital increased from \$8.6 million to \$11.1 million.

[in thousands of dollars]	For the three months ended	
	July 31, 2001	July 31, 2000
Cash flows from operating activities before changes in working capital balances	\$ 3,311	\$ 753
Cash flows related to operating activities after changes in working capital balances	(770)	(4,969)
Working capital	11,066	10,811
Long-term debt and capital leases	13,064	5,956
Capital expenditures	1,002	740

Capital expenditures were \$1.0 million for the three months ended July 31, 2001 as compared to \$0.7 million a year earlier. The greater part of that amount was for electronic test equipment utilized in our manufacturing facilities. These capital expenditures were financed mainly with capital leases.

The Corporation has signed a conditional agreement with a major financial institution to pursue various financing facilities to support its growing operations. These facilities are subject to customary closing conditions and are expected to be in place by the end of the second quarter.

risks and uncertainties

Foreign Exchange Risk

A significant portion of Mitec's sales are denominated in U.S. dollars and may be adversely affected by any severe currency fluctuations.

From time to time, the Corporation uses future exchange contracts and foreign exchange contracts through a Board-approved plan, which has proven to be an effective means of mitigating short-term currency risks.

Customers

A significant portion of Mitec's sales are with a few customers. Any production delays experienced by telecommunications network providers and service providers could have a material financial impact on Mitec. The wireless market is concentrated with five major network providers. Mitec has established a relationship with four of these network providers.

Technological Changes

It is extremely important to maintain very strong development support to remain abreast of all technological advances made in the Corporation's segments. As such, Mitec must continuously invest in R&D to secure the Corporation's positioning in obtaining or maintaining its current supply agreements.

Mitec signs long-term contracts with major customers that provide for the payment to Mitec for inventory and long-lead components orders in the event of cancellation. These contracts and the Corporation's continuous investment in R&D provide Mitec with some protection in the constantly changing and turbulent telecommunications market.

Additional Capital Needs

Mitec is currently reviewing its long-term growth strategy and assessing its ability to raise future capital to meet this strategy. The Corporation is confident in its ability to successfully raise future capital requirements in order to achieve its strategy, however, these capital requirements may not be available on a timely basis or satisfied on terms acceptable to the Corporation to meet its long-term growth strategy.

consolidated balance sheet

Unaudited [in thousands of CDN dollars]	As at July 31, 2001	As at April 30, 2001
Assets		
Current		
Cash and cash equivalents	\$ 3,157	\$ 1,171
Trade receivables	18,470	25,307
Other receivables	503	511
Inventories	31,011	29,287
Income taxes receivable	478	391
Prepaid expenses and other	1,697	1,066
Deferred income taxes	967	837
Total current assets	56,283	58,570
Capital assets		
Deferred income taxes	32,146	32,705
Long-term investment	–	514
Goodwill (net of accumulated amortization of \$1,277: 2001-\$1,453)	977	1,000
	13,485	14,762
	\$ 102,891	\$ 107,551
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness	\$ 14,287	\$ 10,888
Accounts payable and accrued liabilities	28,356	36,732
Current portion of long-term debt	1,263	1,297
Current portion of obligations under capital lease	758	463
Deferred income taxes	229	182
Deferred government grant	324	432
Total current liabilities	45,217	49,994
Long-term debt	9,991	10,520
Obligations under capital lease	1,052	683
Deferred income taxes	1,167	851
	57,427	62,048
Shareholders' equity		
Share capital	38,726	38,715
Retained earnings	8,954	8,270
Cumulative translation adjustment	(2,216)	(1,482)
Total shareholders' equity	45,464	45,503
	\$ 102,891	\$ 107,551

See accompanying notes

consolidated statements of income

Unaudited [In thousands of CDN dollars except per share data]	three months ended July 31	
	2001	2000
Sales	\$ 36,721	\$ 12,195
Cost of sales including amortization of capital assets of \$695 (2000 - \$351)	28,267	8,512
Gross profit	8,454	3,683
Expenses		
Research and development	2,582	1,567
Selling and administrative	3,151	1,721
Financial expenses	514	151
Interest income	(8)	–
Equity loss and goodwill amortization on long-term investment	23	15
	6,262	3,454
Income before income taxes and goodwill amortization	2,192	229
Income taxes	771	155
Income before goodwill amortization	1,421	74
Goodwill amortization	(737)	(53)
Net income for the period	\$ 684	\$ 21
Basic and diluted earnings per common share		
Before goodwill amortization	0.09	0.01
After goodwill amortization	0.04	0.00
Weighted average number of shares outstanding ('000)	15,632	9,419

See accompanying notes

consolidated statements of retained earnings

Unaudited [In thousands of CDN dollars]	three months ended July 31	
	2001	2000
Retained earnings, beginning of period	\$ 8,270	\$ 9,166
Net income for the period	684	21
Retained earnings, end of period	\$ 8,954	\$ 9,187

See accompanying notes

consolidated statements of cash flows

Unaudited [In thousands of CDN dollars]	three months ended July 31	
	2001	2000
Operating activities		
Net income for the period	\$ 684	\$ 21
Add items not affecting cash:		
Amortization of capital assets and goodwill	1,857	804
Deferred income taxes	747	(87)
Equity loss and goodwill amortization on long-term investment	23	15
	3,311	753
Changes in non-cash working capital balances related to operations	(4,081)	(5,722)
Cash flows related to operating activities	(770)	(4,969)
Investing activities		
Additions to capital assets	(1,002)	(740)
Translation adjustment	247	85
Cash flows related to investing activities	(755)	(655)
Financing activities		
Increase in bank indebtedness	3,756	4,054
Repayment of long-term debt	(563)	(118)
Increase (decrease) in obligations under capital lease	664	(5)
Issuance of common shares	11	13
Cash flows related to financing activities	3,868	3,944
Net increase (decrease) in cash and cash equivalents	2,343	(1,680)
Cash and cash equivalents, beginning of period	814	588
Cash and cash equivalents, end of period	3,157	(1,092)
Cash and cash equivalents consist of:		
Cash and cash equivalents	3,157	567
Bank overdraft	–	(1,659)
	\$ 3,157	\$ (1,092)
See accompanying notes		
Supplemental disclosure of cash flow information:		
Interest paid	510	144
Income taxes paid	105	102

notes to consolidated quarter 1 fiscal 2002

Unaudited, July 31, 2001

1. Basis of financial statement presentation

These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended April 30, 2001. They do not include all disclosures required in annual consolidated financial statements but rather are prepared in accordance with recommendations for interim financial statements in conformity with Canadian generally accepted accounting principles. These consolidated financial statements have been prepared using the same accounting principles used in the audited consolidated financial statements for the year ended April 30, 2001, except for the change in accounting policy for earnings per share.

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

During the period, the Company retroactively adopted the recently revised recommendations of the Canadian Institute of Chartered Accountants regarding earnings per share. Diluted earnings per share are now calculated using the treasury stock method. Under the treasury stock method, the weighted average number of shares outstanding is calculated assuming that proceeds from the exercise of options are used to repurchase common shares at the average market price for the period. No adjustment is made to net income for imputed interest in calculating dilutive earnings per share as under the old method. Per share amounts have been restated for the previous period.

For the three months ended

	July 31, 2001			July 31, 2000		
	Income (numerator)	Shares (denominator)	Per Share Amount	Income (numerator)	Shares (denominator)	Per Share Amount
Net income before goodwill amortization	1,421,000			74,000		
Basic earnings per share before goodwill amortization						
Income available to common shareholders	1,421,000	15,632,000	0.09	74,000	9,419,000	0.01
Effect of dilutive securities						
Incremental treasury stock options	–	114,000		–	15,000	
Diluted earnings per share before goodwill amortization	1,421,000	15,746,000	0.09	74,000	9,434,000	0.01
Net income after goodwill amortization	684,000			21,000		
Basic earnings per share after goodwill amortization						
Income available to common shareholders	684,000	15,632,000	0.04	21,000	9,419,000	0.00
Effect of dilutive securities						
Incremental treasury stock options	–	114,000		–	15,000	
Diluted earnings per share after goodwill amortization	684,000	15,746,000	0.04	21,000	9,434,000	0.00

2. 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

	July 31, 2001		April 30, 2001	
	# of shares	\$	# of shares	\$
Balance, beginning of period	15,629,216	38,715	9,417,026	20,689
Changes during the period:				
Employee share purchase plan	2,849	11	10,718	42
Issuance of shares on business acquisition			6,201,472	17,984
Balance, end of period	15,632,065	38,726	15,629,216	38,715

2. Share Capital [cont'd]

Stock option plan

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

	July 31, 2001		April 30, 2001	
	#	\$	#	\$
Balance, beginning of period	927,950	5.12	1,061,350	6.05
Granted	20,000	3.90	211,800	2.46
Expired	(12,500)	6.73	(345,200)	6.34
Balance, end of period	935,450	5.07	927,950	5.12
Options exercisable at end of period	798,390	4.23	428,550	5.80

3. Bank Indebtedness

The credit facilities for Mitec Telecom Inc. expired on January 31, 2001. Mitec Telecom Inc. has continued to operate under this credit facility. The financial covenants of this facility were not met as at July 31, 2001. On September 13, 2001, the Corporation received a waiver from its credit facility lender in regard to the July 31, 2001 events of non-compliance.

The Corporation has signed a conditional agreement with a major financial institution to pursue various financing opportunities to support its growing operations.

One of the Corporation's subsidiary's has made arrangements to have credit facilities in place of up to \$6.75 million against its trade receivables. Of this amount, \$4.5 million was utilized as at July 31, 2001.

4. Segmented Information

Segmented information used by management

	Wireless \$	Microwave \$	Satcom \$	Total \$
2001				
Sales	19,983	13,918	2,820	36,721
Cost of sales	13,559	12,409	2,300	28,267
Gross profit	6,424	1,510	520	8,454
Expenses				6,510
Income before income tax expense and goodwill amortization				2,192
Income tax expense				771
Goodwill amortization				737
Net income for the quarter				684
2000				
Sales	6,751	718	4,726	12,195
Cost of sales	5,437	373	2,702	8,512
Gross profit	1,314	345	2,024	3,683
Expenses				3,454
Income before income tax expense and goodwill amortization				229
Income tax expense				155
Goodwill amortization				53
Net income for the quarter				21