

Integrated Technology for Growth

Founded in 1973, Mitec Telecom Inc. is a leading designer and manufacturer of telecommunication infrastructure products addressing the wireless, microwave and satellite communications markets. The Company sells its components and subsystems globally and enjoys strong business relationships with the world's leading network providers.

Mitec Telecom's headquarters are in Montreal, Canada. Additional research and development, design and manufacturing operations are located in the United States, Sweden, the United Kingdom, China and Thailand.

With a workforce of 750 employees and a pipeline of products that fully addresses the demand for wider band wireless infrastructure systems and subsystems, the Company's mission is to be a partner of choice in the telecom industry, providing innovative, high-quality radio frequency products that enhance wireless networks worldwide.

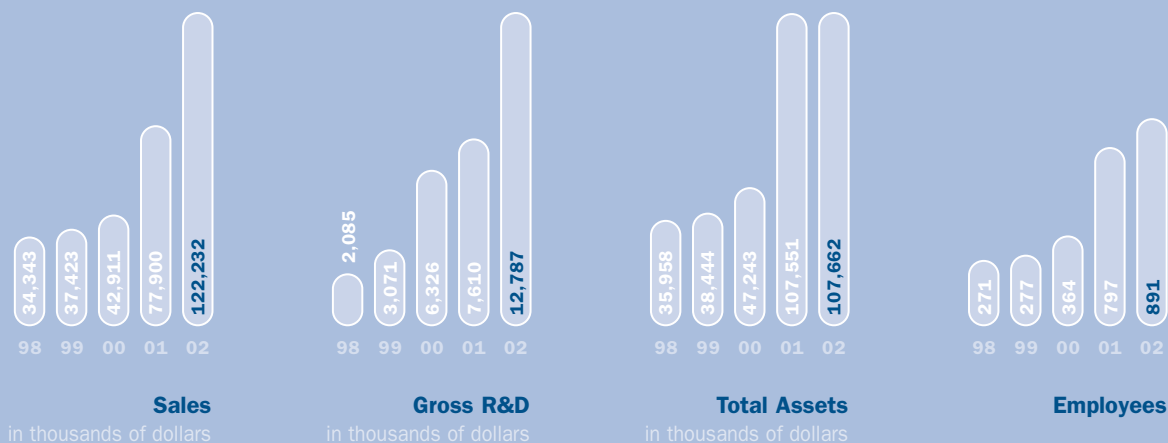
Mitec Telecom is listed on the Toronto Stock Exchange under the symbol MTM. On-line information is available at: www.mitectelecom.com.

financial highlights

FINANCIAL HIGHLIGHTS

For the year ended April 30 (in thousands of dollars, except per share data)

	2002	2001	2000	1999	1998
Sales	\$ 122,232	\$ 77,900	\$ 42,911	\$ 37,423	\$ 34,343
Growth	56.90 %	81.60 %	14.70 %	8.97 %	30.28 %
Gross profit	\$ 14,132	\$ 18,389	\$ 11,959	\$ 12,356	\$ 11,875
Gross profit margin	(11.56)%	23.60 %	27.90 %	33.00 %	34.60 %
EBITDA	\$ (11,326)	\$ 5,665	\$ 1,189	\$ 3,974	\$ 5,183
EBITDA margin	(9.27)%	7.27 %	2.80 %	10.60 %	15.09 %
Net income (loss)	\$ (28,204)	\$ (259)	\$ (628)	\$ 1,633	\$ 2,638
Net income margin	(23.07)%	(0.33)%	(1.46)%	4.40 %	7.70 %
Fully diluted earnings (loss) per share after goodwill amortization	\$ (1.54)	\$ (0.02)	\$ (0.07)	\$ 0.17	\$ 0.27
AS AT APRIL 30					
Total assets	\$ 107,662	\$ 107,551	\$ 47,243	\$ 38,444	\$ 35,958
Working capital	\$ 2,059	\$ 8,576	\$ 10,709	\$ 13,394	\$ 19,022
Cash flow from operations ⁽¹⁾	\$ (12,817)	\$ 4,314	\$ 1,778	\$ 4,205	\$ 4,619
Shareholders' equity	\$ 48,204	\$ 45,503	\$ 28,782	\$ 29,522	\$ 29,502
Book value per common share	2.01	2.91	3.06	3.12	3.01
Current ratio	1.04	1.17	1.96	2.78	4.67
ROA	(26.20)%	(0.24) %	(1.33) %	4.25 %	7.34 %
ROE	(58.51)%	(0.57) %	(2.18) %	5.53 %	8.94 %
Long-term debt to equity	13.17 %	24.62 %	19.06 %	0.32 %	0.33 %
Financial leverage ratio	2.23	2.36	1.64	1.30	1.22
Days receivables	70.06	78.40	61.90	66.24	64.25
Inventory turnover	3.74	3.13	3.52	4.79	4.23
Shares outstanding at year end	23,972	15,629	9,417	9,467	9,808
Fully diluted shares outstanding at year end	23,972 ⁽²⁾	15,717 ⁽²⁾	10,478	10,342	10,306
⁽¹⁾ Before change in non-cash working capital balances related to operations.		⁽²⁾ Calculated under the Treasury Stock Method.			



message to shareholders

MESSAGE TO SHAREHOLDERS

In fiscal 2002, Mitec Telecom made a number of key moves, notably a significant acquisition, to solidify its leadership position in the wireless infrastructure industry. Our profile was substantially boosted in the important Asian marketplace, our products portfolio was greatly expanded and we successfully integrated our operations and expertise throughout the world.

However, the past year was also marked by continuing economic uncertainty in the telecommunications sector. Industry hopes for a moderate recovery did not materialize. As a result, the major international Network Infrastructure Providers (OEMs) who comprise Mitec's customer base did not begin the rollout of 3rd generation infrastructures, since the Network Operators were not in a position to resume any capital spending on new equipment or network expansion.

This persistent slump had a decidedly negative impact on the Company's earnings. Revenues in our Microwave division were particularly disappointing and fell well below our expectations. With declining sales, we were ultimately obligated to implement a series of definitive initiatives designed to right-size this part of our business to conserve the Company's financial standing.

These initiatives included substantial employee layoffs at our BEVE facility, a process that is ongoing. Additionally, we determined that the Company's long-term financial health would best be served by readjusting the value of the Microwave division's inventory. We also incurred goodwill and amortization charges and absorbed a series of write-downs and one-time charges.



Myer Bentob

With the economic turmoil of this past year it has been made abundantly clear that companies hoping to survive the current difficulties in the telecom industry need to be able to adapt quickly to change. The entire sector is undergoing a period of profound restructuring.

Major OEMs are beginning to shift their efforts away from manufacturing in order to focus their attention on the deployment and upgrading of telecommunications infrastructures. As equipment designers and manufacturers, we must now maintain our technical know-how, in the areas of both design and production, to supply our OEM customers with integrated systems and subsystems for their wireless base stations.

Adapting to change also requires that we actively pursue the opportunities that still exist in the wireless sector and additional microwave technology products. In today's highly competitive environment, generating a critical mass in terms of design and production capacities is crucial, as is establishing a broad geographical footprint. These attributes allow a company to realize economies of scale and to provide more value to its customers.

With the moves we made in fiscal 2002, Mitec possesses these strengths. Our acquisition of the remaining 85% of Amplix Inc. and our purchase of certain assets related to the Wireless RF Conditioning and Satellite Ground Station businesses of Com Dev International Ltd. significantly enhanced our design expertise and expanded our products portfolio across the entire range of international wireless standards. The latter transaction also provided us with a stronger presence in the growing Asian marketplace and enabled us to diversify our international client base.

Mitec now operates its Wireless, Microwave and Satcom divisions from facilities in Montreal (Canada), Tinton Falls (US), Borås (Sweden), Cornwall and Dunstable (UK), Wang-Noi (Thailand) and Suzhou (China). We are now a truly global player, well-positioned to strategically supply the major OEMs around the world.

While we are in the midst of an "Ice Age" environment in the Telecom Industry, Wireless subscriber growth is relatively solid. It is expected to be 12% to 14% globally for the industry in 2002, somewhat slower than the 17% posted in 2001. It is clear, however, that the Network Operators will continue to postpone the deployment of 3G wireless infrastructures over the short term. High-speed, multimedia-capable wireless communications will figure prominently in our futures, but only once our industry recovers from the current capital crunch. We are therefore taking a cautious view of fiscal 2003. Our core wireless business is fundamentally robust and our satcom division, which we intend to expand, provides us with solid margins and cash flow. The Company's presence in Asia opens up a number of new opportunities in a growing market.

Nevertheless, as our customers focus increasingly on providing networks and begin to outsource a greater percentage of their system and subsystem design and manufacturing, they will be relying more heavily on the expertise we can offer.

Mitec's central mission remains unchanged: we have set our sights on being a partner of choice to the major players in the telecommunications industry around the world. In fiscal 2003, our first priority will be returning the Company to profitability by strategic means. We are also working hard to diversify further our customer and client base and broaden our global footprint and to design and develop innovative products that provide greater performance at a lower cost. Moreover, we will continue to prudently evaluate future acquisition and partnership opportunities in order to firmly consolidate the Company's international stature in our segments of the telecom infrastructure industry.

Fiscal 2002 also saw changes to Mitec's Board of Directors with the resignations of Lionel Hurtubise, Björn Ohde and Sven Borgström. Serving as a director of a public company is an increasingly demanding task, and I thank each of them for the contributions they have made to the Company and wish them well in their future endeavours.

Our Board of Directors has initiated the process of electing new directors and reconstituting the Board's various committees. Most importantly, the Board is focussed on overseeing Mitec's return to profitability.

Amidst the downturn and unexpected events of fiscal 2002, our employees have shown extraordinary resilience and adaptability. I would like to take this opportunity to thank them for their considerable contributions. I am also gratified that our clients have demonstrated an enduring confidence in Mitec in the midst of an ever-changing industry landscape. Finally, I wish to thank you, our shareholders, for your ongoing commitment. Your support provides us with a cornerstone upon which we can build towards a more prosperous future.

(sign by)

Myer Bentob
Chairman



“Mitec’s acquisition activities in fiscal 2002 directly addressed and successfully met the growth objectives set out in its development plan.”

PURSUING A GROWTH STRATEGY

In fiscal 2002, persistent economic difficulties severely curtailed the deployment and expansion of telecommunications infrastructures throughout the world. As a designer and manufacturer of products serving the wireless, microwave and satcom markets, Mitec Telecom was adversely affected by these market circumstances. While revenues rose to \$122.2 million in 2002, up from \$77.9 million in the previous fiscal year, net losses increased sharply, from \$0.2 million to \$28.2 million (including the writedown of goodwill and inventory as well as restructuring costs).

A variety of factors contributed to these results. Chief among them was the disappointing performance of the Company’s microwave business in Sweden, which was particularly hard-hit by the protracted industry slowdown.

Nevertheless, over the past year Mitec continued to pursue its aggressive growth strategy. This strategy emphasizes three principal objectives:

- **Increasing the Company’s global presence;**
- **Boosting the range of products it offers;**
- **Broadening its customer base and market share.**

On all three counts, Mitec made significant progress. Acquisitions were a central contributor to the Company's development.

In October 2001, Mitec acquired the remaining 85% of Montreal-based Amplix Inc., a privately held company in which the Company previously held a 15% interest. The acquisition brought immediate benefits. Amplix's patented expertise in linearization, pre-distortion and feedforward technologies enhanced Mitec's existing satcom products portfolio and allows the Company to further develop fourth-generation technologies. In addition, Amplix's personnel provide a valuable addition to Mitec's research and development team.



Ken Allstaff & Keith Findlay

In January 2002, Mitec made another landmark transaction, acquiring certain assets related to the Wireless RF Conditioning and Satellite Ground Station businesses of Com Dev International Ltd. The specific assets acquired included Com Dev's Suzhou, China wireless entity as well as its Cornwall, UK satellite ground station entity. Mitec also acquired selected fixed assets, client contracts, technology and inventory from Com Dev's Dunstable, UK and Moncton, Canada wireless operations.

In the months following the acquisition, Mitec integrated its existing UK operations into the Cornwall facility to take advantage of lower labour costs, government incentives and the region's considerable talent pool. The Moncton assets were transferred to the Company's Montreal facility.

The Com Dev transaction substantially increased Mitec's critical mass and immediately made it a significantly stronger global player in the telecommunications industry. Moreover, the acquisition brought the Company a number of other strategic and material benefits, including:

- **An accelerated rollout of operations in China, where customers had been seeking a stronger Mitec presence;**
- **Access to the burgeoning Asian, Indian and Russian wireless markets;**
- **A more diversified customer base;**
- **An improved competitive position in several market segments;**
- **A product portfolio that extends into the GSM, CDMA 2000 and UMTS/3G technologies;**
- **Enhanced wireless and satcom engineering capabilities;**
- **A greater utilization of production capacity and overhead absorption.**

In short, the Company's acquisition activities in fiscal 2002 directly addressed and successfully met the growth objectives set out in its development plan.

HIGHLIGHT [one]

[October 2001]

Mitec acquires the remaining 85% of Amplix Inc.

HIGHLIGHT [two]

[January 2002]

Mitec acquires certain assets related to the Wireless RF Conditioning and Satellite Ground Station businesses of Com Dev International Ltd.

INTEGRATED OPERATIONS, INTEGRATED EXPERTISE



“Mitec demonstrated its ability to generate new clients and build on its existing relationships with international OEMs.”

BUSINESS SEGMENTS

Wireless

Mitec's Wireless division accounted for 53% of the Company's revenues in fiscal 2002. It represents Mitec's core business and is the sector with the most potential for growth. The Company produces a wide range of sophisticated components and sub-systems used in wireless infrastructure base stations, and has the technical expertise to supply all the constituent building blocks of these base stations. The ability to combine RF conditioning equipment and power amplifiers is an important strength, as OEMs are increasingly seeking out suppliers that can furnish them with value-added integrated base station products.

With the Com Dev transaction, Mitec's wireless portfolio gained 16 new products, and now covers the full range of international wireless network standards, including CDMA 2000, GSM, EDGE, UMTS and TDMA. Moreover, the Company acquired 5 new clients: Nortel (France), Nortel (China), Siemens (Germany), Huawei (China) and ZTE (China). This has greatly improved Mitec's global stature and geographical footprint.

Milestone contract wins included an order extension from a major OEM conducting business in China, an order for GSM 900/UMTS duplexers which marked the Company's entry into the 3G wireless network marketplace and an order for GSM 1800 and 1900 equipment, the first such order for new products acquired from Com Dev.

Wireless revenues climbed to \$64.7 million in this sector over the past year, an increase of 105.3% over fiscal 2001. Though the wireless industry continues to suffer through a protracted slump, the Company demonstrated its ability to generate new clients and build on its existing relationships with international OEMs.

Microwave

The Microwave division accounted for 37% of Mitec's total revenues in 2002. This business is based in Sweden and the principal products manufactured include components for backhaul radio systems that connect base stations as well as a tactical radio used in defence applications. The division's strength resides in its ability to deliver on tight schedules and to respond rapidly to customer needs.

Key contract wins in 2002 included a new 12-month supply contract for tactical radios representing approximately \$16 million in sales and a six-month extension of a \$14 million supply agreement to assemble Ericsson's Mini-Link product.

The past year was extremely difficult for Mitec's Microwave division. It is a high-volume, low-margin business and the drop-off in product demand from its principal customer contributed to a 40% decline in revenues and to substantial operational losses. In response, Mitec introduced a series of decisive measures designed to right-size the business, including a 50% reduction in the workforce. Restructuring charges, write-downs and one-time charges, including severance packages, had a profoundly negative impact on the Company's overall 2002 earnings (see MD&A for further details).

Satcom

Mitec's Satcom division designs and manufactures a range of products, from simple components to sophisticated switching networks, which are integrated into earth stations for satellite communications. Acquiring Com Dev's Satellite Ground Station business allowed the Company to absorb a key competitor and significantly enhanced its positioning in this market.

In fiscal 2002, Satcom sales accounted for 10% of Mitec's total revenues. Sales totalled \$12.7 million in this sector in 2002. This division does not have the same potential for growth as the Company's other units, but it does produce solid margins and cash flow, which contribute to Mitec's ongoing development efforts.

HIGHLIGHT ^[three]

Mitec acquires 16 new products in its wireless portfolio as a result of Com Dev transaction; products now cover full range of wireless network standards.

HIGHLIGHT ^[four]

The Company's customer base is diversified as a result of Com Dev transaction. New clients include Nortel [France and China], Siemens [Germany] Huawei and ZTE [China].

integrated operations, integrated expertise

INTEGRATED OPERATIONS, INTEGRATED EXPERTISE



“As a generator of new technology, Mitec’s success is tied to its ability to provide added value to its customer base.”

THE YEAR AHEAD

Mitec’s management has adopted a prudent view of the wireless infrastructure industry into fiscal 2003 as indicators point to a market that will likely remain essentially flat. However, given its strong global presence in its core wireless business, the Company expects to maintain its market share.

The top priority in fiscal 2003 is to improve the Company’s financial strength and to set it on a course of growth and profitability. To this end, it has undertaken a number of rationalization and restructuring initiatives.

At the BEVE facility in Sweden, a workforce reduction has commenced and the Company is committed to taking whatever measures are necessary to reverse the negative earnings trend in its Microwave business.

In the Wireless division, efforts are being made to increase margins by improving supply-chain management and flexibility and by reducing cycle times. Materials generally account for 60%-65% of sales, thus presenting an opportunity to realize considerable savings and efficiencies in this area. Additionally, Mitec is continuing to focus on refining its marketing, research and development and engineering activities. Scaling down costs to bring them in line with revenues is one of the Company’s primary aims.

Mitec is dedicated to being one of the industry's premiere technology drivers and definers. A decade ago, OEMs had 15-20 suppliers to choose from; today, the selection has been reduced to a half dozen.

This has resulted in much tighter relationships between network providers and equipment designers and manufacturers. As a generator of new technology, Mitec's success is tied to its ability to provide added value to its customer base.

Going forward, this will entail supplying OEMs with more highly integrated wireless base station equipment, which combines advanced RF conditioning and power amplifier systems and subsystems. Providing a larger proportion of the base station offers customers reduced costs and a more streamlined supply chain. Mitec is one of the few companies with all the competencies required to design and produce this integrated technology. It is therefore very well-positioned to capitalize on the opportunities that currently exist in the wireless industry for consolidated products.

With the Com Dev acquisition, Mitec established a strong manufacturing presence in China and is now able to aggressively pursue business opportunities in the Asian telecommunications marketplace, where the subscriber base should continue to increase exponentially. Chinese OEMs now represent almost 10% of Mitec's wireless business and the developing relationships with Huawei and ZTE open up promising additional opportunities. The Company is working to maximize the synergies of its Montreal and Suzhou operations by aligning manufacturing processes, optimizing the transfer of operational programs and information systems and strengthening new product introduction.

Under its revamped management structure, Mitec maintains fully integrated worldwide operations, enhancing its capacity to implement customer programs that will help to further broaden and diversify its customer base throughout North America, Europe and the Pacific. A new sales structure, which is organized around distinct operational divisions that are the responsibility of Business Directors (see chart), will help the Company boost its market share. Mitec's extensive product lines, which now cover both GSM and CDMA technology standards, provide Mitec with the technological platform to consolidate its standing in the telecommunications industry as a partner of choice well into the future.

(sign by)

Ken Allstaff

Interim President and
Interim Chief Operating Officer

(sign by)

Keith Findlay

Executive Vice-President, Finance
and Chief Financial Officer

OPERATIONAL OBJECTIVES FOR 2003

- Strengthen financial position
- Improve operational efficiency
- Leverage new sales structure to increase market share
- Further develop integrated solutions for wireless base station systems and subsystems
- Continue to diversify customer base
- Use technology to reduce the cost of products to improve margins and competitive position
- Consolidate standing as global partners of choice

AMPLIFIER:

An electrical device that strengthens the signal in digital and analog transmission.

CDMA

[code division multiple access]:

A spread spectrum air interface technology used in some digital cellular, personal communications services and other wireless networks.

CDMAONE:

The IS-95 CDMA standard developed by Qualcomm Inc.

CDMA2000:

A third-generation wireless technology proposal submitted to the International Telecommunication Union, which is based on the IS-95, or cdmaOne, standard.

CDPD [cellular digital packet data]:

An enhanced system overlay for transmitting and receiving data over cellular networks.

DUPLEXERS:

Simultaneous transmission in both directions, sometimes referred to as full duplex to differentiate it from half duplex, which is alternating transmission in each direction. In most cases a filter is included in both paths.

EDGE [enhanced data rates for global (or GSM) evolution]:

An advanced technology for GSM and TDMA networks that may offer wireless data access speeds of up to 384 kilobits per second in end-user devices.

EGPRS:

Enhanced GPRS (general packet radio services) technology.

FILTERS:

A device that permits a certain range of frequencies to pass while suppressing unwanted frequencies or noise, or separating channels in communications circuits.

GSM [global system for mobile communications]:

A digital cellular or PCS network used throughout the world.

GPRS [general packet radio services]:

A 2.5-generation technology (being implemented in GSM networks) that may offer wireless data access speeds of up to 144 kilobits per second in end-user devices.

MULTI CARRIER AMPLIFIER [MCPA]:

Multi Carrier power Amplifier, unlike a Single Carrier Power Amplifier, can amplify more than one channel at the same time. MCPA are used to amplify the transmit (Tx) power. Linearization methods such as predistortion and feed forward are commonly used to "transform" SCPA into MCPA.

MAST HEAD AMPLIFIER [MHA]:

MHA are used to increase the coverage of base station (BTS). They also improve the clarity of the reception. MHAs are placed between the antenna and the BTS. They are composed of duplexers and amplifiers.

MICROWAVE-LINKS:

Communication network using microwave frequencies as signal carriers.

OUTPUT ARMS:

Devices used to improve the performance and reliability of KPA (Klystron Power Amplifier) and TWTA (Travelling Wave Tube Amplifier). Output arms are placed at the amplifier output. They are used to monitor transmitted and reflected power. They protect the amplifier against reflected power. They are also used to improve the spurious modes and harmonics of the amplifier. They can also monitor RF arcing.

RF CONDITIONING:

Filters and duplexers.

SATCOM:

Satellite communications.

TDMA

[time division multiple access]:

A digital air interface technology used in cellular, PCS and ESMR networks.

TACTICAL RADIO:

Communication equipment that includes switches, radio relays and bulk encryption units. Typical applications are tactical area networks, air defense networks and command post communication networks.

UMTS [Universal Mobile Telecommunications System]:

Europe's approach to standardization for third-generation cellular systems.

W-CDMA [wideband code division multiple access]:

The third generation standard offered to the International Telecommunication Union by GSM proponents.

WIRELESS:

Describing radio-based systems that allow transmission of telephone and/or data signals through the air without a physical connection, such as a metal wire or fiber optic cable.

WAVEGUIDE:

A hollow conductor that is used to efficiently transmit high-energy, high-frequency waves in the centimeter to micrometer range.

1XRTT:

The path which CDMA will be following to 3rd generation standards. It provides for data rates of up to 144 kbps.

3G:

Third generation.

3XRTT:

CDMA2000 operating mode at 3 times the basic chip rate of 1.2288 Mcps.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial conditions 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. It contains "forward looking statements" that are subject to risks and uncertainties, the most significant of which are outlined on page 16. This Analysis should be read in conjunction with the audited consolidated financial statements and supporting notes included in this annual report.

During the second quarter of fiscal 2002, the Corporation purchased the remaining 85% of the outstanding voting common shares of Amplix Inc. ("Amplix") for a purchase price, including acquisition costs, of \$1.5 million. The results of operations of Amplix have been consolidated in the accounts of the Corporation since the date of acquisition.

Effective February 1, 2002, the Corporation acquired certain assets related to Com Dev International's Wireless RF Conditioning Components and Satellite Ground Station businesses for a purchase price, including acquisition costs, of \$21.9 million cash. The specific assets acquired include Com Dev's Suzhou (China) wireless entities' shares as well as the Cornwall (UK) satellite ground station entities' assets and certain liabilities. Also acquired were selected fixed assets, client contracts, technology, and inventory of Com Dev's Dunstable (UK) and Com Dev's Moncton (Canada) wireless operations.

The results of operations of the acquired assets have been consolidated in the accounts of the Corporation since the date of acquisition.

Fiscal Years Ended	April 30,	April 30,
[as a percentage of sales]	2002	2001
Sales	100.0 %	100.0 %
Gross profit	11.6 %	23.6 %
Research and development	9.6 %	8.2 %
Selling and administrative	12.6 %	12.6 %
Financial expenses and interest, net	2.2 %	1.4 %
Income tax expense (recovery)	(0.4)%	0.4 %
Income (loss) before goodwill amortization	(15.3)%	0.9 %
Goodwill amortization, writedowns, restructuring costs and equity loss	10.6 %	1.3 %
Net loss after goodwill	(23.1)%	(0.3)%

RESULTS OF OPERATIONS

SALES

Total sales in fiscal 2002 increased by 56.9% to \$122.2 million as compared to the \$77.9 million in fiscal 2001. Of this increase 39.3% resulted from including twelve months of sales from BEVE as compared to only three months in the prior year and 6.7% was related to the acquisition of ComDev's wireless and satcom assets. Internal growth for fiscal 2002 was 10.9%.

Wireless

Sales in this segment are derived from wireless components sold to communication network providers, primarily Ericsson and Nortel. This segment has had a growth of over 150% from fiscal 2000.

The growth in revenue results from demand primarily for 2G and 2.5G products, which are primarily for emerging economies, most notably China. Growth for fiscal 2002 was 105.3%

Microwave

These products are sold to network providers. The products are for radio frequency microwave systems sold to customers such as Ericsson and Andrew. Sales increased by 48.0% in fiscal 2002.

Growth in this segment has been as a result of including twelve months of sales from BEVE, compared to only three months in the prior year.

Satcom

Sales in this segment are derived from sales to both network and service providers, such as Andrew, EchoStar and CPI. Softness in the satcom segment is due to lower demand for satellite ground stations, and components, including flexible waveguide, which resulted in a 21.1% decrease in sales in fiscal 2002.

COST OF SALES AND GROSS PROFIT

The Corporation's gross profit for fiscal 2002 was \$14.1 million as compared to \$18.4 million in fiscal 2001. This represents a 23.4% decrease. BEVE's gross margin for fiscal 2002 was negative \$1.8 million.

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

	F2002	F2001
Wireless	20.0 %	21.2 %
Microwave	(1.8)%	13.8 %
Satcom	15.7 %	46.7 %
TOTAL	11.6 %	23.6 %

Wireless

The wireless segment margins were lower in fiscal 2002 due to costs associated with integrating the Com Dev acquisition into the Corporation. These one-time costs totaled approximately \$0.5 million. Also contributing to the lower margins was the introduction of a new product for another major European Network Provider, where production efficiencies have yet to be achieved. The Corporation also made provisions of \$0.5 million for inventory for discontinued product lines in its Chinese facility.

Microwave

The Corporation's Swedish subsidiary, BEVE, operates only in the microwave segment, primarily as a contract manufacturer, where gross margins are typically lower than Mitec's core business. The negative margin for fiscal 2002 is the result of a reduction in orders with a major customer due to the continued slowdown on the customer's business. Sales decreased faster than we could reduce our costs, and BEVE was unable to recover its overhead costs. As a result of the slowdown in sales, we also recorded inventory writedowns of \$2.7 million in BEVE's fiscal 2002, further impacting margins. The Corporation has, and will continue restructuring the Swedish subsidiary's operations with the objective of reducing its overhead costs to better match sales volumes.

Satcom

In fiscal 2002, gross margins were significantly lower due to reduced volumes, primarily in flexible waveguide which typically carry higher margins than other satcom products. Also provisions for inventory for discontinued product lines in its UK facility of \$0.6 million impacted gross margins. As a result of the reduced volumes, this segment incurred higher unit overhead costs which resulted in lower gross margins for fiscal 2002. The Corporation restructured the Satcom segment operations to reduce its overhead costs to better match sales volumes.

RESEARCH AND DEVELOPMENT

Mitec's research and development ("R&D"), net of investment tax credits for fiscal 2002, was \$11.8 million, an increase of 84.8% over the previous year. Approximately 33.8% of this increase is related to the BEVE acquisition which took place in the fourth quarter of fiscal 2001 and the acquisition of Com Dev's Dunstable UK engineering facility in the fourth quarter of fiscal 2002.

Approximately 75% of our R&D expenditures are in the wireless segment. The balance of the increase resulted from the Corporation's focus on technology to support its growth strategy of 2.5G and 3G products. The development of these products will enable the Corporation to better serve the Chinese market where demand is growing rapidly.

With the acquisition of Amplix, which also contributed to the increase in fiscal 2002, the Corporation will continue the development of linearization, pre-distortion, and feed forward technologies making the Corporation more competitive.

SELLING AND ADMINISTRATIVE EXPENSES

The Corporation's selling and administrative expenses for fiscal 2002 increased 57.1% to \$15.4 million as compared to \$9.8 million in fiscal 2001. Approximately 52.3% of this increase resulted from the acquisition of BEVE in the last fiscal year and 24.8% of the increase resulted from the Com Dev acquisition.

Selling and administrative expenses were 12.6% of sales, the same as a year earlier. The Corporation expects a decreasing trend in its selling and administrative expenses as a percentage of sales.

FINANCIAL EXPENSES AND INTEREST INCOME

Mitec's financial expenses and interest income for fiscal 2002 was \$2.7 million as compared to \$1.1 million in fiscal 2001, which represented a 145.5% increase. This increase was comprised of an increase in interest on long-term debt of \$0.7 million, an increase of \$0.3 million in the interest relating to the increased usage in our credit facilities, and an increase in foreign exchange losses \$ 0.5 million, of which the majority is related to BEVE.

OTHER

During 2002, with the continued slowdown in the telecommunications industry, the Corporation implemented certain initiatives to right-size its operations. As a result of these initiatives, for the year ended April 30, 2002, the Corporation's incurred other expenses relating to restructuring and severance costs amounting to \$3.5 million.

Workforce reduction expenses of \$2.6 million were related to the cost of severance and benefits. The workforce reduction was primarily in Sweden and the United Kingdom.

The Corporation also recorded a provision for lease cancellation and relocation costs of \$0.5 million and also wrote-off \$0.5 million of capital assets as a result of restructuring the operations in the United Kingdom and in Sweden. The restructuring is a result of the Corporation moving its existing UK facilities into the facilities acquired from Com Dev. The Corporation is also in the process of closing down their Vaxjo facility in Sweden. Technology and capital assets will be transferred to Canada and the UK.

The Corporation expects further restructuring over the Company's first quarter of fiscal 2003 of between \$0.5 million and \$0.8 million.

INCOME TAX EXPENSE (RECOVERY)

Income tax for fiscal 2002 resulted in a recovery of \$0.5 million as compared to an expense of \$0.3 million for fiscal 2001. This represents an increase in recovery of \$0.8 million primarily because Mitec and most of its subsidiaries recorded losses for tax purposes for the year.

The Corporation also has unrecognized deferred income tax assets of approximately \$6.2 million.

GOODWILL AMORTIZATION / WRITEDOWNS AND EQUITY LOSS

Goodwill amortization, writedowns, and equity loss for fiscal 2002 was \$9.5 million as compared to \$1.0 million in fiscal 2001. Goodwill amortization for fiscal 2002 was \$3.1 million as compared to \$0.9 million a year earlier. This increase related to the goodwill on the acquisition of BEVE, which was being amortized over 5 years beginning in the fourth quarter of fiscal 2001. In addition to this, the Corporation recorded a writedown of \$6.4 million in the carrying amount of goodwill related to its Swedish operations due the closure of Gigatec AB in the amount of \$0.5 million and for BEVE in the amount of \$5.9 million which was determined by comparing the unamortized goodwill balance to the current and undiscounted cash flows.

NET LOSS

The net loss for fiscal 2002 was \$28.2 million as compared to a net loss of \$0.3 million in fiscal 2001. The Corporation's net loss is attributed to taking \$9.4 million of goodwill amortization and writedowns, a restructuring provision of \$3.5 million, and inventory writedowns of \$3.8 million. The Corporation earned negative or very low gross margins, in both the microwave and satcom segments.

QUARTERLY INFORMATION (UNAUDITED)

[In thousands of dollars except per share data]

	F2002				F2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	36,721	31,205	23,355	30,951	12,195	12,699	13,477	39,529
Net income (loss)	684	(515)	(7,414)	(20,959)	21	72	152	(504)
Basic and diluted EPS before goodwill amortization	0.09	0.02	(0.37)	(0.76)	0.01	0.01	0.02	0.02
Basic and diluted EPS after goodwill amortization	0.04	(0.03)	(0.42)	(1.13)	0.00	0.01	0.02	(0.03)

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY AND CAPITAL RESOURCES

Mitec's cash position increased by \$1.3 million in fiscal 2002 from \$1.1 million to \$2.4 million. However, the bank indebtedness increased by \$6.4 million from \$10.9 million to \$17.3 million. The increase in bank indebtedness is the result of the losses incurred by the Corporation in fiscal 2002. Due to these losses, Mitec's cash flows from operating activities before changes in working capital decreased by \$17.1 million to a use of \$12.8 from a surplus of \$4.3 million for the same period last year.

Reductions in working capital items amounted to \$3.0 million in fiscal 2002 compared to investments of \$4.5 million in fiscal 2001 which resulted in a use of funds from operating activities of \$9.8 million in fiscal 2002 compared to a use of funds of \$0.2 million in fiscal 2001.

The reduction in working capital resulted from a decrease in receivables (due to lower sales) from \$25.3 million in fiscal 2001 to \$21.6 million in fiscal 2002 and inventory decreased from \$29.3 million in fiscal 2001 to \$28.5 million in fiscal 2002. At the same time, decreased accounts payable and accrued liabilities decreased to \$26.0 million in fiscal 2002 versus \$36.7 million in fiscal 2001.

Fiscal Years Ended	April 30, 2002	April 30, 2001
[In thousands of dollars]		
Cash flows from operating activities before changes in working capital balances	(12,817)	4,314
Cash flows related to operating activities after changes in working capital balances	(9,776)	(229)
Working capital	2,059	8,576
Long-term debt and capital leases	6,349	11,203
Capital expenditures	9,325	3,800

Capital expenditures were \$9.3 million for fiscal 2002 compared to \$3.8 million in fiscal 2001. Of the increase, \$6.0 million was related to the capital assets purchased in the Com Dev acquisition. The balance of the capital expenditures in fiscal 2002 was for electronic test equipment utilized in our manufacturing facilities to support the growth in the wireless segment. These capital expenditures were financed primarily from capital leases.

During the year, the Corporation drew \$2.0 million of its \$7.5 million revolving term loan and entered into \$1.2 million of capital leases.

On December 7, 2001, the Corporation completed a Treasury Offering of \$9.4 million, net of issuing costs. The proceeds were used for working capital purposes.

On January 30, 2002, the Corporation completed another Treasury Offering of \$19.9 million, net of issuing costs. The proceeds were used to pay for the purchase of the wireless assets from Com Dev International.

On December 12, 2001, the Corporation obtained a new credit facility with a major financial institution to replace the existing facility. The new credit facility includes a \$10.5 million operating loan, \$7.5 million revolving term loan, \$1.0 million demand loan, and \$3.0 million forward exchange contract facility. Of these facilities the Corporation has utilized \$10.1 million of the operating loan, and \$2.0 million of the revolving term loan as at April 30, 2002. Mitec has available credit facilities of \$21.5 million of which \$17.3 million was utilized as at April 30, 2002.

Due to the losses incurred, the Corporation is not in compliance with the financial covenants of its Canadian credit facilities as at April 30, 2002 and July 31, 2002. On September 10, 2002, the Corporation's Canadian bank issued a letter indicating that it was prepared to tolerate the non-compliance with its covenants at April 30, 2002 and July 31, 2002 under its Canadian bank credit facility. The bank confirmed to the Corporation that it was prepared to tolerate the existing defaults to November 1, 2002 conditional on the Corporation:

1. achieving financial performance (sales & EBITDA) of the Corporation's North American operations in line with forecasts for the 2003 fiscal year provided to the bank in support of the credit; and
2. maintaining a tangible quick ratio (as defined in the agreement) of 0.60:1 on both a non-consolidated basis and on a combined North American operations basis for quarters ending October 31, 2002 and January 31, 2003; and
3. raising additional funding by way of equity or subordinated debt with terms and conditions to the satisfaction of the bank for an amount of at least \$5,000,000 by November 1, 2002 and;
4. other security arrangements including a pledge of the Mitec Telecom (Suzhou) Co. Ltd. shares.

The failure to comply with the above conditions or a deterioration in the Corporation's financial position would trigger an immediate default of the Canadian bank credit facility.

Concurrently, the Corporation has requested that the lender cancel the undrawn facilities of the \$7,125,000 revolving term loan fixing the loan at \$3,632,000 thus reducing the Corporation's capital repayments and related fees. The bank also prohibited the Corporation from making any further loans or advances, or providing corporate guarantees for credit facilities to related companies outside of regular trade receivables.

The bank has consented to a \$2,000,000 bridge loan, which will be subject to the terms and conditions of the bank's existing credit facility and is based on sustainable increases in the Corporation's trade accounts receivable and other specific requirements. This bridge loan will be fully repaid at the earliest of the receipt of \$5,000,000 additional funding referred to above or October 31, 2002.

The bank has also modified certain financial covenants and increased the interest rates on the bank indebtedness to prime plus 3% and on the Revolving Term Loan to prime plus 3.5%.

As a result of the fiscal 2002 losses, the Corporation was not in compliance with certain financial ratios on its Canadian long-term debt with Clarica Life Insurance Company. On August 15, 2002, Clarica agreed to waive the events of default conditional on the Corporation receiving satisfactory waivers for its Canadian credit facilities described above and accordingly this debt has been classified as a current liability as at April 30, 2002. The lender increased the rate of interest on this debt by 1% effective December 31, 2002 if the loan has not been repaid in full by that time.

RISKS AND UNCERTAINTIES

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. There is substantial doubt about the appropriateness of the use of the going concern assumption because of the Corporation's recent losses, negative cash flows and the violation of substantially all of its Canadian debt covenants. As such, the realization of assets and the discharge of liabilities are subject to significant uncertainty.

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

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

1. Continuing discussions with its lenders in respect of its non-compliance with its debt covenants, modifications thereto and/or to obtain additional financing;
2. approaching potential investors to secure additional capital;
3. pursuing the sale of certain of its non-core capital assets and investments in non-core subsidiaries, and;
4. rationalizing operations to reduce expenses.

Management believes that with the above plans, sufficient funds will be generated to maintain the support of the Corporation's lenders and to enable the Corporation to continue in operation as a going concern. There can, however, be no assurance that the plans described above will result in sufficient funds being generated.

The Company's continuation as a going concern is dependent upon, amongst other things; the injection of new capital by investors, the continuing support of the Corporation's lenders which is dependent on certain conditions including a capital injection by November 1, 2002, maintaining a satisfactory sales level, the continued viability of the Corporation's significant customers, a return to profitable operations and the ability to generate sufficient cash from operations, financing arrangements and new capital to meet its obligations as they become due. These matters are dependent on a number of items outside of the Corporation's control and there is substantial uncertainty about the Corporation's ability to successfully conclude on the matters.

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. The Corporation entered into some foreign exchange contracts in fiscal 2002 and has an unrecognized gain as at April 30, 2002.

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. Details of the concentration of trade receivables can be seen under note 4 to the consolidated financial statements as at April 30, 2002.

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 component 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 actively negotiating to secure increased credit facilities and other financing alternatives required to support and sustain its operations. The Corporation is confident in its ability to successfully complete these negotiations to meet capital, research and development and other operational requirements for the foreseeable future. There can be no assurance, however, that capital requirements will be met on a timely basis or satisfied on terms acceptable to the Corporation.

OUTLOOK

Mitec's current strategy is to bring the Company back to profitability in of fiscal 2003. The Company has invested a significant amount of time to right-size all business units. The Corporation has positioned the R&D Teams to focus on cost reduction to improve gross margins.

The Corporation's strategy is to increase its customer base by creating more value added products, such as amplifier centric solutions.

There is still a great deal of uncertainty as to when the telecommunications industry will begin its next phase of expansion. In the Company's view there are indications that the industry will not recover in 2002 and it therefore does not expect revenues to grow in the near term.

The Company currently believes it will be able to access adequate financial resources to meet its business goals. Changes in the external environment related to its business segments or lack of revenues associated with new products may require the Company moderate its investment in research and development concerning new products and processes.

MANAGEMENTS' 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.

(sign by)

Myer T. Bentob

Chairman

(sign by)

Keith Findlay

Executive 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, 2002 and 2001 and the consolidated statements of operations, retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company'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 Company as at April 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(sign by) **Ernst & Young LLP**

Chartered Accountants

Montréal, Canada,

July 8, 2002

[except for notes 1,9,10 and 20 which are as at September 10, 2002]

consolidated balance sheets [note 1]

As at April 30 [In thousands of Canadian dollars]

	2002	2001
	\$	\$
ASSETS <small>[notes 9 and 10]</small>		
Current		
Cash and cash equivalents	2,431	1,171
Trade receivables	21,582	25,307
Other receivables <small>[note 5]</small>	289	511
Income taxes recoverable	611	391
Inventories <small>[note 6]</small>	28,523	29,287
Prepaid expenses and other	1,223	1,066
Deferred income taxes <small>[note 14]</small>	509	837
Total current assets	55,168	58,570
Capital assets <small>[note 7]</small>	38,053	32,696
Long-term investment <small>[note 3]</small>	–	1,000
Deferred income taxes <small>[note 14]</small>	375	514
Intangible assets <small>[note 8]</small>	8,500	9
Deferred charges [net of accumulated amortization of \$49, 2001 – nil]	252	–
Goodwill [net of accumulated amortization and write-down of \$10,901; 2001 - \$1,453] <small>[note 8]</small>	5,314	14,762
	107,662	107,551
LIABILITIES AND SHAREHOLDERS EQUITY		
Current		
Bank indebtedness <small>[note 9]</small>	17,276	10,888
Accounts payable and accrued liabilities	26,056	36,732
Current portion of long-term debt <small>[note 10]</small>	8,235	1,297
Current portion of obligations under capital lease <small>[note 11]</small>	1,542	463
Deferred income taxes <small>[note 14]</small>	–	182
Deferred government grant <small>[note 12]</small>	–	432
Total current liabilities	53,109	49,994
Long-term debt <small>[note 10]</small>	5,218	10,520
Obligations under capital lease <small>[note 11]</small>	1,131	683
Deferred income taxes <small>[note 14]</small>	–	851
	59,458	62,048
Shareholders' equity		
Share capital <small>[note 13]</small>	69,674	38,715
Retained earnings (deficit)	(19,934)	8,270
Cumulative translation adjustment	(1,536)	(1,482)
Total shareholders' equity	48,204	45,503
	107,662	107,551

Commitments and contingencies [note 16]

See accompanying notes.

On behalf of the Board:

(sign by)
Myer Bentob
Director

(sign by)
Hubert R. Marleau
Director

consolidated statements of operations [note 1]

Years ended April 30

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

	2002	2001
	\$	\$
Sales	122,232	77,900
Cost of sales including amortization of capital assets of \$3,259 [2001 – \$1,922]	108,100	59,511
Gross profit	14,132	18,389
Expenses		
Selling and administrative [note 7]	15,409	9,791
Research and development [note 12]	11,801	6,387
Financial expenses [notes 4 and 18]	2,689	1,152
Interest income	(38)	(45)
Equity loss [note 3 (a)]	38	102
Other [note 15]	3,512	–
	33,411	17,387
Income (loss) before income taxes and goodwill amortization and write-down	(19,279)	1,002
Income tax expense (recovery) [note 14]	(523)	336
Income (loss) before goodwill amortization and write-down	(18,756)	666
Goodwill amortization and write-down [note 8]	(9,448)	(925)
Net loss for the year	(28,204)	(259)
Basic and diluted earnings (loss) per common share [note 2]		
Before goodwill amortization and write-down	(1.02)	0.06
After goodwill amortization and write-down	(1.54)	(0.02)
Weighted average number of outstanding common shares	18,261,199	10,947,143

See accompanying notes.

consolidated statements of retained earnings (deficit) [note 1]

Years ended April 30 [In thousands of Canadian dollars]

	2002	2001
	\$	\$
Retained earnings, beginning of year	8,270	8,529
Net loss for the year	(28,204)	(259)
Retained earnings (deficit), end of year	(19,934)	8,270

See accompanying notes.

consolidated statements of cash flows [note 1]

Years ended April 30 [In thousands of Canadian dollars]

	2002	2001
	\$	\$
OPERATING ACTIVITIES		
Net loss for the year	(28,204)	(259)
Add items not affecting cash		
Amortization of capital assets, intangible assets, goodwill and goodwill write-down	15,276	4,431
Loss on disposal of capital assets	1,095	5
Deferred income taxes	(1,022)	35
Equity loss	38	102
	(12,817)	4,314
Changes in non-cash working capital balances related to operations	3,041	(4,543)
Cash flows used in operating activities	(9,776)	(229)
INVESTING ACTIVITIES		
Additions to capital assets	(3,313)	(3,800)
Proceeds on disposal of capital assets	25	280
Business acquisition, net of cash acquired <small>[note 3 (a) and (b)]</small>	(21,791)	(566)
Business acquisition – Amplix <small>[note 3 (a) and (b)]</small>	142	–
Increase in deferred charges	(301)	–
Cash flows used in investing activities	(25,238)	(4,086)
FINANCING ACTIVITIES		
Increase in bank indebtedness <small>[note 9]</small>	12,262	6,097
Repayment of bank indebtedness <small>[note 9]</small>	(5,516)	–
Increase in long-term debt	2,803	–
Repayment of long-term debt	(1,026)	(760)
Increase in obligations under capital lease	(1,218)	(222)
Issuance of common shares <small>[note 13]</small>	29,459	42
Cash flows provided by financing activities	36,764	5,157
Effect of exchange rate fluctuations changes on cash	(133)	(616)
Net increase (decrease) in cash and cash equivalents	1,617	226
Cash and cash equivalents, beginning of year	814	588
Cash and cash equivalents, end of year	2,431	814
Cash and cash equivalents consists of:		
Cash and cash equivalents	2,431	1,171
Bank overdraft <small>[note 9]</small>	–	(357)
	2,431	814
Supplemental disclosure of cash flow information		
Interest paid	2,098	1,148
Income taxes paid	1,075	295

See accompanying notes.

notes to consolidated financial statements

April 30, 2002 and 2001 [All tabular amounts are in thousands of Canadian dollars, except for share figures, unless otherwise stated.]

1. 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. There is substantial doubt about the appropriateness of the use of the going concern assumption because of the Corporation's recent losses, negative cash flows and the violation of substantially all of its Canadian debt covenants. As such, the realization of assets and the discharge of liabilities are subject to significant uncertainty.

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

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

1. Continuing discussions with its lenders in respect of its non-compliance with its debt covenants, modifications thereto and/or to obtain additional financing;
2. approaching potential investors to secure additional capital;
3. pursuing the sale of certain of its non-core capital assets and investments in non-core subsidiaries, and;
4. rationalizing operations to reduce expenses.

Management believes that with the above plans, sufficient funds will be generated to maintain the support of the Corporation's lenders and to enable the Corporation to continue in operation as a going concern. There can, however, be no assurance that the plans described above will result in sufficient funds being generated.

The Company's continuation as a going concern is dependent upon, amongst other things; the injection of new capital by investors, the continuing support of the Corporation's lenders which is dependent on certain conditions including a capital injection by November 1, 2002 [note 20], maintaining a satisfactory sales level, the continued viability of the Corporation's significant customers [note 4], a return to profitable operations and the ability to generate sufficient cash from operations, financing arrangements and new capital to meet its obligations as they become due. These matters are dependent on a number of items outside of the Corporation's control and there is substantial uncertainty about the Corporation's ability to successfully conclude on the matters.

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 Company and its directly and indirectly owned 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. Actual results could differ from these estimates and differences could be significant.

GOVERNMENT ASSISTANCE AND INVESTMENT TAX CREDITS

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

The Company 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.

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.

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

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 and net realizable value.

CAPITAL ASSETS

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

Buildings	Straight-line	20 to 40 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%

BUSINESS COMBINATIONS

As of July 1, 2001, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) with respect to "Business Combinations". Under these recommendations, business combinations initiated after June 30, 2001 are required to be accounted for using the purchase method of accounting, thereby no longer permitting the pooling-of-interest method of accounting. These recommendations also broaden criteria for recording other intangible assets separately from goodwill. Goodwill represents the excess of the cost of businesses acquired over the fair value of net identifiable assets values at the date of acquisition. Goodwill from business combinations initiated after June 30, 2001 is no longer amortized but instead is reviewed for impairment.

INTANGIBLE ASSETS

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

Patented technology and trademarks	Straight-line	10 to 17 years
Customer relationships	Straight-line	5 years
Non-patented technology	Straight-line	10 years

GOODWILL

The excess of the cost of business acquisitions over the fair value of the identifiable net assets acquired is recorded as goodwill and is amortized on a straight-line basis over a period not exceeding 10 years. On an ongoing basis, management evaluates the carrying value of goodwill for possible impairment, comparing current and anticipated undiscounted cash flows from related operations to the unamortized goodwill balance and considering operating trends and other relevant factors.

REVENUE RECOGNITION

The Company recognizes revenue when products are completed to the customer's specifications and are delivered to the customers.

INCOME TAXES

The Company uses the liability method of accounting for income taxes.

Under this method, deferred 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 deferred 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 deferred income tax assets will not be realized.

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. Revenues and expenses are translated into Canadian dollars at rates of exchange in effect 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.

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

Foreign operations

The accounts of the Company'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 Company'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 income.

Effective May 1, 2001, two of the Company's subsidiaries were reclassified from self-sustaining foreign operations to integrated foreign operations due to their financial interdependence on the Company.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into foreign exchange contracts to reduce its exposure to the volatility in future exchange rates applicable to anticipated revenues in foreign currencies. Gains and losses on contracts designated as hedges of identifiable foreign anticipated revenues are included in income when the related transactions being hedged are recognized.

FINANCIAL EXPENSES

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

EARNINGS (LOSS) PER SHARE

Effective May 1, 2001, the Company retroactively adopted the 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 and other dilutive instruments are used to purchase 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. Per share amounts have been restated for the previous period.

For the year ended	April 30, 2002			April 30, 2001		
	Income	Shares	Per share amount	Income	Shares	Per share amount
Net income (loss) before goodwill amortization	(18,756)			666		
Basic earnings per share before goodwill amortization	(18,756)	18,261,199	(1.03)	666	10,947,143	0.06
(Loss) income available to common shareholders						
Effect of dilutive securities						
Incremental treasury stock options/warrants		-			88,515	
Diluted earnings per share before goodwill amortization	(18,756)	18,261,199	(1.03)	666	11,035,658	0.06
Net loss	(28,204)			(259)		
Basic and diluted earnings per share after goodwill amortization						
Loss available to common shareholders	(28,204)	18,261,199	(1.54)	(259)	10,947,143	(0.02)

Incremental warrants and options were not considered for the year ended April 30, 2002 and for April 30, 2001 after goodwill amortization as they were anti-dilutive.

STOCK OPTION PLAN

The Company has a stock option plan described in note 13. No compensation expense is recognized for this plan when stock options are issued to employees. Any consideration paid by employees on the exercise of stock options is credited to share capital.

3. BUSINESS ACQUISITION

[a] Effective October 10, 2001, the Company purchased the 85% of the outstanding voting common shares of Amplix Inc. ["Amplix"] which it did not already own for a purchase price, including acquisition costs of \$1,505,000. Headquartered in Montreal, Quebec, Amplix is a company that specializes in the design, fabrication and marketing of pre-distorsion linearizers for wireless and satellite communication equipment. The results of operations of Amplix have been consolidated with the accounts of the Company since the date of acquisition and the long-term investment has been eliminated from the date of acquisition as consolidation method now applies. The investment had previously been accounted for on the equity basis.

The aggregate purchase price of \$1,505,000 included \$5,000 of cash, and common shares valued at \$1,500,000. The value of the 391,100 common shares issued was determined based on the average market price of Mitec's common shares over a two-day period before and after the terms of the acquisition were agreed to and announced. The allocation of the purchase price is summarized as follows:

	\$
Cash and cash equivalents	147
Trade receivables	70
Prepaid expenses and other	12
Intangible assets	1,940
Deferred tax asset	117
Total assets acquired	2,286
Accounts payable and accrued liabilities	208
Deferred tax liability	573
Total liabilities assumed	781
Net assets acquired	1,505
Consideration represented by:	
Cash	5
Share capital [note 13]	1,500
	1,505

Of the assets acquired, \$1,940,000 was assigned to intangible assets representing patented technology. These intangible assets will be amortized over a ten-year period.

Up to the date of acquisition, the Company purchased research and development services from Amplix in the amount of \$33,000 [2001 - \$762,000].

[b] Effective February 1, 2002, the Company acquired certain assets related to Com Dev International's Wireless RF Conditioning Components and Satellite Ground Station businesses for a cash purchase price of \$21,865,000 including acquisition costs of \$1,860,000. The specific assets acquired include the capital stock of Com Dev Wireless (Barbados) Limited whose only asset was the shares of Com Dev's Suzhou (China) wireless entity as well as the Cornwall (UK) satellite ground station entities' assets and certain liabilities. Also acquired were selected fixed assets, client contracts, technology, and inventory of Com Dev's Dunstable (UK) and Com Dev's Moncton (Canada) wireless operations.

This acquisition has been accounted for as the acquisition of a business, the results of operations of the acquired business have been consolidated with the accounts of the Company since the date of acquisition.

3. BUSINESS ACQUISITION [cont'd]

The allocation of the purchase price is summarized as follows:

	\$
Cash	842
Accounts receivable	4,263
Inventory	10,067
Other current assets	218
Intangible assets	5,995
Capital assets	6,012
Total assets acquired	27,397
Bank indebtedness	768
Accounts payable and accrued liabilities	4,764
Total liabilities assumed	5,532
Net assets acquired	21,865
Cash consideration	21,865
	21,865

Of the assets acquired, \$215,000 was assigned to intangible assets representing patented technology, \$780,000 was assigned to non-patented technology and \$5,000,000 was assigned to customer relationships. These intangible assets will be amortized over seventeen-year, ten-year and five-year periods respectively.

- [c] Effective February 1, 2001, the Company purchased 100% of the outstanding voting shares of BEVE Invest AB ["BEVE"] for a purchase price of \$18,606,000 including acquisition costs. The acquisition was accounted for by the purchase method. The results of operations of BEVE have been consolidated in the accounts of the Company since the date of acquisition.

Headquartered in Boras, Sweden, BEVE is a contract manufacturer of advanced electronic components for the telecommunications industry.

The allocation of the purchase price is summarized as follows:

	\$
Assets acquired at fair value, including \$56 of cash and cash equivalents	35,805
Liabilities assumed	(32,504)
Goodwill	15,305
Consideration	18,606
Consideration represented by:	
Cash	622
Share capital [note 13]	17,984
	18,606

The goodwill is amortized from the date of acquisition on a straight-line basis over 5 years [see note 8].

4. 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 cash and cash equivalents, trade receivables and other receivables. Short-term financial liabilities consist of bank indebtedness and accounts payable and accrued liabilities.

[II] LONG-TERM DEBT

The Company has computed the fair value of its debt using future cash outflows discounted at its incremental borrowing rate and has determined that the fair value of this financial liability approximates its carrying value.

[III] CAPITAL LEASES

The carrying amounts of the Company's capital leases approximate their fair value because of the floating interest component.

4. FINANCIAL INSTRUMENTS [cont'd]

[IV] FOREIGN EXCHANGE CONTRACTS

Futures contracts

The Company enters into foreign exchange futures contracts that oblige it to sell specific amounts of US dollars at set future dates at predetermined exchange rates. The contracts are matched with anticipated US dollar cash flows from revenues in US dollars. The amount of anticipated future revenues in US dollars are projected in light of current economic conditions in the Company's markets where sales are made in US funds, existing orders from customers and the Company's past experience in similar circumstances.

As at April 30, 2002, the Company had no outstanding contracts.

Foreign exchange collar

The Company has entered into foreign exchange collars for the sale of US dollars with a Canadian dollar floor of \$1.57 and ceiling of \$1.608. In total these collars amount to \$12,000,000 US. Under the terms of the collars, the Company bears the exchange risk or benefit on US dollar revenues when the Canadian dollar trades against the US dollar between the floor and ceiling rates.

Fair value

The fair value of derivative financial instruments generally reflects the estimated amounts that the Company would receive on settlement of favourable contracts or be required to pay to terminate unfavourable contracts at the reporting date, thereby taking into account the current unrealized gains or losses on open contracts.

Some foreign exchange contracts that qualify as hedges have become favourable to the Company since their inception and accordingly, constitute financial assets. Other contracts have become unfavourable and accordingly, constitute financial liabilities. Their fair values as at April 30, 2002, if settlement were to occur, would be as follows:

	2002	2001
	\$	\$
Favourable foreign exchange futures contracts	451	66
Unfavourable foreign exchange futures contracts	-	(19)
	451	47

Included in financial expenses in the income statement for the year ended April 30, 2002 are foreign exchange losses of \$424,000 [2001 - \$76,000 gain].

[V] CONCENTRATION OF CREDIT RISK AND ECONOMIC DEPENDENCE

Risks

The Company 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 credit exposure of foreign exchange contracts is represented by the fair value of contracts with a positive fair value at the reporting date.

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

The foreign trade receivables of the Canadian operation, except for several major customers where management has assessed the credit risk as minimal, are guaranteed by the Export Development Company ["EDC"] and the remainder of the Company's customer base comprises many geographically dispersed customers.

One customer accounted for 10% or more of sales for the year ended April 30, 2002 and three customers accounted for 10% or more of trade receivables as at April 30, 2002.

Customer	Business segment [note 17]	Sales		Trade receivables	
		2002 %	2001 %	2002 %	2001 %
1	Wireless & Microwave	70	63	36	64
2	Wireless & SatCom	7	10	23	-
3	Wireless	4	-	10	-

The Company has increased its business with Customer 1, a large multinational company, to 70% of its sales. The Company deals with numerous divisions and geographic locations of this customer. The Company has also significantly increased its sales with Customer 2, a large multinational company, due to the acquisition disclosed in note 3[b].

5. OTHER RECEIVABLES

	2002	2001
	\$	\$
Employee advances	289	314
Other	-	197
	289	511

The Company has made interest-bearing advances to certain employees including senior management and officers of the Company for the purchase of the Company'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 \$3.60 per share at April 30, 2002.

6. INVENTORIES

	2002	2001
	\$	\$
Raw materials and purchased components	17,504	16,044
Work-in-process	7,284	9,616
Finished goods	3,735	3,627
	28,523	29,287

7. CAPITAL ASSETS

	Cost	Accumulated amortization	Net carrying value
	\$	\$	\$
2002			
Land	1,584	-	1,584
Machinery and equipment	26,511	11,877	14,634
Buildings and leasehold improvements	18,314	3,118	15,196
Furniture and fixtures	2,784	1,442	1,342
Tools and dies	526	413	113
Computer equipment	7,491	3,663	3,828
Automobiles	297	229	68
	57,507	20,742	36,765
Machinery and equipment under capital lease	1,657	369	1,288
	59,164	21,111	38,053
2001			
Land	1,584	-	1,584
Machinery and equipment	18,649	7,386	11,263
Buildings and leasehold improvements	16,386	1,043	15,343
Furniture and fixtures	2,535	1,124	1,411
Tools and dies	521	346	175
Computer equipment	3,936	2,346	1,590
Automobiles	199	109	90
	43,810	12,354	31,456
Machinery and equipment under capital lease	1,377	137	1,240
	45,187	12,491	32,696

Included in selling and administrative expenses is amortization of capital assets of \$2,181,000 [2001 - \$1,584,000].

8. GOODWILL AND INTANGIBLE ASSETS

Intangible assets as at April 30, are as follows:

	2002	2001
	\$	\$
Cost		
Patented technology and trademarks	3,066	16
Non-patented technology	780	-
Customer lists	5,000	-
	8,846	16
Less accumulated amortization		
Patented technology	76	7
Non-patented technology	20	-
Customer lists	250	-
	346	7
Intangible assets – net	8,500	9
Goodwill – net	5,314	14,762

In 2002, the Company recorded a write-down of \$6,385,000 in the carrying amount of goodwill related to its Swedish operations due to a slowdown in the telecommunication industry.

9. BANK INDEBTEDNESS

Entity	Credit available	Credit used	Interest rate
	\$	\$	
As at April 30, 2002			
[a] Mitec Telecom Inc.	10,500	10,089	Prime rate + 0.25% to 0.75%
[b] BEVE	9,525	5,805	5.65% to 6.20%
[c] Mitec Telecom (Suzhou)	758	758	5.85%
[d] Mitec Europe	457	384	UK base rate + 2.50%
[e] Gigatec AB	305	240	8.65%
	21,545	17,276	
As at April 30, 2001			
[a] Mitec Telecom Inc.	6,000	5,516	Prime rate
[b] BEVE	5,992	4,715	5.95%
[e] Gigatec AB	300	300	7.6%
	12,292	10,531	
Bank overdraft	-	357	
	12,292	10,888	

[a] On December 12, 2001, the Company obtained a new credit facility with a major financial institution to replace the existing facility. The new credit facility includes a \$10,500,000 operating loan, \$7,500,000 revolving term loan, \$1,000,000 demand loan, and \$3,000,000 forward exchange contract facility. Of these facilities the Company has utilized \$10,089,000 of the operating loan, and \$2,000,000 of the revolving term loan as at April 30, 2002.

The operating loan is repayable on demand and renewable on an annual basis.

The revolving term loan is reduced by \$375,000 a quarter for the first eight quarters commencing on January 31, 2002, and \$562,500 a quarter thereafter.

The collateral provided by the Company under these new 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 \$500,000 on certain immoveable property with a net book value of \$683,000.

9. BANK INDEBTEDNESS [cont'd]

iii) a second ranking hypothec in the amount of \$10,000,000 on certain immoveable property with a net book value of \$6,060,000.

The Mitec Telecom Inc. credit facility contains restrictive financial covenants. As at April 30, 2002, four of the covenants were not met by the Corporation. On September 10, 2002, a tolerance of the defaults was received and extends to November 1, 2002 [note 20]. This waiver does not extend through to April 30, 2003 and accordingly the revolving term loan [note 10] has been classified as a current liability at April 30, 2002.

As at April 30, 2001, certain financial covenants of the previous facility were not met. On July 19, 2001, the Corporation received a waiver from its credit facility lender and on December 12, 2001 entered into a new credit facility with a new financial institution as described above.

- [b] BEVE has credit facilities available of \$6,100,000 collateralized by its trade receivables and \$3,425,000 collateralized by chattel mortgages on moveable and immoveable property of BEVE. Of these facilities, \$2,739,000 and \$3,066,000 respectively was utilized at April 30, 2002.
- [c] The Mitec Telecom (Suzhou) Co. Ltd. credit facility is collateralized by capital assets with a net book value at April 30, 2002 of \$1,800,000 [9,700,000 REMB].
- [d] The Mitec Europe Co. Ltd. credit facility is collateralized by certain moveable and immoveable property of Mitec Europe.
- [e] The Gigatec AB credit facility is collateralized by capital assets in the amount of \$914,000 [6,000,000 SEK].

10. LONG-TERM DEBT

	2002	2001
	\$	\$
[a] Clarica Life Insurance Company ["Clarica"] term loan of \$5,000,000, bearing interest at 8.35%, maturing in 2012 with monthly principal instalments of \$34,722 plus interest.	3,382	4,549
[b] Canadian bank \$7,125,000 revolving term loan bearing interest at Canadian prime plus 1.50%. The loan is reduced by \$375,000 a quarter until October 31, 2003 and \$562,500 a quarter thereafter. \$2,000,000 was utilized and is repayable in 2005, is collateralized as described in note 9 [a] and is classified as a current liability [note 9].	2,000	-
[c] Swedish bank term loan of \$701,000 [Swedish Kronor - 4,600,000], bearing interest at 6.90%, maturing in 2005 with monthly principal instalments of \$12,090 plus interest, payable in Swedish Kronor.	459	594
[d] Swedish bank term loan of \$8,390,000 [Swedish Kronor - 55,055,000], bearing interest between 5.20% and 6.80%, maturing at various dates starting in 2004 with quarterly instalments of \$192,000 plus interest and declining after 2006 and a lump sum capital repayment of \$1,524,000 in 2003 payable in Swedish Kronor.	7,612	6,674
	13,453	11,817
Less: Current portion	8,235	1,297
	5,218	10,520

The Clarica loan agreement contains certain restrictive financial and other covenants. As at April 30, 2002 and April 30, 2001, three of the financial covenants were not met by the Corporation. In respect of 2001, these violations were waived on July 11, 2001. On August 15, 2002, Clarica agreed to waive the events of default conditional on the Corporation receiving satisfactory waivers from its Canadian bank [note 20] and accordingly this debt has been classified as a current liability as at April 30, 2002.

- [a] The collateral provided by the Company under the Clarica loan agreement consists of:
 - [i] a first ranking hypothec in the amount of \$6,000,000 on all movable and immovable property other than trade receivables and inventories;
 - [ii] a second ranking hypothec on trade receivables and inventories; and
- [b] The Company has provided chattel mortgages on moveable and immoveable property of certain subsidiaries of the Company as collateral under both Swedish bank loan agreements described in note 9 [c] and [d].

10. LONG-TERM DEBT [cont'd]

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

	\$
2003	8,235
2004	1,300
2005	1,191
2006	875
2007	758

11. OBLIGATIONS UNDER CAPITAL LEASE

The following is a schedule of future minimum lease payments under capital lease:

	\$
2003	1,744
2004	913
2005	290
	2,947
Less: Imputed interest at rates varying between 5.90% and 9.40%	274
	2,673
Less: Current portion	1,542
	1,131

12. GOVERNMENT GRANTS

Pursuant to an expansion project announced on June 5, 1998, the Company entered into an agreement with the government of Quebec whereby the government reimbursed the Company the amount of \$1,600,000 to cover incremental personnel costs associated with the expansion project. The grant is contingently repayable if certain employee levels are not maintained for a minimum of three years.

In 2000, the Company recorded a receivable of \$510,000 related to this grant. In 2001 it received the entire grant amount of \$1,600,000 and recorded a deferred government grant of \$432,000. The balance of the grant was recorded as a reduction of cost of sales of \$432,000 [2001 - \$480,000], research and development expenditure of nil [2001 - \$33,000] and general and administrative expenses of nil [2001 - \$145,000].

13. 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

	2002		2001	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance, beginning of year	15,629,216	38,715	9,417,026	20,689
Changes during the year:				
Employee share purchase plan	10,811	41	10,718	42
Issuance of shares on business acquisition [note 3]	391,100	1,500	6,201,472	17,984
Issued for stock options	22,800	58		
Issued for cash [net of issue costs of \$1,759]	7,918,071	25,828	-	-
Balance, end of year	23,971,998	66,142	15,629,216	38,715

13. SHARE CAPITAL [cont'd]

WARRANTS

	2002		2001	
	Number	Amount \$	Number	Amount \$
Balance, beginning of year	-	-	-	-
Issued for cash [net of issue costs of \$201]	3,959,035	3,532	-	-
Balance, end of year	3,959,035	3,532	-	-
Total	-	69,674	-	38,715

On December 7, 2001, the Company issued 2,846,001 common shares from treasury. Each common share was accompanied by one half share purchase warrant whereby each full warrant entitles the holder to acquire one additional common share of the Company at a price of \$4.23 per share on or prior to December 7, 2003. The cash consideration received for the common shares and the warrants was \$9,412,000, net of issue costs of \$606,000. The Company has allocated the proceeds from the issuance of the units as an addition to the legal stated capital of the common shares. For accounting purposes the warrants have been valued at \$1,531,000, net of issue costs of \$65,000, using the Black-Scholes option pricing model, which assumed an expected life of two years, volatility of 69%, risk-free interest rate of 3.2% and no dividend yield, adjusted to account for the warrants' limited liquidity.

On January 30, 2002, the Company issued 5,072,070 common shares from treasury. Each common share was accompanied by one half share purchase warrant whereby each full warrant entitles the holder to acquire one additional common share of the Company at a price of \$5.04 per share on or prior to January 30, 2004. The cash consideration received for the common shares and the warrants was \$19,948,000, net of issue costs of \$1,354,000. The Company has allocated the proceeds from the issuance of the units as an addition to the legal stated capital of the common shares. For accounting purposes the warrants have been valued at \$2,001,000, net of issued costs of \$136,000, using the Black-Scholes option pricing model, which assumed an expected life of two years, volatility of 69%, risk-free interest rate of 3.2% and no dividend yield, adjusted to account for the warrants' limited liquidity. The use of the net proceeds from this issuance of common shares and warrants was restricted to the purchase of the Com Dev business [see note 3].

EMPLOYEE SHARE PURCHASE PLAN

An Employee Share Purchase Plan, established May 1, 1998, permits employees to purchase shares in the Company at the market price of the shares, at the time of their purchase. For every four shares purchased by an employee, the Company will contribute one share. During 2002, the Company issued 10,811 [2001 - 10,718] common shares for proceeds of \$41,000 [2001 - \$42,000] as part of its Employee Share Purchase Plan. As at April 30, 2002, the aggregate number of shares still available under the Plan is 253,553.

STOCK OPTION PLAN

The Company has in place a Stock Option Plan [the "Plan"] for the benefit of key employees, directors and officers of the Company to purchase an aggregate maximum of 2,500,000 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 up to 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 can not 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 Company.

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

	2002		2001	
		\$		\$
Balance, beginning of year	927,950	5.12	1,061,350	6.05
Granted	352,000	3.56	211,800	2.46
Exercised	(22,800)	(2.54)	-	-
Expired	(64,200)	(4.46)	(345,200)	6.34
Balance, end of year	1,192,950	4.84	927,950	5.12
Options exercisable at end of year	771,010	5.31	428,550	5.80

In addition, 300,000 stock options have been reserved for the members of the Office of the President but were not granted at April 30, 2002.

13. SHARE CAPITAL [cont'd]

Additional information concerning stock options outstanding as at April 30, 2002 is as follows:

Exercise price	Number	Options outstanding		Options exercisable	
		Weighted average exercise price	Weighted average months to expiry	Number	Weighted average exercise price
\$2.10	143,100	2.10	103	71,720	2.10
\$2.83 to \$4.25	428,000	3.53	103	179,900	3.42
\$4.50 to \$4.60	112,900	4.57	91	67,740	4.57
\$4.80 to \$6.50	384,450	6.02	64	337,250	6.08
\$6.70 to \$7.25	43,000	6.85	72	34,000	6.89
\$8.00 to \$10.25	81,500	9.11	61	80,400	9.11
	1,192,950			771,010	

14. INCOME TAXES AND INVESTMENT TAX CREDITS

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

	2002	2001
	\$	\$
Current income tax expense before the following:	87	370
Benefit of previously unrecognized losses and temporary differences	-	(69)
Current income tax expense	87	301
Deferred income tax expense (recovery) before the following:	(643)	336
Benefit of previously unrecognized losses and temporary differences	(717)	-
Write-down of deferred tax assets	750	-
Deferred income tax expense (recovery)	(610)	-
Income tax expense (recovery)	(523)	336

[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:

	2002	2001
	\$	\$
Income (loss) before income taxes	(28,727)	77
Canadian statutory income tax rate	36.45%	38.12%
Expected income tax expense (recovery)	(10,471)	29
Adjustments:		
Tax effect of non-deductible goodwill amortization and write-down	3,465	353
Effect of foreign tax rates	1,577	31
Tax credits and other amounts not taxable in Quebec	(92)	(82)
Benefit of previously unrecognized losses and temporary differences	(717)	(69)
Write-down of deferred tax assets	750	-
Unrecognized benefit of losses and temporary differences	4,599	-
Tax effect of manufacturing and processing tax credit	300	(19)
Large Companies Tax and other	66	93
Income tax expense (recovery)	(523)	336

14. INCOME TAXES AND INVESTMENT TAX CREDITS [cont'd]

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

	2002	2001
	\$	\$
Deferred income tax liabilities:		
Carrying values of capital assets in excess of tax bases	2,711	2,366
Investment tax credits	449	320
Reserves and other	965	426
Total deferred income tax liabilities	4,125	3,112
Deferred income tax assets:		
Net operating losses carried forward	6,201	2,260
Research and development expenditures carried forward	2,197	740
Provisions and other	1,362	336
Total deferred income tax assets	9,760	3,336
Valuation allowance	(6,188)	(870)
Net deferred income tax assets	3,572	2,466
Deferred income tax liabilities in excess of deferred income tax assets	553	646
Recognized non-refundable investment tax credits	(1,437)	(964)
Net deferred income tax assets	(884)	(318)

The Company has unrecognized losses carried forward of approximately \$13,300,000 in Sweden, without expiry, \$2,600,000 in the UK without expiry, \$117,000 in Thailand, which expire in the years 2003 and 2004, and \$3,000,000 in Canada, which expire in the year 2009.

The Company also has available unrecognized investment tax credits of approximately \$700,000 which expire in the year 2012 and unrecognized temporary differences of approximately \$5,900,000 for Canadian federal tax purposes.

The Company incurred research and development expenditures some of which are eligible for investment tax credits. The investment tax credits, recorded as a reduction of research and development expenditures, were \$986,000 [2001 - \$1,223,000].

The Company recorded a tax benefit related to its share issuance costs of approximately \$196,000. The tax benefit was recorded as an increase to share capital.

15. OTHER EXPENSES

During 2002, due to a slowdown in the telecommunications industry, the Company implemented certain initiatives to streamline its operations. As a result of these initiatives, for the year ended April 30, 2002, the Company's other expenses related to restructuring and severance costs amounting to \$3,512,000.

Workforce reduction expenses of \$2,583,000 were related to the cost of severance and benefits associated with the employees notified of termination. The workforce reduction was primarily in Sweden, the United Kingdom, and in North America and extended across all of the Company's segments.

The Company also recorded a provision for lease cancellation and relocation costs of \$469,000 and wrote-off \$460,000 of capital assets as a result of implementing certain initiatives required to restructure the operations of the Company in the United Kingdom and in Sweden. The restructuring is a result of the Company closing its existing UK facilities, which were no longer required, as a result of the acquisition of the Com Dev assets as well as a rationalization of inventory on hand between the UK and China. The Company is also in the process of closing down its Vaxjo facility in Sweden. The lease cancellation costs are mainly the result of the cancellation of operating leases for equipment which is no longer required by the Company.

In connection with the restructuring described above, the Company wrote-off inventory in the amount of \$3,833,000, consisting of \$638,000 in the United Kingdom, \$2,743,000 in Sweden and \$452,000 in China. These write-offs have been included within costs of sales.

16. COMMITMENTS AND CONTINGENCIES

[a] The Company and its subsidiaries are committed under operating leases for rental of properties and equipment until 2006. Future minimum annual rentals are as follows:

	\$
2003	550
2004	312
2005	269
2006	78
	1,209

[b] In January 1997, the Company received notice from attorneys for 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 February 1999, the Company entered into an agreement with the State of Vermont whereby the Company 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 the United States Environmental Protection Agency to cease its investigation of the site. The site investigation undertaken by the Company has been concluded and the data and information collected indicate that there are a number of other possible sources of groundwater contamination. The State of Vermont has stated that it has no money 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 Company has hired US 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.

17. SEGMENTED INFORMATION

[a] Segmented information used by management

Management organizes the Company into three principal operating segments for making operating decisions and assessing performance. The operating segments are Wireless Telecommunications ["Wireless"], Satellite and Terrestrial Telecommunications ["SatCom"] and Microwave Telecommunications Links ["Microwave"]. The Company currently operates in Canada, the United States, the United Kingdom, Sweden, China and Thailand.

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

Microwave is involved in research, design, development, manufacturing and sale of components for radio frequency systems and microwave communications.

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

Management evaluates segment performance based on gross profit as other expenses cannot be allocated to individual segments. In addition, the segments share inventory and capital assets and therefore total assets cannot be reasonably determined by segment.

17. SEGMENTED INFORMATION [cont'd]

	Wireless	Microwave	SatCom	Total
	\$	\$	\$	\$
2002				
Sales	64,749	44,758	12,725	122,232
Cost of sales	51,802	45,572	10,726	108,100
Gross profit	12,947	(814)	1,999	14,132
Expenses				33,411
Loss before income tax recovery and goodwill amortization				(19,279)
Income tax recovery				523
Goodwill amortization and write-down				(9,448)
Net loss for the year				(28,204)
2001				
Sales	31,528	30,244	16,128	77,900
Cost of sales	24,838	26,072	8,601	59,511
Gross profit	6,690	4,172	7,527	18,389
Expenses				17,387
Income before income tax recovery and goodwill amortization				1,002
Income tax recovery				336
Goodwill amortization				925
Net loss for the year				(259)

[b] Enterprise-wide information

The following tables present sales, assets and capital assets, intangible assets and goodwill based on the geographic location of production.

	2002	2001
	\$	\$
Sales		
Canada	73,098	47,660
Sweden	42,709	26,611
United States	7,790	7,030
China	2,966	-
United Kingdom	2,726	2,366
Other	486	722
Inter-country	(7,543)	(6,489)
Total	122,232	77,900
Assets		
Canada	59,709	56,951
Sweden	30,308	41,972
China	8,628	-
United States	3,926	5,594
United Kingdom	3,621	1,530
Other	1,470	1,504
Total	107,662	107,551

17. SEGMENTED INFORMATION [cont'd]

	2002	2001
Capital assets, intangible assets and goodwill		
Canada	26,520	16,688
Sweden	16,653	26,769
United Kingdom	3,834	487
United States	2,887	3,059
Other	1,973	464
Total	51,867	47,467

The following table presents sales by destination of the product.

	2002	2001
	\$	\$
Canada	11,803	11,949
United States	53,103	32,907
Europe	54,785	32,875
Asia	2,541	169
	122,232	77,900

18. FINANCIAL EXPENSES

Financial expenses consist of:

	2002	2001
	\$	\$
Interest on bank indebtedness	823	530
Interest on long-term debt	1,302	570
Foreign exchange loss (gain)	424	(76)
Other	140	128
	2,689	1,152

19. COMPARATIVE FIGURES

Certain comparative figures for 2001 have been reclassified to conform to the presentation adopted in 2002.

20. SUBSEQUENT EVENTS
WARRANTS

On May 30, 2002, the Company amended the terms of the purchase warrants issued on January 30, 2002 [described in note 13]. The terms were modified so as to lower the exercise price to \$4.25 per common share and extend the time up to which the common share purchase warrants may be exercised to July 30, 2004. This repricing would add \$862,000 to the accounting value of the warrants.

WAIVERS

On August 15, 2002, the Corporation received a waiver of its non-compliance with certain of the covenants contained in its long-term debt agreement with Clarica [note 10] conditional on the Corporation receiving satisfactory waivers from its Canadian bank. The lender increased the rate of interest on this debt by 1% effective December 31, 2002 if the loan has not been repaid in full by that time.

As at July 31, 2002, the Corporation was not in compliance with certain of its covenants under its Canadian bank credit facility. On September 10, 2002, the Corporation's Canadian bank issued a letter indicating that it was prepared to tolerate the non-compliance with its covenants at April 30, 2002 and July 31, 2002 under its Canadian bank credit facility as described in note 9[a]. The bank confirmed to the Corporation that it was prepared to tolerate the existing defaults to November 1, 2002 conditional on the Corporation:

20. SUBSEQUENT EVENTS [cont'd]

1. achieving financial performance (sales & EBITDA) of the Corporation's North American operations in line with forecasts for the 2003 fiscal year provided to the bank in support of the credit; and
2. maintaining a tangible quick ratio (as defined in the agreement) of 0.60:1 on both a non-consolidated basis and on a combined North American operations basis for quarters ending October 31, 2002 and January 31, 2003; and
3. raising additional funding by way of equity or subordinated debt with terms and conditions to the satisfaction of the bank for an amount of at least \$5,000,000 by November 1, 2002 and;
4. other security arrangements including a pledge of the Mitec Telecom (Suzhou) Co. Ltd. shares.

The failure to comply with the above conditions or a deterioration in the Corporation's financial position would trigger an immediate default of the Canadian bank credit facility.

Concurrently, the Corporation has requested that the lender cancel the undrawn facilities of the \$7,125,000 revolving term loan [note 10[b]] fixing the loan at \$3,632,000 thus reducing the Corporation's capital repayments and related fees. The bank also prohibited the Corporation from making any further loans or advances, or providing corporate guarantees for credit facilities to related companies outside of regular trade receivables.

The bank has consented to a \$2,000,000 bridge loan, which will be subject to the terms and conditions of the bank's existing credit facility and is based on sustainable increases in the Corporation's trade accounts receivable and other specific requirements. This bridge loan will be fully repaid at the earliest of the receipt of \$5,000,000 additional funding referred to above or October 31, 2002.

The bank has also modified certain financial covenants and increased the interest rates on the bank indebtedness to prime plus 3% and on the Revolving Term Loan to prime plus 3.5%.

corporate information

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Legal Counsel
Fraser Milner Casgrain

Banker
CIBC

Transfer Agent and Registrar
The CIBC-Mellon Trust Company

Annual General Meeting
Tuesday, October 29, 2002
at 11:00 AM
Hotel Ritz-Carlton
Montreal, Quebec

Stock Symbol
MTM

Listing of Stock
Toronto Stock Exchange

Year End
April 30th

Shares Outstanding
23,971,998

**Fully Diluted
(treasury stock method)**
23,971,998

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¹ Compensation Committee

² Audit Committee

Mitec welcomes all investors
to our quarterly conference calls.
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