



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This MD&A contains forward-looking statements with respect to Mitec and the operations of each business segment based on assumptions, which Mitec considered reasonable at the time they were prepared. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. Mitec cautions the reader that the assumptions regarding future events, many of which are beyond the control of Mitec, may ultimately prove to be incorrect.

Management's Discussion and Analysis (MD&A) of the second quarter of fiscal 2004 financial results focuses on the core businesses of Mitec: Telecom and Satcom. The Microwave business segment has been treated as a discontinued operation as a result of the Board's decision on May 8, 2003 to sell the Swedish business. The operating assets of the Swedish subsidiary were sold on August 29, 2003.

The MD&A, which includes a review of the operations of each business segment and the financial condition of Mitec, is intended to assist the reader in the understanding and assessment of significant trends, risks and uncertainties related to the results of operations for each business segment and should be read in conjunction with the unaudited consolidated financial statements for the period ending October 31, 2003 and the consolidated financial statements and notes included in Mitec's annual report for the year ended April 30, 2003. These are available at www.mitectelecom.com or from Mitec directly. All dollar amounts referred to herein are in thousands of Canadian dollars, unless otherwise specified.

This MD&A provides comments as to how the impact in the appreciation of the Canadian dollar against the US dollar affected the Company's results for the second quarter of fiscal 2004 as compared to the second quarter of fiscal 2003. The Company believes that this is useful supplemental information as it provides an indication of performance excluding such appreciation. Readers should be cautioned however that this information should not be confused with or used as an alternate for performance as determined in accordance with GAAP as an indicator of performance.

As described in the Risk and Uncertainties section included in Mitec's annual report for the year ended April 30, 2003, numerous factors could cause the results to differ materially from those in the forward-looking statements, including changes in the customers' business strategy and general political, economical and financial conditions in the markets in which the Company operates.

Review of Operations

ALL SEGMENTS

(Amount is thousands, except gross margin)		Q2 2004	Q1 2004	Q4 2003	Q3 2003	Q2 2003
Sales	\$	20,377	18,781	19,518	13,368	18,580
Gross profit	\$	4,182	4,524	7,877	2,016	3,796
Gross margin	%	20.5	24.1	40.4	15.1	20.4

Total sales for the three-month period ended October 31, 2003 increased by 10% to \$20.4 million as compared to the \$18.6 million a year earlier. The second quarter sales were affected negatively by the weakness in the U.S. dollar as compared with the same quarter last year. Both segments recorded approximately the same sales increase of \$0.9 million, but the impact on gross margins were more significant in the Satcom segment. As the emerging economy grows, the Corporation's Chinese subsidiary continues to contribute significantly.

Year-to date revenues were \$39.2 million which is \$3.8 million or 11% higher than last year, mainly due to contract wins in the Telecom segment.

Gross profit for the quarter increased 10% from \$3.8 million last year to \$4.2 million this year. This increase can be attributed to the higher sales volume, the continuous profitability of the Chinese operation and a different product mix in the Satcom segment. This was offset somewhat by the negative impact of the foreign exchange as most of the Corporation's sales are in U.S. dollars. Gross profit as a percentage of sales on a year-to-date basis increased by approximately 50% from 15% last year to 22.2% this year. This is as a result of the increase in sales volume and the different product and customer mix. On a year-to-date basis, gross margins were \$8.7 million as compared to \$5.3 million last year.

TELECOM

(Amount is thousands, except gross margin)		Q2 2004	Q1 2004	Q4 2003	Q3 2003	Q2 2003
Sales	\$	17,256	16,313	15,283	10,072	16,449
Gross profit	\$	2,601	3,561	6,267	642	3,599
Gross margin	%	15.1	21.8	41.0	6.4	21.9

The name of this business segment has been changed to Telecom from Wireless to reflect the broader base of Mitec's products. Sales in this segment are generated from the state-of-the-art RF conditioning and amplifier subsystems to network equipment provider's, such as Ericsson, Nortel, ZTE, ADC, Siemens and service providers, that support today's mobile communication's infrastructure. Quarter-over-quarter, the revenues generated from the Corporation's two major customers declined by 10%, showing more customer diversification.

The wireless industry is showing signs of improvement. Capital expenditure spending from the operators is on the rise. As a result of the increase in demand for products primarily in emerging economies, most notably China, the Telecom sector had a 5% increase in sales, from \$16.5 million in the second quarter of 2003 to 17.3 million in the second quarter of the current year. The Corporation announced during the quarter that it has signed a two-year supply agreement valued at CAN\$18 million for CDMA wireless subsystems, primarily for the Chinese market, from a global network equipment provider. Deliveries under this supply agreement commenced immediately. During the quarter the Corporation shipped new generation power amplifiers for Flarion, and expects to see an increase in demand during the following quarters.

On a year-to-date basis, sales increased by 11% from \$30.2 million to \$33.6 million mainly due to the increased demand in the Asian market.

The gross profit decreased from \$3.6 million to \$2.6 million because the anticipated cost reductions did not occur as quickly as did the price concessions provided to one of the Corporation's major customers. In addition, the Corporation introduced new products in the first half of year, and the Corporation has yet to achieve the expected production efficiencies and yields, and it had a negative impact on margins. Finally, due to the weakness of the U.S. dollar, the gross profit of this segment decreased because most of the sales are in U.S. dollars.

SATCOM

(Amount is thousands, except gross margin)		Q2 2004	Q1 2004	Q4 2003	Q3 2003	Q2 2003
Sales	\$	3,121	2,468	4,235	3,296	2,131
Gross profit	\$	1,581	963	1,610	1,374	197
Gross margin	%	50.6	39.0	38.0	41.7	9.2

Sales in this segment are derived from sales of RF components and subsystems sold to satellite Earth station service providers.

Sales increased by 46% from \$2.1 million in the second quarter of fiscal 2003 to \$3.1 million in the second quarter of the current fiscal year as the market demand increased for satellite ground station products. In addition, Satcom revenues included one-month of results from Wavesat (approximately \$0.4 million) which was acquired in September 2003. One of the immediate benefits from this acquisition was a multi-year supply agreement from an Australian customer which was received subsequent to quarter end. This acquisition will enable the corporation to broaden its customer and product base.

On a year-to-date basis, sales reached \$5.6 million (a \$0.4 million increase) compared to \$5.1 million last year. The increase on a year-to-date basis is not similar because of a less active first quarter of Fiscal 2004.

Gross profit increased from 9.2% last year to 50.6% or \$1.4 million from \$0.2 million to \$1.6 million in the current quarter, mainly due to higher sales volume and also from the results of the Wavesat acquisition, which attracts higher gross margins. The quick integration of the Wavesat workforce into Mitec's production facility enabled the corporation to maximize operating efficiencies. On a year-to-date basis gross profits more than doubled, from \$0.9 million last year to \$2.5 million this year.

Other Expenses

(Amounts in thousands, except percentage of sales)	Q2 2004		Q2 2003		YTD Q2 2004		YTD Q2 2003	
	\$	%	\$	%	\$	%	\$	%
Research and development expenses	1,096	5	2,679	14	2,751	7	5,881	17
Selling and administrative expenses	2,996	15	3,426	18	5,444	14	6,141	17
Operating expenses	4,092	20	6,105	32	8,195	21	12,022	34
Interest expense	451	2	267	1	935	2	487	1
Financial expenses	201	1	112	1	251	1	210	1
Foreign exchange loss (gain)	(272)	(1)	84	0	464	1	(242)	(1)
Amortization of intangible assets	559	3	539	3	1,070	3	1,070	3
Loss on sale of building	312	2	-	-	312	1	-	-
Restructuring expenses	-	-	1,335	7	-	-	1,712	5
Discontinued activities	(990)	(5)	(533)	(3)	(1,165)	(3)	(1,800)	(5)
Net loss	(2,146)	(11)	(5,176)	(28)	(3,727)	(10)	(11,548)	(33)

RESEARCH AND DEVELOPMENT EXPENSES

Research and development (R&D), net of investment tax credits for the quarter decreased 59% from \$2.7 million to \$1.1 million primarily as a result of the restructuring efforts carried out over the past year. In addition, approximately \$600,000 of development costs were capitalized as a result of the significant development effort provided to Flarion's field trials. We expect to be able to start recuperating these costs as we ship final approved products during the fourth quarter. On a year to date basis, R&D expenses were down 53% from \$5.9 million to \$2.8 million this year primarily for the reasons discussed above.

SELLING AND ADMINISTRATIVE EXPENSES

The Corporation's selling and administrative expenses for the quarter declined slightly from \$3.4 million in fiscal 2003 to \$3.0 million this year.

On a year-to-date basis, the selling and administrative costs declined from \$6.1 million last year to \$5.4 million this year. The reduction is attributable to the restructuring efforts started in late fiscal 2003.

INTEREST EXPENSE

Interest expense was \$0.5 million this quarter as compared to \$0.3 million last year. This was due to the higher interest rate charged by the Corporation's Canadian bankers as well as the higher level of borrowing. On a year-to-date basis, interest expense increased from \$0.5 million to \$0.9 million due to the same reasons as mentioned above.

FINANCIAL EXPENSES

Financial expenses were \$0.2 million during the quarter as compared to \$0.1 million last year. The increase was due to a trailer fee imposed by our Canadian Bank upon full reimbursement of the term loan. This loan was fully paid on November 26, 2003. On a year-to-date basis, the expenses were stable at \$0.3 million

AMORTIZATION OF INTANGIBLE ASSETS

The amortization of intangible assets increased slightly during the second quarter as a result of the September 2003 acquisition of the Wavesat Satcom and PCS assets.

LOSS ON SALE OF BUILDING

The loss on sale of building was \$0.3 million for the quarter and the year-to-date. This was attributed to Mitec's sale and leaseback of the head quarters in Montreal. Please refer to the capital and liquidity section for more information.

RESTRUCTURING EXPENSES

Restructuring expenses during the quarter were zero for both the quarter and the year-to-date as compared to last year's expenses of \$1.3 million for the quarter and \$1.7 million year-to-date. Restructuring efforts in 2003 related to workforce reductions, and the related costs of severance and benefits which were not incurred in the first and second quarters of fiscal 2004.

DISCONTINUED ACTIVITIES

On August 29, Mitec concluded the sale of Beve Electronics to Note AB a Swedish company. The sale included, inventory and equipment. The proceeds from this sale directly reduced Mitec's bank indebtedness and was also used to pay creditors. The sale did not include the real estate assets, but Mitec did sign long-term leases with Note AB, securing some of the property's market value. Beve Electronics constituted most of the microwave segment. This segment has been treated as a discontinued operation. Fiscal 2003 results have been restated to reflect this transaction.

NET LOSS

Net loss for the quarter was \$2.1 million or \$0.05 per share as compared to \$5.2 million or \$0.22 per share last year. This is a significant improvement from last year as we move from a restructuring phase to a growth phase. The results achieved were because of the increases in sales and reductions in operating expenses. This was offset by higher losses from discontinued operations. On a year-to-date basis, the net loss was \$3.7 million or \$0.08 per share compared to \$11.5 million or \$0.48 per share last year, an improvement of over \$7.8 million as compared to last year.

Quarterly Information

(Amount in thousands)	Q2 2004	Q1 2004	Q4 2003	Q3 2003	Q2 2003
Net loss	(2 146)	(1,581)	(3,778)	(4,891)	(5,176)
Income taxes	(5)	46	521	(53)	(3)
Amortization	1,381	1,225	1,797	1,818	1,642
Interest	591	663	663	566	470
EBITDA	(179)	353	(797)	(2,560)	(3,067)

EBITDA for the quarter was negative \$0.2 million for the second quarter of fiscal 2004 as compared to negative \$3.1 million during the second quarter of fiscal 2003. The improvement is directly attributable to the reduction of the net loss. The EBITDA for the quarter was affected negatively by the loss on sale of building at \$0.3 million. Eliminating this amount, Mitec's EBITDA would have continued its positive trend which began during the first quarter of fiscal 2004.

Financial Condition, Liquidity and Capital Resources

(Amount in thousands)	Q2 2004	Q2 2003	YTD Q2 2004	YTD Q2 2003
Cash flow from operating activities before changes in working capital	537	(3,332)	245	(6,464)
Cash flow from operating activities after changes in working capital	476	3,742	(381)	2,371
Increase in long-term debt	2,429	-	4,512	1,400
Repayment of long-term debt	(3,402)	(401)	(4,256)	(430)
Capital expenditure	(517)	(76)	(647)	(219)

Bank indebtedness decreased by \$7.0 million from \$9.1 million to \$2.1 million mainly as a result of the Equity Financing raised in October, 2003.

The cash flow from operating activities before working capital was \$0.5 million for the quarter and \$0.2 million for year-to-date. This was a direct consequence of the positive results recorded during the first half of fiscal 2004 and was a significant turnaround from the cash used in operating activities in the comparable periods for fiscal 2003.

The decrease of cash flow from operating activities was \$0.5 million as compared to \$3.7 million last year is attributable to an investment in working capital as a result of the higher activity in the Telecom segment.

On October 9, 2003, the Corporation issued 7,972,411 units under a private placement. Each unit consists of one common share on one-half share purchase warrant. The aggregate gross proceeds raised from the offering were \$8,769,652 and will be reduced by the issue costs, which are estimated at \$550,000.

During the first quarter, Mitec concluded a sale and leaseback transaction with Hydro-Quebec pension fund. This transaction generated gross proceeds of \$3,300,000 and free rent for 5 years. The proceeds were used to repay the Clarica Life Insurance term loan and as well, make a partial repayment of the Canadian bank term loan. With this transaction, we also have access to the third tranche of the 3.75 million loan from La Financière and the third tranche of the \$1.25 million special guaranteed loan. However, the Corporation has not as yet drawn upon this facility.

During the quarter, Mitec renegotiated its banking agreement with its Canadian bankers. With this agreement in hand, the Corporation was able to meet all of the bank covenants.

During the quarter Mitec acquired the Satcom and PCS operations from Wavesat Wireless Inc for \$3,378,362, of which approximately \$750,000 was paid cash and the balance was financed through a non-interest bearing note and the issuance of 188,679 common shares.

Capital expenditures increase by \$0.4 million to \$0.5 million for the quarter as the company made the necessary investments to reach certain cost reduction targets. Also, some leasehold improvements were performed in the new Jersey facility. On a year-to-date basis, capital expenditures were \$0.6 million compared to \$0.2 million for the same period last year.

The Corporation established a shareholder protection rights plan agreement whereby one right has been issued for each outstanding common share of the Corporation. The rights remain attached to the shares and are not exercisable until the

occurrence of certain designated events. Upon the occurrence of such an event, the right entitles a shareholder of the Company to acquire additional common shares from treasury at half their market value.

RISK AND UNCERTAINTIES

The accompanying 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, deficiency in working capital and the violation of a number of its Canadian debt covenants. As such, the realization of assets and the discharge of liabilities in the ordinary course of business are subject to significant uncertainty. Mitec considers that the risk and uncertainties sections has not changed since the publication of the annual report and refers the reader to it.

COMPARATIVE FIGURES

Certain comparative figures for Fiscal 2003 have been reclassified to conform to the presentation adopted in Fiscal 2004.

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS (note 1)
As at October 31, 2003

(In thousands of Canadian dollars)

	As at October 31, 2003 \$	Restated (note 2) As at April 30, 2003 \$
ASSETS		
Current		
Cash and cash equivalents	999	1,854
Trade receivables	19,060	13,069
Other receivables	2,135	2,889
Income taxes recoverable	659	295
Inventories	12,744	10,812
Prepaid expenses	1,747	743
Future tax assets	159	159
Total current assets	37,503	29,821
Property Plant and Equipment	14,593	22,409
Future tax assets	521	521
Intangible assets	10,035	8,981
Deferred charges	4,073	385
Goodwill	44	44
Assets held for sale and discontinued activities (note 4)	7,088	20,505
	73,857	82,666
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	2,118	10,037
Accrued liabilities	21,856	16,334
Current portion of long-term debt (note 7)	3,841	6,023
Current portion of obligations under capital lease	901	1,181
Total current liabilities	28,716	33,575
Long-term debt (note 7)	3,667	1,228
Obligations under capital lease	193	525
Liabilities held for sale and discontinued activities (note 4)	6,650	19,644
	39,226	54,972
Shareholders' equity		
Common shares (note 8)	79,128	70,679
Warrants (note 8)	6,600	5,223
Deficit	(49,901)	(46,174)
Cumulative translation adjustment	(1,196)	(2,034)
Total shareholders' equity	34,631	27,694
	73,857	82,666

(See accompanying note)

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS (note 1)

Periods ended October 31
(In thousands of Canadian dollars)

	For the three months ended		For the six months ended	
	2003	Restated	2003	Restated
		(note 2)		(note 2)
	\$	\$	\$	\$
Sales	20,377	18,580	39,158	35,330
Cost of sales	16,195	14,784	30,452	30,037
Gross profit	4,182	3,796	8,706	5,293
	20.5%	20.4%	22.2%	15.0%
Expenses				
Research and development	1,096	2,679	2,751	5,881
Selling and administrative	2,996	3,426	5,444	6,141
Interest expense	451	267	935	487
Financial expenses	201	112	251	210
Foreign exchange loss (gain)	(272)	84	464	(242)
Amortization of intangibles	559	539	1,070	1,070
Loss on sale of building	312	-	312	-
Restructuring expenses (note 9)	-	1,335	0	1,712
	5,343	8,442	11,227	15,259
Loss before income taxes	(1,161)	(4,646)	(2,521)	(9,966)
Income tax expense (recovery)	(5)	(3)	41	(218)
Loss from continuing activities	(1,156)	(4,643)	(2,562)	(9,748)
Loss from discontinued activities	(990)	(533)	(1,165)	(1,800)
	(2,146)	(5,176)	(3,727)	(11,548)
Net loss for the period				
Basic and diluted loss per common share				
Loss from continuing activities	(0.03)	(0.19)	(0.06)	(0.41)
Net loss	(0.05)	(0.22)	(0.08)	(0.48)
Weighted average number of outstanding common shares – basic	45,172,873	23,976,169	44,180,101	23,974,325

(See accompanying notes)

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF DEFICIT (note 1)

Periods ended October 31
(In thousands of Canadian dollars)

	For the three months ended		For the six months ended	
	2003	2002	2003	2002
		\$		\$
Deficit beginning of the period	(47,755)	(27,168)	(46,174)	(19,934)
Net loss for the period	(2,146)	(5,176)	(3,727)	(11,548)
Re-pricing of warrants	-	-	-	(862)
Deficit at the end of the period	(49,901)	(32,344)	(49,901)	(32,344)

(See accompanying note)

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (note 1)

Periods ended October 31
(In thousands of Canadian dollars)

	For the three months ended		For the six months ended	
	2003 \$	Restated (note 2) 2002 \$	2003 \$	Restated (note 2) 2002 \$
OPERATING ACTIVITIES				
Loss from continuing activities	(1,157)	(4,643)	(2,562)	(9,748)
Add items not affecting cash:				
Amortization of property, plant and equipment, intangible assets and deferred charges	1,381	1,296	2,606	2,813
Loss on disposal of property, plant and equipment (note 5)	312	-	312	8
Future income taxes	-	15	-	463
Other	-	-	(111)	-
	537	(3,332)	245	(6,464)
Changes in non-cash working capital balances related to operations (note 10)	(61)	7,074	(626)	8,835
Cash flows relating to operating activities	476	3,742	(381)	2,371
INVESTING ACTIVITIES				
Additions to property, plant and equipments and intangible assets	(517)	(76)	(647)	(219)
Proceeds on disposal of property, plant and equipment	3,315	-	3,486	23
Proceeds from sale of a division (net of cash disposed)	-	-	132	-
Business acquisition –(note 3)	(3,378)	-	(3,378)	-
CTA release on sale of subsidiary	-	-	(915)	-
Increase in deferred charges	(621)	-	(644)	-
Cash flows relating to investing activities	(1,201)	(76)	(1,966)	(196)
FINANCING ACTIVITIES				
Increase in bank indebtedness	4,979	1,046	5,600	206
Repayment of bank indebtedness	(11,773)	-	(13,329)	-
Increase in long-term debt	2,429	-	4,512	1,400
Repayment of long-term debt	(3,402)	(401)	(4,256)	(430)
Repayment of obligations under capital lease	(298)	(285)	(632)	(500)
Issuance of common shares and warrants (note 8)	9,718	46	9,729	47
Cash flows relating to financing activities	1,653	406	1,624	723
Cash flows relating to discontinued activities	(1,048)	(3,854)	(395)	(3,970)
Effect of exchange rate fluctuations changes on cash	64	233	264	(10)
Net decrease in cash and cash equivalents	(56)	451	(854)	(1,082)
Cash and cash equivalents, beginning of the period	1,055	898	1,853	2,431
Cash and cash equivalents, end of the period	999	1,349	999	1,349
Cash and cash equivalent consists of:				
Cash and cash equivalents	999	1,349	999	1,349
Bank overdraft	-	-	-	-
	999	1,349	999	1,349

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2003

(All tabular amounts are in thousands of Canadian dollars, except for share figures, unless otherwise stated)

1. GOING CONCERN UNCERTAINTY

The accompanying unaudited interim 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 doubt about the appropriateness of the use of the going concern assumption because of the Corporation's recent losses, negative cash flows, deficiency in working capital and the violation of a number of its Canadian debt covenants as of April 30, 2003. As such, the realization of assets and the discharge of liabilities in the ordinary course of business are subject to significant uncertainty.

The unaudited interim 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 unaudited interim 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.

In the previous fiscal year, the Corporation issued common shares and warrants in the amount of \$5,171,000, secured additional and special credit facilities up to a maximum of \$5,000,000, commenced rationalization of a number of its operations and began the process of disposing of non-core assets.

During the current year, the Corporation concluded the sale of Microwave Technology Company Limited, its subsidiary in Thailand, to the Thai management team on July 7, 2003. On August 29, 2003, the Corporation concluded the sale of selected assets (inventory and fixed assets) of Beve for an amount of 37 million SEK (\$6.4 million CDN) to NOTE AB. The buyer, also assumed some capital leases. On October 9, 2003, the Corporation raised \$8,219,130 in a private placement financing issuing 7,972,411 units (each unit comprised of 1 common share and ½ purchase warrant). On October 14, the Corporation concluded a sale-leaseback transaction of the building in Pointe-Claire for \$3.3 million in cash and free rent for five years. This transaction enabled the Corporation to draw down the last tranche of the La Financière loan and the special loan from CIBC.

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

1. Continuing discussions with its lenders in respect to its debt covenants, waivers and/or modifications. Management was able to re-negotiate the banking arrangement during the quarter and as of October 31, 2003, the Corporation met the bank covenants.
2. Pursuing the sale of certain of its non-core assets, primarily property and inventory. Management expects to realize on the real estate assets in Sweden and generate cash proceeds in excess of the related indebtedness.
3. Continuing to rationalize operations and reduce expenses.

Management believes that with the above plans, sufficient funds will be generated to maintain the support of the Corporation's lenders and other creditors and to enable the Corporation to continue its operations as a going concern. The third tranche from LaFinancière (\$1.25 million) and the special guaranteed loan (\$0.4 million) are available to cover cash flow requirements. There can, however, be no assurance that the plans described above will result in sufficient funds being generated.

The Corporation's continuation as a going concern is dependent upon, amongst other things: the continuing support of the Corporation's lenders, maintaining a satisfactory sales level, the support of its customers, 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 uncertainty about the Corporation's ability to successfully conclude on the matters.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2003

(All tabular amounts are in thousands of Canadian dollars, except for share figures, unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with the Company's annual consolidated financial statements for the year ended April 30, 2003, except as noted below. For a full description of accounting policies, refer to the Mitec Annual report for the year ended April 30, 2003. Certain comparative figures have been restated as a result of the disposition of the Microwave segment as described in note 4. These financial statements do not include all of the disclosures required by generally accepted accounting principles applicable to annual financial statements.

DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS

Effective May 1, 2003, the Corporation prospectively adopted the new standards under the CICA Handbook section 3475 Disposal of Long-lived Assets and Discontinued Operations which requires assets classified as held for sale be measured at the lower of carrying value and fair value less disposal costs. Assets classified as held for sale are not to be amortized while classified as such. It also requires that the results of operations of a component of an enterprise that has been disposed of by either sale or abandonment be reported as discontinued operations. A component of an enterprise comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the enterprise.

3. BUSINESS ACQUISITION

On September 30, 2003, the Company completed the purchase of the Satcom and PCS operations of Wavesat Wireless Inc. for \$3,378,362. The agreement also includes a purchase price adjustment based on the value of the inventory. The assets are comprised of inventory, orders, client lists, customer relationships, intellectual property and fixed assets. In addition, Mitec assumed capital leases relating to the fixed assets acquired and personal costs relating to the employees transferred. The acquisition was accounted for under the purchase method and its operating results have been included since September 30, 2003.

The allocation of the purchase price is based on management's estimate of the fair value of assets acquired and liabilities assumed. Allocation of the purchase price involves a number of estimates as well as gathering of information over a number of months. This estimation process will be completed over the following year and, accordingly, there may be changes to the goodwill and intangible asset values presented below for this acquisition.

Inventory	742,087
Fixed assets	802,200
Intangibles	1,978,203
	<hr/>
	3,522,490
Accrued personnel costs	(98,152)
Obligations under capital lease	(45,976)
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Net assets acquired	3,378,362
Consideration represented by :	
Cash	749,841
Common shares issued	200,000
Note payable	2,428,521
	<hr/>
	3,378,362

The issuance of common shares is based on a 20 day weighted average for the 20 trading days immediately prior to the closing and represents 188,679 common shares.

The note will be paid in the following manner; \$700,000 on December 31, 2003 followed by five quarterly instalments of \$350,000 and a final payment of \$150,000 on June 30, 2005. The note is non-interest bearing and has been recorded at its discounted value. The fourth quarterly instalment will be due if the Corporation completes an equity issue of no less than \$2,000,000, and the fifth quarterly instalment will become due if the Corporation receives gross proceeds from the sale of the Swedish real-estate in excess of \$1,000,000.

4. ASSETS HELD FOR SALE AND DISCONTINUED ACTIVITIES

On May 8, the Board of Directors approved a plan to divest its Swedish subsidiary, Beve, which accounted for most of the Microwave Segment. On August 29, 2003, Mitec concluded the sale of selected assets of Beve for an amount of 37 million SEK (\$6.4 million CDN) to NOTE AB. The assets sold included inventory and equipment. The buyer, also assumed some capital leases. The proceeds were received in cash and applied against bank indebtedness and accounts payable.

This sale did not include Mitec's real estate assets in Sweden, which are being sold separately.

The assets, liabilities and results of Beve have been reported separately in the previous consolidated financial statements and have been reclassified accordingly.

	For the three months ended October 31		For the six months ended October 31	
	2003	2002	2003	2002
			\$	\$
Sales	2,811	9,356	8,958	16,628
Results of discontinued operations	(990)	(533)	(1,165)	(1,800)

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

	October 31 2003	April 30 2003
	\$	\$
Current assets	965	11,909
Land and building, net	6,104	6,478
Equipment, net	7	2,106
Future income taxes	12	12
	7,088	20,505
Bank indebtedness	-	5,877
Current liabilities	1,774	7,456
Long-term debt relating to the building	4,876	5,240
Other long-term debt	-	1,044
Obligations under capital lease	-	27
	6,650	19,644

5. SALE AND LEASEBACK OF CORPORATE HEADQUARTERS

On October 14, 2003, the Corporation entered into a sale-leaseback transaction with a pension fund. Proceeds, estimated at \$5.9 million were comprised of \$3.3 million less disposition costs of 0.2 million and a five year rent free estimated at \$2.8 million. The proceeds were \$1.3 million less than its carrying value. An impairment charge of \$0.3 million was recorded in the current period to reflect the fair value of the building. The remaining loss will be amortized during the term of the lease. The long-term portion of the deferred loss and the present value of the free rent period have been recorded as deferred charges.

6. ECONOMIC DEPENDENCE AND CONCENTRATION OF CREDIT RISK

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

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

The Corporation's three largest customers' accounted for 74% of the sales for the period ended October 31, 2003 (78% for the year ended October 31, 2002) and 60% of the trade receivables as at October 31, 2003 (74% as at April 30, 2003).

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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(All tabular amounts are in thousands of Canadian dollars, except for share figures, unless otherwise stated)

7. LONG-TERM DEBT

	October 31, 2003	April 30, 2003
	\$	\$
(a) Clarica Life Insurance Company term loan of \$5,000,000, bearing interest at 8.35% [2002 – 8.35%], maturing in 2012 with monthly principal instalments of \$34,722 plus interest. The loan was repaid on October 14, 2003.	-	2,965
(b) Canadian bank revolving term loan bearing interest at Canadian prime plus 6.00%. The loan is reduced by \$181,590 a quarter until October 31, 2004 and \$372,386 a quarter until the loan is paid in full. The loan is collateralized and is classified as a current liability.	1,746	3,037
(c) Canadian bank term loan bearing interest at prime plus 6% guaranteed by La Financière; repayable in 48 equal consecutive monthly instalments starting in June 2004.	833	-
(d) La Financière term loan, bearing interest at prime plus 3 ½%, repayable in 60 monthly payments of \$62,500 commencing 12 months after the date of disbursement which were March and May 2004 for the first and second tranche respectively.	2,500	1,250
(e) Note payable to Wavesat Wireless Inc., bearing no interest, repayable with a quarter payment of \$700,000 on December 31, 2003 followed by five quarterly instalment of \$350,000 and a final payment of \$150,000 on June 30, 2005. The fourth and fifth quarterly instalments may be due earlier if certain conditions are met (note 3)	2,429	-
	<u>7,508</u>	<u>7,252</u>
Less: Current portion	<u>3,841</u>	<u>6,023</u>
	<u>3,667</u>	<u>1,228</u>

- (i) The Mitec Telecom Inc. credit facility including bank indebtedness contains restrictive financial covenants. As at April 30, 2003 three of the covenants were not met by the Corporation. On July 18, 2003, a waiver of these defaults at April 30, 2003 was obtained. As at October 31, 2003, Mitec Telecom Inc. met all of the bank covenants.
- (ii) The loan agreement with La Financière contains certain annual restrictive financial and other covenants. As at April 30, 2003 one of these covenants was not met. On July 23, 2003, La Financière agreed to tolerate the non-compliance with this covenant.

NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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8. 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

	October 31, 2003		April 30, 2003	
	Number	Amount \$	Number	Amount \$
Balance, beginning of the period	43,192,154	70,679	23,971,998	66,142
Changes during the period:				
Employee share purchase plan	124,454	24	39,753	88
Issued for stock options	5,960	5	600	1
Issued for cash (net of issue costs of 451 000)	7,972,411	6,739	-	-
Issued for the purchase of a business	188,679	200	-	-
Warrants exercised	2,848,051	1,481	-	-
Issued for cash (net of issue of 923 000)	-	-	19,179,803	4,448
Balance, end of the period	54,331,709	79,128	43,192,154	70,679

On October 9, 2003, the Corporation issued 7,972,411 units under a private placement. Each unit consists of one common share on one-half share purchase warrant. Each full share purchase warrant entitles the holder to acquire one additional common share of the Corporation at a price of \$1.65 on or prior to October 9, 2005. The aggregate gross proceeds raised from the offering were \$8,769,652 and will be reduced by the issue costs, which are estimated at \$550,000.

The Corporation has established a shareholder protection rights plan agreement whereby one right has been issued for each outstanding common share of the Corporation. The rights remain attached to the shares and are not exercisable until the occurrence of certain designated events. Upon the occurrence of such an event, the right entitles a shareholder of the Company to acquire additional common shares from treasury at half their market value.

Warrants

	October 31, 2003		April 30, 2003	
	Number	Amount \$	Number	Amount \$
Balance, beginning of period	14,758,615	5,223	3,959,035	3,532
Re-pricing of warrants	-	-	-	862
Issued for cash (net of issue costs of \$ 99 000)	3,986,206	1,480	-	-
Issued for cash (net of issue costs of \$132 000)	-	-	9,589,902	635
Exercised	(2,848,051)	(199)	-	-
Issued under a loan agreement	600,000	96	1,209,678	194
	16,496,770	6,600	14,758,615	5,223
	70,828,479	85,728	48,360,867	75,073

For the second quarter of fiscal 2004 and the 2003 fiscal year, the effect of stock options and warrants potentially exercisable on loss per common share was anti-dilutive, therefore basic and diluted loss per share are the same.

The warrants issued in 2004 relate to the loan agreement with La Financiere and the special loan guarantee given to the Corporation's Canadian bank by La Financiere. The detailed agreements are described in the April 30, 2003 annual financial statements.

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October 31, 2003

(All tabular amounts are in thousands of Canadian dollars, except for share figures, unless otherwise stated)

STOCK OPTIONS

The following table shows a continuity of the options outstanding:

	2003	
		\$
Balance beginning of the period	1,403,900	2.91
Granted	1,819,000	0.89
Exercised	5,960	0.82
Forfeited	(126,300)	2.43
Balance end of the year	3,090,640	1.74
Option exercisable at end of year	875,420	3.85

Exercise price	Option outstanding			Options exercisable	
	Number	Weighted average exercise price	Weighted average year to expiry	Number	Weighted average exercise price
\$0.31 to \$0.82	1,657,640	0.41	9.3	226,480	0.62
\$1.68 to \$2.10	832,650	1.72	9.7	119,990	1.85
\$2.83 to \$3.90	176,500	3.73	7.9	110,900	3.71
\$4.25 to \$4.90	103,400	4.59	6.1	97,600	4.59
\$5.00 to \$6.50	243,450	6.21	3.6	243,450	6.21
\$6.70 to \$9.50	77,000	8.20	3.9	77,000	8.20
	3,090,640	1.74	8.6	875,420	3.85

The fair value of stock options is determined using the Black Scholes option pricing model. In periods prior to May 1, 2002, the Company recognized no compensation when stock or stock options were issued to employees. Pro forma information regarding net loss has been determined as if the Company had accounted for its employee stock options granted after April 30, 2002 under the fair value method. There were no options issued in the first quarter of fiscal 2003. The proforma information is as follows for the periods ended October 31:

	For the three months ended October 31		For the six months ended October 31	
	2003	2002	2003	2002
	\$	\$	\$	\$
Net loss, as reported	(2,147)	(5,176)	(3,727)	(11,548)
Proforma impact	(33)	(10)	(63)	(10)
Proforma net loss	(2,180)	(5,186)	(3,790)	(11,558)
Proforma basic loss per share	(0.05)	(0.22)	(0.09)	(0.48)

The fair value for these options was estimated at the date of grant using a Black-Scholes Option Pricing Model with the following weighted average assumptions for fiscal 2004:

Assumption used in the Black-Scholes option pricing model:

	For the three months ended October 31		For the six months ended October 31	
	2003	2002	2003	2002
	\$	\$	\$	\$
Dividend yield	-	-	-	-
Expected volatility	0.93	0.70	0.82	0.70
Risk-free interest rate	4.17%	5.25%	4.11%	5.25%
Expected life (years)	10	10	10	10

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9. RESTRUCTURING EXPENSES

During fiscal 2003, the Corporation implemented certain initiatives to streamline its operations due to the continued slowdown in the telecommunication industry. As a result of these initiatives the Corporation's other expenses related to restructuring and severance costs amounting to \$1,712,000 (quarter on \$377,000, quarter two \$1,335,000).

Workforce reduction expenses of \$1,339,000 (quarter one \$377,000, quarter two \$962,000) were related to the cost of severance and benefits associated with the employees notified of termination.

During second quarter of last year, the Corporation also recorded a provision for lease cancellation costs of \$373,000 as a result of implementing certain initiatives required to restructure the operations of the Corporation 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 Corporation.

10. SUPPLEMENTARY CASH FLOW INFORMATION

	For the three months ended October 31		For the six months ended October 31	
	2003	2002	2003	2002
	\$	\$	\$	\$
Accounts receivable and other receivables	(1,319)	4,899	(4,824)	5,770
Inventories	(971)	5,792	(1,288)	3,060
Prepaid expenses	633	233	(249)	136
Income tax recoverable	(302)	(26)	(364)	(64)
Accounts payable and accrued liabilities	1,898	(3,824)	6,099	(67)
	(61)	7,074	(626)	8,835
Amortization of property plant and equipment included in cost of sales	386	686	796	1,095
Interest paid	315	267	797	487
Income taxes paid	63	99	106	142

11. SEGMENTED INFORMATION

(a) Segmented information used by management

Following the sale of the operating assets of Beve (note 4) Management organizes the Corporation into two principal operating segments for making operating decisions and assessing performance. The operating segments are Wireless Telecommunications ["Telecom"], Satellite and Terrestrial Telecommunications ["Satcom"]. The Corporation currently operates in Canada, the United States, the United Kingdom and China.

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

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

Management evaluates segment performance based on gross profit as other expenses cannot be allocated to individual segments. In addition, the segments share inventory and property, plant and equipment.

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(All tabular amounts are in thousands of Canadian dollars, except for share figures, unless otherwise stated)

	For the three months ended October 31			For the six months ended October 31		
	Telecom \$	Satcom \$	Total \$	Telecom \$	Satcom \$	Total \$
2003						
Sales	17,256	3,121	20,377	33,569	5,589	39,158
Cost of sales	14,655	1,540	16,195	27,407	3,044	30,452
Gross profit	2,601	1,581	4,182	6,162	2,545	8,706
Expenses			5,343			11,227
Income tax recovery			(5)			41
Loss from continuing operations			(1,156)			(2,562)
Discontinued operations			990			1,165
Net loss for the year			(2,146)			(3,727)

	For the three months ended October 31			For the six months ended October 31		
	Telecom \$	Satcom \$	Total \$	Telecom \$	Satcom \$	Total \$
2002						
Sales	16,449	2,131	18,580	30,183	5,147	35,330
Cost of sales	12,850	1,934	14,784	25,779	4,258	30,037
Gross profit	3,599	197	3,796	4,404	889	5,293
Expenses			8,442			15,259
Income tax recovery			(3)			(218)
Loss from continuing operations			(4,643)			(9,748)
Discontinued operations			533			1,800
Net loss for the year			(5,176)			(11,548)

(b) Enterprise-wide information

The following table present sales based on geographic location of production;

	For the three months ended October 31		For the six months ended October 31	
	2003 \$	2002 \$	2003 \$	2002 \$
Sales				
Canada	15,193	15,668	26,871	29,315
United States	1,293	1,181	2,480	2,908
China	5,298	1,770	12,380	3,567
United Kingdom	752	1,184	1,190	2,332
Other	-	127	-	290
Inter-country	(2,157)	(1,350)	(3,762)	(3,082)
	20,377	18,580	39,158	35,330

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The following table presents sales by destination of product:

	For the three months ended October 31		For the six months ended October 3	
	2003	2002	2003	2002
	\$	\$	\$	\$
Canada	387	706	736	1,944
United States	4,524	9,589	9,692	13,660
Europe	8,808	7,313	15,204	16,996
Asia	6,163	546	12,894	1,980
Other	495	426	632	750
	20,377	18,580	39,158	35,330
Amortization of capital assets				
Telecom	629	606	1,208	1,402
Satcom	137	169	272	331
	766	775	1,480	331
Amortization of intangible				
Telecom	383	407	756	816
Satcom	143	110	251	232
	526	517	1,007	1,048

12. COMPARATIVE FIGURES

Certain comparative figures for fiscal 2003 have been reclassified to conform to the presentation adopted in fiscal 2004.

13. SUBSEQUENT EVENTS

On November 26, 2003, the Corporation repaid in full the Canadian bank revolving term loan.