



**COM DEV International Ltd.  
Third Quarter Report – Fiscal 2003  
For the Period Ended  
July 31, 2003**



## **COM DEV ANNOUNCES THIRD QUARTER FY2003 RESULTS**

**CAMBRIDGE, Ontario - August 28, 2003** – COM DEV International Ltd. (TSX:CDV) today announced its third quarter results for the period ended July 31, 2003.

### **Third Quarter Summary**

Revenue for the third quarter ended July 31, 2003 was \$23.5 million compared with \$18.9 million in the second quarter, and \$28.3 million in the third quarter of 2002. The Company recorded a net loss for the quarter of \$1.56 million or (\$0.04) per share, compared with a net loss of \$22.5 million or (\$0.48) per share in the same period a year ago. Impacting the quarter were two legacy issues. The first was the Mitec settlement of \$995 thousand as previously announced and the second was a tax reassessment for prior years for \$785 thousand. The Company disagrees with this reassessment and has filed a notice of objection. The impact of the recent strengthening of the Canadian dollar against the US dollar impacted revenues in the third quarter by approximately \$790 thousand, and net income by approximately \$1.0 million. Before foreign exchange, financial expense, and tax impacts, the Company reported operating income of \$1.1 million, which is in line with management's guidance that the Company would continue to maintain marginal operational profitability.

### **Financial Positions, Cash Flows and Liquidity**

The Company's cash position decreased by \$917 thousand in the third quarter of fiscal 2003, driven by a slight delay in the forecast collection of \$2.4 million related to one customer account, which missed the quarter end cut-off by 3 days. The Company's inventory levels, net of deferred revenue which represents unearned milestone billings, decreased by \$5.9 million from Q2 levels. This is in line with management guidance previously provided which anticipated project inventory starting to flow out through customer billings as it converts to cash. Cash generated from operations was \$0.3 million for the quarter, compared with \$0.7 million for the second quarter, and (\$0.7) million in the comparable third quarter of fiscal 2002.

At the close of the third quarter the Company had drawn upon its operating line by \$63 thousand, due to the delay in the previously noted \$2.4 million collection of a customer receivable.

## **Subsequent Event**

On August 21, 2003 an arbitrator's ruling was issued that stated COM DEV's exercise of its early purchase option set forth in section 1.3(i) of the Skybridge Agreement is invalid and that the Agreement should run its course to October 1, 2003. The Company had initially decided to seek an interpretation of the Agreement through the courts, but by mutual agreement, the matter was heard by a judicial arbitrator in the third quarter.

COM DEV's management and Board of Directors is assessing the impacts of the decision on the Company and deciding what actions will be taken as a result of the ruling. Initial contact has been made with THL aimed at initiating a settlement negotiation. Until it is determined whether a negotiated settlement can be reached, the Company is retaining its right to appeal the arbitrator's decision.

Should the ruling not be appealed, or the decision stand on appeal, the Skybridge Agreement requires that COM DEV settle this matter using cash, shares and/or promissory notes to the aggregate value of \$20.3 million on October 1, 2003.

The Company will make a provision in its accounts in the fourth quarter of the current fiscal year, to reflect the excess of the Skybridge Limited Partnership units' purchase price versus the underlying value of these units. Currently, management anticipates these units will have a nominal value. In the event that the purchase price ultimately agreed upon is in accordance with the Skybridge Agreement, the impact of the write-down is estimated to be approximately \$20.5 million in the fourth quarter of the current fiscal year.

## **CEO's Assessment**

We were disappointed in the ruling on the Skybridge dispute, and this has temporarily taken the market's focus off of an otherwise positive story. The decision however, does start to bring clarity to this long-standing overhang issue that has faced the Company, and it is now time for us to deal with it and move on. Several alternate proposals for settling this obligation have been prepared by management, and presented to the Skybridge Committee for consideration. Our hope is that COM DEV and THL can negotiate a settlement between now and October 1, but in the event we are unable to reach an alternate agreement with THL, we are confident based on our current projections for 2004 that the Company can generate cash sufficient from its operations to deal with the promissory note, and maintain our operations in solid fashion.

We are working closely with our bank to ensure the lines of communication are open and that all available information is provided to them as it becomes available. This approach with our bank has worked well in building our relationship and we believe it will continue to strengthen our relationship as we work through the Skybridge impacts.

From an operational perspective, the third quarter was extremely positive. We grew our orders, increased our revenue by 25% and delivered positive operating income that was triple the previous quarter. It's clear that the market recovery that we previously forecast has begun. Indeed, we have already booked approximately \$30 million in new orders in the first four weeks of this quarter.

### **Conference Call**

A conference call will be held on Thursday, August 28, 2003 at 5:30 pm EST to discuss this announcement. To access the simultaneous webcast, please visit the Company's website at [www.comdev.ca](http://www.comdev.ca) or [www.newswire.ca](http://www.newswire.ca) for directions. Participants will require *Windows Media Player™* to listen to the webcast.

### **About COM DEV**

COMDEV International Ltd. ([www.comdev.ca](http://www.comdev.ca)) based in Cambridge, Ontario, is the largest Canadian-based designer and manufacturer of space hardware subsystems. The company operates facilities and/or offices in Canada, the United States, the United Kingdom and China.

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COMDEV and COMDEV Space are registered trademarks of COM DEV International Ltd. This news release may contain certain forward-looking statements that involve risks and uncertainties. Actual results may differ materially from results indicated in any forward-looking statements. The company cautions that, among other things, in view of the rapid changes in communications markets and technologies, and other risks including the cost and market acceptance of the company's new products, the level of individual customer procurements and competitive product offerings and pricing, and general economic circumstances, the company's business prospects may be materially different from forward-looking statements made by the company.



## **Third Quarter FY2003 Management's Discussion and Analysis**

### **Caution Regarding Forward Looking Information**

The following is a discussion and review of the activities, results of operations and financial condition of COM DEV International Ltd. ("the Company" or "COM DEV") for its 2003 fiscal third quarter ended July 31, 2003 and may contain forward-looking statements. These forward-looking statements include, but are not limited to, statements about operations, business lines, financial condition, risk management, priorities, targets, ongoing objective, strategies and outlook for the Company for 2003 and subsequent periods. By their very nature, forward-looking statements involve inherent risks and uncertainties that predictions, forecasts, projections and other forward-looking statements will not be achieved. The Company cautions readers not to place undue reliance on these statements as a number of important factors could cause actual results to differ materially from the plans, expectations, estimates and intentions expressed in such forward-looking statements. This discussion should be read in conjunction with the Company's fiscal 2003 third quarter interim financial statements and the fiscal 2002 Audited Consolidated Financial Statements. All amounts are in Canadian dollars unless otherwise noted.

### **Caution Regarding Subsequent Event**

Subsequent to the end of the third fiscal quarter, the Company received an arbitrator's ruling on the Skybridge dispute. This event is discussed in further detail in the body of this Management Discussion and Analysis, and readers are urged to take note of the discussion of this event.

## **Overview of the Business**

### **Continuing Operations**

COM DEV is a leading global designer, manufacturer and distributor of space communications products and systems. The Company began operations in 1974 and completed its initial public offering in December 1996. The Company's common shares trade on The Toronto Stock Exchange under the symbol CDV. The Company's operating business unit is COM DEV Space (CDS). Two additional divisions are treated as discontinued operations in the 2003 financial statements: COM DEV Wireless (CDW) which, as previously reported, was divested in the first quarter of the company's previous fiscal year; and COM DEV Broadband (CDB) which was divested immediately subsequent to the third quarter of the previous fiscal year.

CDS designs and manufactures advanced microwave products for space satellites such as multiplexers, filters, switches, surface acoustic wave (SAW) devices, lithium ion batteries, and signal processors. The products are sold to substantially all of the major satellite prime contractors for use in commercial communications, military communications and space science satellites.

#### Discontinued Operations

The discontinued operation, CDW, designed and manufactured ground-based wireless communications infrastructure sub-systems, such as diplexers, transmit combiners, receive multicouplers and niche wireless microwave radio solutions.

The following analysis is related to the continuing operations of the Company unless otherwise noted. The references to prior year amounts exclude revenues and expenses of the discontinued businesses.

#### Quarterly Information

<b><u>Fiscal 2003</u></b>	<b><u>Q1</u></b>	<b><u>Q2</u></b>	<b><u>Q3</u></b>
Total Revenue	\$22,225	\$18,851	\$23,456
Net Income (loss) from Continuing Operations	\$344	(\$280)	(\$486)
Net Income (loss) per share from Continuing Operations (basic)	\$0.00	(\$0.01)	\$0.00
Net Income (loss) per share from Continuing Operations (fully diluted)	\$0.00	(\$0.01)	\$0.00
Net Income (loss) from Discontinued Operations	(\$176)	\$20	(\$1,074)
Net Income (loss) – total	\$168	(\$260)	(\$1,560)
Net Income (loss) per share (basic)	(\$0.01)	(\$0.01)	(\$0.04)
Net Income (loss) per share (fully diluted)	(\$0.01)	(\$0.01)	(\$0.04)
Total assets	\$86,784	\$83,686	\$85,209
Long-term financial liabilities	\$966	\$902	\$924

<b>Fiscal 2002</b>	Q1	Q2	Q3	Q4	Total
Total Revenue	\$25,526	\$28,581	\$28,233	\$25,175	\$107,515
Net Income (loss) from Continuing Operations	\$256	\$1,619	(\$2,859)	\$1,346	\$362
Net Income (loss) per share from Continuing Operations (basic)	\$0.00	\$0.03	(\$0.07)	\$0.02	(\$0.02)
Net Income (loss) per share from Continuing Operations (fully diluted)	\$0.00	\$0.03	(\$0.07)	\$0.02	(\$0.02)
Net Income (loss) from Discontinued Operations	(\$7,608)	(\$7,502)	(\$19,600)	(\$600)	(\$35,310)
Net Income – total	(\$7,352)	(\$5,884)	(\$22,458)	\$746	(\$34,948)
Net Income (loss) per share (basic)	(\$0.16)	(\$0.13)	(\$0.48)	\$0.01	(\$0.76)
Net Income (loss) per share (fully diluted)	(\$0.16)	(0.11)	(\$0.48)	\$0.01	(\$0.76)
Total assets	\$139,815	\$124,126	\$103,974	\$93,713	\$93,713
Long-term financial liabilities	\$973	\$953	\$1,077	\$943	\$943

<b>Fiscal 2001</b>	Q1	Q2	Q3	Q4	Total
Total Revenue	\$27,929	\$32,179	\$30,416	\$32,592	\$123,116
Net Income (loss) from Continuing Operations	\$1,860	\$5,287	\$3,091	\$3	\$10,241
Net Income per share from Continuing Operations (basic)	\$0.04	\$0.12	\$0.06	\$0.00	\$0.23
Net Income per share from Continuing Operations (fully diluted)	\$0.04	\$0.11	\$0.06	\$0.00	\$0.21
Net Income (loss) from Discontinued Operations	(\$2,312)	(\$9,292)	(\$13,454)	(\$89,123)	(\$114,182)
Net Income – total	(\$453)	(\$4,005)	(\$10,363)	(\$89,120)	(\$103,941)
Net Income (loss) per share (basic)	(\$0.01)	(\$0.09)	(\$0.22)	(\$1.87)	(\$2.29)
Net Income (loss) per share (fully diluted)	(\$0.01)	(\$0.09)	(\$0.21)	(\$1.79)	(\$2.14)
Total assets	\$226,316	\$264,733	\$228,758	\$166,779	\$166,779
Long-term financial liabilities	\$1,631	\$16,283	\$15,979	\$1,022	\$1,210

## Revenue

Revenue for the third quarter of the 2003 fiscal year was \$23.5 million, up 24% from 2003 second quarter levels, and down 17% from the comparable 2002 third quarter revenue levels. The sequential increase in revenues from Q2 2003 to Q3 2003 is in line with previous guidance of a return to revenue levels seen in Q1 2003. The Company indicated in its Q2 financial results press release that it believed it had seen the low water mark in terms of revenue for the year, and the Q3 results support this estimate. The impact of a relatively stronger Canadian dollar versus the US dollar negatively impacted revenues by approximately \$790 thousand in the quarter.

The reduced work week, which saw the employees of the Company working 4 days out of 5 from February through May of 2003, came to a conclusion in the quarter. All employees are now back to a full work week.

While the revenues in Q3 showed the anticipated rebound to levels of Q1, the Company is continuing to move ahead with targeting work from non-traditional market segments. In June the Company announced that it had received an Authority to Proceed (ATP) totaling \$3.5 million USD for a military program, and work has commenced on this program. Negotiations on final terms and conditions are in their final stages, and the ATP allowed the Company to move ahead with project activities to maintain important schedule milestone dates. Subsequent to the end of the fiscal quarter, the Canadian Space Agency launched a science satellite (SCISAT) whose purpose is to measure the ozone layer in the earth's upper atmosphere. On board for the first time in flight were lithium-ion batteries supplied by COM DEV. This launch is another step forward in the Company's battery business, which will enable COM DEV to gain flight heritage for its lithium-ion battery product.

At the end of the current fiscal quarter our total backlog was approximately \$45.9 million, essentially unchanged from the Q2 level of \$46.6 million, and up from \$42.9 million at the end of the first quarter, and from \$42.0 million at the end of our fiscal 2002. New orders won in the third fiscal quarter totaled \$24.7 million, and include commercial mux and switch business for Asian market satellites, European government remote sensing instrument contracts and continued backlog growth in the military satcom area with additional contracts for US and European systems. Management is expecting strong

order performance in the fourth quarter – already, at 3 weeks into the fourth quarter more than \$20 million of new orders have been received including a major commercial satellite order from a North American customer and a significant Lithium Ion battery order from a European customer.

Non-commercial satellite orders accounted for approximately 55% of our backlog at the end of the 2003 third quarter, compared with 56% at the end of the second quarter, and approximately 56% at the end of fiscal 2002.

For the upcoming fourth quarter of fiscal 2003, management is anticipating revenue levels to be slightly above those realized in the third quarter. Overall, even with the expansion of our products and markets, and the anticipated increase in Q4 revenues, management is continuing to predict 2003 revenues to be 15% to 18% below 2002 levels.

#### Cost of Revenue and Gross Margin

CDS gross margin for the 2003 third quarter was \$5.7 million (24.2% of revenue), up from \$5.0 million (26.3% of revenue) in the second quarter of fiscal 2003, and down from \$8.5 million (30.3% of revenue) in the comparable third quarter of fiscal 2002. The current quarter's decrease in margin strength compared to the second quarter is attributable to lower margins in both the Mux and Space Science Program Business units in the third quarter relative to the second quarter. Management is anticipating a slight improvement in margin levels in the fourth quarter as business volumes improve.

#### Research & Development

COM DEV believes that a commitment to research and development is fundamental to its long-term success. In the recently completed 2002 fiscal year, the Company committed significant resources and approximately 8% (\$8.7 million) of revenue to the development of new products and capabilities. In the third quarter of 2003 the Company managed its research and development activities in line with general market conditions, and maintained spending in this important area at \$1.2 million, up slightly from the second quarter level of \$1.1 million. This compares to research and development spending of \$2.2 million in the comparable third quarter of fiscal 2002. The level of

research and development spending achieved in the third quarter is in line with management expectations, and will continue to be managed to levels commensurate with general market conditions.

In the past years the Company has invested in other organizations that are developing other new technologies considered to have potential synergies with COM DEV markets. As a result the Company owns a minority position (8.81%) in SpaceBridge Networks Corporation (2001 & 2000 positions were 16.9%, 2003 Q2 position was 10.8%), a private Canadian company developing high-speed wireless broadband modem products for applications in ground and space-based communications networks. SpaceBridge Networks is based in Gatineau, Quebec. Other owners include Alcatel and TRW as well as its management, employees and various venture capital investors. The Company accounts for this investment on its balance sheet at a value of \$4,140,000. Management's assessment of this investment at July 31, 2003 did not result in any erosion in the recorded value on the balance sheet.

#### Selling and General Expenses

Selling and general expenses for the third quarter of fiscal 2003 were \$3.3 million, down from \$3.5 million in the second quarter of fiscal 2003, and down from \$4.3 million in the comparable third quarter of fiscal 2002 and \$4.9 million in the fourth quarter of fiscal 2002. The levels of selling, general and administrative costs achieved in the third quarter are in line with management's expectations, and continue to reflect the results of steps taken in 2002 to reduce the Company's corporate costs subsequent to the divestitures of both the Wireless and Broadband groups.

The Company will maintain its focus on cost reduction efforts throughout the remaining quarter of 2003, and in our planning for 2004 in response to both the reduced overhead requirements stemming from its decisions to return to its core space roots, and the overall market conditions impacting business levels within the Company. The vigilance over costs will continue as business levels start to increase.

### Financial Expense

Financial expenses are a result of foreign currency exchange rate changes, bank fees paid during the quarter, Export Development Canada accounts receivable and related insurance charges, and the establishment of an allowance of approximately \$170 thousand related to invoices due from one customer which sought Chapter 11 protection during the quarter. With the significant volatility of the US dollar seen in recent months, the Canadian dollar has strengthened significantly in a relatively short period of time. Since the majority of our customer contracts are denominated in US dollars, the weakening US dollar has had a negative impact on US denominated balance sheet items of approximately \$450 thousand in the third quarter. The Company recognizes the potential impact of a weakening US dollar and will continue to work to mitigate the potential future impacts of exchange volatility through the use of hedging tools and other means.

### Net Loss from Continuing Operations

The Company recorded an operating profit from continuing operations of \$1.1 million for the third fiscal quarter, which is an improvement from second quarter operating profit from continuing operations of \$0.4 million, and reflects the results of improved revenues in the quarter. The impact of the financial expenses, including the effect of the weaker US dollar in the third quarter, and a tax re-assessment pertaining to prior years, resulted in a net loss from continuing operations of \$0.5 million, compared to a second quarter 2003 net loss of \$0.3 million. Comparable net loss from continuing operations for the third quarter of the previous year was \$2.9 million. Financial expenses in Q3 2003 were \$0.8 million versus (\$0.1) million in the previous year Q3 results.

### Income Taxes

During the quarter the Company received a Notice of Assessment for Ontario Corporate Minimum Tax in the amount of \$785 thousand. This assessment pertains to the Company's 1995, 1998 and 1999 fiscal years, and had not been provided for in the financial statements of the Company in previous years. Accordingly, a provision was made for this assessment in the results of the third quarter of the current fiscal year to reflect the impact of managements' estimate pertaining to this assessment. A Notice of Objection has been filed with the Ontario Ministry of Finance.

### Financial Positions, Cash Flows and Liquidity

The Company's cash position decreased by \$917 thousand in the third quarter of fiscal 2003, driven entirely by working capital items. Accounts receivable collections efforts continued to generally yield positive results, however the forecast collection of one customer account missed the quarter end by 3 days, having an impact of approximately \$2.4 million on our quarter ending cash position. Our accounts receivable continue to be collected in good time, and efforts in this area will be ongoing to maximize the Company's cash position as business levels, and hence milestone billing levels, increase. Our total gross inventory levels decreased slightly during the quarter, to \$26.1 million, from second quarter levels of \$26.6 million. When deferred revenue is taken into account, which represents unearned milestone billings, the Company's investment in inventory on a net basis decreased by \$5.9 million from Q2 levels. This is in line with management guidance previously provided which anticipated project inventory starting to flow out through customer billings as it converts to cash. Cash generated from operations was \$0.3 million for the quarter, compared with \$0.7 million for the second quarter of fiscal 2003, and (\$0.7) million in the comparable third quarter of fiscal 2002.

The Company approved approximately \$600 thousand in new capital programs in the third quarter, consisting primarily of environmental upgrades and facility modifications required as we begin more military and defence work. These latest approved programs bring the total approved capital projects to approximately \$750 thousand for the year. The Company spent approximately \$282 thousand on capital programs in the quarter, consisting of equipment purchases and capitalized patent costs incurred in the quarter, which is an ongoing part of operations. The 2003 capital program is being closely monitored by management, and adjusted through management review, to keep it in line with the Company's overall financial position during the final quarter of fiscal 2003.

The Company made the decision in the third quarter to make the next scheduled interest payment, due June 30, 2003, on its 6.75% convertible debentures in cash, and accordingly this payment, totaling \$607.5 thousand was made on schedule.

Subsequent to the close of the fiscal year, the Company's concluded a new bank agreement with Canadian Imperial Bank of Commerce that provides for operating lines of up to \$15.0 million and a term facility of up to \$5.0 million. As a result of the short

delay in collecting one account receivable at the end of the quarter, the Company utilized \$63 thousand of its available operating line.

Management had previously indicated that the Company would be a net user of cash for the first half of the year, with this usage leveling off to cash neutrality for the second half of the year. Excluding the specific delayed collection noted above, the Company would have been cash flow positive for the quarter, and maintains its expectation that it will be cash neutral for the second half of the year.

Management believes the operating and term facilities available under our banking agreement will provide the Company with sufficient cash resources to allow it to meet its business goals for the upcoming year, however, significant risks and uncertainties exist related to the outcome of the Skybridge dispute with THL, which was released subsequent to the end of the current fiscal quarter. This is discussed in the subsequent sections of this document. As a result of the settlement of the Mitec claim, the Company was offside with one of its Bank Covenants. The bank was advised of this likelihood early, and has issued a waiver of this covenant violation as at the end of the third quarter. The Company is working closely with its bank, as information becomes available, to assess the impact of the ultimate resolution of the Skybridge dispute on its bank covenants.

#### Other Risks and Uncertainties

As a high technology company pursuing international space markets, COM DEV faces a number of risks and uncertainties that it mitigates in several ways. Risks and uncertainties include: (1) rapidly changing technology, evolving industry standards and frequent new product introductions; (2) the requirement for total reliability of product; (3) reliance on a small number of significant customers; (4) foreign exchange fluctuations; (5) fluctuations in operating results as a result of changing customer requirements, the timing of orders and complex contractual commitments; (6) single source of supply for some subcomponents; (7) the dependence on key personnel; (8) political environments, and exchange fluctuations and (9) the market acceptance of new products.

COM DEV has competitive strengths and strategies to mitigate these risks developed in its 30 years of experience dealing with them.

The Company is actively working to broaden its customer base by emphasizing customer services and by expanding its product lines. It mitigates pressure on margins by continually improving manufacturing processes, and through market development focused on achieving better economies of scale. The Company engages in hedging activities to offset risks from foreign exchange fluctuations. It reduces the impact of product delays through its expanded product offerings and a broad customer base.

The Company is occasionally subject to litigation and claims. Management reviews these activities and makes provisions as are appropriate. Of particular significance to the Company is a dispute with Technology Horizons Ltd., related to Skybridge Limited Partnership units.

#### Technology Horizons Ltd. Dispute:

In September 1998, the Company entered into arrangements, which will provide it with a preferred relationship to supply its products into the Skybridge constellation being planned by Skybridge, Limited Partnership ("Skybridge") together with its general partner, Alcatel Espace. These arrangements include a memorandum of understanding ("MOU") between the Company and Skybridge under which Skybridge agreed that the Company would be a preferred industrial partner to supply products as required for the Skybridge constellation.

The Company also entered into an agreement under which Technology Horizons Ltd. ("THL") agreed to fund an investment in units of Skybridge and which supported the Company's MOU. THL is a related party by virtue of the significant ownership stake held by certain COM DEV directors in THL. Under this agreement, THL has the option to require the Company to acquire the units of Skybridge in the future. The Agreement also provides options to COM DEV to acquire the units in certain situations. The consideration for the purchase is dependent on the timing, and the value of the Company's common shares. The agreement provides that the Company will be required to purchase the units in September, 2003, if it has not already done so, at a price of \$20,323,228 to be satisfied by a combination of cash, subordinated promissory notes and shares, as determined by the terms of the agreement. Any gain on the ultimate sale of the units will be shared between COM DEV and THL on a 60%/40% basis.

The Agreement with THL outlines conditions under which the Company may exercise a right to acquire the units at any time after COM DEV's common shares trade, for a period in excess of 60 days, at a market price of more than \$12. Trades above such price occurred during the period September 25, 2000 to February 20, 2001.

In September 2002, the Company moved to exercise its early purchase option under the terms of the Agreement by the issuance of 1,926,372 common shares of COM DEV. THL disputed COM DEV's right to exercise such option and COM DEV had therefore sought an interpretation of the agreement by way of application for a judicial determination, which was expected to be heard in 2003. A special committee comprised only of non-conflicted members of COM DEV's Board has been delegated responsibility to review and determine COM DEV's position in this matter. It was subsequently decided by mutual agreement that the dispute would be heard by an independent arbitrator, and the arbitration hearings were completed during the quarter. Subsequent to the end of the quarter, the judicial arbitrator issued his ruling, stating that the exercise by COM DEV of its early purchase option set forth in section 1.3 (i) of the Skybridge Agreement in September 2002 is invalid and that the Agreement should run its course to October 1, 2003.

If the decision is not appealed, or stands on appeal, the Skybridge Agreement requires that COM DEV settle this matter using cash, shares and/or promissory notes to an aggregate value of \$20,323,228 on October 1, 2003. The portion required to be paid in cash or promissory notes could approach the aggregate purchase price. In such situation, the company may be required to deal with serious liquidity issues and violations of debt agreements and/or significant dilution of the interests of its shareholders.

The Company will make a provision in its accounts in the fourth quarter of the current fiscal year, to reflect a write-down of the Skybridge Limited Partnership units from the purchase price ultimately paid by COM DEV, to the estimated value of these units. Currently, management anticipates these units will have a nominal value. In the event that the purchase price ultimately agreed upon is in accordance with the Skybridge Agreement, the impact of the write-down will be approximately \$20.5 million, likely to be in the fourth quarter of fiscal 2003.

COM DEV's management and Board are reviewing the arbitrator's ruling to determine what actions will be taken by the Company, including whether an appeal of the ruling will be initiated.

#### Mitec Telecom Claim

In January 2003, the Company received notification from Mitec Telecom Inc., (Mitec) of its intention to make claim against the funds held in escrow pursuant to its divestiture of the Wireless Components business in January 2002. The total amount of the claim was approximately \$11.9 million. No provision had been made in the accounts of the Company for any such claims, and the funds held in escrow total approximately \$2.07 million. These funds were due to be released to the Company on January 31, 2003. Management has reviewed the claims with legal counsel and discussions with Mitec Telecom aimed at a resolution to the claims were concluded in the quarter. A settlement agreement was reached in the quarter in the amount of \$995 thousand, which has been reflected as a charge to discontinued operations in the quarter.

#### Outlook

The Space business is characterized by high levels of research and development, and in the long term, a relatively stable revenue and income stream. In the shorter term the business is somewhat cyclical, and the Company's revenues generally reflect that cyclical pattern. Growth in that business will come from offering new products and penetrating new markets that expand the current product lines. This will help mitigate short-term declines in other core products as a result of the cyclicity in the space business. In the short term the Company expects revenues to recover slightly, but expects them to remain below historic levels as the slowdown in the Commercial Satellite market continues to be felt in the Company in 2003.

The Space market is currently experiencing a considerable amount of uncertainty due to:

- Service provider consolidation
- Insurance cost increases
- Transponder pricing
- Satellite manufacturer consolidation
- Satellite cancellations and failures
- World political environments

These factors can and have resulted in delays in the procurement of satellites.

The company currently believes it will be able to access adequate financial resources to meet its business goals. However the ultimate decisions reached in dealing with the recently issued ruling of the THL dispute could have a significant impact on the Company, and could lead the Company to attempt to make alternate arrangements to ensure adequate liquidity is maintained.

COM DEV International Ltd.  
Consolidated Statements of Operations  
(Canadian dollars in thousands, except for per share figures)  
(Unaudited)

For the three months ended July 31,	2003	2002
Continuing operations		
Revenue	\$ 23,456	\$ 28,233
Cost of revenue	<u>17,778</u>	<u>19,688</u>
Gross margin	5,678	8,545
Research and development	1,242	2,238
Selling and general expenses	<u>3,338</u>	<u>4,325</u>
Operating income	1,098	1,982
Restructuring costs	-	(4,967)
Financial	(799)	124
Provision for taxes	<u>(785)</u>	<u>-</u>
Loss from continuing operations	(486)	(2,861)
Income (Loss) from discontinued operations	(1,074)	(5,010)
Provision for discontinued operations	<u>-</u>	<u>(14,586)</u>
Net loss	<u>\$ (1,560)</u>	<u>\$ (22,457)</u>
Loss per share		
Basic loss per share from continuing operations	\$ (0.02)	\$ (0.07)
Diluted loss per share from continuing operations	\$ (0.02)	\$ (0.07)
Basic loss per share from discontinued operations	\$ (0.02)	\$ (0.41)
Diluted loss per share from discontinued operations	\$ (0.02)	\$ (0.41)
Basic loss per share	\$ (0.04)	\$ (0.48)
Diluted loss per share	\$ (0.04)	\$ (0.48)
Basic weighted average number of shares	48,677,433	47,875,173
Diluted weighted average number of shares	48,677,433	47,875,173

COM DEV International Ltd.  
Consolidated Statements of Operations  
(Canadian dollars in thousands, except for per share figures)  
(Unaudited)

For the nine months ended July 31,	2003	2002
Continuing operations		
Revenue	\$ 64,532	\$ 82,340
Cost of revenue	48,614	58,471
Gross margin	<u>15,918</u>	<u>23,869</u>
Research and development	3,869	6,769
Selling and general expenses	<u>10,012</u>	<u>12,874</u>
Operating income	2,037	4,226
Restructuring costs	-	(4,967)
Financial	(1,674)	(245)
Provision for taxes	<u>(785)</u>	<u>-</u>
Loss from continuing operations	(422)	(986)
Loss from discontinued operations	(1,230)	(20,121)
Provision for discontinued operations	<u>-</u>	<u>(14,586)</u>
Net loss	<u><u>\$ (1,652)</u></u>	<u><u>\$ (35,693)</u></u>
Loss per share		
Basic loss per share from continuing operations	\$ (0.04)	\$ (0.04)
Diluted loss per share from continuing operations	\$ (0.04)	\$ (0.04)
Basic loss per share from discontinued operations	\$ (0.02)	\$ (0.73)
Diluted loss per share from discontinued operations	\$ (0.02)	\$ (0.73)
Basic loss per share	\$ (0.06)	\$ (0.77)
Diluted loss per share	\$ (0.06)	\$ (0.77)
Basic weighted average number of shares	48,547,769	47,783,658
Diluted weighted average number of shares	48,547,769	47,783,658

COM DEV International Ltd.  
Consolidated Statements of Deficit  
(Canadian dollars in thousands)  
(Unaudited)

For the three months ended July 31,	2003	2002
Balance, beginning of the period	\$ (235,867)	\$ (212,308)
Net loss	(1,560)	(22,457)
Interest on convertible debentures	(459)	(423)
Issuance costs related to debenture issuance	-	-
Balance, end of the period	\$ (237,886)	\$ (235,188)

COM DEV International Ltd.  
Consolidated Statements of Deficit  
(Canadian dollars in thousands)  
(Unaudited)

For the nine months ended July 31,	2003	2002
Balance, beginning of the period	\$ (234,892)	\$ (197,250)
Net loss	(1,652)	(35,693)
Interest on convertible debentures	(1,342)	(1,110)
Issuance costs related to debenture issuance	-	(1,135)
Balance, end of the period	\$ (237,886)	\$ (235,188)

COM DEV International Ltd.  
Consolidated Balance Sheets  
(Canadian dollars in thousands)  
(Unaudited)

	As at July 31, 2003	As at October 31, 2002
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ -	\$ 11,303
Accounts receivable	19,125	17,858
Inventory	26,077	16,583
Prepays and other	923	1,565
Income taxes recoverable	293	393
Current assets - discontinued operations	65	976
	46,483	48,678
Cash held in escrow	-	2,070
Investment	4,140	4,140
Capital assets	34,566	38,637
Non-current assets - discontinued operations	20	188
Total assets	\$ 85,209	\$ 93,713
<b>Liabilities</b>		
<b>Current</b>		
Bank indebtedness	\$ 63	\$ -
Accounts payable and accrued liabilities	16,190	24,807
Income taxes payable	785	-
Deferred revenue	13,190	8,657
Current portion of loans payable	136	421
Current liabilities - discontinued operations	637	1,600
	31,001	35,485
<b>Long term</b>		
Loans payable	899	943
Long term liabilities - discontinued operations	25	113
	924	1,056
Total liabilities	31,925	36,541
<b>Shareholders' equity</b>		
Convertible debentures	19,012	18,873
Share capital	273,039	272,430
Deficit	(237,886)	(234,892)
Currency translation adjustment	(881)	761
Total	53,284	57,172
<b>Total liabilities and shareholders' equity</b>	<b>\$ 85,209</b>	<b>\$ 93,713</b>

COM DEV International Ltd.  
Consolidated Statements of Cash Flows  
(Canadian dollars in thousands)  
(Unaudited)

For the three months ended July 31,	2003	2002
Cash flows from operating activities		
Net loss from continuing operations	\$ (486)	\$ (2,861)
Amortization	1,699	1,889
Other	(919)	300
	<u>294</u>	<u>(672)</u>
Net change in non-cash working capital items	<u>(2,330)</u>	<u>9,403</u>
Cash flows (used in) from operating activities	<u>(2,036)</u>	<u>8,731</u>
Cash flows from financing activities		
Proceeds from escrow	2,103	-
Dividends	(606)	-
(Decrease) increase in loans payable	(65)	132
Cash flows from financing activities	<u>1,432</u>	<u>132</u>
Cash flows from investing activities		
Acquisition of capital assets	<u>(282)</u>	<u>(1,210)</u>
Cash flows used in investing activities	<u>(282)</u>	<u>(1,210)</u>
Net (decrease) increase in cash for continuing operations	(886)	7,653
Net cash used in discontinued operations	<u>(31)</u>	<u>(10,292)</u>
Net decrease in cash	(917)	(2,639)
Cash and cash equivalents, beginning of period	854	16,166
Cash and cash equivalents, end of period	<u>\$ (63)</u>	<u>\$ 13,527</u>
Interest paid	\$ 17	\$ 41

COM DEV International Ltd.  
Consolidated Statements of Cash Flows  
(Canadian dollars in thousands)  
(Unaudited)

For the nine months ended July 31,	2003	2002
Cash flows from operating activities		
Net loss from continuing operations	\$ (422)	\$ (986)
Amortization	4,836	5,526
Other	(1,341)	44
	<u>3,073</u>	<u>4,584</u>
Net change in non-cash working capital items	(13,532)	17,418
Cash flows (used in) from operating activities	<u>(10,459)</u>	<u>22,002</u>
Cash flows from financing activities		
Proceeds from escrow	2,070	-
Convertible debentures	-	18,000
Issue costs	-	(1,135)
Dividends	(606)	-
Repayments of operating lines	-	(15,000)
Decrease in loans payable	(329)	(542)
Cash flows from financing activities	<u>1,135</u>	<u>1,323</u>
Cash flows from investing activities		
Acquisition of capital assets	(1,054)	(2,706)
Cash flows used in investing activities	<u>(1,054)</u>	<u>(2,706)</u>
Net (decrease) increase in cash for continuing operations	(10,378)	20,619
Net cash used in discontinued operations	(988)	(14,535)
Net (decrease) increase in cash	(11,366)	6,084
Cash and cash equivalents, beginning of period	11,303	7,443
Cash and cash equivalents, end of period	<u>\$ (63)</u>	<u>\$ 13,527</u>
Interest paid	\$ 82	\$ 118

**COM DEV INTERNATIONAL LTD.  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

**Going Concern**

These financial statements have been prepared on the going concern basis, assuming that the Company will continue to realize its assets, discharge its liabilities and maintain its operations in the normal course. The Company has significant contingencies and commitments, the outcome of which could affect this assumption. These financials do not contain any of the adjustments that might be required should the outcome of these matters impair the Company's ability to continue in the normal course. See Notes 5 and 8.

**Consolidation**

The consolidated financial statements include the accounts of all subsidiaries with inter-company transactions and balances eliminated. The Company's principal subsidiaries are COM DEV Limited and COM DEV Europe Limited. COM DEV Europe Limited is a self-sustaining foreign subsidiary. These financial statements also include the Company's proportionate share of the accounts of COM DEV Microwave Electronics Company Limited ("Xian"), a joint venture. The accounts of Xian are not material to these financial statements.

**2. Summary of Significant Accounting Policies**

These unaudited consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles on a basis consistent with prior periods. These unaudited consolidated financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the audited financial statements for the year ended October 31, 2002.

**3. Share Capital and Earnings Per Share**

**a) Issued Capital**

The following details the changes in issued and outstanding common shares for the period ended July 31, 2003.

	<u>Number</u>	<u>Amount</u>
Balance, October 31, 2002	48,146,776	\$272,430
Issuance of common shares (i)	<u>530,657</u>	<u>609</u>
Balance, July 31, 2003	<u>48,677,433</u>	<u>\$273,039</u>
Balance, as at August 29, 2003	<u>48,677,433</u>	<u>\$273,039</u>

- (i) During the first quarter, the Company issued 471,343 common shares to satisfy the interest payment of \$609,000 on the convertible debentures. During the second quarter, the Company issued 59,314 common shares under the Employee Stock Purchase Plan. The maximum number of shares that could be outstanding at the end of the quarter, and as at August 29, 2003, if all options, and conversions were exercised is 60,688,522.

**b) Stock Based Compensation**

Compensation expense is recognized when stock options are issued with an exercise price that is less than the market price on the date of grant. The difference between the exercise price and the market price on the date of grant is recorded as compensation expense ("intrinsic value method"). The Company grants stock options with exercise price equal to the market value of the underlying stock on the date of grant; consequently, no compensation expense is recognized.

CICA 3870 *Stock Based Compensation and Other Stock-Based Payments*, requires proforma disclosures of net income and earnings per share, as if the fair value method, as opposed to the intrinsic value method of accounting for employee stock options, had been applied. The Company adopted this standard on February 1, 2002 for grants of options after that date. The disclosures in the following table present the Company's net loss and loss per share on a proforma basis using the fair value method as determined using the Black-Scholes option pricing model:

	<b>For the three months ended</b>	
	<b>July 31, 2003</b>	<b>July 31, 2002</b>
Net loss – as reported	\$ (1,560)	\$ (22,547)
Estimated stock-based compensation costs for the period	(103)	-
Net loss – proforma	<u>\$ (1,663)</u>	<u>\$ (22,547)</u>
Proforma loss per common share:		
Basic and diluted	\$ (0.04)	\$ (0.48)
Weighted average number of shares (000's):		
Basic and diluted	48,677,433	47,875,173

	<b>For the nine months ended</b>	
	<b><u>July 31, 2003</u></b>	<b><u>July 31, 2002</u></b>
Net loss – as reported	\$ (1,652)	\$ (35,693)
Estimated stock-based compensation costs for the period	(103)	-
Net loss – proforma	<u>\$ (1,755)</u>	<u>\$ (35,693)</u>
Proforma loss per common share:		
Basic and diluted	\$ (0.06)	\$ (0.77)
Weighted average number of shares (000's):		
Basic and diluted	48,547,769	47,783,658

The weighted average fair value of options granted during the quarter was calculated using the Black-Scholes option pricing model with the following assumptions:

	<b>For the three months ended</b>	
	<b><u>July 31, 2003</u></b>	<b><u>July 31, 2002</u></b>
Weighted average Black-Scholes value of each option	\$ 0.87	\$ 1.38
Assumptions:		
Risk free interest rates	5.0%	2.5%
Expected life in years	5.0	5.0
Expected dividend yield	0%	0%
Volatility	74.5%	80.1%

**c) Loss Per Share**

The following table sets forth the computation of basic and diluted loss per share for the comparable reporting periods for the three months and nine months ended July 31:

	<b>3 months ended July 31</b>	
	<b>2003</b>	<b>2002</b>
Numerator for basic and fully diluted loss per share available to common stockholders		
Loss from continuing operations	\$ (486)	\$(2,861)
Less: Convertible debenture interest	(459)	(423)
Loss available from continuing operations	\$(945)	\$(3,284)
Income (loss) from discontinued operations	(1,074)	(19,596)
Net Loss attributed to common stockholders	<u>\$(2,019)</u>	<u>\$(22,880)</u>
Denominator for basic loss per share- weighted average shares outstanding	<u>48,677,433</u>	<u>47,875,173</u>
Effect of dilutive securities		
Skybridge options	--	--
Convertible debenture	--	--
Options	--	--
Potential dilutive common shares	<u>--</u>	<u>--</u>
Denominator for diluted loss per share – adjusted weighted average shares and assumed conversions	<u>48,677,433</u>	<u>47,875,173</u>
Loss per share		
Basic loss per share from continuing operations	\$(0.02)	\$(0.07)
Diluted loss per share from continuing operations	\$(0.02)	\$(0.07)
Basic loss per share from discontinued operations	\$(0.02)	\$(0.41)
Diluted loss per share from discontinued operations	\$(0.02)	\$(0.41)
Basic loss per share	\$(0.04)	\$(0.48)
Diluted loss per share	\$(0.04)	\$(0.48)

	<b>9 months ended July 31</b>	
	<b>2003</b>	<b>2002</b>
Numerator for basic and fully diluted loss per share available to common stockholders		
Loss from continuing operations	\$(422)	\$(986)
Less: Convertible debenture interest	(1,342)	(1,110)
Loss available from continuing operations	\$(1,764)	\$(2,096)
Loss from discontinued operations	(1,230)	(34,707)
Net Loss attributed to common stockholders	<u>\$(2,994)</u>	<u>\$(36,803)</u>
Denominator for basic loss per share- weighted average shares outstanding	<u>48,547,769</u>	<u>47,783,658</u>
Effect of dilutive securities		
Skybridge options	--	--
Convertible debenture	--	--
Options	--	--
Potential dilutive common shares	<u>--</u>	<u>--</u>
Denominator for diluted loss per share – adjusted weighted average shares and assumed conversions	<u>48,547,769</u>	<u>47,783,658</u>
Loss per share		
Basic loss per share from continuing operations	\$(0.04)	\$(0.04)
Diluted loss per share from continuing operations	\$(0.04)	\$(0.04)
Basic loss per share from discontinued operations	\$(0.02)	\$(0.73)
Diluted loss per share from discontinued operations	\$(0.02)	\$(0.73)
Basic loss per share	\$(0.06)	\$(0.77)
Diluted loss per share	\$(0.06)	\$(0.77)

Stock options and conversion privileges outstanding were excluded from the denominator for both 2002 and 2003 as they are anti-dilutive.

#### d) Stock Options Issued

During the three months and the nine months ended July 31, 2003, the Company issued 1,500,000 stock options to employees. 8,000 and 20,000 options were issued during the three month and nine month periods ended July 31, 2002. The exercise price of the options is the market value of the underlying stock on the date of issue. The options expire in five years and vest over three years. Vesting of the options is contingent on certain market prices for the underlying stock being achieved over the vesting period.

#### 4. Segmented Information

The Company operates principally in the satellite communication industry using complimentary and compatible products. The Company has one reportable business segment, the Space Division. The Space Division designs and manufactures advanced products that are sold to the major satellite prime contractors for use in commercial communications satellites. (in thousands)

	3 months ended July 31		9 months ended July 31	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Revenue	-	-	-	-
Canada	\$20,773	\$25,698	\$58,333	\$50,337
United Kingdom	<u>3,270</u>	<u>2,711</u>	<u>8,000</u>	<u>4,551</u>
	24,043	28,409	66,333	54,888
Intersegment sales	<u>(587)</u>	<u>(176)</u>	<u>(1,801)</u>	<u>(781)</u>
	23,456	28,233	64,532	82,340
Cost of revenue	<u>17,778</u>	<u>19,688</u>	<u>48,614</u>	<u>58,471</u>
Gross margin	5,678	8,545	15,918	23,869
Research and development	1,242	2,238	3,869	6,769
Selling and general	<u>3,338</u>	<u>4,325</u>	<u>10,012</u>	<u>12,874</u>
Operating income	<u>\$1,098</u>	<u>\$1,982</u>	<u>\$2,037</u>	<u>\$4,226</u>

#### 5. Commitment – SkyBridge

On August 21, 2003 an arbitrator's ruling was issued that stated COM DEV's exercise of its early purchase option set forth in section 1.3(i) of the SkyBridge Agreement is invalid and that the Agreement should run its course to October 1, 2003.

In September 1998, the Company entered into arrangements, which will provide it with a preferred relationship to supply its product into the SkyBridge constellation being planned by SkyBridge, LP ("SkyBridge") together with its general partner, Alcatel Espace. These arrangements include a memorandum of understanding ("MOU") between the Company and SkyBridge under which SkyBridge agrees that the Company will be a preferred industrial partner to supply products as required for the SkyBridge constellation.

The Company also entered into an agreement (“the Agreement”) under which Technology Horizons Ltd. (“THL”) agreed to fund an investment in units of SkyBridge and which supported the Company’s MOU. THL is a related party by virtue of the significant ownership stake held by certain COM DEV directors in THL. Under this agreement, COM DEV is committed to purchase the units on October 1, 2003. THL has the option to accelerate the sale of the units to COM DEV by not less than 30 days written notice, in which event the purchase price, as outlined in the Agreement payable by COM DEV shall be satisfied by the issuance of Common Shares, valued at \$10 per share. The consideration for the purchase is dependent on the timing. The agreement provides that any gain on the ultimate sale of the units will be shared between COM DEV and THL on a 60%/40% basis.

The Agreement with THL also outlines conditions under which the Company may exercise a right to acquire the units at any time after COM DEV’s common shares trade, for a period in excess of 60 days, at a market price of more than \$12. Trades above such price occurred during the period September 25, 2000 to February 20, 2001.

In September 2002, the Company moved to exercise its early purchase option under the terms of the Agreement by the issuance of 1,926,372 common shares of COM DEV. THL disputed COM DEV’s right to exercise such option.

On October 21, 2002, COM DEV announced that it had decided to seek an interpretation of the agreement entered into as at March 11, 1999 between COM DEV and THL in respect of the SkyBridge Limited Partnership (the “SkyBridge Agreement”). Such decision was made by a Special Committee of the Board of Directors of COM DEV consisting of non-conflicted directors of COM DEV charged with the mandate of reviewing and determining COM DEV’s position in this matter and supervising any proceedings.

The matter was, by mutual agreement, heard by an arbitrator over the course of 5 days, with each party represented by independent counsel. The arbitrator ruled that COM DEV’s exercise of its early purchase option is invalid and that the Agreement should run its course to October 1, 2003. COM DEV has the right to appeal this decision.

COM DEV’s Management and Board of Directors is assessing the impacts of the decision on the Company and will decide what actions will be taken as a result of the ruling.

The terms of the agreement call for COM DEV to settle this matter using cash, shares and/or promissory notes to an aggregate value of \$20,323,228 on October 1, 2003. In such situation, the Company may be required to deal with serious liquidity issues and violations of debt agreements and/or significant dilution of the interests of its shareholders. The Company will record the purchase of the units in the fourth quarter. At that time, the Company will value the units and make any necessary provision in its accounts to reflect a write-down of the SkyBridge Limited Partnership units from the purchase price ultimately paid to THL in settlement of the SkyBridge units, to the estimated value of these units. Currently, management anticipates that these units will have a nominal value. In the event that the purchase price ultimately agreed upon is in accordance with the SkyBridge Agreement, the impact of the write-down will be approximately \$20.5 million.

## **6. Mitec Telecom Claim**

In January 2003, the Company received notification from Mitec Telecom Inc of its intention to make claim against the Company, for various matters, including loss of income and the funds held in escrow pursuant to its divestiture of the Wireless Components business in January 2002. The total amount of the claim was approximately \$11.9 million. This matter was settled on June 9, 2003. According to the terms of the settlement, the Company paid Mitec \$995,000. This amount was charged to loss from discontinued operations and paid from the cash held in escrow. The balance of the cash in escrow was transferred to the Company's general account.

## **7. Provision for Income Taxes**

During the quarter the Company recorded a tax provision in connection with an assessment of Ontario income tax. The Company disagrees with the assessment and has objected to the position of the tax authority. The Company has provided for an increase in the estimated liability.

## **8. Bank Indebtedness**

At the end of the quarter, the Company was in violation of one of its bank covenants. The bank has issued a waiver letter for this covenant violation as at the end of the third quarter. The Company is continuing to work with its bank to assess the potential impact on its covenants of the ultimate resolution of the SkyBridge dispute (note 5). The outcome of these events could affect the availability of continued support from the bank.