



**COM DEV International Ltd.
First Quarter Report – Fiscal 2004
For the Period Ended
January 31, 2004**



COM DEV ANNOUNCES FIRST QUARTER FY2004 RESULTS

CAMBRIDGE, Ontario - February 26, 2004 – COM DEV International Ltd. (TSX:CDV) today announced its first quarter results for the period ended January 31, 2004.

First Quarter Summary

Revenue for the first quarter ended January 31, 2004 was \$22.5 million compared with \$25.3 million in the fourth quarter of its fiscal year 2003, and \$21.7 million in the first quarter of 2003. The Company recorded a net income for the quarter of \$548 thousand or \$0.00 per share, compared with a net income of \$168 thousand or (\$0.01) per share in the same period a year ago. The sequential decline in revenue from the preceding fourth quarter of 2003 is in line with management's projections, and is consistent with historical first quarter volume levels compared with fourth quarter results. For the first time in over a year, the volatility of the U.S. dollar played only a minor role in the revenue results of the Company, positively impacting first quarter revenues by \$106 thousand. The Company's margin performance in the first quarter was weaker than that of the previous quarter, and was driven in large part by cost growth on one of its Civil Space programs. Management had noted the anticipated weakening of margins due to this program previously, and worked during the first quarter to resolve the technical issues driving the project costs. With new orders totaling \$43 million in the quarter, the Company's order backlog now stands at \$93 million, an increase of \$20 million over its recently completed 2003 fiscal year.

Financial Positions, Cash Flows and Liquidity

The Company generated \$4.5 million in cash from operations during the quarter. This builds on the positive result it saw in the fourth quarter, where it generated \$10.3 million in cash from operations. Its cash position increased to \$26.2 million as at January 31, driven by strong collections, and working capital management. Its closing cash balance is after the Company paid its interest obligations on both its Convertible Debentures (\$609 thousand), and its Promissory Note (\$269 thousand) stemming from its purchase of the Skybridge Limited Partnership Units in the fourth quarter of last year. This is consistent with management's previously stated expectation that the Company could satisfy these obligations out of cash generated from operations.

CEO's Assessment

Our first quarter was characterized by continued strong order booking performance and substantive operational cash generation. Although first quarter operating performance came in below expectation this was driven by qualification problems related to a specific new product introduction on a program that is now nearing completion. With these issues behind us, with a stronger balance sheet, and with a business backlog at near record levels, we remain confident that we will achieve this year's plans for revenue growth and growth in profitability.

Conference Call

A conference call will be held on Thursday, February 26, 2004 at 5:30 pm EST to discuss this announcement. To access the simultaneous webcast, please visit the Company's website at **www.comdev.ca** or **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) 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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COM DEV and COM DEV 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.



First Quarter FY 2004 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 2004 fiscal first quarter, 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 2004 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 Audited Consolidated Financial Statements. All amounts are in Canadian dollars unless otherwise noted.

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 2004 financial statements: COM DEV Wireless (CDW) which, as previously reported, was divested in the first quarter of the company's 2002 fiscal year; and COM DEV Broadband (CDB) which was divested immediately subsequent to the third quarter of the 2002 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

Fiscal 2004	Q1	Total
Total Revenue	\$22,488	\$22,488
Net Income from Continuing Operations	\$548	\$548
Net Income per share from Continuing Operations (basic)	\$-	\$-
Net Income per share from Continuing Operations (fully diluted)	\$-	\$-
Net Income from Discontinued Operations	\$-	\$-
Net Income – Total	\$548	\$548
Net Income per share (basic)	\$-	\$-
Net Income per share (fully diluted)	\$-	\$-
Total Assets	\$114,286	\$114,286
Long-term debt – continuing operations	\$8,819	\$8,819

Fiscal 2003	Q1	Q2	Q3	Q4	Total
Total Revenue	\$21,680	\$18,272	\$22,683	\$25,327	\$87,962
Net Income (loss) from Continuing Operations	\$344	(\$280)	(\$486)	(\$18,903)	(\$19,325)
Net Income (loss) per share from Continuing Operations (basic)	\$0.00	(\$0.01)	(\$0.02)	(\$0.40)	(\$0.44)
Net Income (loss) per share from Continuing Operations (fully diluted)	\$0.00	(\$0.01)	(\$0.02)	(\$0.40)	(\$0.44)
Net Income (loss) from Discontinued Operations	(\$176)	\$20	(\$1,074)	(\$957)	(\$2,187)
Net Income (loss) – total	\$168	(\$260)	(\$1,560)	(\$19,860)	(\$21,512)
Net Income (loss) per share (basic)	(\$0.01)	(\$0.01)	(\$0.04)	(\$0.42)	(\$0.48)
Net Income (loss) per share (fully diluted)	(\$0.01)	(\$0.01)	(\$0.04)	(\$0.42)	(\$0.48)
Total assets	\$86,784	\$83,686	\$85,209	\$115,131	\$115,131
Long-term debt – continuing operations	\$1,987	\$1,745	\$1,563	\$8,934	\$8,934

Fiscal 2002	Q1	Q2	Q3	Q4	Total
Total Revenue	\$24,149	\$27,445	\$27,467	\$24,739	\$103,800
Net Income (loss) from Continuing Operations	\$256	\$1,619	(\$2,861)	\$1,348	\$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	\$0.02	(\$0.07)	\$0.02	(\$0.02)
Net Income (loss) from Discontinued Operations	(\$7,607)	(\$7,504)	(\$19,596)	(\$603)	(\$35,310)
Net Income (loss) – total	(\$7,351)	(\$5,885)	(\$22,457)	\$745	(\$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 debt – continuing operations	\$973	\$953	\$2,453	\$2,143	\$2,143

Revenue

Revenue for the first quarter of the 2004 fiscal year was \$22.5 million, down 11% from 2003 fourth quarter levels, but up 4% from the comparable 2003 first quarter revenue levels. The sequential decrease in revenues from Q4 2003 to Q1 2004 is in line with management's previous indications of a decrease from Q4 revenue levels, due in large part to the lower number of working days available in the quarter as a result of the Christmas break. Furthermore, this Q4 to Q1 revenue decline is consistent with the experience of the Company over the past several years, and does not alter management's guidance for a minimum revenue growth of 20% for the full year over fiscal 2003 levels.

At the end of the current fiscal quarter our total backlog was approximately \$93.0 million, up significantly from Q4 2003 level of \$73.5 million, and up from \$42.9 million at the end of the comparable Q1 of fiscal 2003. New orders won in the first fiscal quarter totaled \$43.7 million, resulting in a book-to-bill ratio of 1.94 to 1.

Non-commercial satellite orders accounted for approximately 58% of our backlog at the end of Q1 fiscal 2004, compared with 46% at the end of the fourth quarter, and approximately 61% at the end of the comparable first quarter of fiscal 2003.

Cost of Revenue and Gross Margin

CDS gross margin for the 2004 first quarter was \$4.0 million (17.6% of revenue), down from \$6.1 million (24.2% of revenue) in the fourth quarter of fiscal 2003, and from \$5.0 million (23.3% of revenues) in the comparable first quarter of fiscal 2003. The current quarter's decrease in margin strength compared to the fourth quarter is attributable to cost growth in a Civil Space project, which was identified as problematic in the fourth quarter. The negative impact of this program on Q1 margins was \$683 thousand. In addition, and as a result of the increased resources applied to this program, work on other programs was impacted, resulting in lower revenues and margins being realized in Q1 than as laid out in our financial plan for the quarter. Management believes it has completed the majority of the effort on the problematic program, and expects to recover

the delayed revenue and margin in the upcoming quarters of fiscal 2004. The margin delays noted above amounted to approximately \$513 thousand for the quarter.

Margins on our other product lines performed in line with management's expectations for the quarter.

Research & Development

COM DEV believes that a commitment to research and development is fundamental to its long-term success. In the first quarter of fiscal 2004, the Company spent approximately 9.9% (\$2.2 million) of revenue to the development of new products and capabilities. This compares with 5.9% (\$1.5 million) in the fourth quarter of fiscal 2003, and 9.5% (\$2.1 million) in the comparable first quarter of fiscal 2003. The Company was able to offset these R&D costs in the first quarter by successfully securing outside funding of \$1.6 million towards these expenditures. The comparable amount of outside funding realized in Q4 of fiscal 2003 was \$1.2 million, and \$544 thousand in the comparable Q1 of fiscal 2003.

The Company's research and development activities are comprised of both pure research activities, as well as development initiatives in support of new customer requirements. Often these development initiatives form part of our customers' orders. It is important to note that the cost of development that is undertaken in response to customer order requirements is included as part of the Company's Cost of Sales. The Company balances its engineering resources between pure research, and technology and product development in support of customer orders. Only those costs associated with pure research are included in the Research and Development operating expenses in the Company's Income Statement. COM DEV has a core Research and Development team in Cambridge that consists of 15 engineers, which is the same complement as was on the team in 2003. In addition to this core research group, the Company employs approximately 100 engineers who are involved in the development of new products, and the satisfaction of changing customer technology requirements. This resource level, in support of the Company's research and development efforts and activities, is consistent with the commitment of 2003. In addition to the Company's internal resources, it has close relationships with several Canadian universities,

providing these universities with funding for research initiatives, thus adding to the resources available to the Company for research and development purposes.

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 (8.8%) in SpaceBridge Semiconductor Corporation (2003 position was 8.8%), a private Canadian company developing high-speed wireless broadband modem products for applications in ground and space-based communications networks. SpaceBridge Semiconductor Corporation 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 January 31, 2004 did not result in any erosion in the recorded value on the balance sheet.

Selling and general expenses

Selling and general expenses for the first quarter of fiscal 2004 were \$3.1 million, down from the fourth quarter of fiscal 2003 expenditures of \$4.1 million, and up slightly from \$3.0 million in the comparable first quarter of fiscal 2003. Management is expecting the Company's selling expenses to increase in Q2 as proposal activity ramps up for the Lithium-ion battery opportunity with the Space Shuttle. Other selling, general and administrative costs are expected to stay in line with Q1 levels.

Financial expense

Financial expenses incurred in Q1 are broken down into three categories: (1) Interest expenses – primarily related to the Promissory Note obligations (\$205 thousand); (2) Foreign exchange translation and hedge contract valuation gains (\$552 thousand); and (3) Other finance expenses such as bank charges and accounts receivable insurance premiums (\$71 thousand), offset by gains on asset retirement/disposal (\$75 thousand). The Company has been completing an evaluation of its hedging strategy, and expects to adopt hedge accounting in accordance with the Canadian Institute of Chartered Accountants' Accounting Guideline 13 in the second quarter of fiscal 2004. The impact

of implementing these guidelines on an effective hedge basis will be to mitigate a significant portion of the foreign exchange impacts on the Company's revenues, by fixing the exchange rate used to value its contracts.

Net Income from Continuing Operations

The Company recorded operating income in the first quarter of \$197 thousand, and bottom line Net Income of \$548 thousand. This compares to operating income of \$1.7 million in the preceding fourth quarter, and \$550 thousand in the comparable first quarter of fiscal 2003. Net income (loss) for the comparable periods was (\$19,860) in the preceding fourth quarter, and \$168 thousand in the comparable first quarter of fiscal 2003. The write down of the Company's investment in the Skybridge Limited Partnership, and other restructuring and discontinued operations impacts, totaled approximately \$20.6 million in the fourth quarter of 2003, and \$176 thousand in the comparable first quarter of fiscal 2003.

Financial Positions, Cash Flows and Liquidity

The Company generated \$4.5 million in cash from operations in the first quarter of fiscal 2004, compared to \$10.3 million for the immediately preceding fourth quarter. The first quarter 2004 performance is up significantly from the comparable first quarter of fiscal 2003, where the Company's operating activities used \$6.2 million in cash. Collections on customer receivables continued to reflect strong performance, with receivables decreasing by approximately \$4.2 million. Deferred revenues, which represent customer milestone billings in excess of revenue recognized, increased by \$2.4 million from the fourth quarter position, while vendor payables were reduced by \$3.5 million from the fiscal 2003 year end position. The Company's cash on hand at the end of the first quarter grew to \$26.2 million, up from its year end balance of \$23.4 million, a growth of approximately \$2.8 million after making a \$609 thousand payment of interest on its convertible debentures, and interest payments totaling \$269 thousand related to its promissory note obligations to Technology Horizons Ltd.

The Company spent \$771 thousand on capital asset expenditures in the first quarter, down from \$3.4 million in the fourth quarter of fiscal 2003 and up from expenditures of

\$491 thousand in the comparable first quarter of fiscal 2003. Management expects its capital program will result in expenditures of up to \$8 million during the entire fiscal 2004 year as it replaces mature equipment and makes other productivity improvements in its capital equipment base, but these capital projects will be evaluated on a case-by-case basis to ensure there is adequate financial justification for each one.

During the fourth quarter of fiscal 2003, management renegotiated its banking agreement, including its covenants. As a result, the Company eliminated its unused \$5 million term facility. It retained its \$15 million operating facility. This facility remains undrawn by the Company. The Company is in compliance with its bank covenants. Management believes the operating facility available under its banking agreement will provide the Company with sufficient cash resources to allow it to meet its business goals for the upcoming year.

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.

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 cyclical nature in the space business. In the current year the Company expects revenues to recover to levels at least 20 % above those seen in fiscal 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.

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

For the three months ended January 31,	Unaudited	
	2004	2003
Continuing operations		
Revenue	\$ 22,488	\$ 21,680
Cost of revenue	18,533	16,639
Gross margin	<u>3,955</u>	<u>5,041</u>
Research and development spending	2,218	2,051
Research and development recovery	<u>1,575</u>	<u>544</u>
Net research and development	643	1,507
Selling and general expenses	<u>3,115</u>	<u>2,984</u>
Operating income	197	550
Interest	(205)	(16)
Foreign exchange	552	(126)
Other financial	<u>4</u>	<u>(64)</u>
Income before taxes	548	344
Provision for taxes	<u>-</u>	<u>-</u>
Income from continuing operations	548	344
Provision for discontinued operations	<u>-</u>	<u>(176)</u>
Net income	<u>\$ 548</u>	<u>\$ 168</u>
Earnings per share		
Basic earnings (loss) per share from continuing operations	\$ -	\$ (0.01)
Diluted earnings (loss) per share from continuing operations	\$ -	\$ (0.01)
Basic loss per share from discontinued operations	\$ -	\$ -
Diluted loss per share from discontinued operations	\$ -	\$ -
Basic earnings (loss) per share	\$ -	\$ (0.01)
Diluted earnings (loss) per share	\$ -	\$ (0.01)
Basic weighted average number of shares	59,629,814	48,310,721
Diluted weighted average number of shares	66,225,538	48,310,721

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

For the three months ended January 31,	Unaudited	
	2004	2003
Balance, beginning of the period	\$ (259,696)	\$ (234,892)
Net income	548	168
Interest on convertible debentures	(462)	(438)
Issuance costs	<u>(22)</u>	<u>-</u>
Balance, end of the period	<u>\$ (259,632)</u>	<u>\$ (235,162)</u>

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

	Unaudited As at January 31, 2004	Audited As at October 31, 2003
Assets		
Current		
Cash and cash equivalents	\$ 26,202	\$ 23,423
Accounts receivable	18,825	22,983
Inventory	28,249	27,286
Prepays and other	1,262	1,193
	74,538	74,885
Investment	4,140	4,140
Capital assets	33,567	34,101
Intangible assets	2,041	2,005
Total assets	\$ 114,286	\$ 115,131
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 11,792	\$ 15,320
Income taxes payable	785	785
Deferred revenue	25,402	22,973
Current portion of loans payable	8,619	8,552
Current liabilities - discontinued operations	1,059	1,171
	47,657	48,801
Long term		
Loans payable	8,408	8,412
Long term liabilities - other	411	522
Long term liabilities - discontinued operations	2,199	2,429
	11,018	11,363
Total liabilities	58,675	60,164
Shareholders' equity		
Convertible debentures	19,322	19,470
Share capital	296,089	296,089
Deficit	(259,632)	(259,696)
Currency translation adjustment	(168)	(896)
Total	55,611	54,967
Total liabilities and shareholders' equity	\$ 114,286	\$ 115,131

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

For the three months ended January 31,	Unaudited	
	2004	2003
Cash flows from operating activities		
Net income from continuing operations	\$ 548	\$ 344
Amortization	1,774	1,625
	2,322	1,969
Net change in non-cash working capital items	2,168	(8,218)
Cash flows from (used in) operating activities	4,490	(6,249)
Cash flows from (used in) financing activities		
Issue costs	(22)	-
Interest paid on convertible debenture in cash	(609)	-
Increase (decrease) in long term debt	62	(82)
Cash flows used in financing activities	(569)	(82)
Cash flows used in investing activities		
Acquisition of capital assets	(771)	(491)
Acquisition of intangible assets	(80)	(71)
Cash flows used in investing activities	(851)	(562)
Net increase (decrease) in cash for continuing operations	3,070	(6,893)
Net cash used in discontinued operations	(291)	(1,392)
Net increase (decrease) in cash	2,779	(8,285)
Cash and cash equivalents, beginning of period	23,423	11,303
Cash and cash equivalents, end of period	\$ 26,202	\$ 3,018
Taxes Paid	\$ -	\$ -
Interest paid	\$ 879	\$ 48

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

1. Basis of Presentation

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 ("CDL") and COM DEV Europe Limited ("CDE"). 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 except as described in notes 3 and 5. 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 consolidated financial statements for the year ended October 31, 2003.

3. Share Capital and Earnings Per Share

a) Issued Capital

The following details the issued and outstanding common shares for the quarter ended January 31, 2004.

	<u>Number</u>	<u>Amount</u>
Balance, October 31, 2003 and January 31, 2004	59,629,814	\$296,089

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:

	For the three months ended	
	January 31, 2004	January 31, 2003
Net income – as reported	\$ 548	\$ 168
Estimated stock-based compensation costs for the period	(103)	-
Net income – proforma	<u>\$ 445</u>	<u>\$ 168</u>
Proforma earnings (loss) per common share:		
Basic and diluted	\$ --	\$ (0.01)
Weighted average number of shares (000's):		
Basic	59,629,814	48,310,721
Diluted	66,225,538	48,310,721

Effective November 1, 2003 the Company adopted the revisions to the CICA Section 3870, which require a fair value method of accounting to be applied to all stock-based payments to employees. These revisions were adopted prospectively. As there were no stock options granted in the current period ended January 31, 2004, there was no impact on the financial statements of adopting this accounting policy. For all options issued to employees and directors on or after November 1, 2003, the Company employs a fair value based method of accounting and recognizes compensation cost over the vesting period of the options. The fair value of direct awards of stock are determined using the quoted market price of the Company's stock and the fair value of options is determined using the Black-Scholes option pricing model.

c) Earnings Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share for the comparable reporting periods for the three months ended January 31:

	3 months ended January 31	
	<u>2004</u>	<u>2003</u>
Numerator for basic and fully diluted earnings (loss) per share available to common stockholders		
Income from continuing operations	\$ 548	\$ 344
Less: Convertible debenture interest	(462)	(438)
Income (loss) available from continuing operations	\$ 86	\$ (94)
Loss from discontinued operations	--	(176)
Net income (loss) attributed to common stockholders	<u>\$ 86</u>	<u>\$ (270)</u>
Denominator for basic loss per share- weighted average shares outstanding	<u>59,629,814</u>	<u>48,310,721</u>
Effect of dilutive securities		
Convertible debenture	5,714,286	--
Options	881,438	--
Potential dilutive common shares	<u>6,595,724</u>	<u>--</u>
Denominator for diluted loss per share – adjusted weighted average shares and assumed conversions	<u>66,225,538</u>	<u>48,310,721</u>
Earnings (loss) per share		
Basic earnings (loss) per share from continuing operations	\$ -	\$(0.01)
Diluted earnings (loss) per share from continuing operations	\$ -	\$(0.01)
Basic loss per share from discontinued operations	\$ -	\$ -
Diluted loss per share from discontinued operations	\$ -	\$ -
Basic earnings (loss) per share	\$ -	\$(0.01)
Diluted earnings (loss) per share	\$ -	\$(0.01)

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

d) Stock Options Issued

During the three months ended January 31, 2004, there were no stock options issued by the Company to employees.

e) Changes in Share Capital Subsequent to Quarter End

There have been no changes in the number of shares or convertible debentures outstanding since the quarter end.

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)

	For the 3 months ended January 31,	
(In thousands)	2004	2003
Revenue		
Canada	\$20,199	\$17,713
United Kingdom	<u>3,320</u>	<u>4,210</u>
	23,519	21,923
Intersegment sales	<u>(1,031)</u>	<u>(243)</u>
	22,488	21,680
Cost of revenue	<u>18,533</u>	<u>16,639</u>
Gross margin	3,955	5,041
Research and development	643	1,507
Selling and general	<u>3,115</u>	<u>2,984</u>
Operating income	<u>\$197</u>	<u>\$550</u>

5. Foreign Currency Options and Forward Contracts

A significant portion of the Company's sales from continuing operations is to customers outside Canada. The Company enters into foreign currency option contracts for CDL, that determine the rate at which it will buy or sell specific amounts of U.S. dollars at set future dates to protect itself from the possibility of loss should the value of the U.S. dollar change relative to the Canadian dollar.

The contracts are generally matched with anticipated net U.S. dollar cash flows. The Company also enters foreign currency option contracts between Euros and British pounds for CDE related business.

As at January 31, 2004, the Canadian dollar amounts that could be received under Canadian/US foreign currency call options was \$14.8 million and the amount that could be paid under foreign currency put options was \$19.0 million. The average contractual exchange rate on the call options was 1.3431 and on the put options was 1.3584. The settlement dates of the outstanding contracts were all less than one year. The exchange rate at the quarter-end was 1.3248.

As at January 31, 2004, the British Pound (GBP) amounts that could be received under GBP/Euro foreign currency call options was GBP 987 thousand and the amount that could be paid under foreign currency put options was GBP 1,128 thousand. The average contractual exchange rate on the call and put options was 0.7050. The settlement dates of the outstanding contracts were all less than one year. The exchange rate at the quarter-end was 0.6836.

In 2003 and prior fiscal years, the Company accounted for derivative financial instruments used to manage the risk of foreign currency rate changes using the hedge accounting method. Under this method, recognition of gains or losses on derivative financial instruments was deferred and recognized in the period in which the hedged transaction was realized. The gain or loss in the hedging instrument was recorded in the calculation of "gross margin" as it related to foreign currency revenues.

Accounting Guideline 13 ("AcG13"), issued by the Canadian Institute of Chartered Accountants requires certain designation criteria and effectiveness tests for hedge accounting. These standards became effective for the Company at the beginning of this fiscal year. The Company's current program for foreign currency options does not meet the requirement of AcG13, and as such, the

Company does not apply hedge accounting to these instruments.

The fair value of options at the beginning of the year of \$311 thousand was recorded as a current asset and included in "prepaids and other". The related accrued gain on the options was recorded as deferred income and included in "accounts payable and accrued liabilities". The accrued gain has been recognized in "foreign exchange" as the related foreign currency cashflows have been realized. At the end of the quarter, \$126 thousand remained in "prepaids and other" as well as "accounts payable and accrued liabilities in connection with these instruments.

The change in fair value of options existing at the beginning of the quarter and remaining in effect at the quarter end of \$40 thousand has been recorded in "foreign exchange" for the quarter. The fair value of options entered into during the quarter and in place at the quarter end of \$9 thousand has been recognized in "foreign exchange" and included in "prepaids and other". In total \$175 thousand is included in prepaids and other in connection with options. Under hedge accounting, \$49 thousand of these gains would be deferred and recognized in future periods as part of gross margin.

The Company is analyzing its anticipated foreign currency cashflows and defining its effectiveness testing and designation criteria, as required by AcG13. The Company expects to adopt hedge accounting when the study of anticipated cashflows, effectiveness measurement and risk management is complete, later this year.

6. Comparative Consolidated Financial Statements

Certain comparative amounts have been reclassified from consolidated financial statements previously presented in order to conform to the presentation adopted in the current year.