



**COM DEV International Ltd.  
Second Quarter Report – Fiscal 2004  
For the Period Ended  
April 30, 2004**



## **COM DEV ANNOUNCES SECOND QUARTER FY2004 RESULTS**

### **Strong Financial Performance Achieved**

**CAMBRIDGE, Ontario – May 26, 2004** – COM DEV International Ltd. (TSX:CDV) today announced its second quarter results for the period ended April 30, 2004.

#### **Second Quarter Summary**

Revenue for the second quarter ended April 30, 2004 was \$31.4 million compared with \$22.5 million in the first quarter of this year and \$18.3 million in the second quarter of 2003. The Company recorded a net income for the quarter of \$4.1 million or \$0.06 per share, up from a net income of \$548 thousand or \$0.00 per share in the first quarter of the year and up from a net loss of \$259 thousand for the same period a year ago. Margins strengthened from the prior quarter, reaching 29%, compared with a level of approximately 17.6% in the first quarter, and up over the 22.5% margin levels realized in the comparable second quarter of the prior year. Second quarter margins were favourably impacted by approximately 2% (\$860 thousand) due to the recent strengthening of the US dollar. With new orders totaling just over \$33 million in the quarter, the Company's order backlog remains at a very healthy \$93 million.

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

The Company generated \$7.6 million in cash from operations during the quarter. This builds on the positive result it saw in the first quarter, when it generated \$4.5 million, bringing the total cash generated from operations in the year to date to \$12.1 million. The Company's cash position increased to \$26.8 million as at April 30, 2004, driven by strong collections, and working capital management. In addition, the Company paid the April \$3.8 million installment on its Promissory Note related to the Skybridge LP unit acquisition out of cash from operations, bringing the total amount paid on the promissory note to \$8.8 million – all out of cash from operations. 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 second quarter has been marked with many achievements; strong order bookings, substantially increased revenue, improving margins, a strong bottom line performance and positive feedback from many of our customers on program performance. I believe this is a clear indication that the Company is executing successfully on its strategic plan, which requires us to focus on improving our core business and delivering positive financial results. As we look to the future we see a strong order book and several opportunities for growth in our core space business. We now believe we will realize revenue this year 30% above last year. This is a revision up from our previous guidance of a 20% revenue increase. Despite this rapid growth rate we continue to manage cash very carefully. In the quarter we generated positive cash from operations, even after our capital program funding and payment of the current installment on our promissory note.

It is our expectation that with the high level of volume now in our facilities, we will continue to deliver on our commitment for strong bottom line profitability for the year.

## **Conference Call**

A conference call will be held on Thursday, May 27, 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](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**

COM DEV 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.

-30-

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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.



## **Second 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 second 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 unaudited financial statement for the second fiscal quarter ended April 30, 2004, and its 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

<b>Fiscal 2004</b>	<b>Q1</b>	<b>Q2</b>	<b>Total</b>
Total Revenue	\$22,488	\$31,421	\$53,909
Net Income from Continuing Operations	\$548	\$4,139	\$4,687
Net Income per share from Continuing Operations (basic)	\$-	\$0.06	\$0.06
Net Income per share from Continuing Operations (fully diluted)	\$-	\$0.06	\$0.06
Net Income from Discontinued Operations	\$-	\$-	\$-
Net Income – Total	\$548	\$4,139	\$4,687
Net Income per share (basic)	\$-	\$0.06	\$0.06
Net Income per share (fully diluted)	\$-	\$0.06	\$0.06
Total Assets	\$114,286	\$121,931	\$121,931
Long-term debt – continuing operations	\$8,819	\$4,942	\$4,942

<b><u>Fiscal 2003</u></b>	<b><u>Q1</u></b>	<b><u>Q2</u></b>	<b><u>Q3</u></b>	<b><u>Q4</u></b>	<b><u>Total</u></b>
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

<b><u>Fiscal 2002</u></b>	<b><u>Q1</u></b>	<b><u>Q2</u></b>	<b><u>Q3</u></b>	<b><u>Q4</u></b>	<b><u>Total</u></b>
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 second quarter of the 2004 fiscal year was \$31.4 million, an increase of 40% from first quarter levels, and 72% from the comparable 2003 second quarter revenue levels. The sequential increase in revenues from Q1 to Q2 2004 is in line with management's previous indications of an increase from Q2 revenue levels, but slightly exceeded our internal targets for the quarter. The recent strengthening of the US dollar had a positive impact of approximately \$860 thousand in the second quarter. The revenue levels experienced in the quarter are a reflection of strong program execution on a significant order backlog. At the end of the current fiscal quarter our total backlog was approximately \$94.0 million, up slightly from Q1's \$93.0 million backlog. By comparison, the Company's backlog at the end of the previous fiscal year Q2 stood at \$46.6 million, or roughly 50% of today's order backlog. With a strong revenue quarter, the ability of the Company to maintain its backlog level at the current high level reflects its success in securing new orders during the quarter. New orders for the quarter totaled \$33.3 million, which is lower than the exceptional first quarter level of \$43.7 million, but still resulted in a book-to-bill ratio of 1.1.

Non-commercial satellite orders accounted for approximately 49% of our backlog at the end of Q2 fiscal 2004, compared with 58% at the end of the first quarter, and approximately 56% at the end of the comparable second quarter of fiscal 2003.

## Cost of Revenue and Gross Margin

CDS gross margin for the 2004 second quarter was \$9.3 million (29.4% of revenue), up from \$4.0 million (17.6% of revenue) in the first quarter, and from \$4.1 million (22.5% of revenues) in the comparable second quarter of fiscal 2003. The current quarter's increase in margin strength is attributable to strong project cost management and work volumes, yielding factory performance efficiencies. The problem program identified in the Q1 Management Discussion and Analysis continues to proceed towards completion without any major impact on our performance for the quarter. The stronger US dollar positively impacted margins in the quarter by approximately 2% helping to push margins to the 29% level in Q2, which is above management's previous guidance of margins in the mid 20% range.

## Research & Development

COM DEV believes that a commitment to research and development is fundamental to its long-term success. In the second quarter of fiscal 2004, the Company spent approximately 7.2% (\$2.3 million) of revenue to the development of new products and capabilities. This compares with 9.9% (\$2.2 million) in the first quarter, and 9.3% (\$1.7 million) in the comparable second quarter of fiscal 2003. The Company was able to offset these R&D costs in the second quarter through outside funding of \$1.0 million towards these expenditures. The comparable amount of outside funding realized in Q1 was \$1.6 million, and \$580 thousand in the comparable Q2 of fiscal 2003. The offset funding was generally in line with management expectations and prior indications.

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 April 30, 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 second quarter were \$4.3 million, which is an increase of \$1.2 million from the first quarter levels of \$3.1 million. As outlined in the first quarter results, the Company was expecting to incur higher selling costs in as it ramped up activity for a Lithium-ion battery opportunity with the Space Shuttle program. The impact of this activity in the second quarter spending levels versus Q1 was approximately \$560K (generally in line with our projections of approximately \$350K USD). The other contributor to the higher Q2 Selling, General and Administration costs were sales commissions of \$440K incurred during the quarter. While these costs contribute to an increase in overall selling costs, they drive revenue, and as such, the Company does not manage these costs to be minimized, but rather manages them for successful sales order results. Additional costs were required to be accrued for legal expenses as a result of a revision to the legal costs award in the Skybridge dispute. Bid activity on commercial satcom opportunities increased during the quarter, resulting in increases in these costs of approximately \$100K. Going forward, management expects the Company's Selling, General and Administrative costs to return to more normal levels of approximately \$3.5 million per quarter as previously projected.

### Financial expense

Financial expenses incurred in Q2 are broken down into three categories: (1) Interest expenses – primarily related to the Promissory Note obligations (\$240 thousand); (2) Foreign exchange translation and hedge contract valuation gains (\$439 thousand); and (3) Other finance expenses such as bank charges and accounts receivable insurance premiums, offset by gains on asset retirement/disposal.

### Net Income from continuing operations

The Company recorded operating income in the second quarter of \$3.6 million, and bottom line Net Income of \$4.1 million. This compares to operating income of \$197 thousand in the first quarter, and \$355 thousand in the comparable second quarter of fiscal 2003. Net income (loss) for the comparable periods was \$548 thousand in the first quarter, and (\$259) thousand in the comparable second quarter of fiscal 2003.

### Financial Positions, Cash Flows and Liquidity

The Company generated \$7.6 million in cash from operations in the second quarter, compared to \$4.5 million generated from operations in the first quarter of fiscal 2004. In the prior year, the Company consumed \$2.7 million in cash in its operating activities. Collections on customer receivables continued to be a focus of the Company, and the while the absolute level of receivables increased by approximately \$5 million during the current quarter, the age of the receivables continued to be within management expectations, and reflects the strong billings in the second quarter. Deferred revenues, which represent customer milestone billings in excess of revenue recognized, increased by \$5.9 million from the first quarter position, while vendor payables increased by \$2.2 million from the Q1 levels – reflecting the increased volume of purchasing activity being carried out as program work is executed. The Company's cash on hand at the end of the first quarter grew to \$26.8 million, up from Q1 levels of \$26.2 million. This represents an increase of \$600 thousand, after paying the latest \$3.9 million principal installment on the Technology Horizons Limited promissory note, all interest associated with it, and completing \$2.5 million of our capital program in the quarter. All of this was completed through the use of cash from operations, as had been anticipated by management.

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 30% above those seen in fiscal 2003.

The Space market has experienced a considerable amount of uncertainty in recent years 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 April 30,	Unaudited	
	2004	2003
Continuing operations		
Revenue	\$ 31,421	\$ 18,272
Cost of revenue	<u>22,171</u>	<u>14,164</u>
Gross margin	<u>9,250</u>	<u>4,108</u>
Research and development spending	2,277	1,700
Research and development recovery	<u>979</u>	<u>580</u>
Net research and development	1,298	1,120
Selling and general expenses	<u>4,321</u>	<u>2,633</u>
Operating income	3,631	355
Interest	(157)	5
Foreign exchange	439	(284)
Other financial	<u>226</u>	<u>(355)</u>
Income (loss) from continuing operations	4,139	(279)
Provision for discontinued operations	-	20
Net income (loss)	<u>\$ 4,139</u>	<u>\$ (259)</u>

Earnings (loss) per share		
Basic earnings (loss) per share	\$ 0.06	\$ (0.01)
Diluted earnings (loss) per share	\$ 0.06	\$ (0.01)
Basic weighted average number of shares	59,629,814	48,658,772
Diluted weighted average number of shares	66,128,779	48,658,772

For the six months ended April 30,	Unaudited	
	2004	2003
Continuing operations		
Revenue	\$ 53,909	\$ 39,952
Cost of revenue	<u>40,704</u>	<u>30,803</u>
Gross margin	<u>13,205</u>	<u>9,149</u>
Research and development spending	4,495	3,751
Research and development recovery	<u>2,554</u>	<u>1,124</u>
Net research and development	1,941	2,627
Selling and general expenses	<u>7,436</u>	<u>5,617</u>
Operating income	3,828	905
Interest	(362)	(11)
Foreign exchange	991	(410)
Other financial	<u>230</u>	<u>(420)</u>
Income from continuing operations	4,687	64
Provision for discontinued operations	-	(156)
Net income (loss)	<u>\$ 4,687</u>	<u>\$ (92)</u>

Earnings (loss) per share		
Basic earnings (loss) per share	\$ 0.06	\$ (0.02)
Diluted earnings (loss) per share	\$ 0.06	\$ (0.02)
Basic weighted average number of shares	59,629,814	48,481,863
Diluted weighted average number of shares	66,191,832	48,481,863

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

For the three months ended April 30,	Unaudited	
	2004	2003
Balance, beginning of the period	\$ (259,632)	\$ (235,162)
Net income (loss)	4,139	(259)
Interest on convertible debentures	(466)	(446)
Balance, end of the period	\$ (255,959)	\$ (235,867)

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

For the six months ended April 30,	Unaudited	
	2004	2003
Balance, beginning of the period	\$ (259,696)	\$ (234,892)
Net income (loss)	4,687	(92)
Interest on convertible debentures	(928)	(883)
Issuance costs	(22)	-
Balance, end of the period	\$ (255,959)	\$ (235,867)

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

	Unaudited As at April 30, 2004	Audited As at October 31, 2003
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 26,828	\$ 23,423
Accounts receivable	24,173	22,983
Inventory	29,937	27,286
Prepays and other	682	1,193
	81,620	74,885
Investment	4,140	4,140
Capital assets	34,032	34,101
Intangible assets	2,139	2,005
Total assets	\$ 121,931	\$ 115,131
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 14,010	\$ 15,320
Income taxes payable	785	785
Deferred revenue	31,350	22,973
Current portion of loans payable	8,307	8,552
Current liabilities - discontinued operations	757	1,171
	55,209	48,801
Long term		
Loans payable	4,942	8,412
Long term liabilities - other	-	522
Long term liabilities - discontinued operations	1,989	2,429
	6,931	11,363
Total liabilities	62,140	60,164
<b>Shareholders' equity</b>		
Convertible debentures	19,788	19,470
Share capital	296,089	296,089
Deficit	(255,959)	(259,696)
Currency translation adjustment	(127)	(896)
Total	59,791	54,967
<b>Total liabilities and shareholders' equity</b>	<b>\$ 121,931</b>	<b>\$ 115,131</b>

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

For the three months ended April 30,	Unaudited	
	2004	2003
Cash flows from operating activities		
Net income (loss) from continuing operations	\$ 4,139	\$ (279)
Amortization	1,464	1,146
	5,603	867
Net change in non-cash working capital items	1,979	(3,570)
Cash flows from (used in) operating activities	7,582	(2,703)
Cash flows used in financing activities		
Decrease in long term debt	(3,777)	(182)
Cash flows used in financing activities	(3,777)	(182)
Cash flows used in investing activities		
Acquisition of capital assets	(2,525)	411
Acquisition of intangible assets	(142)	(124)
Cash flows from (used in) investing activities	(2,667)	287
Net increase (decrease) in cash for continuing operations	1,138	(2,598)
Net cash (used in) from discontinued operations	(512)	434
Net increase (decrease) in cash	626	(2,164)
Cash and cash equivalents, beginning of period	26,202	3,018
Cash and cash equivalents, end of period	\$ 26,828	\$ 854
Interest paid	\$ 226	\$ 11

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

For the six months ended April 30,	Unaudited	
	2004	2003
Cash flows from operating activities		
Net income from continuing operations	\$ 4,687	\$ 64
Amortization	3,238	2,771
	7,925	2,835
Net change in non-cash working capital items	4,147	(11,787)
Cash flows from (used in) operating activities	12,072	(8,952)
Cash flows used in financing activities		
Issue costs	(22)	-
Interest paid on convertible debenture in cash	(609)	-
Decrease in long term debt	(3,715)	(264)
Cash flows used in financing activities	(4,346)	(264)
Cash flows used in investing activities		
Acquisition of capital assets	(3,296)	(80)
Acquisition of intangible assets	(222)	(195)
Cash flows used in investing activities	(3,518)	(275)
Net increase (decrease) in cash for continuing operations	4,208	(9,491)
Net cash used in discontinued operations	(803)	(958)
Net increase (decrease) in cash	3,405	(10,449)
Cash and cash equivalents, beginning of period	23,423	11,303
Cash and cash equivalents, end of period	\$ 26,828	\$ 854
Interest paid	\$ 1,105	\$ 59

**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. All financial amounts are expressed in thousands of Canadian dollars, except per share information or as otherwise indicated.

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

**a) Issued Capital**

The following details the issued and outstanding common shares for the period ended April 30, 2004.

	<u>Number</u>	<u>Amount</u>
Balance, October 31, 2003 and April 30, 2004	<u>59,629,814</u>	<u>\$296,089</u>

There were no changes to the outstanding amounts of common shares, stock options, or convertible debentures between April 30, 2004 and May 27, 2004.

**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 in connection with intrinsic value.

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 income (loss) and income (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><u>April 30, 2004</u></b>	<b><u>April 30, 2003</u></b>
Net income (loss) – as reported	\$ 4,139	\$ (259)
Convertible debenture interest	(466)	(446)
Estimated stock-based compensation costs for the period	(103)	-
Net income (loss) – proforma	<u>\$ 3,570</u>	<u>\$ (705)</u>
Proforma earnings (loss) per common share:		
Basic	\$ 0.06	\$ (0.01)
Diluted	\$ 0.05	\$ (0.01)
Weighted average number of shares:		
Basic	59,629,814	48,658,772
Diluted	66,128,779	48,658,772

	<b>For the six months ended</b>	
	<b><u>April 30, 2004</u></b>	<b><u>April 30, 2003</u></b>
Net income (loss) – as reported	\$ 4,687	\$ (92)
Convertible debenture interest	(928)	(883)
Estimated stock-based compensation costs for the period	(206)	-
Net income (loss) – proforma	<u>\$ 3,553</u>	<u>\$ (975)</u>
Proforma earnings (loss) per common share:		
Basic	\$ 0.06	\$ (0.02)
Diluted	\$ 0.05	\$ (0.02)
Weighted average number of shares:		
Basic	59,629,814	48,481,863
Diluted	66,191,832	48,481,863

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 April 30, 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 tables sets forth the computation of basic and diluted earnings (loss) per share for the comparable reporting periods for the three and six months ended April 30:

	<b>3 months ended April 30</b>	
	<b>2004</b>	<b>2003</b>
Numerator for basic and fully diluted earnings (loss) per share available to common stockholders		
Income (loss) from continuing operations	\$ 4,139	\$ (279)
Less: Convertible debenture interest	(466)	(446)
Income (loss) available from continuing operations	\$ 3,673	\$ (725)
Income from discontinued operations	--	20
Net income (loss) attributed to common stockholders	<u>\$ 3,673</u>	<u>\$ (705)</u>
Denominator for basic earnings (loss) per share- weighted average shares outstanding	<u>59,629,814</u>	<u>48,658,772</u>
Effect of dilutive securities		
Convertible debenture	5,714,286	--
Options	784,679	--
Potential dilutive common shares	<u>6,498,965</u>	<u>--</u>
Denominator for diluted earnings (loss) per share – adjusted weighted average shares and assumed conversions	<u>66,128,779</u>	<u>48,658,772</u>
Earnings (loss) per share		
Basic and diluted earnings (loss) per share	\$0.06	\$ (0.01)
	<b>6 months ended April 30</b>	
	<b>2004</b>	<b>2003</b>
Numerator for basic and fully diluted earnings (loss) per share available to common stockholders		
Income from continuing operations	\$ 4,687	\$ 64
Less: Convertible debenture interest	(928)	(896)
Income (loss) available from continuing operations	\$ 3,759	\$ (832)
Income (loss) from discontinued operations	--	(156)
Net income (loss) attributed to common stockholders	<u>\$ 3,759</u>	<u>\$ (988)</u>
Denominator for basic earnings (loss) per share- weighted average shares outstanding	<u>59,629,814</u>	<u>48,481,863</u>
Effect of dilutive securities		
Convertible debenture	5,714,286	--
Options	847,732	--
Potential dilutive common shares	<u>6,562,018</u>	<u>--</u>
Denominator for diluted earnings (loss) per share – adjusted weighted average shares and assumed conversions	<u>66,191,832</u>	<u>48,481,863</u>
Earnings (loss) per share		
Basic and diluted earnings (loss) per share	\$0.06	\$ (0.02)

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

**d) Stock Options Issued**

During the six months ended April 30, 2004, there were no stock options issued by the Company to employees.

**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)

In thousands	<b>3 months ended April 30</b>		<b>6 months ended April 30</b>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenue				
Canada	\$29,768	\$18,929	\$49,967	\$36,643
United Kingdom	2,962	313	6,282	4,523
	<u>32,730</u>	<u>19,242</u>	<u>56,249</u>	<u>41,166</u>
Intersegment sales	<u>(1,309)</u>	<u>(970)</u>	<u>(2,340)</u>	<u>(1,214)</u>
	31,421	18,272	53,909	39,952
Cost of revenue	<u>22,171</u>	<u>14,164</u>	<u>40,704</u>	<u>30,803</u>
Gross margin	9,250	4,108	13,205	9,149
Research and development	1,298	1,120	1,941	2,627
Selling and general	<u>4,321</u>	<u>2,633</u>	<u>7,436</u>	<u>5,617</u>
Operating income	<u>\$3,631</u>	<u>\$355</u>	<u>\$3,828</u>	<u>\$905</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 and forward foreign exchange contracts between Euros and British pounds for CDE related business.

As at April 30, 2004, the Canadian dollar amounts that could be received under Canadian/US foreign currency call options was \$27.1 million and the amount that could be paid under foreign currency put options was \$34.2 million. The average contractual exchange rate on the call options was 1.3536 and on the put options was 1.3668. The settlement dates of the outstanding contracts were all less than one year. The exchange rate at the quarter-end was 1.3721.

As at April 30, 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. In the quarter, the Company entered into foreign currency GBP/Euro forward contracts of GBP 335 thousand. The settlement dates of the outstanding contracts were all less than one year. The exchange rate at the quarter-end was 0.6737.

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, no amounts remain in "prepaids and other" and "accounts payable and accrued liabilities" in connection with these instruments. During the quarter \$126 thousand was recognized in income in connection with these contracts.

The change in fair value of options entered into in the current fiscal year and existing at the beginning of the quarter and remaining in effect at the quarter end of (\$205) thousand has been recorded in "foreign exchange" for the quarter. The fair value of options and forwards entered into during the quarter and in place at the quarter end of (\$117) thousand has been recognized in "foreign exchange" and included in "prepaids and other". In total (\$336) thousand is included in prepaids and other in connection with options and forwards. Under hedge accounting, these unrealized losses 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.