



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



155 Sheldon Drive, Cambridge, ON, N1R 7H6

COM DEV ANNOUNCES THIRD QUARTER FY2004 RESULTS

Strong Financial Performance Continues: 42% Revenue Growth and \$4.2 Million Profit

CAMBRIDGE, Ontario – August 26, 2004 – COM DEV International Ltd. (TSX:CDV) today announced its third quarter results for the period ended July 31, 2004.

Third Quarter Summary

Revenue for the third quarter ended July 31, 2004 was \$32.4 million compared with \$31.4 million in the second quarter, and \$22.7 million in the third quarter a year ago, representing a 42% increase in Q3 F2004 revenues over the same period a year ago. The Company recorded a net income for the quarter of \$4.2 million or \$0.06 per share, up significantly from the prior year's net loss of \$1.6 million or (\$0.02) per share, and in line with the second quarter's net income of \$4.1 million or \$0.06 per share despite the impact of a weakening US dollar in the third quarter.

CEO's Assessment

Our third quarter has seen the continuation of COM DEV's return to delivering strong financial performance. Our revenues remain on track for 30% year-over-year growth from 2003. Despite a quarter-over-quarter decline in backlog, it still remains at a very robust level and is 70% higher than this time last year. We continue to pursue new business aggressively and are confident of continuing to deliver strong financial performance over the coming quarters.

When we started the current fiscal year, we saw our most important challenge as successfully executing on the record high backlog levels. This challenge has been, and continues to be, addressed through the addition of resources, both human and capital, to effectively manage and process this workload and we are committed to maintaining that focus.

Our fourth quarter shows no signs of letting up on the volume of work the Company currently enjoys, and we believe we are up to the challenges this brings.

Gross Margin and Backlog

Margins of 27% in the quarter were in line with management's guidance for "mid 20% margin levels". The weakening of the US dollar in the quarter impacted Q3 margins negatively by 2%, compared to a positive impact in the second quarter of 2%, where margins were 29%. When the impacts of foreign exchange are removed, third quarter margins grew by 2% over second quarter levels. Margins in the comparable third quarter of the prior year were 23%. New order intake slowed in the quarter with \$16 million in new business won. The Company's order backlog dipped to \$79 million, due to delays in closure of negotiations which are now expected to move into either Q4 of this year or Q1 of fiscal 2005.

Financial Positions, Cash Flows and Liquidity

The Company generated \$1.1 million in cash from operations during the quarter, bringing total cash generated from operations for the year to \$13.2 million. The Company's cash position remained high, at \$26.4 million as at July 31, 2004. Net inventories increased by approximately \$5.0 million over Q2 as a result of higher levels of project work underway, which will ultimately turn into customer billings and cash in future periods. Management still expects to satisfy its promissory note, debenture interest and its capital investments out of cash generated from operations for the year.

Conference Call

A conference call will be held on Friday, August 27, 2004 at 11:00 am 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

COM DEV 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.



Third 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 third 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 third fiscal quarter ended July 31, 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 duplexers, 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 (all figures in 000's except earnings per share figures)

Fiscal 2004	Q1	Q2	Q3	Total
Total Revenue	\$22,488	\$31,421	\$32,367	\$86,276
Net Income from Continuing Operations	\$548	\$4,139	\$4,171	\$8,858
Net Income per share from Continuing Operations (basic)	\$-	\$0.06	\$0.06	\$0.13*
Net Income per share from Continuing Operations (diluted)	\$-	\$0.06	\$0.06	\$0.13*
Net Income from Discontinued Operations	\$-	\$-	\$-	\$-
Net Income – Total	\$548	\$4,139	\$4,171	\$8,858
Net Income per share (basic)	\$-	\$0.06	\$0.06	\$0.13*
Net Income per share (diluted)	\$-	\$0.06	\$0.06	\$0.13*
Total Assets	\$114,286	\$121,931	\$113,386	\$113,386
Long-term debt – continuing operations	\$8,819	\$4,942	\$5,113	\$5,113

* Note: Year-to-date EPS figures differ from quarter-by-quarter totals due to the effects of rounding in the individual quarterly results.

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

<u>Fiscal 2002</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
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 (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 (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 third quarter of the 2004 fiscal year was \$32.4 million, up \$1.0 million, or 3% from the Q2 revenues of \$31.4 million, and 43% higher than comparable 2003 third quarter revenue levels. The revenue level realized in the third quarter is in line with management's previous indications, and supports management's guidance for a total year revenue increase of 30% from fiscal 2003 levels. The weakening of the US dollar in Q3 versus Q2 had a negative impact of approximately \$838 thousand on revenue and margin in the third quarter. The revenue levels experienced in the quarter are a reflection of the high volume of work currently underway at the Company, stemming from the significant backlog levels seen in recent quarters. The Company's backlog did drop during the quarter, ending the third quarter at \$78.5 million, compared to the Q2 ending backlog of approximately \$94.0 million. The drop in backlog reflects the lumpy nature of the business, and is the first time in six quarters that our book to bill ratio has been under 1, with new orders totaling \$16.0 million in the quarter. While this level of new order intake is lower than recent history, this is more a reflection of the timing of new orders rather than absence of negotiations, which remain strong.

Non-commercial satellite orders accounted for approximately 57% of our backlog at the end of Q3 fiscal 2004, compared with 49% at the end of the second quarter, and approximately 55% at the end of the comparable third quarter of fiscal 2003.

Cost of Revenue and Gross Margin

CDS gross margin for the 2004 third quarter was \$8.6 million (27% of revenue), compared with \$9.3 million (29% of revenue) in the second quarter, and from \$5.3 million (23% of revenues) in the comparable third quarter of fiscal 2003. The weaker US dollar had a 2% negative impact on margins in the third quarter, as compared to the 2% positive impact on margins in the second quarter.

The Company also realized a modest impact from ramping activities surrounding production resources (both human and capital), which were necessary to deal with the high load levels currently being experienced. While the efficiency of the organization was slightly lower than in Q2, it was still significantly above Q1 levels.

Research & Development

COM DEV believes that a commitment to research and development is fundamental to its long-term success. In the third quarter of fiscal 2004, the Company spent approximately 5.6% (\$1.8 million) of revenue on the development of new products and capabilities. This compares with 7.2% (\$2.3 million) in the second quarter, and 8.9% (\$2.0 million) in the comparable third quarter of fiscal 2003. The reduction in R&D spending seen in the current quarter was the result of two factors. First, the volume of customer orders underway in design and engineering is providing the Company with the opportunity to direct some of our R&D resources to order execution activities. Second, the level of new funding for R&D programs has been slower than in prior quarters, which allows for these resources to be redirected without impacting R&D projects. Outside funding for R&D work during the quarter was \$246 thousand, down from \$979 thousand in Q2, and \$773 thousand in the third quarter of the prior year. 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 July 31, 2004 did not result in any erosion in the recorded value on the balance sheet. This valuation is being monitored regularly, and any permanent erosion in its value, should it occur would be reflected in the accounts of the Company at that time.

Selling and general expenses

Selling and general expenses for the third quarter were \$3.4 million, which is a reduction of approximately \$900 thousand from the second quarter levels of \$4.3 million, and in line with management's guidance for the quarter. In the comparable third quarter of the prior year, selling and general expenses were \$3.1 million.

Financial expense

Financial expenses incurred in Q3 are broken down into three categories: (1) Interest expenses – primarily related to the Promissory Note obligations (\$103 thousand); (2) Foreign exchange translation and hedge contract valuation gains (\$686 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 third quarter of \$3.7 million, and bottom line Net Income of \$4.2 million. This compares to operating income of \$3.6 million in the second quarter, and \$962 thousand in the comparable third quarter of fiscal 2003, or a 281% increase. Net income for the third quarter was \$4.2 million, compared to \$4.1 million in the second quarter, and (\$1.6) million in the comparable third quarter of fiscal 2003.

Financial Positions, Cash Flows and Liquidity

The Company generated \$1.1 million in cash from operations in the third quarter, compared to \$7.6 million generated from operations in the second quarter of fiscal 2004. For the year to date, the Company has generated \$13.2 million in cash from operations, compared to the prior year, where the Company used \$10.4 million in cash to the end of its third quarter. In the prior year third quarter, the Company consumed \$1.4 million in cash in its operating activities. Company inventory, net of deferred revenue (which represent customer milestone billings in excess of revenue recognized), increased by \$5.0 million from the second quarter position. The primary driver for this increase was lower levels of new orders received in the quarter, which

normally realize advance payments to defray early project costs. The Company's cash on hand at the end of the third quarter was essentially flat at \$26.4 million versus \$26.8 million at the end of Q2 and an overdraft position of \$62 thousand in the third quarter of fiscal 2003. This represents an increase of approximately \$2.9 million since the beginning of the current fiscal year, after paying the April 2004 \$3.9 million principal installment on the Technology Horizons Limited promissory note, all interest associated with it to July 31, 2004, and completing \$3.8 million of our capital program for the year. 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 cyclicity 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)
Unaudited

For the three months ended July 31,	2004	2003
Continuing operations		
Revenue	\$ 32,367	\$ 22,683
Cost of revenue	23,743	17,406
Gross margin	<u>8,624</u>	<u>5,277</u>
Research and development spending	1,809	2,015
Research and development recovery	246	773
Net research and development	<u>1,563</u>	<u>1,242</u>
Selling and general expenses	<u>3,394</u>	<u>3,073</u>
Operating income	3,667	962
Interest (expense) income	(103)	10
Foreign exchange gain (loss)	686	(443)
Other financial expense	<u>(79)</u>	<u>(230)</u>
Income before taxes	4,171	299
Provision for taxes	<u>-</u>	<u>785</u>
Income (loss) from continuing operations	4,171	(486)
Provision for discontinued operations	<u>-</u>	<u>(1,074)</u>
Net income (loss)	<u>\$ 4,171</u>	<u>\$ (1,560)</u>
Earnings (loss) per share		
Basic earnings (loss) per share from continuing operations	\$ 0.06	\$ (0.02)
Diluted earnings (loss) per share from continuing operations	\$ 0.06	\$ (0.02)
Basic earnings (loss) per share from discontinued operations	\$ -	\$ (0.02)
Diluted earnings (loss) per share from discontinued operations	\$ -	\$ (0.02)
Basic earnings (loss) per share	\$ 0.06	\$ (0.04)
Diluted earnings (loss) per share	\$ 0.06	\$ (0.04)
Basic weighted average number of shares	59,630,049	48,677,433
Diluted weighted average number of shares	66,239,882	48,677,433

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,	2004	2003
Continuing operations		
Revenue	\$ 86,276	\$ 62,635
Cost of revenue	64,446	48,209
Gross margin	<u>21,830</u>	<u>14,426</u>
Research and development spending	6,304	5,766
Research and development recovery	<u>2,799</u>	<u>1,897</u>
Net research and development	3,505	3,869
Selling and general expenses	<u>10,829</u>	<u>8,690</u>
Operating income	7,496	1867
Interest (expense) income	(466)	(1)
Foreign exchange gain (loss)	1,677	(853)
Other financial income (expense)	<u>151</u>	<u>(650)</u>
Income before taxes	8,858	363
Provision for taxes	<u>-</u>	<u>785</u>
Income (loss) from continuing operations	8,858	(422)
Provision for discontinued operations	<u>-</u>	<u>(1,230)</u>
Net income (loss)	<u>\$ 8,858</u>	<u>\$ (1,652)</u>
Earnings (loss) per share		
Basic earnings (loss) per share from continuing operations	\$ 0.13	\$ (0.04)
Diluted earnings (loss) per share from continuing operations	\$ 0.13	\$ (0.04)
Basic earnings (loss) per share from discontinued operations	\$ -	\$ (0.02)
Diluted earnings (loss) per share from discontinued operations	\$ -	\$ (0.02)
Basic earnings (loss) per share	\$ 0.13	\$ (0.06)
Diluted earnings (loss) per share	\$ 0.13	\$ (0.06)
Basic weighted average number of shares	59,629,893	48,547,769
Diluted weighted average number of shares	66,207,139	48,547,769

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

For the three months ended July 31,	2004	2003
Balance, beginning of the period	\$ (255,959)	\$ (235,867)
Net income (loss)	4,171	(1,560)
Interest on convertible debentures	(468)	(459)
Issuance costs	6	-
Balance, end of the period	<u>\$ (252,250)</u>	<u>\$ (237,886)</u>

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

For the nine months ended July 31,	2004	2003
Balance, beginning of the period	\$ (259,696)	\$ (234,892)
Net income (loss)	8,858	(1,652)
Interest on convertible debentures	(1,396)	(1,342)
Issuance costs	(16)	-
Balance, end of the period	<u>\$ (252,250)</u>	<u>\$ (237,886)</u>

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

	As at July 31, 2004	As at October 31, 2003
Assets		
Current		
Cash and cash equivalents	\$ 26,357	\$ 23,423
Accounts receivable	23,318	22,983
Inventory	22,194	23,841
Prepays and other	1,764	1,193
	73,633	71,440
Investment	4,140	4,140
Capital assets	33,398	34,101
Intangible assets	2,215	2,005
Total assets	\$ 113,386	\$ 111,686
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 15,051	\$ 15,320
Income taxes payable	785	785
Deferred revenue	18,612	19,528
Current portion of loans payable	8,139	8,552
Current liabilities - discontinued operations	581	1,171
	43,168	45,356
Long term		
Loans payable	5,113	8,412
Long term liabilities - other	-	522
Long term liabilities - discontinued operations	1,780	2,429
	6,893	11,363
Total liabilities	50,061	56,719
Shareholders' equity		
Convertible debentures	19,649	19,470
Share capital	296,099	296,089
Deficit	(252,250)	(259,696)
Currency translation adjustment	(173)	(896)
Total	63,325	54,967
Total liabilities and shareholders' equity	\$ 113,386	\$ 111,686

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

For the three months ended July 31,	2004	2003
Cash flows from operating activities		
Net income (loss) from continuing operations	\$ 4,171	\$ (486)
Amortization	1,110	1,451
	<u>5,281</u>	<u>965</u>
Net change in non-cash working capital items	(4,198)	(2,358)
Cash flows from (used in) operating activities	<u>1,083</u>	<u>(1,393)</u>
Cash flows used in financing activities		
Shares issued	10	-
Issue costs	6	-
Interest paid on convertible debenture in cash	(608)	(608)
Increase (decrease) in loans payable	3	(65)
Cash flows used in financing activities	<u>(589)</u>	<u>(673)</u>
Cash flows used in investing activities		
(Acquisition of) proceeds from disposal of capital assets	(459)	163
Acquisition of intangible assets	(123)	(39)
Cash flows (used in) from investing activities	<u>(582)</u>	<u>124</u>
Net decrease in cash for continuing operations	(88)	(1,942)
Net cash (used in) from discontinued operations	(383)	1,026
Net decrease in cash	(471)	(916)
Cash and cash equivalents, beginning of period	26,828	854
Cash and cash equivalents, end of period	<u>\$ 26,357</u>	<u>\$ (62)</u>
Interest paid	<u>\$ 831</u>	<u>\$ 629</u>

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

For the nine months ended July 31,	2004	2003
Cash flows from operating activities		
Net income (loss) from continuing operations	\$ 8,858	\$ (422)
Amortization	4,347	4,222
	<u>13,205</u>	<u>3,800</u>
Net change in non-cash working capital items	(50)	(14,145)
Cash flows from (used in) operating activities	<u>13,155</u>	<u>(10,345)</u>
Cash flows used in financing activities		
Shares issued	10	-
Issue costs	(16)	-
Interest paid on convertible debenture in cash	(1,217)	(608)
Decrease in loans payable	<u>(3,712)</u>	<u>(329)</u>
Cash flows used in financing activities	<u>(4,935)</u>	<u>(937)</u>
Cash flows used in investing activities		
(Acquisition of) proceeds from disposal of capital assets	(3,755)	83
Acquisition of intangible assets	<u>(345)</u>	<u>(234)</u>
Cash flows used in investing activities	<u>(4,100)</u>	<u>(151)</u>
Net increase (decrease) in cash for continuing operations	4,120	(11,433)
Net cash (used in) from discontinued operations	<u>(1,186)</u>	<u>68</u>
Net increase (decrease) in cash	2,934	(11,365)
Cash and cash equivalents, beginning of period	23,423	11,303
Cash and cash equivalents, end of period	<u>\$ 26,357</u>	<u>\$ (62)</u>
Interest paid	<u>\$ 1,935</u>	<u>\$ 687</u>

**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 Canadian 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 July 31, 2004.

	<u>Number</u>	<u>Amount</u>
Balance, October 31, 2003	59,629,814	\$296,089
Issuance of common shares (i)	<u>7,200</u>	<u>10</u>
Balance, July 31, 2004	<u><u>59,637,014</u></u>	<u><u>\$296,099</u></u>

(i) During the 3rd quarter, the Company issued 7,200 common shares to satisfy stock options exercised.

There were no changes to the outstanding amounts of common shares, stock options, or convertible debentures between July 31, 2004 and August 27, 2004. The maximum number of shares outstanding if all options were exercised and the debentures were converted is 69,653,290.

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:

	For the three months ended	
	July 31, 2004	July 31, 2003
Net income (loss) – as reported	\$ 4,171	\$ (1,560)
Convertible debenture interest	(468)	(459)
Stock-based compensation costs for the period	(103)	(103)
Net income (loss) – proforma	<u>\$ 3,600</u>	<u>\$ (2,122)</u>
Proforma earnings (loss) per common share:		
Basic	\$ 0.06	\$ (0.04)
Diluted	\$ 0.06	\$ (0.04)
Weighted average number of shares:		
Basic	59,630,049	48,677,433
Diluted	65,979,624	48,677,433

	For the nine months ended	
	July 31, 2004	July 31, 2003
Net income (loss) – as reported	\$ 8,858	\$ (1,652)
Convertible debenture interest	(1,396)	(1,342)
Estimated stock-based compensation costs for the period	(309)	(103)
Net income (loss) – proforma	<u>\$ 7,153</u>	<u>\$ (3,097)</u>
Proforma earnings (loss) per common share:		
Basic	\$ 0.12	\$ (0.06)
Diluted	\$ 0.12	\$ (0.06)
Weighted average number of shares:		
Basic	59,629,893	48,547,769
Diluted	65,933,564	48,547,769

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 and have been in effect in the nine-month period ended. As there were no stock options granted in the nine-month period ended July 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 tables sets forth the computation of basic and diluted earnings (loss) per share for the comparable reporting periods for the three and nine months ended July 31:

	3 months ended July 31	
	2004	2003
Numerator for basic and diluted earnings (loss) per share available to common stockholders		
Income (loss) from continuing operations	\$ 4,171	\$ (486)
Less: Convertible debenture interest	(468)	(459)
Income (loss) available from continuing operations	\$ 3,703	\$ (945)
Loss from discontinued operations	--	(1,074)
Net income (loss) attributed to common stockholders	<u>\$ 3,703</u>	<u>\$ (2,019)</u>
Denominator for basic earnings (loss) per share-weighted average shares outstanding	<u>59,630,049</u>	<u>48,677,433</u>
Effect of dilutive securities		
Convertible debenture	5,714,286	--
Options	895,547	--
Potential dilutive common shares	<u>6,609,833</u>	<u>--</u>
Denominator for diluted earnings (loss) per share – adjusted weighted average shares and assumed conversions	<u>66,239,882</u>	<u>48,677,433</u>
Earnings (loss) per share		
Basic and diluted earnings (loss) per share	\$0.06	\$ (0.04)

	9 months ended July 31	
	2004	2003
Numerator for basic and diluted earnings (loss) per share available to common stockholders		
Income from continuing operations	\$ 8,858	\$ (422)
Less: Convertible debenture interest	(1,396)	(1,342)
Income (loss) available from continuing operations	\$ 7,462	\$ (1,764)
Loss from discontinued operations	--	(1,230)
Net income (loss) attributed to common stockholders	\$ 7,462	\$ (2,994)
Denominator for basic earnings (loss) per share- weighted average shares outstanding	59,629,893	48,547,769
Effect of dilutive securities		
Convertible debenture	5,714,286	--
Options	862,960	--
Potential dilutive common shares	6,577,246	--
Denominator for diluted earnings (loss) per share – adjusted weighted average shares and assumed conversions	66,207,139	48,547,769
Earnings (loss) per share		
Basic earnings (loss) per share	\$ 0.13	\$ (0.06)
Diluted earnings (loss) per share	\$0.13	\$ (0.06)

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

d) Stock Options Issued

During the nine months ended July 31, 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	3 months ended July 31		9 months ended July 31	
	2004	2003	2004	2003
Revenue				
Canada	\$30,957	\$20,031	\$80,924	\$56,674
United Kingdom	2,404	3,239	8,686	7,763
	<u>33,361</u>	<u>23,270</u>	<u>89,610</u>	<u>64,437</u>
Intersegment sales	(994)	(587)	(3,334)	(1,802)
	<u>32,367</u>	<u>22,683</u>	<u>86,276</u>	<u>62,635</u>
Cost of revenue	23,743	17,406	64,446	48,209
Gross margin	<u>8,624</u>	<u>5,277</u>	<u>21,830</u>	<u>14,426</u>
Research and development	1,563	1,242	3,505	3,869
Selling and general	3,394	3,073	10,829	8,690
Operating income	<u>\$3,667</u>	<u>\$962</u>	<u>\$7,496</u>	<u>\$1,867</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 and forward foreign exchange 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 into foreign currency option contracts and forward foreign exchange contracts between Euros and British pounds for CDE related business.

As at July 31, 2004, the Canadian dollar amounts that could be received under Canadian/US foreign currency call options was \$19.6 million and the amount that could be paid under foreign currency put options was \$24.8 million. The average contractual exchange rate on the call options was 1.3790 and on the put options was 1.3933. In the quarter, the Company entered into forward contracts to sell \$1.6 million US dollars at the exchange rate of 1.33. The settlement dates of all the outstanding contracts were all less than one year. The exchange rate at the quarter-end was 1.3295.

As at July 31, 2004, the British Pound (GBP) amounts that could be received under GBP/Euro foreign currency call options was GBP 494 thousand and the amount that could be paid under foreign currency put options was GBP 564 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 0.6613.

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 designation and documentation for its program of 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 the foreign currency 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 (loss) on the options was recorded as deferred income and included in "accounts payable and accrued liabilities". The accrued gain (loss) has been recognized in "foreign exchange gain (loss)" 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.

The change in fair value of foreign currency 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 \$417 thousand has been recorded in "foreign exchange" for the quarter. The fair value of these options and forwards entered into during the quarter and in place at the quarter end of \$460 thousand has been recognized in "foreign exchange" and included in "prepaids and other". In total \$791 thousand is included in prepaids and other in connection with these options and forwards. Under hedge accounting, these unrealized losses would be deferred and recognized in future periods as part of gross margin.

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 period.