



COM DEV
INTERNATIONAL

**COM DEV International Ltd.
First Quarter Report – Fiscal 2005
For the Period Ended
January 31, 2005**



COM DEV ANNOUNCES FIRST QUARTER FY2005 RESULTS

Revenue Growth Continues as Company Increases Capacity

CAMBRIDGE, Ontario – February 24, 2005 – COM DEV International Ltd. (TSX:CDV) today announced its first quarter results for the period ended January 31, 2005.

First Quarter Summary

Revenue for the first quarter ended January 31, 2005 was \$30.2 million, representing a year-over-year increase of 34% from \$22.5 million in revenue reported a year ago. The Company recorded a break even net income for the quarter, slightly exceeding the result for the same period a year ago, and up from its net loss of \$1.5 million for the fourth quarter of its fiscal year 2004.

CEO's Assessment

"The first quarter of 2005, whilst showing solid revenue, had some softness in margins, partly due to seasonal low absorption, but also due to the short term costs of capacity expansion," commented John Keating. Continuing, Mr. Keating noted that, "in addition, delays to government technology development programs increased our net R&D expense, impacting bottom line performance. Business development activity, however, is very strong. While the bottom line performance achieved in the first quarter is well below levels seen in recent quarters, I am very pleased with the progress made in completing our necessary expansion activities, all of which target improving our ability to respond to increased demand and to do so with greater efficiency. We are very confident in our ability to book orders and grow revenue, gross margins, and profitability in the coming quarters."

Gross Margin and Backlog

Margins of 21% in the quarter reflect the impacts of major expansion efforts within the Company's Cambridge, Ontario facilities. While margins were eroded from the mid-twenty percent levels seen in recent quarters, these impacts are expected to subside once re-layout and facility expansion work is completed, new capital equipment comes on line, and personnel training is completed. Margins for the same period a year ago were 18%. New order intake for the quarter was \$19 million, and the closing backlog of business was \$68 million, down from \$79 million at the end of the fourth quarter of 2004. Quotation and negotiation activity remains very high. Management is confident in reiterating its guidance for 10% revenue growth over last year.

Financial Positions, Cash Flows and Liquidity

For the first time in several quarters of rapid business growth, the Company used cash from operations, primarily as a result of investment in ongoing customer project inventory, which will be converted to revenue and cash in future periods. The Company approved \$3.8 million in expansion investments during the quarter, which are well on the way to being completed. The Company ended the quarter with \$20.4 million in cash on hand.

Conference Call

A conference call will be held on Thursday February 24, 2005 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

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.

-30-

Media Contact:

Ron Holdway
Senior Director, Business Development
& Media Relations
Tel: (613) 295-5607
Fax: (613) 569-5691
investor.relations@comdev.ca

Investor and Analyst Contact:

Gary Calhoun
Chief Financial Officer
Tel: (519) 622-2300 ext. 2826
Fax: (519) 622-2158
Gary.Calhoun@comdev.ca

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 FY2005 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction:

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of COM DEV International Ltd's ("the Company") consolidated results of operations and financial condition. This discussion should be read in conjunction with the Company's unaudited consolidated financial statements including the notes thereto for the three months ended January 31, 2005 ("the Unaudited Consolidated Financial Statements") and should also be read in conjunction with the audited consolidated financial statements ("the Consolidated Financial Statements") and Management's Discussion and Analysis for the fiscal year ended October 31, 2004 as set out in the Company's 2004 Annual Report. The Consolidated Financial Statements and the Unaudited Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are reported in Canadian dollars.

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). COM DEV employed approximately 835 people around the world as of January 31, 2005, compared to approximately 700 people as of January 31, 2004.

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

Two additional divisions are treated as discontinued operations in the 2005 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.

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.

Certain statements contained in this report contain forward-looking statements, including (without limitation) statements concerning possible or assumed future results of operations of the Company preceded by, followed by or that include the words “believes”, “expects”, “anticipates”, “estimates”, “intends”, “plans”, “forecasts” or similar expressions. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions and the Company’s actual results may differ materially from those anticipated in these forward-looking statements. Additional information relating to the Company and the risks inherent in its business is provided in the Company’s Annual Information Form for the year ended October 31, 2004 and other documents available on SEDAR at www.sedar.com.

Date:

The information contained herein is dated as of March 16, 2005.

Overall Performance:

In the first quarter of 2005 the Company continued to feel the negative impact of the steps it is taking to appropriately address the significant growth in its business that took place throughout 2004. The Company is late on several programs as a result of actions taken to increase physical asset, and employee capacity to deal with the high rate of growth in its business. Overall, during 2004 the Company’s revenues increased by over 35% from 2003 levels, but individual product lines within the Company demonstrated business volume increases approaching 60% during this same timeframe when the impact of foreign exchange is eliminated. Total revenue for the three months ended January 31, 2005 increased 34% over the first quarter of the prior year and was down only slightly, by 6% from the fourth quarter of 2004. The first quarter is traditionally

the Company's weakest for revenue and earnings. Based on our current backlog, first quarter revenue levels, and the high level of ongoing negotiations, the Company has restated its expectation for 10% year over year revenue growth in 2005.

The Company completed several expansion activities in the first quarter, including relocation of its machining department from 155 Sheldon Drive to 165 Sheldon Drive. As part of this relocation, several new machine tools have been purchased and brought on line during the first quarter. These actions have allowed the Company to increase its capacity for high precision, fast turnaround machining of critical components.

Expansion and layout work in the Company's Multiplexer and Ancillaries production and test labs continued in the first quarter, and are on track to be essentially completed by the end of April, 2005. New capacity has also been added in the area of Thermal testing during the first quarter, and two new Thermal Vacuum chambers have been ordered and are expected to be on line to provide much needed capacity in March and April.

The Company closed out the first quarter with \$20.4 million in cash on hand, which represents a decrease of \$6.7 million from its position as at October 31, 2004, and a decrease of \$5.8 million from the cash position a year ago when the Company finished its first quarter 2004 with \$26.2 million in cash. The decrease in cash balance at the end of the first quarter 2005 was driven by capital expenditures of \$1.4 million in the quarter, as well as investment in customer project inventory. It is expected that the Company will use cash in its second quarter as it finishes much of its capital expansion activities, and continues to fund customer project work in inventory.

Results of Operations and Selected Financial Information – Three Months Ended January 31, 2005

Revenues

(millions of dollars)	Three months ended Jan. 31		
	2005	2004	% Change
Commercial satellite programs	\$17.9	\$12.3	45.5%
Civil (government) programs	\$ 5.7	\$ 5.4	5.6%
Military & defense programs	\$ 6.6	\$ 4.7	40.4%
Total Space revenues	\$30.2	\$22.4	34.8%

The Company operates principally in the satellite communication industry, and consequently has only one reportable business segment. Historically, the vast majority of the Company's revenues were derived from commercial satellite programs. In late 2002, however, the Company stated its strategic intent to expand into civil (government) programs as well as military & defense programs, and has had initial success in making this transition. Commercial satellite programs account for approximately 59% of total revenue in the first quarter of 2005. This is in comparison to approximately 55% in the same period of 2004. The company expects to continue to build on its successes in these non-traditional programs in the future.

Backlog	Jan. 31	Oct. 31	Jan. 31
(millions of dollars)	2005	2004	2004
Commercial satellite programs	\$36.9	\$53.1	\$39.2
Civil (government) programs	\$22.3	\$11.2	\$13.5
Military & defense programs	\$ 8.8	\$14.7	\$40.1
Total Space Backlog	\$68.0	\$79.0	\$92.8

Bookings in the first quarter ended January 31, 2005 were \$19.6 million, which is down from the quarter ended October 31, 2004, where new order intake totaled \$32.6 million. In the comparable first quarter of 2004, order intake was \$43.7 million. The first quarter order level reflects the lumpiness of the space satellite

the Company's weakest for revenue and earnings. Based on our current backlog, first quarter revenue levels, and the high level of ongoing negotiations, the Company has restated its expectation for 10% year over year revenue growth in 2005.

The Company completed several expansion activities in the first quarter, including relocation of its machining department from 155 Sheldon Drive to 165 Sheldon Drive. As part of this relocation, several new machine tools have been purchased and brought on line during the first quarter. These actions have allowed the Company to increase its capacity for high precision, fast turnaround machining of critical components.

Expansion and layout work in the Company's Multiplexer and Ancillaries production and test labs continued in the first quarter, and are on track to be essentially completed by the end of April, 2005. New capacity has also been added in the area of Thermal testing during the first quarter, and two new Thermal Vacuum chambers have been ordered and are expected to be on line to provide much needed capacity in March and April.

The Company closed out the first quarter with \$20.4 million in cash on hand, which represents a decrease of \$6.7 million from its position as at October 31, 2004, and a decrease of \$5.8 million from the cash position a year ago when the Company finished its first quarter 2004 with \$26.2 million in cash. The decrease in cash balance at the end of the first quarter 2005 was driven by capital expenditures of \$1.4 million in the quarter, as well as investment in customer project inventory. It is expected that the Company will use cash in its second quarter as it finishes much of its capital expansion activities, and continues to fund customer project work in inventory.

approximately 8,000 hours of training time were dedicated to this effort. This is in comparison to approximately 4,000 hours that were consumed in training efforts in the comparable quarter of 2004. As new employee training is concluded, and cross training completed, the level of hours required to maintain certifications are expected to moderate to levels below the current quarter.

3. The traditional seasonal business cycle. The Company's first quarter is the shortest in terms of the number of work days available, due to the Christmas holiday and maintenance shutdown period. Since the Company derives revenues and overhead absorptions through the application of labour to customer programs, a shorter quarter impacts both of these areas each year.

Research and Development (R&D)

(millions of dollars)	Three months ended Jan. 31		
	2005	2004	% Change
Total R&D Spending before funding	\$ 2.2	\$ 2.2	(2.2%)
Total R&D Funding received	\$(0.4)	\$(1.6)	(76.4%)
R&D, net of Funding	\$ 1.8	\$ 0.6	179.5%

The Company has established a R&D technology roadmap that drives its internal research and development activities. This technology roadmap is reviewed semi-annually against longer term customer requirements, and potential new technologies that show promise in meeting those requirements. While the Company works to secure outside funding for its R&D efforts, in the absence of funding, it maintains its focus on the activities that form the Company's technology roadmap. In the first quarter, outside funding in support of the Company's R&D efforts diminished, resulting in a higher than projected net R&D cost for the quarter. Company management is currently investigating alternate sources of funding for its R&D efforts, and will continue its research and development work as planned for the remainder of the year.

It is important to note that R&D costs noted in the table above, reflect only Company-funded research and development activities (net of government funding). Customer funded development costs are included in the Company's cost of sales figures.

Other Expenses

(millions of dollars)	Three months ended Jan. 31		
	2005	2004	% Change
Selling, general & administrative expenses (SG&A)	\$3.2	\$3.1	1.4%
SG&A % of total revenue	10.5%	13.9%	(3.4%)
Interest expense	\$0.6	\$0.7	(23.1%)
Foreign exchange (gain) loss	\$0.6	(\$0.6)	.

Selling, General and Administrative

SG&A expenses for the first quarter were in line with expectations, and essentially unchanged from the same quarter a year ago. The Company is targeting to keep total SG&A expenses in the range of \$3.2 million to \$3.5 million per quarter. The Company controls the General and Administrative costs with the objective to minimize the growth in these costs. The Company manages the selling costs of the organization with the objective to succeed in obtaining customer orders, and consequently will allow these selling costs to increase under certain circumstances. Management does not expect selling costs to increase significantly from current levels at the present time.

Interest Expense

The Company's interest expense relates mainly to two sources of financing:

1. Convertible debentures (\$18.5 million convertible debenture)
2. Promissory note (\$7.7 million note)

The Company, as a result of a change in accounting standard pronouncement, has changed the way it accounts for debenture interest expense starting in the first quarter this year. Previously, debenture interest expense was charged to retained earnings, in accordance with then existing accounting standards. The impact on Q1 interest expense as a result of this change was \$0.5 million,

compared with \$0.5 million in Q1 of fiscal 2004. The convertible debenture interest is fixed at 6.75% and is payable semi-annually on June 30 and December 31 each year.

The promissory note attracts interest at a rate of Toronto Dominion prime rate plus 2%. In the first quarter this year, interest expense on the promissory note totaled \$0.1 million, compared with \$0.2 million in the first quarter of fiscal 2004. Interest is payable on the first of each month until retired. The remaining payments of \$3.831 million each will be made on April 1 and October 1 this year.

Foreign Exchange

The foreign exchange loss during the first quarter of 2005 relates mainly to the increase in the value of the US dollar during the period. This translation gain on balance sheet items denominated in US currency was reduced by the forward contracts that the Company has in place. Foreign exchange amounts on the statement of operations include realized and unrealized gains and losses. This does not include the impact of foreign exchange fluctuations on gross margins.

Liquidity and Capital Resources

(in millions of dollars)	Three months ended Jan. 31		
	2005	2004	% Change
Cash provided by (used in) operating activities	(\$4.7)	\$3.8	
Net increase (decrease) in cash	(\$6.7)	\$2.8	
Property and equipment additions	\$1.4	\$0.8	76.1%

Cash used in operating activities was \$4.7 million during the first quarter of 2005 compared with cash provided in operating activities of \$3.8 million in the same period of 2004. The Company's cash balance decreased by \$6.7 million from its fiscal year ended October 31, 2004. The Company saw an increase of \$13.0 million in net customer project inventory (inventory less deferred revenue) during the first quarter of 2005, and expects this to convert to billings, accounts receivable, and ultimately, cash in the coming quarters. This increase in working capital was partly offset by a \$7.1 million reduction in customer accounts

receivable. Based on current forecasts, the Company expects to continue to invest in customer project inventory during the second quarter, and then return to a more neutral cash position in the second half of the fiscal year.

The Company added \$1.4 million in capital equipment during the first quarter of 2005, compared with only \$0.8 million in the same period of 2004. The Company approved capital commitments for an additional \$2.3 million in the first quarter of 2005, and these projects are forecast to be largely completed in the second quarter of 2005. The Company has planned capital spending for its entire fiscal year 2005 of \$8.4 million.

The Company has a \$15.0 million operating credit facility, including a treasury risk management facility to facilitate hedging of currency related risks arising in the normal course of operations. Under this facility, the Company is required to maintain certain financial ratios which the Company has met as of January 31, 2005.

Off-balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at the end of the first quarter 2005.

Transactions with Related Parties

The Company had no transactions with related parties in the first quarter of 2005.

Fourth Quarter – N/A

Proposed Transactions

The Company had no proposed business acquisitions or disposals during the first quarter of 2005.

Contractual Obligations

(in millions of dollars)	Payments Due by Period				2008 and beyond
	Total	2005 (Feb-Oct)	2006	2007	
Long-term debt		\$7.7	\$18.6	\$ -	\$ -
Operating leases		\$0.4	\$ 0.5	\$0.5	\$ -
Capital leases		\$0.3	\$ 0.4	\$0.2	\$ -
Total contractual obligations		\$8.4	\$19.5	\$0.7	\$ -

Financial Instruments and Other Instruments

The Company realizes a significant portion of its revenues in United States dollars and incurs expenses in Canadian dollars. The Company utilizes forward exchange contracts to hedge the net cash flow risk associated with forecasted transactions in foreign currencies but does not enter into derivatives for speculative purposes. The Company utilizes derivative instruments to manage the risk associated with anticipated cash flows that will be denominated in foreign currencies. The Company does not designate or measure the effectiveness of the derivative instruments as hedges or specific firm commitments or forecasted transactions and accordingly does not meet the requirements of CICA Accounting Guideline 13 ("AcG-13"). The Company generally uses foreign exchange put options and related call options to manage foreign currency risk related to sales to customers in the United States and United Kingdom.

Derivative financial instruments are carried at their fair values. Realized and unrealized gains and losses associated with the derivative instruments are included in foreign exchange gain or loss in the income statement.

On January 31, 2005 the Company had outstanding forward currency call options with a notional value of US \$24.0 million maturing within a year at an average exchange rate of \$1.2106. The Company had outstanding forward currency put options with a notional value of US \$36.0 million maturing within a year at an average exchange rate of \$1.2298. The Company is exposed to credit risk on derivative financial instruments arising from the potential for counterparties to default on their contractual obligations to the Company. The Company

minimizes this risk by limiting counterparties to these contracts to Canadian Schedule A Chartered Banks.

Summary of Results of Operations

(In thousands of dollars, except per share amounts)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total revenue	\$118,497	\$ 87,962	\$107,515
Net Income (loss) from continuing operations	\$ 8,562	(\$ 19,325)	\$ 362
Net Income (loss) – total company	\$ 7,337	(\$ 21,512)	(\$ 34,948)
Earnings per share, basic	\$0.11	(\$0.44)	(\$0.02)
Earnings per share, diluted	\$0.11	(\$0.44)	(\$0.02)
Total assets	\$112,507	\$111,735	\$ 93,713
Long term financial liabilities	\$ 1,142	\$ 8,934	\$ 2,143
Cash Dividends declared	\$ -	\$ -	\$ - .

Revenues of the Company were impacted in 2003 as a result of a significant cyclical downturn in satellite procurements in 2002. There is roughly a 12 month lag between satellite procurement and orders placed with COM DEV. The satellite industry rebounded in 2004 with 16 commercial communication satellites being ordered in 2003, compared with only 3 in 2002. Net income from continuing operations were negatively impacted in 2003 by the write off of a legacy investment in Skybridge LLP, and in 2002 from the exit costs associated with the Company's investment in the M/Ergy product line.

Quarterly Information (all figures in 000's except earnings per share figures)

Fiscal 2005 Quarters	Jan 31/05
Total Revenue	\$30,212
Net Income (loss) from Continuing Operations	\$186
Net Income (loss) per share from Continuing Operations (basic)	\$-
Net Income (loss) per share from Continuing Operations (diluted)	\$-
Net Income (loss) from Discontinued Operations	\$-
Net Income (loss) – Total	\$186
Net Income (loss) per share (basic)	\$-
Net Income (loss) per share (diluted)	\$-
Total Assets	\$100,908
Long-term debt – continuing operations	\$19,161

Fiscal 2004 Quarters	Jan 31/04*	Apr 30/04*	Jul 31/04	Oct 31/04	Total
Total Revenue	\$22,488	\$31,421	\$32,367	\$32,221	\$118,497
Net Income (loss) from Continuing Operations	\$548	\$4,139	\$4,171	(\$295)	\$8,562
Net Income (loss) per share from Continuing Operations (basic)	\$-	\$0.06	\$0.06	(\$0.01)	\$0.11
Net Income (loss) per share from Continuing Operations (diluted)	\$-	\$0.06	\$0.06	(\$0.01)	\$0.11
Net Income (loss) from Discontinued Operations	\$-	\$-	\$-	(\$1,225)	(\$1,225)

Net Income (loss) – Total	\$548	\$4,139	\$4,171	(\$1,520)	\$7,337
Net Income (loss) per share (basic)	\$-	\$0.06	\$0.06	(\$0.03)	\$0.09
Net Income (loss) per share (diluted)	\$-	\$0.06	\$0.06	(\$0.03)	\$0.09
Total Assets	\$108,347	\$115,077	\$113,386	\$112,597	\$112,597
Long-term debt – continuing operations	\$8,819	\$4,942	\$5,113	\$1,142	\$1,142

Fiscal 2003 Quarters	Jan 31/03*	Apr 30/03*	Jul 31/03*	Oct 31/03	<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	\$80,188	\$81,501	\$82,596	\$111,735	\$111,735
Long-term debt – continuing operations	\$1,987	\$1,745	\$1,563	\$8,934	\$8,934

* Reclassified to conform to presentation adopted in Q3 2004.

Critical Accounting Estimates

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates are based upon

management's historical experience and various other assumptions that are believed by management to be reasonable under the circumstances. Such assumptions and estimates are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

Management believes the following critical accounting policies affect its more significant estimates and assumptions used in the preparation of its consolidated financial statements.

Revenue Recognition

The Company generally provides goods and services to its customers under long-term contracts. The Company recognizes revenue on long-term contracts on the percentage of completion basis, based on costs incurred relative to the estimated total contract costs. Losses on such contracts are accrued when the estimate of total costs indicates that a loss will be realized. Contract billings in excess of cost and accrued profit margins are included as deferred revenue and included in current liabilities.

A portion of the Company's revenue is derived from the sale of goods and services on short-term agreements and purchase orders. The revenue from these sales is recognized when the goods and services are delivered to the customer and collection is reasonably assured.

Inventory

Raw materials are valued at the lower of cost and replacement cost, with cost determined on a weighted average basis. Contracts in process are valued at cost plus accrued profit margins, minus billings issued to date and the full amount

of any anticipated losses. The Company's policy for the valuation of raw materials and stores inventory includes a determination of obsolete or slow moving inventory. The business environment in which the Company operates is subject to long lead-time order requirements for components and changes in technology and customer demands. The Company performs a detailed assessment of raw materials and stores inventories each reporting period, including the age, and anticipated demand for the inventory. If management believes that demand no longer allows the Company to sell inventories above cost or at all, it provides a reserve against this inventory for all or a portion of the carrying value of the inventory, based on an aging schedule, or specific knowledge related to specific inventory items.

Changes in Accounting Policies including Initial Adoption

Derivative Financial Instruments

Effective November 1, 2003, the Company adopted CICA Accounting Guideline 13 ("AcG-13) which defines the criteria for hedge accounting. Prior to November 1, 2003 the Company accounted for derivative financial instruments as hedges of cash flows from foreign denominated sales and deferred recognition of realized and unrealized gains and losses until the hedged items were realized. The amounts of gains or loss were recognized as adjustments to revenue when the related sales were recorded. This change has been applied prospectively. Since adopting AcG-13, the Company carries derivative financial instruments at their fair values. Realized and unrealized gains and losses associated with derivative instruments are included in foreign exchange gain or loss in the income statement.

Stock Based Compensation

Effective November 1, 2003 the Company adopted on a prospective basis the revisions to the CICA Handbook Section 3870, such that the fair value method of accounting has been applied to all stock-based awards to employees after that

date. The fair value of the direct grants of stock are determined by the quoted market price of the Company's stock at the time of the award and the fair value of stock options are determined using the Black-Scholes option pricing model. Under the fair value method, compensation expense equal to the fair value of awards issued is recorded over the period of vesting. This change was applied prospectively.

Direct grants of stock to employees and stock options granted to non-employees have been accounted for in accordance with the fair value method of accounting for stock-based compensation.

Guarantees

On February 1, 2003, the Company adopted the recommendations of the CICA, Accounting Guideline 14, "Disclosure of Guarantees", which clarifies disclosure requirements for certain guarantees. The guideline does not provide guidance on nor require the measurement and recognition of a guarantor's liability for obligations under guarantee. The guideline defines a guarantee to be a contract (including an indemnity) that contingently requires the Company to make payments to a third party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counter party, (ii) failure of another party to perform under an obligation agreement or (iii) failure of another party to pay its indebtedness when due.

Financial Instruments – Disclosure and Presentation (dollar figures in thousands)

Effective November 1, 2004, the Company adopted the amendments to the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3860 "Financial Instruments - Disclosure and Presentation". The amendments indicate that if an entity has an obligation that can be settled by delivery of its own equity instruments and the number of shares required to settle the obligation varies with

the changes in their fair value, that obligation is a financial liability of the entity. Prior to November 1, 2004, the Company's convertible debentures, which are repayable on account of principal or interest in shares or cash at the Company's option, were recorded as part of equity in accordance with the previous standard. Interest charges were recorded in the deficit of the Company. On adoption of the new standard, the Company reclassified the convertible debentures as a financial liability. The related interest is recorded as an expense in the consolidated Statement of Operations. The Company has accounted for this change retroactively with a restatement of the comparative information for prior years.

The effect of the change on the consolidated Statement of Operations is to increase interest expense by \$521 (\$508 in 2004) and to reduce net income by the same amount. The effect of the change on the consolidated Balance Sheet is to present the convertible debenture balance of \$16,552 (\$16,381 at October 31, 2004) in long- term liabilities and increase other assets for deferred issue costs of \$370 (\$416 at October 31, 2004). The conversion option balance remains as part of shareholders' equity. The November 1, 2004 opening deficit was reduced by \$416 (\$601 at November 1, 2003).

There was no change on the basic or diluted earnings per share for either the current quarter or the comparative quarter as a result of the change in accounting policy.

Business Risks and Prospects

Currency Exchange Risk: As the Company realizes a significant portion of its revenue in United States dollars and incurs expenses in Canadian dollars, increases in the value of the Canadian dollar relative to the United States dollar could adversely affect the Company's operating results. The Company has previously entered into forward exchange call and put option agreements to mitigate its foreign exchange exposure. The Company will evaluate its foreign

exchange exposure and may enter into forward exchange options in the future, if appropriate in the circumstances.

Seasonal Volatility: The Company recognizes revenue based on percentage of completion in accordance with its stated accounting policy. Since the recognition of revenue is determined by costs incurred on projects compared to total expected costs, and since a large portion of the Company's project costs are labour, any quarter with fewer working days will cause suppression in labour effort exerted on projects, and consequently, revenue recognized. Typically, the Company slows production during the Christmas holiday season to provide time for maintenance and facilities improvements to take place. As a result, the Company's first quarter revenues are typically the lowest of the year.

Cyclical Volatility: The Company anticipates a continuation of the recovery in its core space markets in 2005. There can be no assurance that this recovery will continue to be realized in the time frame anticipated, or that the market demand for the Company's products will translate into orders within the time anticipated. The timing and extent of satellite procurement, and the Company's ability to secure project orders stemming from the anticipated satellite procurement activity could have a material adverse effect on the Company's business, operations and prospects.

Project Performance: The Company experienced a significant growth in the volume of business it realized in its last fiscal year. In some areas, the volume growth was greater than 50%. The rapid growth in business volumes has challenged the operation's ability to expand capacity quickly enough to absorb this heightened level of project work. The Company has responded by increasing the number of employees in the areas affected, and has also made significant capital expenditures to expand its physical capacity. The ability of the Company to complete this expansion activity, and return the operation to

appropriate levels of efficiency in a timely fashion could have a material adverse effect on the Company's business, operations and prospects.

Competition: The Company competes in markets characterized by sophisticated, but limited competition. Competition comes from in-house capabilities of some of our customers, as well as independent companies like COM DEV. Customer willingness to continue to assign projects to independent outside companies, like COM DEV in the future, and COM DEV's ability to maintain its market share could have a material adverse effect on the Company's business, operations and prospects.

Technological Change: The Companies markets, and products are characterized as technologically complex. While technological changes tend to happen at a moderate pace, the Company's future operating results will depend upon its ability to improve and market existing products and to develop and successfully market new products and technologies. There is no assurance that the Company will be able to enhance its existing products or to develop new products in response to customer requirements, or product introductions by competitors, which could have a material adverse effect on the Company's business, operations and prospects.

New Market Risks: The Company has identified, as part of its strategic direction, civil/government, and military/defense markets for its product and service offerings. While the Company has seen some success in initial penetration into these markets, there can be no assurance, given the Company's limited experience and operating history in these markets, that the Company's investment and efforts in these markets will be successful. Failure to succeed in the civil/government & military/defense markets may adversely affect the Company's future business, financial condition and operating results.

Customer Dependency and Credit Concentration: The Company has a relatively small number of customers, leading to a concentration of the Company's revenues, and accounts receivable. If one or more customers were to delay, reduce or cancel orders, the overall orders of the Company may fluctuate and could adversely affect the Company's operations, and financial condition. While the Company's accounts receivable tend to be concentrated, many of our customer receivables, by virtue of their non-Canadian status are insured with Export Development Canada ("EDC"). While the Company expects to be able to continue to access receivables insurance through EDC, there is no assurance that this will be the case, and any subsequent credit loss could have a material adverse affect on the business, and its financial condition.

Dependence on Certain Suppliers: The Company relies on properly qualified third party and internal suppliers for certain components and raw materials used in the Company's products. Although the Company seeks to reduce exposure to single source suppliers through a continual evaluation of competent alternate sources of supply, loss of certain of these suppliers, or the inability of certain of these suppliers to deliver to the Company on a timely basis, could have a material adverse effect on the Company's operations and prospects.

Controlled Materials: Certain of the Company's material inputs are regulated through export or other controls. While the Company understands the requirements of these controls and regulations, there is no assurance that these regulations will not change in a way that would cause a material adverse effect to the Company's business, operations and prospects.

Outstanding Share Data

Details of the Company's outstanding share data as of March 16, 2005 are as follows:

Common shares	59,795,630
Options on common shares	4,256,690

Each option is exercisable for one common share of the Company.

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

For the three months ended January 31,	2005	2004 Restated (note 3)
Revenue	\$ 30,212	\$ 22,488
Cost of revenue	23,908	18,533
Gross margin	<u>6,304</u>	<u>3,955</u>
Research and development spending	2,169	2,218
Research and development recovery	<u>372</u>	<u>1,575</u>
Net research and development	1,797	643
Selling and general expenses	<u>3,159</u>	<u>3,115</u>
Operating income	1,348	197
Interest expense	(548)	(713)
Foreign exchange (loss) gain	(635)	552
Other financial income	<u>21</u>	<u>4</u>
Net income	<u>\$ 186</u>	<u>\$ 40</u>
Earnings per share (note 4c)		
Basic earnings per share	\$0.00	\$0.00
Diluted earnings per share	\$0.00	\$0.00
Basic weighted average number of shares	59,777,456	59,629,814
Diluted weighted average number of shares	60,670,830	60,537,800

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

For the three months ended January 31,	2005	2004
		Restated (note 3)
Balance, beginning of the period	\$ (253,828)	\$ (259,095)
Net income	186	40
Issuance costs	-	(22)
Balance, end of the period	<u>\$ (253,642)</u>	<u>\$ (259,077)</u>

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

	As at January 31, 2005	As at October 31, 2004
		Restated (note 3)
Assets		
Current		
Cash and cash equivalents	\$ 20,434	\$ 27,092
Accounts receivable	17,116	24,263
Inventory	24,690	22,452
Prepays and other	779	1,277
Income taxes recoverable	422	422
Current assets - discontinued operations	4	3
	<u>63,445</u>	<u>75,509</u>
Capital assets	34,931	34,928
Intangible assets	2,162	2,160
Other assets	370	416
Total assets	<u>\$ 100,908</u>	<u>\$ 113,013</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 14,912	\$ 17,494
Income taxes payable	71	71
Convertible debenture - interest payable	101	405
Deferred revenue	11,653	21,262
Current portion of loans payable (note 7)	8,126	8,250
Current liabilities - discontinued operations	915	1,155
	<u>35,778</u>	<u>48,637</u>
Long term		
Loans payable (note 7)	1,040	1,142
Convertible debenture (note 3)	16,552	16,381
Long term liabilities - discontinued operations	1,569	1,694
	<u>19,161</u>	<u>19,217</u>
Total liabilities	<u>54,939</u>	<u>67,854</u>
Shareholders' equity		
Convertible debentures - holder's conversion option (note 3)	3,336	3,336
Share capital (note 4)	296,329	296,290
Contributed surplus	348	126
Deficit	(253,642)	(253,828)
Currency translation adjustment	(402)	(765)
Total	<u>45,969</u>	<u>45,159</u>
Total liabilities and shareholders' equity	<u>\$ 100,908</u>	<u>\$ 113,013</u>

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

For the three months ended January 31,	2005	2004
		Restated (note 3)
Cash flows from operating activities		
Net income from continuing operations	\$ 186	\$ 40
Amortization	1,715	1,838
Gain on disposal of assets	(25)	(65)
Convertible debenture - accretion	171	158
Stock compensation expense	222	-
	<u>2,269</u>	<u>1,971</u>
Net change in non-cash working capital items	<u>(6,965)</u>	<u>1,859</u>
Cash flows (used in) from operating activities	<u>(4,696)</u>	<u>3,830</u>
Cash flows (used in) from financing activities		
Shares issued	39	-
Issue costs	-	(22)
(Decrease) increase in long term debt	<u>(226)</u>	<u>62</u>
Cash flows (used in) from financing activities	<u>(187)</u>	<u>40</u>
Cash flows (used in) from investing activities		
Acquisition of capital assets	(1,399)	(804)
Proceeds on disposal of capital assets	40	84
Acquisition of intangible assets	<u>(50)</u>	<u>(80)</u>
Cash flows used in investing activities	<u>(1,409)</u>	<u>(800)</u>
Net (decrease) increase in cash for continuing operations	(6,292)	3,070
Net cash used in discontinued operations	<u>(366)</u>	<u>(291)</u>
Net (decrease) increase in cash	<u>(6,658)</u>	<u>2,779</u>
Cash and cash equivalents, beginning of period	27,092	23,423
Cash and cash equivalents, end of period	<u>\$ 20,434</u>	<u>\$ 26,202</u>
Taxes Paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ 786</u>	<u>\$ 879</u>
Composition of cash		
Bank accounts	\$ 459	\$ 26,202
Banker's acceptance	19,975	-
	<u>\$ 20,434</u>	<u>\$ 26,202</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 consolidated 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 note 3. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates include, but are not limited to, the accounting for doubtful accounts, amortization, the determination of net recoverable value of assets, deferred revenue, taxes and contingencies. 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, 2004. All financial amounts are expressed in thousands of Canadian dollars, except per share information or as otherwise indicated.

3. Change in Accounting Standard

Effective November 1, 2004, the Company adopted the amendments to the Canadian Institute of Chartered Accountants ("CICA") Handbook section Section 3860 "Financial Instruments - Disclosure and Presentation". The amendments indicate that if an entity has an obligation that can be settled by delivery of its own equity instruments and the number of shares required to settle the obligation varies with the changes in their fair value, that obligation is a financial liability of the entity.

Prior to November 1, 2004, the Company's convertible debentures, which are repayable on account of principal or interest in shares or cash at the Company's option, were recorded as part of equity in accordance with the previous standard. Interest charges were recorded in the deficit of the Company. On adoption of the new standard, the Company reclassified the convertible debentures as a financial liability. The related interest is recorded as an expense in the consolidated Statement of Operations. The Company has accounted for this change retroactively with a restatement of the comparative information for prior years.

The effect of the change on the consolidated Statement of Operations is to increase interest expense by \$521 (\$508 in 2004) and to reduce net income by the same amount. The effect of the change on the consolidated Balance Sheet is to present the convertible debenture balance of \$16,552 (\$16,381 at October 31, 2004) in long-term liabilities and increase other assets for deferred issue costs of \$370 (\$416 at October 31, 2004). The conversion option balance remains as part of shareholders' equity. The November 1, 2004 opening deficit was reduced by \$416 (\$601 at November 1, 2003).

There was no change on the basic or diluted earnings per share for either the current quarter or the comparative quarter as a result of the change in accounting policy.

COM DEV INTERNATIONAL LTD.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Share Capital and Earnings Per Share

a) Issued Capital

The following details the issued and outstanding common shares for the period ended January 31, 2005.

	<u>Number</u>	<u>Amount</u>
Balance, October 31, 2004	59,764,430	\$296,290
Issuance of common shares (i)	<u>31,200</u>	<u>39</u>
Balance, January 31, 2005	<u><u>59,795,630</u></u>	<u><u>\$296,329</u></u>

- (i) During the 1st quarter, the Company issued 31,200 common shares to satisfy the equivalent number of stock options exercised.

There were no changes to the outstanding amounts of common shares, stock options, or convertible debentures between January 31, 2005 and February 23, 2005. The maximum number of shares outstanding if all options were exercised and the debentures were converted is 69,831,414.

b) Stock Based Compensation

The Company employs a fair value based method of accounting for all options issued to employees or directors on or after November 1, 2003. The Company recognizes compensation cost for all stock options granted to employees and directors under its stock option plan. During the three months ended January 31, 2005, there were 150,000 stock options issued by the Company to employees (nil in 2004). The options vested immediately and can be exercised over a five year period.

The fair value of options issued in the quarter was estimated at the date of grant, using a Black-Scholes Option Model with the following assumptions for 2005: risk-free interest rate of 3.4%; dividend yield of 0%; a volatility of 0.531; and an expected life of the options of 5 years. The weighted average fair value of stock options granted during the three months ended January 31, 2005 was \$1.19 per option.

The estimated fair value of the options is amortized to expense over the vesting period of the options. This amount was added to contributed surplus.

COM DEV INTERNATIONAL LTD.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Pro Forma Information

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 to options granted to employees between February 1, 2002 and November 1, 2003.

	For the three months ended	
	January 31, 2005	January 31, 2004
Net income – as reported	\$ 186	\$ 40
Additional proforma stock-based compensation costs for the period	(103)	(103)
Net income (loss) – proforma	<u>\$ 83</u>	<u>\$ (63)</u>
Proforma earnings (loss) per common share:		
Basic	\$ 0.00	\$ 0.00
Diluted	\$ 0.00	\$ 0.00
Weighted average number of shares:		
Basic	59,777,456	59,629,814
Diluted	60,461,310	59,629,814

c) Earnings Per Share

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

	3 months ended January 31	
	2005	2004
Numerator for basic and diluted earnings per share available to common stockholders		
Net income attributed to common stockholders	<u>\$ 186</u>	<u>\$ 40</u>
Denominator for basic earnings per share- weighted average shares outstanding	<u>59,777,456</u>	<u>59,629,814</u>
Effect of dilutive securities		
Employee Stock Ownership Plan	96,008	26,548
Options	<u>797,366</u>	<u>881,438</u>
Potential dilutive common shares	<u>893,374</u>	<u>907,986</u>
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	<u>60,670,830</u>	<u>60,537,800</u>
Earnings per share		
Basic and diluted earnings per share	\$0.00	\$0.00

The convertible debenture is excluded from the denominator of the diluted earnings per share calculation in 2005 and 2004 as it is antidilutive.

COM DEV INTERNATIONAL LTD.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

5. Segmented Information

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

In thousands	3 months ended January 31	
	<u>2005</u>	<u>2004</u>
Revenue		
Canada	\$28,760	\$20,199
United Kingdom	<u>2,489</u>	<u>3,320</u>
	31,249	23,519
Intersegment sales	<u>(1,037)</u>	<u>(1,031)</u>
Revenue for External Customers	<u>\$30,212</u>	<u>\$22,488</u>

6. Foreign Currency Options and Forward Contracts

The Company generally uses foreign exchange put options and related call options to manage foreign currency risk related to sales to customers in the United States and the United Kingdom. The Company does not designate or measure the effectiveness of the derivatives as hedges of specific firm commitments or forecasted transactions and accordingly, the Company does not apply hedge accounting to these instruments. The Company applies the fair value method of accounting for derivatives.

As at January 31, 2005, the Canadian dollar amount that could be received under Canadian / U.S. foreign currency call options was \$29.0 million and the amount that could be paid under foreign currency put options was \$44.3 million. The average contractual exchange rate on the call options was 1.2106 and on the put options was 1.2298. The settlement dates of all the outstanding contracts were less than one year. The exchange rate at the quarter-end was 1.2408.

The company incurred a foreign exchange loss of \$892 on foreign currency options during the quarter. The fair value of \$884 for outstanding currency options is included in "Accounts Payable and Accrued Liabilities" in the consolidated Balance Sheet.

7. Related Party Transactions

Included in loans payable is a note due to Technology Horizons Limited ("THL") in the amount of \$7,662 (\$7,662 at October 31, 2004) of which \$7,662 (\$7,662 in 2004) is included in the current portion. Interest expense in the quarter was \$120 (\$221 in 2004). THL is a related party by virtue of the significant ownership stake held by certain Directors of COM DEV in THL. These transactions are recorded at the exchange amount which is the amount agreed between the parties.

8. 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.