



COM DEV
INTERNATIONAL

COM DEV International Ltd.
Third Quarter Report – Fiscal 2005
For the Period Ended
July 31, 2005



COM DEV ANNOUNCES THIRD QUARTER FY2005 RESULTS

New Order Levels Strong in Quarter. Delay in Awarding of Contracts Interrupts Margin Improvement.

CAMBRIDGE, Ontario – August 25, 2005 – COM DEV International Ltd. (TSX:CDV) today announced its third quarter results for the period ended July 31, 2005.

Third Quarter Summary

During the third quarter, the Company continued to show positive net income of \$1.6 million (\$0.03 per share) on \$31.2 million in revenue. This compares to the second quarter when net income was \$1.8 million on \$32.4 million in revenue. For the year to date, COM DEV's revenue stands at \$93.8 million, up 9% from the same time a year ago. Net income for the first three quarters of 2005 stands at \$3.6 million, down from \$7.3 million for the same period last year.

During the quarter, and as a result of the capacity increases in place at the Company's Cambridge site, the Multiplexer product line work that had been split between Cambridge, Ontario and Aylesbury, UK was consolidated into the Cambridge site. The decision to place this work solely into the Cambridge facility is expected to make better use of the manpower and facilities available in Cambridge, while allowing the Aylesbury site to focus on their primary area of expertise in the Active Electronics arena. The impact of this decision was a reduction in the staffing level at the Aylesbury site of approximately 30 people, which resulted in the Company recording a charge for the staff reduction of \$531 thousand in the quarter. Annual savings to the Company from these reductions is estimated at \$1.2 million per year. Excluding this charge, the Company would have reported net income of \$2.2 million, or \$0.04 per share, compared with \$0.03 per share in the prior quarter.

CEO's Assessment

Commenting on the Company's performance, CEO John Keating said, "We saw a strong order performance in the third quarter with \$44 million in orders representing a 50% increase from the prior period and resulting in a solid book to bill ratio of 1.4. However, the Company's expectations were for these orders to arrive sooner, and thus, to have more effectively utilized the resources within the organization. The delays in closing on these orders caused the organization to be less efficient and our margins for the quarter showed the result of this. Another consequence of the delays in closing new orders is that we now expect to fall short of our 10% year over year revenue growth expectation. Our forecasts now indicate that our growth will be approximately 6% in fiscal 2005. While this decrease in our 2005 growth projection is disappointing, we still continue to see growth in our core markets. In fact, we believe that the number of Commercial Communication Satellites to be ordered in Calendar Year 2005 will be substantively higher than in 2004, perhaps by as much as 50%. Our preliminary growth expectation for 2006 is for revenue to increase by 10% over 2005 levels."

Continuing, Mr. Keating said, "In the quarter, we also made the difficult decision to consolidate our Multiplexer business in Cambridge, and focus our UK operations on the European market for Active Electronics. While we are certain this is a better use of our overall Company resources, one consequence of this decision was to say farewell to 30 good people at our Aylesbury site. These people made significant contributions to the Company during their careers, and we say goodbye with a feeling of sadness, but with sincere appreciation for their efforts over the past several years. We believe that increased focus on the European market opportunity by our Aylesbury site is the best use of the capability they represent to the Company. Turning to ongoing negotiations, even with the strong bookings quarter seen in the third quarter, our negotiation activity remains brisk, which we believe bodes well for the Company's growth projection for 2006."

Gross Margin and Backlog

Gross margins in the third quarter were 22%, which is unchanged from the second quarter. The Company saw some cost increases in a small number of its projects, however, the largest contributing factor to the lack of margin improvement was the delays in receiving new project awards. Management expectations were for contract awards to be made earlier in the quarter than realized. These contract award delays versus managements' expectations resulted in a higher level of unabsorbed cost than predicted, with resulting margin suppression. Margins for the same period a year ago were 27%. Schedule performance continued to show improvement in the quarter, and work on new orders received this year is on, or ahead of program scheduled commitments. New order intake for the quarter was \$44 million, up from the first quarter level of \$29 million, and the Company ended the quarter with \$76 million in backlog, up from the prior quarter level of \$68 million.

Financial Positions, Cash Flows and Liquidity

The Company expected to end the quarter with approximately \$15 million in cash on hand, but customer collection delays resulted in a cash balance of \$6.4 million as at the end of the third quarter. Collections on these delayed customer invoices occurred within the first week after the quarter end which would have brought the cash balance to its expected level of slightly over \$15 million. In addition to cash, the Company ended the quarter with \$24.9 million in accounts receivable, and \$18.5 million in customer project inventory. The Company used \$3.0 million of cash from operations, primarily from increased working capital associated with the growth in net inventory, which will convert to accounts receivable and cash in the normal business cycle. The Company approved \$0.6 million in capital commitments during the quarter, which management now believes will be sufficient to address most of its capital needs for the year, and as a result, the Company has reduced its capital program target level for the year from \$8.1 million to \$6.1 million.

Conference Call

A conference call will be held on Thursday, August 25, 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.

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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.



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 and nine month periods ended July 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, and Management's Discussion and Analysis for the first and second quarters of fiscal 2005. 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.

Caution Regarding Forward Looking Statements

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.

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 854 people around the world as of July 31, 2005, compared to approximately 777 people as of July 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 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.

Date:

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

Overall Performance:

In the third quarter of 2005 the Company continued its actions to improve on schedule performance, as well as to streamline its operations to take better advantage of capacity improvements made in the last three quarters. With the capacity improvements essentially complete in Cambridge, the Company made the decision to consolidate its Multiplexer design and manufacturing activities, which were previously being conducted at both the Cambridge and Aylesbury sites, into the Cambridge location. This move will allow the Aylesbury site to focus its efforts in the active electronics area, which is its primary area of expertise. Total revenue for the three months ended July 31, 2005 decreased 4% from the third quarter of the prior year and 4% sequentially from the second quarter of 2005. Year to date, the Company's revenues have increased by 9% over the same period in the last fiscal year. While year to date new order awards are now in line with management's expectations, the timing of these awards has been approximately 2 quarters later than anticipated, which will have an impact on the current year revenue projections. Based on the Company's current backlog, and the current year's order bookings to date, the Company is reducing its revenue growth expectation to 6% from its prior guidance of 10% year over year. The current expectation for fiscal 2005 revenue is approximately \$125 million, which is down from prior guidance of approximately \$130 million.

In all, the Company completed and capitalized \$0.932 million in new capital equipment acquisitions in the third quarter, bringing the total investment in new equipment to over \$4.2 million for the year to date. Management now believes that its total capital program will be approximately \$6.1 million for fiscal 2005, which is a reduction of \$2 million from prior projections. Comparable new

equipment acquisitions in the third quarter and year to date fiscal 2004 were \$1.3 million and \$4.0 million respectively. Several capital items originally included in the Company's financial plan have been determined to be unnecessary, and accordingly have been removed from its plans for the remainder of the year.

The Company closed out the third quarter with \$6.4 million in cash on hand, which represents a decrease of \$4.2 million from its position as at April 30, 2005, and a decrease of \$20.7 million since October 31, 2004. Cash on hand at the end of the third quarter of fiscal 2004 was \$26.4 million. The decrease in cash balance during the third quarter 2005 was the result of delays in the collection of several significant accounts receivable. Management had previously indicated its expectation that the Company's cash position would improve from second quarter levels. It is noteworthy that the delays in collection were measured in days, with over \$9 million in collections occurring within one week of the quarter end. Had these customer payments been made on time, the Company's cash balance would have been in excess of \$15 million at the end of the quarter, and in line with management expectations. Accounts receivable ended the third quarter at \$24.9 million, down from \$30.6 million at the end of the second quarter of 2005, and up from \$23.3 million at the end of the third quarter of fiscal 2004. Project inventory, net of deferred revenue ended the third quarter at \$18.6 million, up from \$10.4 million at the end of the second quarter, and up from \$3.5 million in the third quarter of the prior year. Management expects this project inventory will turn into billings, accounts receivable, and cash in the normal course of business.

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

Revenues

(millions of dollars)	Three months ended Jul. 31			Nine Months ended Jul. 31		
	2005	2004	% Change	2005	2004	% Change
Commercial satellite programs	\$17.8	\$17.2	3.5%	\$56.8	\$46.6	21.9%
Civil (government) programs	\$ 5.9	\$ 4.9	20.0%	\$18.5	\$16.9	9.5%
Military & defense programs	\$ 7.5	\$10.3	(27.2%)	\$18.5	\$22.8	(18.9%)
Total Space revenues	\$31.2	\$32.4	(3.7%)	\$93.8	\$86.3	8.8%

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 56% of total revenue in the third quarter of 2005. This is in comparison to approximately 53% 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 (millions of dollars)	Jul. 31	Apr. 30	Jul. 31
	2005	2005	2004
Commercial satellite programs	\$33.8	\$38.4	\$33.6
Civil (government) programs	\$24.6	\$17.0	\$13.0
Military & defense programs	\$17.1	\$ 8.2	\$31.9
Total Space Backlog	\$75.5	\$63.6	\$78.5

Bookings in the third quarter ended July 31, 2005 were \$43.6 million, which is an increase of \$14.8 million from the second quarter ended April 30, 2005, where new order intake totaled \$28.8 million. In the comparable third quarter of 2004, order intake was \$15.9 million. New order intake for the year to date is now essentially in line with managements' expectations for this point in the year. Negotiation activity remains brisk.

Income from Operations and Net Income

(millions of dollars except EPS)	Three months ended Jul. 31			Nine Months ended Jul. 31		
	2005	2004	% Change	2005	2004	% Change
Income from operations before interest	\$2.2	\$4.3	(48.8%)	\$5.3	\$9.3	(43.0%)
Total net income	\$1.6	\$3.7	(56.8%)	\$3.6	\$7.3	(50.7%)
Earnings per share, basic	\$0.03	\$0.06	(50.0%)	\$0.06	\$0.12	(50.0%)
Earnings per share, diluted	\$0.03	\$0.06	(50.0%)	\$0.06	\$0.12	(50.0%)

Net income for the third quarter was \$1.6 million, essentially flat with the second quarter's net income of \$1.8 million, but down from the third quarter's result in 2004, when net income was \$3.7 million. The third quarter net income was impacted by the decision to consolidate Multiplexer work out of Aylesbury and into Cambridge. The cost incurred for the reduction in workforce in Aylesbury totaled \$0.5 million in the third quarter. In addition, improvements in gross margins from the Multiplexer business, are occurring at a slower pace than projected. The Company's net spending on Research and Development was down slightly from the second quarter, due to an increase in external funding above second quarter levels of approximately \$0.25 million. On a year to date basis Research and Development spending was \$1.4 million higher than the same time a year earlier. This is in line with managements' expectations for the quarter. The third quarter of 2005 also included a foreign exchange gain of \$0.1 million compared to a gain in the third quarter of 2004 of \$0.7 million, reflecting a reduction in the volatility of the US dollar versus the Canadian dollar.

Gross Margin

(millions of dollars)	Three months ended Jul. 31			Nine Months ended Jul. 31		
	2005	2004	% Change	2005	2004	% Change
Total gross margin	\$6.9	\$8.6	(19.8%)	\$20.2	\$21.8	(7.3%)
Total gross margin %	22.1%	26.7%	(4.6%)	21.5%	25.3%	(3.8%)

Gross margins in the third quarter were slightly improved over the preceding quarter, but were impacted by delays in the awarding of new orders. The Company brought resource levels up in anticipation of receiving orders earlier in the year, and when these orders were delayed, the costs of these resources were left unabsorbed, negatively impacting margins. In addition, due to the

Company's earlier schedule problems, and resulting late deliveries, penalties have been incurred on these late programs. As the Company continues to improve its delivery performance, management expects to avoid penalty charges.

Research and Development (R&D)

(millions of dollars)	Three months ended Jul. 31			Nine Months ended Jul. 31		
	2005	2004	% Change	2005	2004	% Change
Total R&D Spending before funding	\$ 1.8	\$ 1.8	0.0%	\$6.5	\$6.3	(3.2%)
Total R&D Funding received	(\$ 0.5)	(\$ 0.2)	150.0%	(\$1.6)	(\$2.8)	(42.9%)
R&D, net of Funding	\$ 1.3	\$1.6	(18.8%)	\$4.9	\$3.5	40.0%

As reported in the first quarter of the current fiscal year, a shift in the number of government funded R&D programs, away from more complete funding to partial funding type programs, reduced the amount of funding that the Company would expect to see in the near term. The Company maintains its commitment to Research and Development as a key factor to the longer-term success of the business, and accordingly did not curtail any significant R&D program spending in the third quarter. Guidance to this effect was noted in the first quarter, and reiterated in the second quarter.

Other Expenses

(millions of dollars)	Three months ended Jul. 31			Nine months ended Jul. 31		
	2005	2004	% Change	2005	2004	% Change
Selling, general & administrative expenses (SG&A)	\$2.9	\$3.4	(14.7%)	\$9.2	\$10.8	(14.8%)
SG&A % of total revenue	9.4%	10.5%	(1.1%)	9.8%	12.5%	(2.7%)
Interest expense	\$0.6	\$0.6	-	\$1.7	\$2.0	(15.0%)
Foreign exchange (gain) loss	(\$0.1)	(\$0.7)		\$0.2	(\$1.7)	

Selling, General and Administrative

SG&A expenses for the third quarter were slightly lower than expectations, and down \$0.2 million from the prior quarter, and \$0.5 million lower than same quarter a year ago. In 2004, the Company incurred costs related to a bid for the failed Shuttle Auxiliary Power Unit, as well as higher rates of commissions. Tight cost control on general and administrative costs also helped to reduce costs in the current year. 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 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 (\$18.0 million convertible debenture)
2. Promissory note (\$3.8 million note)

The Company, as a result of a change in accounting standard, has retroactively 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 Q3 interest expense as a result of this change was \$0.5 million, compared with \$0.5 million in Q3 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 third quarter this year, interest expense on the promissory note totaled \$60 thousand, compared with \$0.2 million in the third quarter of fiscal 2004. Interest is payable on the first of each month until retired. The remaining principal payment of \$3.831 million will be made on October 1 this year.

Foreign Exchange

The foreign exchange gain of \$0.1 million during the third quarter of 2005 relates mainly to the decrease in the value of the US dollar during the period. This resulting translation loss on balance sheet items denominated in US currency was reduced by the forward contracts that the Company has in place. For the third quarter of fiscal 2004 the foreign exchange gain was \$0.7 million. 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, which are reflected directly in revenue and related costs of sales.

Liquidity and Capital Resources

(in millions of dollars)	Three months ended Jul. 31			Nine months ended Jul. 31		
	2005	2004	% Change	2005	2004	%Change
Cash provided by (used in) operating activities	(\$3.0)	\$1.0		(\$11.5)	\$11.5	
Net increase (decrease) in cash	(\$4.2)	(\$0.5)		(\$20.7)	\$ 2.9	
Property and equipment additions	\$0.9	\$1.3	(30.8%)	\$ 4.2	\$ 4.0	5.0%

Cash used in operating activities was \$3.0 million during the third quarter as compared to \$3.8 million used during the second quarter of 2005, and \$1.0 million generated from operating activities in the third quarter of 2004. The Company's cash balance decreased by \$4.2 million in the quarter, ending the quarter at \$6.4 million. Management expected to generate cash in the third quarter as it collected customer receivables, but late receipt of over \$9 million in customer payments caused the decrease in cash seen in the third quarter. The Company's investment in net customer project inventory in the third quarter increased by \$8.1 million from the second quarter level of \$10.4 million, ending the third quarter at \$18.6 million. The Company's investment in net customer project inventory at the end of the third quarter of fiscal 2004 was \$3.5 million. Accounts receivable decreased by \$5.7 million from second quarter levels, ending the third quarter with \$24.9 million in customer receivables. Receivables at the end of the third quarter a year ago were \$23.3 million. Based on current forecasts, the Company expects to increase its cash position in the last quarter of the fiscal year.

The Company added \$0.9 million in capital equipment during the third quarter of 2005, down slightly from the same period of 2004. For the first nine months of the current fiscal year, capital equipment additions have totaled \$4.2 million, compared with \$4.0 million in the first three quarters of fiscal 2004. The Company approved capital commitments for an additional \$0.6 million in the third quarter of 2005, and these projects are forecast to be completed almost entirely in the second half of 2005. Total capital commitments for the first nine months of

the year amounted to \$5.5 million. The Company has revised its planned capital spending for its entire fiscal year 2005 down from \$8.4 million to current projections of \$6.1 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 July 31, 2005.

Off-balance Sheet Arrangements

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

Transactions with Related Parties

Included in loans payable is a promissory note due to Technology Horizons Limited in the amount of \$3.831 million. This promissory note arose as a result of a judicial arbitration ruling in August 2003. The initial amount of the promissory note in 2003 was \$20.3 million. The final payment on the promissory note will be made on October 1, 2005. In addition, interest expense on the promissory note, based on Toronto Dominion Bank prime rate plus 2% was paid in the first nine months of fiscal 2005 in the amount of \$0.26 million. Interest payments are made on the first day of each month. Technology Horizons Limited is a related party by virtue of the significant ownership stake held by certain Directors of COM DEV in Technology Horizons Limited.

Proposed Transactions

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

Contractual Obligations

(in millions of dollars)	Payments Due by Period				2008 and beyond
	Total	2005 (Jul-Oct)	2006	2007	
Long-term debt	\$24.2	\$3.8	\$1.3	\$18.7	\$0.4
Operating leases	\$ 1.6	\$0.2	\$0.8	\$ 0.6	\$ -
Capital leases	\$ 0.6	\$0.1	\$0.4	\$ 0.1	\$ -
Total contractual obligations	\$26.4	\$4.1	\$2.5	\$19.4	\$0.4

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"). For hedge accounting therefore, these financial instruments are carried at fair value and any changes in fair value are recorded in foreign currency exchange gain or loss. 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.

On July 31, 2005 the Company had outstanding forward currency call options with a notional value of CDN \$9.2 million maturing within a year at an average exchange rate of \$1.2274. The Company had outstanding forward currency put options with a notional value of CDN \$14.1 million maturing within a year at an average exchange rate of \$1.2542. 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.

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

Fiscal 2005 Quarters	Jan 31/05	Apr 30/05	Jul 31/05
Total Revenue	\$30,212	\$32,402	\$31,181
Net Income (loss) from Continuing Operations	\$186	\$1,771	\$1,621
Net Income (loss) per share from Continuing Operations (basic)	\$-	\$0.03	\$0.03
Net Income (loss) per share from Continuing Operations (diluted)	\$-	\$0.03	\$0.03
Net Income (loss) from Discontinued Operations	\$-	\$-	\$-
Net Income (loss) – Total	\$186	\$1,771	\$1,621
Net Income (loss) per share (basic)	\$-	\$0.03	\$0.03
Net Income (loss) per share (diluted)	\$-	\$0.03	\$0.03
Total Assets	\$100,908	\$106,246	\$107,042
Long-term debt – continuing operations	\$17,592	\$17,596	\$17,679

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	\$40	\$3,627	\$3,657	(\$815)	\$6,509
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	\$-	\$0.06	\$0.06	(\$0.01)	\$0.11

(diluted)					
Net Income (loss) from Discontinued Operations	\$-	\$-	\$-	(\$1,225)	(\$1,225)
Net Income (loss) – Total	\$40	\$3,627	\$3,657	(\$2,040)	\$5,284
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	\$114,841	\$122,440	\$113,848	\$113,013	\$113,013
Long-term debt – continuing operations	\$24,704	\$20,989	\$21,325	\$17,523	\$17,523

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 and the Cost to Complete

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 recorded as deferred revenue and included in current liabilities. The assessment of the cost to complete work in progress is a key accounting estimate, as it affects the recognition of revenue and the recording of gross profit.

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.

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 \$529 (\$515 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 \$16,908 (\$16,381 at October 31, 2004) in long-term liabilities and increase other assets for deferred issue costs of \$277 (\$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.

Other Changes in Accounting Policies including Initial Adoption:

The Canadian Institute of Chartered Accountants has published three new accounting standards: "Financial Instruments – Recognition and Measurement", "Hedges" and "Comprehensive Income". These accounting standards introduce new requirements for the recognition and measurement of financial instruments, the application of hedge accounting and the reporting and display of comprehensive income that are designed to harmonize Canadian accounting standards with US standards. These accounting standards are to be applied no later than fiscal years beginning on or after October 1, 2006. Management is currently evaluating the potential implications of these new standards on the Company's financial statements.

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 August 16, 2005 are as follows:

Common shares	59,912,161
Options on common shares	4,222,940

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 July 31,	2005	2004 Restated (note 3)
Revenue	\$ 31,181	\$ 32,367
Cost of revenue	24,291	23,743
Gross margin	<u>6,890</u>	<u>8,624</u>
Research and development spending	1,847	1,809
Research and development recovery	<u>502</u>	<u>246</u>
Net research and development	1,345	1,563
Restructuring expense (note 8)	531	-
Selling and general expenses	<u>2,922</u>	<u>3,394</u>
Operating income	2,093	3,667
Recovery of investment	44	-
Interest expense	(598)	(617)
Foreign exchange gain	131	686
Other financial expense	<u>(49)</u>	<u>(79)</u>
Net income	<u>\$ 1,621</u>	<u>\$ 3,657</u>
Earnings per share (note 4c)		
Basic earnings per share	\$ 0.03	\$ 0.06
Diluted earnings per share	\$ 0.03	\$ 0.06
Basic weighted average number of shares	59,856,596	59,757,465
Diluted weighted average number of shares	60,633,160	60,720,773

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,	2005	2004 Restated (note 3)
Revenue	\$ 93,795	\$ 86,276
Cost of revenue	73,634	64,447
Gross margin	<u>20,161</u>	<u>21,829</u>
Research and development spending	6,486	6,304
Research and development recovery	<u>1,614</u>	<u>2,800</u>
Net research and development	4,872	3,504
Restructuring expense (note 8)	531	-
Selling and general expenses	<u>9,171</u>	<u>10,830</u>
Operating income	5,587	7,495
Recovery of investment	110	-
Interest expense	(1,729)	(2,000)
Foreign exchange (loss) gain	(232)	1,677
Other financial (expense) income	<u>(158)</u>	<u>151</u>
Net income	<u><u>\$ 3,578</u></u>	<u><u>\$ 7,323</u></u>
Earnings per share (note 4c)		
Basic earnings per share	\$ 0.06	\$ 0.12
Diluted earnings per share	\$ 0.06	\$ 0.12
Basic weighted average number of shares	59,823,006	59,701,507
Diluted weighted average number of shares	60,666,896	60,660,896

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

For the three months ended July 31,	2005	2004
		Restated (note 3)
Balance, beginning of the period	\$ (251,871)	\$ (255,451)
Net income	1,621	3,657
Issuance cost recovery	-	6
Balance, end of the period	<u>\$ (250,250)</u>	<u>\$ (251,788)</u>

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

For the nine months ended July 31,	2005	2004
		Restated (note 3)
Balance, beginning of the period	\$ (253,828)	\$ (259,095)
Net income	3,578	7,323
Issuance costs	-	(16)
Balance, end of the period	<u>\$ (250,250)</u>	<u>\$ (251,788)</u>

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

	As at July 31, 2005	As at October 31, 2004
		Restated (note 3)
Assets		
Current		
Cash and cash equivalents	\$ 6,376	\$ 27,092
Accounts receivable	24,937	24,263
Inventory	37,312	22,452
Prepays and other	791	1,277
Income taxes recoverable	805	422
Current assets - discontinued operations	89	3
	<u>70,310</u>	<u>75,509</u>
Capital assets	34,204	34,928
Intangible assets	2,251	2,160
Other assets (note 3)	277	416
Total assets	<u>\$ 107,042</u>	<u>\$ 113,013</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 15,213	\$ 17,494
Income taxes payable	-	71
Convertible debenture - interest payable	102	405
Deferred revenue	18,674	21,262
Current portion of loans payable (note 7)	4,289	8,250
Current liabilities - discontinued operations	1,016	1,155
	<u>39,294</u>	<u>48,637</u>
Long term		
Loans payable	771	1,142
Convertible debenture (note 3)	16,908	16,381
Long term liabilities - discontinued operations	1,307	1,694
	<u>18,986</u>	<u>19,217</u>
Total liabilities	<u>58,280</u>	<u>67,854</u>
Shareholders' equity		
Convertible debentures - holder's conversion option (note 3)	3,336	3,336
Share capital (note 4)	296,503	296,290
Contributed surplus	256	126
Deficit	(250,250)	(253,828)
Currency translation adjustment	(1,083)	(765)
Total	<u>48,762</u>	<u>45,159</u>
Total liabilities and shareholders' equity	<u>\$ 107,042</u>	<u>\$ 113,013</u>

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

For the three months ended July 31,	2005	2004
		Restated (note 3)
Cash flows (used in) from operating activities		
Net income	\$ 1,621	\$ 3,657
Amortization	1,623	1,736
(Gain) loss on disposal of assets	(17)	2
Convertible debenture - accretion	180	162
Stock compensation expense	33	-
	<u>3,440</u>	<u>5,557</u>
Net change in non-cash working capital items	<u>(6,407)</u>	<u>(4,511)</u>
Cash flows (used in) from operating activities	<u>(2,967)</u>	<u>1,046</u>
Cash flows (used in) from financing activities		
Shares issued	7	10
Issue costs	-	6
(Repayment)/advance of long term debt	(95)	3
Cash flows (used in) from financing activities	<u>(88)</u>	<u>19</u>
Cash flows (used in) from investing activities		
Acquisition of capital assets	(932)	(1,317)
Proceeds on disposal of capital assets	17	273
Acquisition of intangible assets	(86)	(112)
Cash flows used in investing activities	<u>(1,001)</u>	<u>(1,156)</u>
Net decrease in cash for continuing operations	(4,056)	(91)
Net cash used in discontinued operations	<u>(155)</u>	<u>(382)</u>
Net decrease in cash	(4,211)	(473)
Cash and cash equivalents, beginning of period	10,587	26,828
Cash and cash equivalents, end of period	<u>\$ 6,376</u>	<u>\$ 26,355</u>
Taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ 718</u>	<u>\$ 830</u>
Composition of cash		
Bank accounts	\$ 6,376	\$ 6,359
Banker's acceptance	-	19,996
	<u>\$ 6,376</u>	<u>\$ 26,355</u>

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

For the nine months ended July 31,	2005	2004
		Restated (note 3)
Cash flows (used in) from operating activities		
Net income	\$ 3,578	\$ 7,323
Amortization	4,950	5,115
Gain on disposal of assets	(53)	(327)
Convertible debenture - accretion	527	482
Stock compensation expense	291	-
	<u>9,293</u>	<u>12,593</u>
Net change in non-cash working capital items	<u>(20,790)</u>	<u>(1,048)</u>
Cash flows from (used in) operating activities	<u>(11,497)</u>	<u>11,545</u>
Cash flows (used in) from financing activities		
Shares issued	51	10
Issue costs	-	(16)
Repayment of long term debt	<u>(4,332)</u>	<u>(3,712)</u>
Cash flows used in financing activities	<u>(4,281)</u>	<u>(3,718)</u>
Cash flows (used in) from investing activities		
Acquisition of capital assets	(4,156)	(3,996)
Proceeds on disposal of capital assets	68	621
Acquisition of intangible assets	<u>(238)</u>	<u>(335)</u>
Cash flows used in investing activities	<u>(4,326)</u>	<u>(3,710)</u>
Net (decrease) increase in cash for continuing operations	(20,104)	4,117
Net cash used in discontinued operations	<u>(612)</u>	<u>(1,185)</u>
Net (decrease) increase in cash	<u>(20,716)</u>	2,932
Cash and cash equivalents, beginning of period	27,092	23,423
Cash and cash equivalents, end of period	<u>\$ 6,376</u>	<u>\$ 26,355</u>
Taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ 1,670</u>	<u>\$ 1,935</u>
Composition of cash		
Bank accounts	\$ 6,376	\$ 6,359
Banker's acceptance	-	19,996
	<u>\$ 6,376</u>	<u>\$ 26,355</u>

COM DEV INTERNATIONAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Consolidation

The consolidated financial statements include the accounts of the Company's 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 the annual financial statements 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 value of work in progress and recognition of revenue related to the percentage of completion of project work, the accounting for doubtful accounts, amortization, 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 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 Statements of Operations is to increase interest expense by \$ 529 in this quarter, and by \$1,576 for the nine months ended July 31, 2005 (\$515 in the third quarter and \$1,535 for the nine months 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 \$16,908 (\$16,381 at October 31, 2004) in long-term liabilities and increase

COM DEV INTERNATIONAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

other assets for deferred issue costs of \$277 (\$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.

There was no change in the basic or diluted earnings per share for either the current quarter or the nine month to-date period or the comparative quarter or comparative nine month period as a result of the change in accounting policy.

4. Share Capital and Earnings Per Share

a) Issued Capital

The following details the issued and outstanding common shares for the nine months ended July 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>59,795,630</u>	<u>\$296,329</u>
Shares issued through employee plans (ii)	56,731	162
Issuance of common shares (iii)	<u>4,000</u>	<u>5</u>
Balance, April 31, 2005	59,856,361	\$296,496
Issuance of common shares (iv)	<u>5,400</u>	<u>7</u>
Balance, July 31, 2005	<u><u>59,861,761</u></u>	<u><u>\$296,503</u></u>

- (i) During the 1st quarter, the Company issued 31,200 common shares to satisfy the equivalent number of stock options exercised.
- (ii) On February 28, the Company issued 56,731 common shares under the Employee Stock Ownership Plan.
- (iii) During the 2nd quarter, the Company issued 4,000 common shares to satisfy the equivalent number of stock options exercised.
- (iv) During the 3rd quarter, the Company issued 5,400 common shares to satisfy the equivalent number of stock options exercised.

There were no changes to the convertible debentures, however, the Company issued 50,400 common shares to satisfy the equivalent number of stock options exercised between July 31, 2005 and August 17, 2005. The maximum number of shares outstanding if all options were exercised and the debentures were converted is 69,909,674.

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

COM DEV INTERNATIONAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

stock option plan after that date. During the quarter ended July 31, 2005 no options (nil in 2004) were issued. During the nine months ended July 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 nine months ended July 31, 2005 was estimated at the date of grant, using a Black-Scholes Option Model with the following assumptions: risk-free interest rate of 3.4%; dividend yield of 0%; 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 nine months ended July 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.

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 July 31, 2005	July 31, 2004
Net income – as reported	\$ 1,621	\$ 3,657
Additional proforma stock-based compensation costs for the period	(103)	(103)
Net income – proforma	<u>\$ 1,518</u>	<u>\$ 3,554</u>
Proforma earnings per common share:		
Basic	\$ 0.03	\$ 0.06
Diluted	\$ 0.03	\$ 0.06
Weighted average number of shares:		
Basic	59,856,596	59,757,465
Diluted	60,479,437	60,720,773

COM DEV INTERNATIONAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	For the nine months ended	
	July 31, 2005	July 31, 2004
Net income – as reported	\$ 3,578	\$ 7,232
Additional proforma stock-based compensation costs for the period	(309)	(309)
Net income – proforma	\$ 3,269	\$ 6,923
Proforma earnings per common share:		
Basic	\$ 0.05	\$ 0.12
Diluted	\$ 0.05	\$ 0.11
Weighted average number of shares:		
Basic	59,823,006	59,701,507
Diluted	60,530,956	60,660,896

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 and nine months ended July 31:

	3 months ended July 31	
	2005	2004
Numerator for basic and diluted earnings per share available to common stockholders		
Net income attributed to common stockholders	\$ 1,621	\$ 3,657
Denominator for basic earnings per share- weighted average shares outstanding	59,856,596	59,757,465
Effect of dilutive securities		
Employee Stock Ownership Plan	40,956	67,761
Options	735,608	895,547
Potential dilutive common shares	776,564	963,308
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	60,633,160	60,720,773
Earnings per share		
Basic and diluted earnings per share	\$0.03	\$0.06

COM DEV INTERNATIONAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	9 months ended July 31	
	2005	2004
Numerator for basic and diluted earnings per share available to common stockholders		
Net income attributed to common stockholders	\$ 3,578	\$ 7,323
Denominator for basic earnings per share- weighted average shares outstanding	59,823,006	59,701,507
Effect of dilutive securities		
Employee Stock Ownership Plan	60,286	96,429
Options	783,604	862,960
Potential dilutive common shares	843,890	959,389
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	60,666,896	60,660,896
Earnings per share		
Basic and diluted earnings per share	\$0.06	\$0.12

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

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, civil, and military communications satellites.

In thousands	3 months ended July 31		9 months ended July 31	
	2005	2004	2005	2004
Revenue				
Canada	\$29,443	\$30,957	\$88,818	\$80,925
United Kingdom	3,055	2,404	8,896	8,686
	32,498	33,361	97,714	89,611
Inter-segment sales	(1,317)	(994)	(3,919)	(3,335)
Revenue for External Customers	\$31,181	\$32,367	\$93,795	\$86,276

6. Foreign Currency Options and Forward Contracts

As at July 31, 2005, the Canadian dollar amount that could be received under Canadian / U.S. foreign currency call options was \$9.2 million and the amount that could be paid under foreign currency put options was \$14.1 million. The average contractual exchange rate on the call options was 1.2274 and on the put options was 1.2542. The settlement dates of all the outstanding contracts were less than one year. The exchange rate at the quarter-end was 1.2241.

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The Company recorded a foreign exchange gain of \$516 in the quarter, reducing the foreign exchange loss to \$453 on foreign currency options for the nine months ended July 31, 2005. The fair value of \$76 for outstanding currency options is included in "Prepays and other" 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 \$3,831 (\$7,662 at October 31, 2004) all of which is included in current liabilities. Interest expense in the quarter was \$60 (\$166 in 2004). Interest expense for the nine months ended July 31, 2005 was \$278 (\$625 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. Restructuring Expense

In the three months ended July 31, 2005, a charge of \$531 was recorded relating to the termination of employment of 24 individuals at the Company's UK operation. This restructuring is being carried out to optimize and consolidate production with the Canadian operation. The Company notified the affected employees in the quarter and has accrued the related severance and termination costs. Accounts payable and accrued liabilities include \$531 that will be paid out over the next six months.

The Company continues to operate the balance of its business located in the UK.

9. 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.