



**COM DEV International Ltd.
First Quarter Report – Fiscal 2006
For the Period Ended
January 31, 2006**



COM DEV ANNOUNCES FIRST QUARTER FY2006 RESULTS

Strong operational performance leads to significantly improved revenue, margins, and earnings.

CAMBRIDGE, ON – March 9, 2006 – COM DEV International Ltd. (TSX:CDV) today announced its first quarter results for the three-month period ended January 31, 2006.

First Quarter Highlights

- Revenue was \$32.7 million, an increase of 7.5% over the \$30.4 million recorded in Q1 2005.
- Gross margin was 30%, compared to 21% in Q1 2005 and 22% for full-year fiscal 2005.
- Net income was \$4.2 million, or \$0.07 per share, compared to \$0.2 million or \$0.00 per share in the prior year period.
- New orders won in the first quarter totaled \$28 million, compared to \$20 million a year earlier and \$42 million in the fourth quarter of 2005.
- Backlog grew to \$101 million, including \$18 million of backlog acquired in the purchase of the Ottawa Space Science business in Ottawa, up from \$86 million at year-end.
- The acquisition of certain assets of the former EMS Space & Technologies Division in Ottawa significantly strengthens COM DEV's presence in the civil space market.

"I am very pleased with our execution in the first quarter," said John Keating, CEO of COM DEV. "The volume of new orders remained strong, and major sales to a military program and to a customer in Asia indicate continued diversification of our revenues in coming periods. Our backlog is at a three-year high, and is equally distributed between commercial, civil and military. An excellent gross margin provides evidence that our concerted efforts in 2005 to improve production capacity were successful. We complied with every one of our customers' delivery schedules in the quarter. And our early experiences integrating the EMS assets we acquired in November have reaffirmed our confidence in the strategic fit and potential of that business. It has been a pleasure to welcome this group into our organization."

Mr. Keating continued: "With our solid start in fiscal 2006 and the building momentum in the commercial communications satellite market, I remain optimistic that we will achieve our financial objectives for the year. As I have stated in the past, the nature of our business inevitably leads to uneven short-term financial results. The first quarter was exceptionally strong in some respects. Over the longer term we continue to target a gross margin percentage in the mid-twenties, and we expect margins to normalize to

this level over the remainder of fiscal 2006. We continue to anticipate total revenue growth of 10 percent for the year.”

Financial Review

First quarter revenues of \$32.7 million represented an increase of \$2.3 million over the prior year. The revenue split between COM DEV’s commercial, civil and military segments was 49%, 27% and 24% respectively, compared to 60%, 18% and 22% in Q1 2005. The \$28 million of new orders received in the quarter had a commercial, civil and military split of 43%, 4% and 53%, compared to 20%, 77% and 3% in Q1 2005. The \$100 million backlog had a 32/34/34 commercial/civil/military breakdown, compared to 45/20/30 at December 31, 2005. As each of these results indicates, COM DEV continues to gain traction in its strategically important civil and military market segments.

Gross profit was \$9.8 million in the first quarter of 2006, representing 30% of revenues, compared to \$6.4 million or 21% of revenues in Q1 2005. While a declining US dollar continues to apply downward pressure to gross margins, first quarter margins were exceptionally strong for a number of reasons. COM DEV’s participation in the defense segment of the market has seen the Company win a number of development phase orders in the recent past. As the development work is completed and customers expand their orders from the development phase into more production-oriented activity, the Company recognizes a more reasonable margin on the expanded scope of work. During the first quarter, the awards of additional production work in the defense sector allowed the Company to expand the value of these orders with little incremental development costs. Management cautions that awards of such follow-on work are not yet common for the Company, and are not part of its forecasts going forward to any significant extent. On the operational front the Company’s improved delivery performance due to its efforts throughout 2005 to address operational bottlenecks has eliminated penalties for delayed delivery and enabled the Company to release amounts that had been held in reserve. In addition, the Company successfully completed a number of programs for which risk management cost budgets were not fully required, resulting in improved margin performance on these programs.

Overall operating expenses were unchanged from Q1 2005, and as a result, a \$3.4 million year-over-year increase in gross profit led to an equivalent increase in operating income, from \$1.4 million last year to \$4.8 million in Q1 2006. Net research and development spending was down \$0.4 million to \$1.4 million, while selling and general expenses grew by \$0.4 million to \$3.6 million.

COM DEV ended the first quarter of fiscal 2006 with \$8.5 million of cash and equivalents, up from \$6.2 million at October 31, 2005. The Company’s \$15 million operating line of credit remained untouched at quarter-end. Compared to year-end, receivables were \$1.9 million lower at \$31.1 million, and net inventories were \$4.0 million lower at \$5.9 million.

Operating activities generated \$8.6 million of cash during the quarter, compared to \$4.7 million of cash used in operations the previous year. The Company used \$6.0 million of cash for investing activities, including \$5.4 million for the acquisition of certain assets of the former EMS Space & Technologies Division in Ottawa. Investing activities in the quarter also included \$0.5 million for the purchase of capital assets, down from \$1.4 million spent on capital assets in Q1 2005 when the Company was in the

process of upgrading its production capacity. For the remainder of 2006 the Company expects to continue to invest modestly in maintenance capex, as the majority of required expansion investments were made in 2005. The Company expects its operations to continue to generate cash in 2006.

Conference Call

A conference call will be held on Thursday, March 9, 2006 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.

COM DEV, with facilities in Canada and the United Kingdom, manufactures advanced products and subsystems that are sold to major satellite prime contractors for use in communications, space science, remote sensing and military satellites.

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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", or "COM DEV") consolidated results of operations and financial condition. This discussion should be read in conjunction with the Company's (i) Unaudited financial statements, including the notes thereto, for the 3 month period ended January 31, 2005 (the "Unaudited Consolidated Financial Statements"), and (ii) audited consolidated financial statements including the notes thereto, and management's discussion and analysis for the year ended October 31, 2005 ("the Consolidated Financial Statements"). The Unaudited Consolidated Financial Statements and the Consolidated Financial Statements (collectively, the "Financial Statements") have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are reported in Canadian dollars. The information contained herein is dated as of March 6, 2006.

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, 2005 and other documents available on SEDAR at www.sedar.com.

OVERVIEW – 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 is headquartered in Cambridge, Ontario, Canada; with additional operations in Aylesbury, England, and Xian, China. 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 800 people around the world as of January 31, 2006, compared to approximately 835 people as of January 31, 2005, and approximately 776 people as of October 31, 2005.

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.

OVERVIEW – DISCONTINUED OPERATIONS

Two additional divisions are treated as discontinued operations in the 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 Company has no continuing operations from these businesses. The only remaining involvement is the run off of a lease related to a former location in England and discharge of some final obligations.

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.

OVERALL PERFORMANCE

During the first quarter of the Company's 2006 fiscal year 13 satellite programs were awarded in the global space market, the same as in the prior year's first quarter. In the full fiscal 2005 fiscal year a total of 31 satellite programs were awarded. Approximately 562 transponders are estimated to be on board the 13 satellite programs announced

in the first quarter, more than doubling the roughly 237 count from the first quarter of fiscal 2005. A more detailed discussion can be found in "Results of Operations". The breakdown of satellite awards and transponders awarded between the three market sectors (commercial, civil, and military/defense) can be summarized as follows:

Sector	Three months ended January 31			
	2006		2005	
	Satellites	Transponders	Satellites	Transponders
Commercial	8	322	4	157
Civil	2	48	6	68
Military/Defense	<u>3</u>	<u>192</u>	<u>3</u>	<u>12</u>
Total	<u>13</u>	<u>562</u>	<u>13</u>	<u>237</u>

Of the 13 satellites programs announced in the markets in fiscal 2006 Q1, COM DEV has secured orders on 2, and is actively bidding on all of the remainder. This compares to fiscal 2005 Q1, when of the 13 satellites announced in the market, COM DEV ultimately participated in 9. Bidding and negotiating activity remains brisk.

New business won in fiscal 2006 Q1 was once again well balanced amongst the Company's three main business units: namely, Multiplexer, Switch, and Space Electronics products. Total new orders booked during fiscal 2006 Q1 were \$28 million, excluding the backlog increase from the acquisition of the Optical Space Science operations in Ottawa. In the prior year, new orders in Q1 totaled \$20 million, and in Q4 totaled approximately \$42 million.

Of the \$28 million in new orders won in the first quarter of 2006, 43% came from the commercial sector of the space market, 4% from the civil sector, and 53% from the defense sector, compared to a comparable split of 20% / 77% / 3% in the first quarter of fiscal 2005.

The Company closed out Q1 2006 with \$101 million in backlog, including \$18 million of backlog acquired as a result of the acquisition of the Optical Space Science business in Ottawa. This is a three-year high, up from \$86 million at the end of the prior fiscal year and up from \$68 million at the end of the first quarter a year ago. In prior years, with the majority of backlog being for commercial market work, year-end closing backlog would generally turn into revenue over the next 12 months. With the increase in the amount of non-commercial work in the backlog, and the longer contract periods associated with this type of work, management generally expects the transition from backlog to revenue to take place over a slightly longer period of time, in the case of some orders as much as 24 months or more. The composition of the Company's backlog at the end of Q1 2006 was 32%, 34%, 34% split between commercial, civil, and defense, compared with a split of 45%, 30%, 25% as at the end of the 2005 fiscal year, and 54%, 33%, 13% at the end of the first quarter a year ago. This split of work between the Company's three market segments is further evidence of its success in balancing its portfolio.

Foreign exchange shifts continued to be seen in the first quarter of the current fiscal year. According to the Bank of Canada, the average value of the Canadian dollar increased by 1.7% compared to the US dollar in the first quarter compared with the average rate in the prior quarter. On a year-to-year basis, the Canadian dollar strengthened by 4.0% in the first quarter.

While a declining US dollar continues to apply downward pressure to gross margins, first quarter margins were exceptionally strong for a number of reasons. COM DEV's participation in the defense segment of the market has seen the Company win a number of development phase orders in the recent past. As the development work is completed and customers expand their orders from the development phase into more production-oriented activity, the Company recognizes a more reasonable margin on the expanded scope of work. During the first quarter, the awards of additional production work in the defense sector allowed the Company to expand the value of these orders with little incremental development costs. Management cautions that awards of such follow-on work are not yet common for the Company, and are not part of its forecasts going forward to any significant extent. On the operational front the Company's improved delivery performance due to its efforts throughout 2005 to address operational bottlenecks has eliminated penalties for delayed delivery and enabled the Company to release amounts that had been held in reserve. In addition, the Company successfully completed a number of programs for which risk management cost budgets were not fully required, resulting in improved margin performance on these programs.

Overall operating expenses were unchanged from Q1 2005, and as a result, a \$3.4 million year-over-year increase in gross profit led to an equivalent increase in operating income, from \$1.4 million in Q1 2005 to \$4.8 million in Q1 2006. Net research and development spending was down \$0.4 million from Q1 2005 to \$1.4 million in Q1 2006, while selling and general expenses grew by \$0.4 million from Q1 2005 to \$3.6 million in Q1 2006.

COM DEV ended the first quarter of fiscal 2006 with \$8.5 million of cash and equivalents, up from \$6.2 million at October 31, 2005. The Company's \$15 million operating line of credit remained untouched at quarter-end. Compared to year-end, receivables were \$1.9 million lower at \$31.1 million, and net inventories were \$4.0 million lower at \$5.9 million. Comparable Q1 2005 figures for cash, receivables and net inventories were \$20.4 million, \$17.1 million, and \$13.0 million respectively.

Overall, the Company delivered a strong net income of \$4.2 million in Q1 fiscal 2006, up from \$0.2 million at the end of the first quarter a year ago, and up from \$1.6 million in the prior quarter.

RESULTS OF OPERATIONS

Revenues

(in millions of dollars)	Three months ended January 31		
	2006	2005	% Change
Commercial satellite programs	\$16.0	\$18.1	(4.9%)
Civil (government) programs	\$ 8.7	\$ 5.6	55.4%
Military & defense programs	\$ 8.0	\$ 6.7	19.4%
Total Space revenues	\$ 32.7	\$30.4	7.6%

First quarter revenues for fiscal 2006 were strong despite continued downward pressure from a strengthening Canadian dollar. The 7.6% increase in revenues over the prior year first quarter results was after a 1.7% upward shift in the Canadian dollar, and reflects the higher level of backlog in the organization, and strong program execution. The level of revenue performance in the first quarter is in line with management's expectation that the Company will achieve its stated full year revenue growth target of at least 10% over 2005 levels.

Backlog

(millions of dollars)	Jan. 31 2006	Jan. 31 2005
Commercial satellite programs	\$ 32.6	\$36.9
Civil (government) programs	\$ 34.5	\$22.3
Military & defense programs	\$ 33.8	\$ 8.8
Total Backlog	\$100.9	\$68.0

The backlog of work increased by approximately \$15 million from the October 31, 2005 level of \$86 million, largely due to the addition of \$18 million in backlog associated with its recent acquisition of the Optical Space Science business in Ottawa, plus additional new orders of \$28 million won in the quarter. Backlog continues to be balanced amongst the Company's three major market segments.

Income from Operations and Net Income (millions of dollars except EPS)

	Three months ended January 31		
	2006	2005	% Change
Income from continuing operations	\$4.2	\$0.2	2,000.0%
Total net income	\$4.2	\$0.2	2,000.0%
Earnings per share, basic and diluted	\$0.07	\$0.00	-

Net income from continuing operations in the first quarter of 2006 was \$4.2 million compared with \$0.2 million in the comparable quarter of fiscal 2005. As noted earlier, strong operational performance led to exceptional gross margins in the first quarter of fiscal 2006, while operating expenses were held at levels consistent with the first quarter of the prior year.

Gross Margin

(millions of dollars)	Three months ended January 31		
	2006	2005	% Change
Total gross margin	\$9.8	\$6.4	53.1%
Total gross margin %	30.0%	21.0%	9.0%

Gross margins for the first quarter were exceptionally strong, as a result of the factors noted earlier. Delivery performance showed continued improvement in the first quarter, with all customer deliveries being met on time, resulting in recovery of penalty reserves that are no longer required. In addition, follow-on orders in the military segment had a positive impact on margins in the quarter since these types of scope changes typically do not incur the same high levels of non-recurring engineering as early development phase work. Management continues to target gross margins in the mid-twenty percent range, and expects margins to normalize to this level over the remainder of the current fiscal year.

Research and Development (R&D)

(millions of dollars)	Three months ended January 31		
	2006	2005	% Change
Total R&D Spending before funding	\$ 2.2	\$ 2.2	0%
Total R&D Funding received	\$(0.8)	\$(0.4)	100.0%
R&D, net of Funding	\$ 1.4	\$ 1.8	(22.2%)

The Company continued to invest in important R&D projects in the first quarter at a level that was unchanged from the comparable prior year. These R&D projects are established as part of the Company's 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. During the first quarter of 2006 the Company doubled its outside financing compared with the same period of fiscal 2005, allowing it to reduce its net R&D costs by \$0.4 million compared to the prior 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 January 31		
	2006	2005	% Change
Selling, general & administrative expenses (SG&A)	\$3.6	\$3.2	12.5%
SG&A % of total revenue	11.0%	10.5%	0.6%
Interest expense	\$0.6	\$0.5	20.0%
Foreign exchange (gain) loss	(\$ 0.3)	\$0.6	

Other expense (income)	\$ 0.3	\$0.0
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Selling, General and Administrative

SG&A expenses for the first quarter of 2006 increased from the prior comparable period, primarily as a result of management's decision to reinitiate providing for the Company's Management Incentive Program based on bottom line performance improvements. Management does not expect selling costs to increase significantly from current levels at the present time.

Interest Expense

1. With the 2005 retirement of the promissory note, interest expense is now primarily driven by the remaining \$18 million convertible debenture. During the first quarter, interest charges were incurred as the Company temporarily drew on its operating line of credit for the purpose of completing the acquisition of the Optical Space Science business. The draw on that operating credit was done with the concurrence of our bank, and was repaid through cash from operations within the first quarter.

The convertible debenture attracts interest at an annual rate of 6.75%. The actual interest expense associated with the debenture includes an accretion charge as well as face value interest due to the accounting treatment for debentures that have a conversion option associated with them.

Foreign Exchange

The foreign exchange gain in the first quarter of 2006 was \$0.3 million, compared with a loss of \$0.6 million in the first quarter of 2005. The translation loss on US denominated balance sheet items was offset by forward contracts that the Company had in place during the year as part of its foreign exchange risk management strategy. 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.

Financial Position

The following chart outlines the significant changes in the balance sheet between October 31, 2005 and January 31, 2006:

(in millions of dollars)	Increase/ (Decrease)	Explanation
Cash and cash equivalents	\$2.3	Refer to Statement of Cash Flows
Accounts receivable	(1.9)	Normal billings in the first quarter, commensurate with business levels, coupled with good collection performance.
Inventory	0.8	General increase in backlog resulting in minor increase in Project inventory.
Prepaid and other	1.0	Change in unrealized gain in fair value of foreign exchange hedge contracts and renewal of IT maintenance contracts.
Capital assets	2.1	Capital additions of \$0.5 million in normal course of business plus capital additions from the Optical Space Science business acquisition, less normal depreciation.
Intangible assets	2.2	Intellectual property acquired in the Optical Space Science business acquisition.
Accounts payable and accrued	(2.1)	Normal accounts payable payments cycle.
Deferred revenue	4.8	Billing milestones on schedule as operational execution of programs improves.
Convertible debenture	0.2	Accretion of the debt portion of the debenture to

		bring it to the full \$18.0 million face value by December 31, 2006. Also moved to current liabilities since maturity date now within one year.
Long term liabilities -discontinued operations	(0.1)	Reduction in estimated liability associated with leased facility formerly used by the Wireless group
Non-controlling interest	0.0	New presentation to reflect full consolidation of COM DEV X'ian, with minority interest elimination.
Shareholders' equity	4.0	Net income, and currency translation adjustment

Liquidity and Capital Resources

(in millions of dollars)

	Three months ended January 31		
	2006	2005	% Change
Cash provided by (used in) operating activities	\$ 8.5	(\$4.7)	
Net increase (decrease) in cash	\$ 2.3	(\$6.6)	
Property and equipment additions	\$ 0.5	\$1.4	(64.3%)
Business acquisition	\$ 5.3	\$ -	

The Company generated \$8.5 million of cash in operating activities in the first quarter of 2006, compared with its use of \$4.8 million a year earlier. Working capital contributed \$2.4 million of the cash generated, as deferred revenue grew by \$4.8 million over the prior quarter's level. This working capital contribution in the first quarter is in comparison to the prior year first quarter when \$7.1 million cash was used investing in working capital. The company expects to invest a total of \$5 million in capital equipment, primarily in maintenance capex, as most of the expansionary investments were completed in 2005.

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, 2006.

The Company has stated its intention to look at small acquisition opportunities to continue on its strategic growth path. Management will look to each such target to be self-financing, and as a result, will be seeking to establish an acquisition credit facility in 2006 of approximately \$15 million to be used to finance any acquisitions. In addition to this, Management recognizes that while it believes it will generate sufficient cash to retire the Convertible Debenture at its maturity on December 31, 2006, the risk of dilution in the event cash is not on hand is a concern to our shareholders. Accordingly, the Company is evaluating alternate methods of retiring this risk, including re-financing the debt, and has been working to finalize its contingency planning early in 2006. Based on current proposals it is evaluating, the Company expects to be able to achieve these financing objectives.

Off-balance Sheet Arrangements

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

Related Party Transactions

None

Proposed Transactions

None.

Contractual Obligations
(in thousands of dollars)

	Total	Payments Due by Period			
		2006	2007 to 2008	2009 to 2010	2011 & beyond
Long-term debt	\$ 518	\$ 74	\$ 148	\$148	\$148
Operating leases	\$ 1,114	\$ 523	\$ 572	\$ 18	\$ -
Capital leases	\$ 464	\$ 338	\$ 126	\$ -	\$ -
Purchase obligations*	\$ -	\$ -	\$ -	\$ -	\$ -
Other Long-term obligations**	\$18,000	\$ -	\$18,000	\$ -	\$ -
Total contractual obligations	\$20,096	\$ 935	\$18,846	\$166	\$148

* defined as an agreement to purchase goods and services that is enforceable and legally binding on the Company and that specifies all significant terms including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transactions.

** represents the Convertible Debenture obligation of the Company. For a full description of the Debenture and its terms, please refer to Note 12 of the Notes to the Consolidated Financial Statements.

Financial Instruments and Other Instruments

The Company realizes a significant portion of its revenues in United States dollars and incurs most of its expenses in Canadian dollars. The Company utilizes forward foreign 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 consolidated Statement of Operations.

On January 31, 2006 the Company had outstanding forward foreign currency call options with a notional value of \$24.1 million maturing within a year at an average exchange rate of \$1.1747 (January 31, 2005: \$29.0 million at 1.2106). The Company had outstanding forward foreign currency put options with a notional value of \$36.2 million maturing within a year at an average exchange rate of \$1.1768 (January 31, 2005: \$44.3 million at 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 Quarterly Financial Information (Unaudited)

(in thousands of dollars, except earnings per share figures)

Fiscal 2006 Quarters	January 31	April 30	July 31	October 31	Total
Total Revenue	\$32,707				
Net Income from Continuing Operations	\$4,188				
Net Income per share from Continuing Operations (basic and diluted)	\$0.07				
Net Income – Total	\$4,188				

Net Income per share (basic and diluted)	\$0.07				
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Fiscal 2005 Quarters	January 31	April 30	July 31	October 31	Total
Total Revenue	\$30,212	\$32,402	\$31,181	\$29,839	\$123,634
Net Income from Continuing Operations	\$186	\$1,771	\$1,621	\$1,612	\$5,190
Net Income per share from Continuing Operations (basic and diluted)	\$-	\$0.03	\$0.03	\$0.03	\$0.09
Net Income – Total	\$186	\$1,771	\$1,621	\$1,612	\$5,190
Net Income per share (basic and diluted)	\$-	\$0.03	\$0.03	\$0.03	\$0.09

Fiscal 2004 Quarters	January 31	April 30	July 31	October 31	Total
Total Revenue	\$22,488	\$31,421	\$32,367	\$32,221	\$118,497
Net Income (loss) from Continuing Operations	\$40	\$3,627	\$3,656	(\$815)	\$6,508
Net Income (loss) per share from Continuing Operations (basic and diluted)	\$-	\$0.06	\$0.06	(\$0.01)	\$0.11
Net Income (loss) – Total	\$40	\$3,627	\$3,656	(\$2,040)	\$5,283
Net Income (loss) per share (basic and diluted)	\$-	\$0.06	\$0.06	(\$0.03)	\$0.09

Historically, the Company's results have been lowest in the first quarter. This is due to the fact that the first quarter has the lowest number of working days in it due to the operations shutting down over the Christmas period for maintenance and vacation. Since the Company reports revenue on a percentage of completion basis, the lower number of workdays translates to less revenue.

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.

Project Costs to Complete

At the outset of each customer project, an estimate of the total expected cost to complete the scope of work under contract is made. During the course of the projects, these estimates are reviewed and revised to reflect current expectations of cost to complete, and total cost. These estimates are based on specific knowledge of the status of the project, as well as historic understanding of costs on similar projects. Cost elements include material, direct labour, and overhead costs, with labour and overhead costs being determined using pre-determined costing rates applied to estimated labour hours required to complete the scope of work under contract. These estimates are reviewed on a monthly and quarterly basis to ensure the estimates reflect the current expectations for total costs, however this is not a guarantee that unforeseen or additional costs could be incurred, which would have an impact on project total cost, reported revenue, and gross margins. Management believes it has a review procedure in place to ensure the validity of these estimates at the time they are made.

Useful Life of Intangible and Long-Term Assets

The Company has established policies for determining the useful life of its intangible and long-term assets, and amortizes the costs of these assets over those useful lives. The useful life for each category of asset is determined based on the expectation of its ability to continue to generate revenues, and thus, cash flows for the Company. This ability is tested periodically to ensure the conditions still exist to allow the asset to be reflected at its net-recorded value in the accounts of the Company, and any impairment to the valuation is reflected in the accounts at the time the impairment is determined.

Income Tax Liabilities

The Company establishes a tax provision based on its calculation of taxable income in any year. Occasionally the Company is subjected to audits by various federal and provincial agencies. When adjustments are proposed, the Company assesses its position with respect to the issue, and when it considers the Company's position to be correct, may object to proposed adjustments. Management estimates the likelihood of succeeding in its position, and where appropriate, provides for amounts estimated to be payable, or reports in notes to the Company's financial statements.

Contract Penalties

In some cases, the Company enters into contracts with its customers for the delivery of equipment, where penalties are incurred for late delivery. When the Company wins these orders, it assumes that the cost of the penalties will be incurred until such time as the risk is mitigated, by delivering on or before the contractual delivery date.

Changes in Accounting Policies including Initial Adoption

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

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. The new standards will require presentation of a separate statement of comprehensive income. Derivative financial instruments will be recorded in the balance sheet at fair value and the changes in fair value of derivatives designated as cash flow hedges will be reported in comprehensive income. The existing hedging principles of AcG-13 will be maintained. We are currently evaluating the potential implications of these new standards on the Company's financial statements.

Business Risks and Prospects

New Products and Technological Change

The market for the Company's products is characterized by rapidly changing technology involving industry standards and frequent new product introductions. The Company's success will depend upon market acceptance of its existing products and its ability to enhance its existing products and to introduce new products and features to meet changing customer requirements. There can be no assurance that the Company will be successful in identifying, developing, manufacturing and marketing new products or enhancing its existing products. The Company's business will be adversely affected if the Company incurs delays in developing new products or enhancements or if such products or enhancements do not gain market acceptance. In addition, there can be no assurance that products or technologies developed by others will not render the Company's products or technologies non-competitive or obsolete.

Reliance on Significant Customers and Credit Concentration

The satellite industry is characterized by a small number of prime contractors, which represent the Company's customer base. The relatively small number of customers leads 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. COM DEV Space is increasing its penetration with a number of smaller satellite manufacturers, as well as in satellite market segments outside the traditional commercial communications sector, to help mitigate the risk associated with having a small number of customers.

Fluctuations in Operating Results

The Company's revenues and earnings fluctuate from quarter to quarter, or year to year, based on customer requirements and the timing of orders. While the Space division recognizes revenue on a percentage of completion basis for long-term contracts, the Space division has experienced fluctuations in its quarterly operating results and anticipates that such fluctuations may continue. The Space division's revenue is derived in large part from long-term fixed price contracts, some of which are subject to significant technology risk. As a result, the Space division's financial reporting relies upon management's estimates of earned revenues and the costs required to complete the project. Revision to the estimates used in the preparation of the Space division's financial results could have a material impact on financial results of future periods. There can be no assurance that levels of profitability will not vary significantly among quarterly or annual periods. The Company's operating results may fluctuate as a result of many factors, including increased competition, the size and timing of significant customer orders, cancellations of significant projects by customers, changes in operating expenses, changes in the Company's strategy, personnel changes, foreign currency exchange rates and general economic and political factors.

The Company's expense levels are based in significant part on its expectations regarding future revenues. Accordingly, the Company may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Any significant revenue shortfall could therefore have a material adverse effect on the Company's results of operations.

Project Performance

The Company experienced significant capacity constraints during 2005, which resulted in late deliveries to our customers. Management recognizes that some damage to customer relations occurred during this period, but believes that the extent of the Company's efforts to recover schedules demonstrated our commitment to our customers, and that permanent damage was avoided. The Company's ability to continue to meet contractual delivery milestones early in 2006 will be an important factor in retaining our customers' confidence. The ability of the Company to perform on customer projects in accordance with requirements, including delivery milestone adherence, could have a material adverse effect on the Company's business, operations and prospects.

Sources of Supply

The Company uses some subcomponents for which there is only a single source of supply. As a result, the Company may occasionally suffer shortages of such subcomponents, which shortages may have short-term adverse effects on the Company's sales. 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.

Dependence on Key Personnel

The Company is highly dependent on the continued service of and its ability to attract and retain qualified technical and engineering personnel. The competition for such personnel is intense and the loss of particular persons, as well as the failure to recruit additional key technical personnel in a timely manner, could have a material adverse effect on the Company's business.

Product Failure

COM DEV Space operates in a market where product reliability is essential. While the Company enjoys a reputation for product reliability, any significant product failure could materially affect the Company's reputation, revenue and future business prospects.

Failure to Perform Contract

Contracts for the Space division's products may include penalties and/or incentives related to performance, which could materially affect operating results. Management provides for any anticipated penalty costs in its estimates of the costs to complete a contract and the contract generally limits any penalties to 5% or less of the contract value. The Space division's products are complex, use sophisticated technologies and often involve a lengthy development and manufacturing cycle. In addition, these products are integral to the customer's satellite payload and alternate sources of supply may not be available in the time required, or at all. Consequently, any failure by the Company to satisfy its contractual obligations could trigger losses in excess of the value of the contract. Since the Space division often works on large individual contracts, the claims against the Company could be material.

Competition

COM DEV Space's competitors, who are generally its customers, are larger, better capitalized and have greater resources than the Company. The Company believes that its ability to compete depends in part on a number of competitive factors, some of which are outside its control, such as innovative products or cost-saving production techniques developed by the Company's competitors. There can be no assurance that the Company will be able to compete successfully with its existing competitors or with new competitors.

Changing Business Conditions

The Company's future operating results will substantially depend on the ability of its officers and key employees to manage changing business conditions and to implement and improve its operational, financial control and reporting systems. If the Company is unable to respond to and manage changing business conditions, the quality of the Company's services, its ability to retain key personnel and its results of operations could be materially adversely affected.

Future Capital Requirements

The Company's future capital requirements will depend on many factors, including the development of new products, the progress of the Company's research and development efforts, the rate of expansion and the status of competitive products. Depending on these factors, the Company may require additional financing which may or may not be available on acceptable terms. If additional funds are raised by issuing equity securities, dilution to the existing shareholders may result. If adequate funds are not available, the Company may not be able to achieve its growth objectives and operational targets, which could have a material adverse effect on the Company's business.

Risks Associated with Intellectual Property

The Company's success is dependent upon proprietary technology. The Company relies upon patent protection to protect its proprietary technology. In addition, the Company attempts to protect its trade secrets and other proprietary information through agreements with customers, suppliers, employees and consultants and other security measures. There can be no assurance that the steps taken by the Company in this regard will be adequate to prevent misappropriation or independent third-party development of its technology. Furthermore, the laws of certain countries in which the Company sells its products do not protect the Company's intellectual property rights to the same extent, as do the laws of Canada or the United States.

Although the Company believes that its products and technology do not infringe patents or other proprietary rights of others, there can be no assurance that third parties will not claim that the Company's current or future products infringe the patents or other proprietary rights of others. Any such claim, with or without merit, could result in costly litigation or could require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all.

Foreign Exchange Risk

The Company carries on a significant portion of its business in the United States and elsewhere outside Canada, and the majority of its sales outside of Canada are made in U.S. dollars. Any weakening in the value of the U.S. dollar, British Pounds or Euro against the Canadian dollar would result in lower revenues and margins for the Company when stated in Canadian dollars. The Company does engage in hedging a portion of its U.S. dollar-denominated net cash flows. Management remains concerned about the strengthening Canadian dollar, and is actively targeting efficiency improvements in its operations, both in terms of productivity and cost control. These measures will continue to be taken regardless of the currency environment.

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.

Tax Assessments

The Company has recently undergone audits by Canada Revenue Agency and the Ontario Ministry of Finance. As a result of the audits, several adjustments to prior year returns have been proposed for capital taxes and corporate minimum taxes. The Company has considered the proposed assessments and opposes several matters on the basis of

its interpretation of the tax rules and has made submission to the tax authorities on this basis. The Company is currently unable to determine the likelihood of success of its objection to the proposed assessments. The disputed tax amounts total \$3.1 million. Any amount of tax liability arising from these assessments will be recorded when the probable amounts can be determined. While the Company expects that if it is required to pay additional taxes, a significant amount will be recoverable against future tax amounts, there is no guarantee that this will be the case.

Cyclical Volatility

The Company anticipates a general but slow continuation of the recovery in its core space markets in 2006. 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.

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 and military/defense markets may adversely affect the Company's future business, financial condition and operating results.

Dilution Risk

The Company has an \$18 million convertible debenture obligation that matures on December 31, 2006. The Company can satisfy the obligation in cash or shares. While management expects the obligation will be retired through cash generated from operations, or alternate financing arrangements, there is no assurance that the cash resources will be available to retire the debenture. In such circumstance, there could be a significant dilution of shares outstanding.

Regulatory Environment for Technology and Materials

Certain of the Company's programs are subjected to export controls either domestically or through International Traffic in Arms Regulations (ITAR). This regulatory environment places strict controls over receipt, use, transfer, and export of technology, material, and equipment. While the Company understands the requirements of these controls and regulations, there is no assurance that these regulations, or their interpretations by regulatory authorities, will not change in a way that would cause a material adverse effect to the Company's business, operations and prospects.

Disclosure Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to Multilateral Instrument 52-109 is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators rules and forms. During the 3 month period ended January 31, 2006, the Company did not make any material changes in, or take any material corrective actions regarding its internal controls over financial reporting. The Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures as of March 6, 2006, and concluded that the Company's current disclosure controls and procedures are effective.

Outstanding Share Data

Details of the Company's outstanding share data as of March 6, 2006 are as follows:

Common shares	59,963,869
Options on common shares	4,064,748

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,	2006	2005
Revenue	\$ 32,707	\$ 30,410
Cost of revenue	22,902	24,030
Gross margin	<u>9,805</u>	<u>6,380</u>
Research and development spending	2,206	2,169
Research and development recovery	784	372
Net research and development	1,422	1,797
Selling and general expenses	<u>3,582</u>	<u>3,176</u>
Operating income	4,801	1,407
Interest expense	555	548
Foreign exchange (gain) loss	(288)	635
Other expense (income)	<u>319</u>	<u>(21)</u>
Income before non-controlling interest	4,215	245
Non-controlling interest	27	59
Net income	<u>\$ 4,188</u>	<u>\$ 186</u>
Earnings per share (note 3c)		
Basic and diluted earnings per share	\$0.07	\$0.00

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

For the three months ended January 31,	2006	2005
Balance, beginning of the period	\$ (248,638)	\$ (253,828)
Net income	4,188	186
Issuance costs	-	-
Balance, end of the period	<u>\$ (244,450)</u>	<u>\$ (253,642)</u>

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

	As at January 31, 2006	As at October 31, 2005
Assets		
Current		
Cash and cash equivalents	\$ 8,506	\$ 6,179
Accounts receivable	31,129	33,062
Inventory	21,316	20,468
Prepays and other	1,802	796
Income taxes recoverable	824	824
	<u>63,577</u>	<u>61,329</u>
Capital assets	35,758	33,695
Intangible assets (note 2)	4,347	2,178
Other assets	185	231
Total assets	<u>\$ 103,867</u>	<u>\$ 97,433</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 13,364	\$ 15,439
Convertible debenture	17,279	-
Convertible debenture - interest payable	101	406
Deferred revenue	15,431	10,606
Current portion of loans payable	468	484
Current liabilities - discontinued operations	1,075	1,042
	<u>47,718</u>	<u>27,977</u>
Long term		
Loans payable	514	676
Convertible debenture	-	17,092
Long term liabilities - discontinued operations	938	1,042
Non-controlling interest	416	389
	<u>1,868</u>	<u>19,199</u>
Total liabilities	<u>49,586</u>	<u>47,176</u>
Shareholders' equity		
Convertible debentures - holder's conversion option	3,336	3,336
Share capital (note 3)	296,567	296,567
Contributed surplus	374	296
Deficit	(244,450)	(248,638)
Currency translation adjustment	(1,546)	(1,304)
Total	<u>54,281</u>	<u>50,257</u>
Total liabilities and shareholders' equity	<u>\$ 103,867</u>	<u>\$ 97,433</u>

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

For the three months ended January 31,	2006	2005
Cash flows from operating activities		
Net income from continuing operations	\$ 4,188	\$ 186
Amortization	1,684	1,716
Gain on disposal of assets	(26)	(25)
Convertible debenture - accretion	187	171
Stock compensation expense	78	222
Non-controlling interest	27	59
	<u>6,138</u>	<u>2,329</u>
Net change in non-cash working capital items	2,391	(7,101)
Cash flows provided by (used in) operating activities	<u>8,529</u>	<u>(4,772)</u>
Cash flows (used in) from financing activities		
Shares issued	-	39
(Decrease) increase in long term debt	(178)	(226)
Cash flows used in financing activities	<u>(178)</u>	<u>(187)</u>
Cash flows (used in) from investing activities		
Acquisition of capital assets	(478)	(1,399)
Proceeds on disposal of capital assets	27	40
Acquisition of intangible assets	(68)	(50)
Business Acquisition (note 2)	(5,261)	-
Cash flows used in investing activities	<u>(5,780)</u>	<u>(1,409)</u>
Effect of exchange rate changes on cash	<u>(130)</u>	<u>121</u>
Net increase (decrease) in cash for continuing operations	2,441	(6,247)
Net cash used in discontinued operations	(114)	(366)
Net increase (decrease) in cash	<u>2,327</u>	<u>(6,613)</u>
Cash and cash equivalents, beginning of period	6,179	27,184
Cash and cash equivalents, end of period	<u>\$ 8,506</u>	<u>\$ 20,571</u>
Interest paid	<u>\$ 712</u>	<u>\$ 786</u>

COM DEV INTERNATIONAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2006 and 2005
(Canadian dollars in thousands, except for per share figures)

1. Summary of Significant Accounting Policies

These unaudited, consolidated, interim financial statements, have been prepared by management in accordance with Canadian generally accepted accounting principles except that certain disclosures required for annual financial statements have not been included. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 contract work in progress and recognition of revenue related to the percentage of completion of contract 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, 2005. All financial amounts are expressed in thousands of Canadian dollars, except per share information or as otherwise indicated. These consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies.

The consolidated financial statements of COM DEV International Ltd. (the "Company") include the accounts of all of the Company's subsidiaries with inter-company transactions and balances eliminated. The Company's principal wholly owned subsidiaries are COM DEV Limited ("CDL"), and COM DEV Europe Limited ("CDE"), and, its 70% owned subsidiary, COM DEV Microwave Electronics Company Limited ("Xian"). COM DEV Europe Limited is a self-sustaining foreign subsidiary.

2. Acquisition

On November 28, 2005, the Company purchased certain assets of the former EMS Space & Technologies Division from MacDonald, Dettwiler and Associates Ltd (MDA). The acquired business lines are the Ottawa-based space science and optical instruments and the search and rescue payload product lines. This operation will be relocated from its current facility to a new leased facility in the Ottawa area within the next three months.

The acquisition has been accounted for using the purchase method and the Company has included the results of operations in its consolidated financial statements from November 28, 2005.

The purchase agreement includes a provision for a "working capital adjustment" which would capture any specified working capital assets/liabilities assumed that relate to the periods prior to the closing date. The working capital adjustment is expected to be resolved in the third quarter.

There is a provision in the agreement for an additional \$1,000 to be paid to MDA if certain contracts are awarded before January 1, 2007. This amount has not been included in the consideration paid to date. If the future conditions are met, the additional \$1,000 will be accounted for using the purchase method in the period in which the conditions are met.

COM DEV INTERNATIONAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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The cash consideration was paid from the operating bank facility and was fully repaid during the quarter from operating cash flows.

The following table summarizes the estimated fair value of the assets acquired at the date of acquisition:

	<u>November 28, 2005</u>
Assets Purchased	
Capital Assets	3,240
Acquired Contracts	<u>2,197</u>
Net Assets Acquired	<u><u>5,437</u></u>
Consideration	
Cash	5,000
Acquisition Costs	261
Net Transaction Cost Due to MDA	<u>176</u>
	<u><u>5,437</u></u>

Intangibles assets will be amortized over their estimated useful lives of 8 years.

The purchase price and related allocations for this acquisition are preliminary. Adjustments to the purchase price and related preliminary allocations may occur as a result of obtaining more information regarding asset valuations, liabilities assumed, purchase price adjustments pursuant to the purchase agreement and revisions of preliminary estimates of fair value made at the date of purchase.

COM DEV INTERNATIONAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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3. Share Capital and Earnings Per Share

a) Issued Capital

The following details the issued and outstanding common shares for the three months ended January 31, 2006.

	Number	Amount
Balance, October 31, 2005	59,912,161	\$296,567
Issuance of common shares(i)	--	--
Balance, January 31, 2006	<u>59,912,161</u>	<u>\$296,567</u>

The value of ESOP shares amortized to compensation expense in the quarter was \$46 (\$43 in 2005). This amount is included in contributed surplus.

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 after that date. The option exercise price is the fair value of the Company's common shares at the date of issue. For the three months ended January 31, 2006, the Company granted 548,000 options (150,000 in 2005). The options granted in the quarter vest over three years from the date of issue, while the options granted in 2005 vested immediately. The options vested can be exercised over a five-year period from the date of issue.

The fair value of options issued in the three months ended January 31, 2006 and 2005 were estimated at the date of grant, using a Black-Scholes Option Model with the following weighted average assumptions:

	For the three months ended January 31, 2006	January 31, 2005
Risk-free interest rate	3.9%	3.4%
Dividend yield	0.0%	0.0%
Volatility	0.451	0.531
Expect life of options	5 years	5 years
Weighted average fair value of options granted	<u>\$0.91</u>	<u>\$1.19</u>
Weighted average exercise price of options granted	<u>\$2.04</u>	<u>\$3.25</u>

COM DEV INTERNATIONAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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The estimated fair value of the options is amortized to expense over the vesting period of the options. During the three months ended January 31, 2006, compensation expense of \$32 (\$179 in 2005) was recognized. 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	
	January 31, 2006	January 31, 2005
Net income – as reported	\$ 4,188	\$ 186
Additional proforma stock-based compensation costs for the period	(103)	(103)
Net income – proforma	<u>\$ 4,085</u>	<u>\$ 83</u>
Proforma earnings per common share:		
Basic and diluted	\$ 0.07	\$ 0.00
Weighted average number of shares:		
Basic	59,912,161	59,777,456
Diluted	60,400,948	60,461,310

COM DEV INTERNATIONAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2006 and 2005
(Canadian dollars in thousands, except for per share figures)

c) Earnings Per Share

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

	3 months ended January 31	
	2006	2005
Numerator for basic and diluted earnings per share available to common stockholders		
Net income attributed to common stockholders	\$ 4,188	\$ 186
Denominator for basic earnings per share- weighted average shares outstanding	59,912,161	59,777,456
Effect of dilutive securities		
ESOP	60,238	85,313
Employee stock options	298,535	797,366
Potential dilutive common shares	358,773	882,679
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	60,270,934	60,660,135
Earnings (loss) per share		
Basic and diluted earnings per share	\$0.07	\$0.00

The maximum number of shares outstanding if all options were exercised and the debentures were converted is 69,756,625.

The convertible debenture is excluded from the denominator in both 2006 and 2005 as it is anti-dilutive.

d) Contributed Surplus

	3 months ended January 31	
	2006	2005
Balance, beginning of quarter	\$296	\$126
Value of ESOP awards	46	43
Compensation expense recognized for share options	32	179
Balance, January 31	\$374	\$348

COM DEV INTERNATIONAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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4. Segmented Information

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

	3 months ended January 31	
	<u>2006</u>	<u>2005</u>
Revenue		
Canada	\$32,002	\$28,958
United Kingdom	1,530	2,489
	<u>33,532</u>	<u>31,447</u>
Inter-segment sales	(825)	(1,037)
Revenue for External Customers	<u>\$32,707</u>	<u>\$30,410</u>

5. Foreign Currency Options and Forward Contracts

As at January 31, 2006, the Canadian dollar amount that could be received under Canadian / U.S. foreign currency call options was \$24,081 (\$29,049 in 2005) and the amount that could be paid under foreign currency put options was \$36,184 (\$44,262 in 2005). The average contractual exchange rate on the call options was 1.1747 and on the put options was 1.1768. The settlement dates of all the outstanding contracts were less than one year. The exchange rate at the quarter-end was 1.1496 (1.2408 in 2005).

The Company recorded realized gains of \$119 for the three months ended January 31, 2006, (\$728 in 2005) on foreign currency options that have been included in "foreign exchange gain (loss)" on the

Consolidated Statements of Operations. At January 31, 2006 the fair value of option contracts of \$530 is included in "Prepays and other" on the Consolidated Balance Sheets. At January 31, 2005

the fair value of option contracts of (\$871) was included in "Accounts payable and accrued liabilities" on the Consolidated Balance Sheets.

6. Comparative Consolidated Financial Statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements.