



**COM DEV International Ltd.
Second Quarter Report – Fiscal 2006
For the Period Ended
April 30, 2006**



COM DEV Announces Second Quarter FY2006 Results

High volume of activity drives strong revenue and margin performance

CAMBRIDGE, ON – June 8, 2006 – COM DEV International Ltd. (TSX:CDV) today announced its second quarter results for the three-month period ended April 30, 2006.

Second Quarter Highlights

- Revenue was \$38.2 million, an increase of 17% from \$32.6 million in the prior year period.
- Gross margin was 30%, compared to 22% in the second quarter of 2005.
- Net income was \$5.4 million, or \$0.09 per share, compared to \$1.8 million or \$0.03 per share a year earlier.
- New orders won in the second quarter totaled \$42 million, compared to \$29 million a year earlier and \$28 million in the first quarter of fiscal 2006.
- Backlog at quarter-end was \$104 million, up from the previous quarter's three-year high.
- In late April the Company increased its full-year 2006 revenue growth guidance from 10% to 15%, citing positive market fundamentals and strong execution.
- Subsequent to quarter-end, COM DEV announced that it would exercise its right of early redemption on its \$18 million convertible debentures, resulting in decreased uncertainty and reduced interest payments.

“Our second quarter results demonstrate that our strategy of the past few years is succeeding,” said John Keating, CEO of COM DEV. “We have the organizational resources in place to take advantage of the cyclical upturn we are seeing in the commercial satellite market, while at the same time continuing to grow our civil and military business. We announced relatively few material new orders in the period, yet our mix of smaller ongoing projects propelled quarterly revenue to its highest level in COM DEV’s history. And effective execution by the COM DEV team has allowed us to maintain the excellent margins we recorded in the first quarter.”

Mr. Keating continued: “Based on the indicators we track I expect to see continued strong performance for the second half of fiscal 2006. Our backlog has reached a new three-year high and we are very actively bidding on additional contracts. Volatility in currency exchange rates remains the most significant risk to our top line and our margins. Our revenues have grown by 12 percent on a year-to-date basis, and I am confident in our ability to deliver 15 percent growth on the year.”

Financial Review

COM DEV's fiscal 2006 second quarter revenues of \$38.2 million were up \$5.5 million or 17% compared to the second quarter of 2005. On a year-to-date basis, revenues of \$70.9 million represent a 12% increase over the first six months of fiscal 2005.

COM DEV continues to perform well in each of the three major space market segments. The revenue split between the Company's commercial, civil and military sectors was 44%, 31% and 25% respectively in Q2 2006, compared to 60%, 16% and 25% a year earlier. The \$42 million of new orders won in the quarter had a commercial, civil and military breakdown of 57%, 16% and 27%, compared to 53%, 23% and 24% in Q2 2005. The \$104 million backlog had a 38/30/32 commercial/civil/military split, compared to 32/34/34 at January 31, 2006.

Gross profit was \$11.5 million in Q2 2006, representing 30% of revenues, up from \$7.1 million or 22% of revenues in the second quarter of 2005. COM DEV's gross margin for the first six months of 2006 was 30%, compared to 21% in the same period of 2005. Strong margins in 2006 have resulted from a combination of excellent delivery performance, a favourable business mix, and solid operational leverage due to a high volume of activity. While gross margins are expected to moderate slightly over the remainder of the year, management's confidence in the organization's ability to deliver solid mid- to upper-twenty percent margins is increasing.

Overall operating expenses grew to \$5.5 million in Q2 2006 from \$4.8 million, representing an increase of 15%, or slightly less than the rate of growth in revenue. On a year-to-date basis, operating expenses have increased by 7.5%. Net research and development spending has been flat in 2006 due to increased funding of the Company's R&D efforts. Selling, general and administrative expenses grew by 19.5% to \$3.7 million in the second quarter of 2006, largely due to increased selling costs associated with higher bid and negotiation activity.

The Company delivered a strong net income of \$5.4 million in the second quarter of 2006, up from \$1.8 million in the same quarter of the prior year, and up from \$4.2 million in the prior quarter. Year-to-date, COM DEV's net income is \$9.6 million or \$0.16 per share, up significantly from \$2.0 million or \$0.03 per share in the comparable period of fiscal 2005.

At April 30, 2006, COM DEV had \$11.0 million of cash and equivalents, up from \$6.2 million at October 31, 2005. Compared to the first quarter, receivables were \$1.5 million higher at \$32.6 million, and net inventories were \$2.5 million higher at \$8.4 million. The Company's \$15 million operating line of credit remained untouched at quarter-end.

Operating activities generated \$3.1 million of cash during the quarter, compared to \$3.9 million of cash used in operations in Q2 2005. Year-to-date, COM DEV's operating activities have generated \$11.7 million of cash, while \$8.7 million of cash was used in operating activities in the first six months of 2005. Investing and financing activities used a combined \$0.5 million of cash in the quarter.

The Company anticipates that the majority of the convertible debenture holders will elect to receive common shares on the June 22 redemption date. For any holders who choose to receive cash, the Company's flexibility of payment options recently increased with the receipt of a commitment sheet from GE Commercial Capital Solutions authorizing the borrowing of up to \$28 million for various corporate purposes. This credit facility is in addition to the Company's operating credit line, which remains with its current banking partner, CIBC.

Company Recognition

COM DEV and its employees have received the following notable honours in recent months.

- COM DEV President Michael Pley received the L.W. Shemilt Distinguished Engineering Alumni Award, a new award established by McMaster University.
- The City of Cambridge awarded COM DEV the 2006 Mayor's Award for Excellence in Workforce Training & Development, which recognizes organizations demonstrating a clear commitment to the innovative and successful training and development of their employees.

Conference Call

A conference call will be held on Thursday, June 8, 2006 at 5:30 pm EDT 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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Contact information:

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

Jeff Codispodi
The Equicom Group
Tel: (416) 815-0700 ext. 261
Fax: (416) 815-0080
jcodispodi@equicomgroup.com

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.

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

For the three months ended April 30,	2006	2005
Revenue	\$ 38,162	\$ 32,621
Cost of revenue	26,657	25,569
Gross margin	<u>11,505</u>	<u>7,052</u>
Research and development spending	2,890	2,471
Research and development recovery	<u>1,057</u>	<u>740</u>
Net research and development	1,833	1,731
Selling and general expenses	<u>3,705</u>	<u>3,100</u>
Operating income	5,967	2,221
Recovery of investment	-	(67)
Interest expense	491	583
Foreign exchange gain	(8)	(272)
Other expense	<u>77</u>	<u>130</u>
Income before non-controlling interest	5,407	1,847
Non-controlling interest	<u>45</u>	<u>76</u>
Net income	<u>\$ 5,362</u>	<u>\$ 1,771</u>
Earnings per share		
Basic and diluted earnings per share	\$0.09	\$0.03

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

For the six months ended April 30,	2006	2005
Revenue	\$ 70,868	\$ 63,031
Cost of revenue	49,558	49,599
Gross margin	<u>21,310</u>	<u>13,432</u>
Research and development spending	5,096	4,640
Research and development recovery	<u>1,841</u>	<u>1,112</u>
Net research and development	3,255	3,528
Selling and general expenses	<u>7,287</u>	<u>6,276</u>
Operating income	10,768	3,628
Recovery of investment	-	(67)
Interest expense	1,046	1,131
Foreign exchange (gain) loss	(296)	363
Other expense	<u>396</u>	<u>109</u>
Income before non-controlling interest	9,622	2,092
Non-controlling interest	<u>72</u>	<u>135</u>
Net income	<u>\$ 9,550</u>	<u>\$ 1,957</u>
Earnings per share		
Basic and diluted earnings per share	\$0.16	\$0.03

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

For the six months ended April 30,	2006	2005
Balance, beginning of the period	\$ (248,638)	\$ (253,828)
Net income	<u>9,550</u>	<u>1,957</u>
Balance, end of the period	<u>\$ (239,088)</u>	<u>\$ (251,871)</u>

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

	As at April 30, 2006	As at October 31, 2005
Assets		
Current		
Cash and cash equivalents	\$ 10,983	\$ 6,179
Accounts receivable	32,585	33,062
Inventory	23,596	20,468
Prepays and other	2,437	796
Income taxes recoverable	824	824
	70,425	61,329
Capital assets	34,507	33,695
Intangible assets	4,269	2,178
Other assets	139	231
Total assets	\$ 109,340	\$ 97,433
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 16,651	\$ 15,439
Convertible debenture	17,471	-
Convertible debenture - interest payable	404	406
Deferred revenue	11,801	10,606
Current portion of loans payable	422	484
Current liabilities - discontinued operations	1,011	1,042
	47,760	27,977
Long term		
Loans payable	456	676
Convertible debenture	-	17,092
Long term liabilities - discontinued operations	852	1,042
Non-controlling interest	461	389
	1,769	19,199
Total liabilities	49,529	47,176
Shareholders' equity		
Convertible debentures - holder's conversion option	3,336	3,336
Share capital	296,734	296,567
Contributed surplus	357	296
Deficit	(239,088)	(248,638)
Currency translation adjustment	(1,528)	(1,304)
Total	59,811	50,257
Total liabilities and shareholders' equity	\$ 109,340	\$ 97,433

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

For the three months ended April 30,	2006	2005
Cash flows from (used in) operating activities		
Net income from continuing operations	\$ 5,362	\$ 1,771
Amortization	1,838	1,611
Gain on disposal of assets	0	(11)
Convertible debenture - accretion	192	176
Stock compensation expense	107	36
Non-controlling interest	44	76
	<u>7,543</u>	<u>3,659</u>
Net change in non-cash working capital items	<u>(4,411)</u>	<u>(7,580)</u>
Cash flows provided by (used in) operating activities	<u>3,132</u>	<u>(3,921)</u>
Cash flows from (used in) financing activities		
Shares issued	44	5
Decrease in long term debt	(104)	(4,011)
Cash flows used in financing activities	<u>(60)</u>	<u>(4,006)</u>
Cash flows (used in) from investing activities		
Acquisition of capital assets	(409)	(1,825)
Proceeds on disposal of capital assets	0	12
Acquisition of intangible assets	(41)	(103)
Cash flows used in investing activities	<u>(450)</u>	<u>(1,916)</u>
Effect of exchange rate changes on cash	<u>5</u>	<u>73</u>
Net increase (decrease) in cash for continuing operations	2,627	(9,770)
Net cash used in discontinued operations	(150)	(90)
Net increase (decrease) in cash	<u>2,477</u>	<u>(9,860)</u>
Cash and cash equivalents, beginning of period	8,506	20,571
Cash and cash equivalents, end of period	<u>\$ 10,983</u>	<u>\$ 10,711</u>
Interest paid	<u>\$ 69</u>	<u>\$ 166</u>

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

For the six months ended April 30,	2006	2005
Cash flows from (used in) operating activities		
Net income from continuing operations	\$ 9,550	\$ 1,957
Amortization	3,521	3,327
Gain on disposal of assets	(26)	(36)
Convertible debenture - accretion	379	347
Stock compensation expense	185	258
Non-controlling interest	72	135
	<u>13,681</u>	<u>5,988</u>
Net change in non-cash working capital items	(2,020)	(14,681)
Cash flows provided by (used in) operating activities	<u>11,661</u>	<u>(8,693)</u>
Cash flows from (used in) financing activities		
Shares issued	44	44
Decrease in long term debt	(282)	(4,237)
Cash flows used in financing activities	<u>(238)</u>	<u>(4,193)</u>
Cash flows (used in) from investing activities		
Acquisition of capital assets	(886)	(3,224)
Proceeds on disposal of capital assets	27	52
Acquisition of intangible assets	(110)	(153)
Business Acquisition	(5,261)	-
Cash flows used in investing activities	<u>(6,230)</u>	<u>(3,325)</u>
Effect of exchange rate changes on cash	<u>(125)</u>	<u>194</u>
Net increase (Decrease) in cash for continuing operations	5,068	(16,017)
Net cash used in discontinued operations	(264)	(456)
Net increase (decrease) in cash	<u>4,804</u>	<u>(16,473)</u>
Cash and cash equivalents, beginning of period	6,179	27,184
Cash and cash equivalents, end of period	<u>\$ 10,983</u>	<u>\$ 10,711</u>
Interest paid	<u>\$ 781</u>	<u>\$ 952</u>



COM DEV International Ltd.
Second Quarter MD&A – Fiscal 2006
For the Period Ended
April 30, 2006

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 and 6 month periods ended April 30, 2006 (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 May 30, 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, Ottawa, Ontario, 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 842 people around the world as of April 30, 2006, compared to approximately 855 people as of April 30, 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 second quarter of the Company's 2006 fiscal year, 3 satellite programs were awarded in the global space market, which brings the total fiscal year to date global awards level to 16. In the second quarter of fiscal 2005, a total of 6 satellites were awarded in the global market, and the year to date total awards for the first half of

fiscal 2005 totaled 19 satellites. In the full 2005 fiscal year a total of 31 satellite programs were awarded. Approximately 680 transponders are estimated to be on board the 16 satellite programs announced in the first half of the current fiscal year, representing an increase of more than 52% over the 447 transponders ordered in the comparable first half of fiscal 2005. A total of approximately 118 transponders are estimated to be on board the 3 new satellite awards in the second quarter, compared to 210 estimated to be on board the 6 satellite awards in the second 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:

<u>Sector</u>	2006		Three months ended April 30 2005	
	<u>Satellites</u>	<u>Transponders</u>	<u>Satellites</u>	<u>Transponders</u>
Commercial	3	118	5	194
Civil	-	-	1	16
Military/Defense	-	-	-	-
Total	3	118	6	210

<u>Sector</u>	2006		Six months ended April 30 2005	
	<u>Satellites</u>	<u>Transponders</u>	<u>Satellites</u>	<u>Transponders</u>
Commercial	11	440	9	351
Civil	2	48	7	84
Military/Defense	3	192	3	12
Total	16	680	19	447

Of the 3 satellites programs announced in the markets in fiscal 2006 Q2, COM DEV has already secured orders on 1, and is actively bidding on the remaining 2. This compares to fiscal 2005 Q2, when of the 6 satellites announced in the market, COM DEV ultimately participated in 5. Bidding and negotiating activity remains brisk. On a fiscal year basis, COM DEV has won orders on 6 of the 16 announced satellites announced so far this fiscal year, and is bidding on all of the remaining 10. This compares with 15 ultimate wins on the 19 satellites announced up to the end of the second quarter of fiscal 2005. It is important to note that there is often a lag between satellites award announcements to the prime contractors, and awards to next tier companies like COM DEV, as negotiations continue.

New business won in fiscal 2006 Q2 was weighted more in the Multiplexer business unit, as would be expected with the higher proportion of Commercial segment work booked in the quarter. Both the Switch and Space Electronics units posting good new order bookings. Total new orders booked during fiscal 2006 Q2 were \$42 million, compared to \$28 million in the first quarter. In fiscal 2005, new orders in Q2 totaled \$29 million.

Of the \$42 million in new orders won in the second quarter of 2006, 57% came from the commercial sector of the space market, 16% from the civil sector, and 27% from the defense sector, compared to a split of 53% / 23% / 24% in the second quarter of fiscal 2005.

The Company closed out Q2 2006 with \$104 million in backlog, compared to \$63.6 million the end of Q2 2005, growing from the previous quarter's 3-year high backlog level of \$101 million, and from the 2005 fiscal year end level of \$87 million. 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 Q2 was 38%, 30%, 32% split between commercial, civil, and defense, compared with a split of 32%, 34%, 34% as at the end of Q1 2006, and 60%, 27%, 13% at the end of the second quarter a year ago. While the commercial segment portion of our backlog increased slightly in the quarter, this split of work between the Company's three market segments continues to demonstrate the Company's success in balancing its portfolio.

Foreign exchange shifts continued to be seen in the second quarter of the current fiscal year. According to the Bank of Canada, the average value of the Canadian dollar increased by 1.4% in relation to the US dollar in the second quarter compared with the average rate in the prior quarter. On a year-to-year basis, the Canadian dollar strengthened by 6.6% in the second quarter.

While a declining US dollar continues to apply downward pressure to gross margins, second quarter margins continued to show the strength demonstrated in the first quarter of fiscal 2006. Delivery performance continued to keep pace with customer demands, resulting in no erosion of margins from late delivery penalties. In addition, the continued high level of engineering and production activities within the Company resulted in solid operational leverage for the organization. Business mix also contributed to the continued strength of margins realized in the second quarter.

Overall operating expenses were \$5.5 million in the second quarter of fiscal 2006, compared with \$5.0 million in the first quarter, and \$4.8 million in the comparable second quarter of fiscal 2005. Selling expenses, as well as general and administrative costs rose in the second quarter. As bidding and negotiation activity continues to be robust, the investment in selling costs is a natural outcome, and one that the Company is willing to fund. New orders won in the quarter demonstrates that this investment is yielding the desired results. Selling and general expenses were up \$0.1 million from Q1 2006, coming in at \$3.7 million, versus \$3.6 million in Q1. In the second quarter of fiscal 2005 selling, general and administrative costs were \$3.1 million. Net research and development spending was up slightly from \$1.7 million in Q2 2005 to \$1.8 million in Q2 2006. In the first quarter, net research and development spending was \$1.4 million.

COM DEV ended the second quarter of fiscal 2006 with \$11.0 million of cash and equivalents, up from \$8.5 million at the end of the first quarter, and from \$6.2 million at October 31, 2005. The Company's \$15 million operating line of credit remained untouched at quarter-end. Compared to the first quarter, receivables were \$1.5 million higher at \$32.6 million, and net inventories were \$5.9 million higher at \$11.8 million. Comparable Q2 2005 figures for cash, receivables and net inventories were \$10.6 million, \$30.6 million, and \$10.4 million respectively.

Overall, the Company delivered a strong net income of \$5.4 million in Q2 fiscal 2006, up from \$1.8 million at the end of the second quarter a year ago, and up from \$4.2 million in the prior quarter.

RESULTS OF OPERATIONS

Revenues

(in millions of dollars)	Three months ended April 30		
	2006	2005*	% Change
Commercial satellite programs	\$18.2	\$19.5	(6.7%)
Civil (government) programs	\$10.2	\$ 5.1	100.0%
Military & defense programs	\$ 9.8	\$ 8.0	22.5%
Total Space revenues	\$ 38.2	\$32.6	17.2%

* note: 2005 revenue figures restated to conform to current method of presentation for COM DEV X'ian results.

Second quarter revenues for fiscal 2006 were strong despite continued downward pressure from a strengthening Canadian dollar. The 17.2% increase in revenues over the prior year second quarter results was after a 6.6% strengthening in the Canadian dollar year over year, and reflects the higher level of backlog in the organization and strong program execution. The level of revenue performance in the second quarter is in line with management's expectation that the Company will achieve its stated full year revenue growth target of at least 15% over 2005 levels. Management had indicated in Q3 2005 that it was targeting a minimum revenue growth of 10% for fiscal 2006, over fiscal 2005, however, the ability of the Company to continue to win new business resulted in an increase in revenue growth guidance to 15% earlier this fiscal year.

Backlog	April 30	April 30
(millions of dollars)	2006	2005
Commercial satellite programs	\$ 39.5	\$38.4
Civil (government) programs	\$ 33.3	\$17.0
Military & defense programs	\$ 31.2	\$ 8.2
Total Backlog	\$104.0	\$63.6

The backlog of work increased slightly from the 3-year high of \$100.9 million at Q1 2006. Backlog continues to be reasonably balanced amongst the Company's three major market segments.

Income from Operations and Net Income	Three months ended April 30		
(millions of dollars except EPS)	2006	2005	% Change
Income from continuing operations	\$5.4	\$1.8	200.0%
Total net income	\$5.4	\$1.8	200.0%
Earnings per share, basic and diluted	\$0.09	\$0.03	-

Net income from continuing operations in the second quarter of 2006 was \$5.4 million compared with \$1.8 million in the comparable quarter of fiscal 2005. As noted earlier, strong operational performance led to continued gross margin strength in the second quarter of fiscal 2006. While operating expenses rose in the quarter from the comparable prior year quarter, the increases were more than offset by the strong operating income resulting from much higher revenue levels.

Gross Margin

(millions of dollars)	Three months ended April 30		
	2006	2005	% Change
Total gross margin	\$11.5	\$7.1	62.0%
Total gross margin %	30.1%	21.6%	8.5%

Gross margins for the second quarter continued to show strength, as a result of the factors noted earlier. The Company's high levels of backlog provided the opportunity to drive a higher level of revenue through the organization, resulting in strong operational leverage. Delivery performance continued to keep pace with our customers' requirements with all deliveries on time, avoiding erosion of margin due to penalties. Product mix also contributed to higher gross margin performance. While gross margins are expected to moderate slightly over the remainder of the year, management's confidence in the organization's ability to deliver solid mid, to upper-twenty percent margins is increasing.

Research and Development (R&D)

(millions of dollars)	Three months ended April 30		
	2006	2005	% Change
Total R&D Spending before funding	\$ 2.9	\$ 2.4	20.8%
Total R&D Funding received	\$(1.1)	\$(0.7)	57.1%
R&D, net of Funding	\$ 1.8	\$ 1.7	5.9%

The Company continued to invest in important R&D projects in the second quarter at a level that was slightly higher than the comparable prior year. This increase in spending was offset by increased funding of the Company's R&D efforts. 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.

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 April 30		
	2006	2005	% Change
Selling, general & administrative expenses (SG&A)	\$3.7	\$3.1	19.4%
SG&A % of total revenue	9.7%	9.5%	0.2%
Interest expense	\$0.5	\$0.6	(16.7%)
Foreign exchange (gain) loss	\$ -	(\$0.3)	
Other expense (income)	\$ 0.1	\$0.1	

Selling, General and Administrative

SG&A expenses for the second quarter of 2006 increased from the prior comparable period, as a result of increased selling costs associated with higher bid and negotiation activity. In addition general and administrative costs rose versus the prior year as the Company continued to reserve for its Management Incentive Program based on bottom line performance improvements. In 2005, no Management Incentives were accrued, or paid. Management does not expect selling costs to increase significantly from current levels at the present time.

Interest Expense

With the 2005 retirement of the promissory note, (see Note 11 (b) of the audited Consolidated Financial Statements for the year ended October 31, 2005 for a description of the promissory note) interest expense is now primarily driven by the remaining \$18 million convertible debenture.

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 financial instruments that have a conversion option associated with them.

Foreign Exchange

The foreign exchange gain in the second quarter of 2006 was negligible, compared with a gain of \$0.3 million in the second 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 consolidated 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 January 31, 2006 and April 30, 2006:

(in millions of dollars)	Increase/ (Decrease)	Explanation
Cash and cash equivalents	\$2.5	Refer to Statement of Cash Flows
Accounts receivable	1.5	Normal billings in the second quarter, commensurate with business levels, coupled with good collection performance.
Inventory	2.3	Continued high backlog, and shorter delivery intervals resulting in increase in Project inventory.
Prepaid and other	0.6	Change in unrealized gain in fair value of foreign exchange hedge contracts, increase in prepaid insurance upon renewal of policies and increase in prepaid property taxes for our Aylesbury, UK facility.
Capital assets	(1.2)	Capital additions of \$0.4 million in normal course of business, less normal depreciation.
Intangible assets	(0.1)	Normal amortization.
Accounts payable and accrued	3.3	Normal accounts payable payments cycle, on higher purchasing activity.
Deferred revenue	(3.6)	Operational program performance allowed earned revenue to outpace flow of progress billings during the quarter.
Convertible debenture	0.2	Accretion of the debt portion of the debenture.
Long term liabilities	(0.1)	Reduction in estimated liability associated with a lease for the discontinued wireless business, and loans payable as repayments are made.
Non-controlling interest	0.0	Presentation to reflect full consolidation of COM DEV X'ian, with minority interest elimination.
Shareholders' equity	5.5	Net income, and currency translation adjustment

Liquidity and Capital Resources

(in millions of dollars)	Three months ended April 30		
	2006	2005	% Change
Cash provided by (used in) operating activities	\$ 3.1	(\$3.9)	
Net increase (decrease) in cash	\$ 2.5	(\$9.9)	
Property and equipment additions	\$ 0.4	\$1.8	(77.8%)

The Company generated \$3.1 million of cash from operating activities in the second quarter of 2006, compared with its use of \$3.9 million a year earlier. A total of \$4.4 million was invested in working capital in the quarter as net inventories, accounts receivable, and accounts payable grew commensurate with the growth of the business. This working capital investment in the second quarter is in comparison to the prior year second quarter when \$7.6 million cash was used investing in working capital. The Company expects to invest between \$5.5 and \$7 million in capital equipment this year, primarily in maintenance capex, and specific targeted capital equipment as most of the expansionary investments were completed in 2004 and 2005. This amount could increase slightly if delivery demands continue to compress production and testing time requirements.

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 April 30, 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 \$10 million to be used to finance any acquisitions.

In addition to this, and subsequent to the end of the fiscal second quarter, the Company announced its intention to redeem its \$18 million Convertible Debenture on June 22, 2006. While management expects most debenture holders to exercise their conversion option prior to redemption, this is not a certainty. Accordingly, the Company is in final negotiations for the purpose of establishing financing sufficient to redeem the Convertible Debentures should the holders opt to receive cash in settlement of the debenture redemption. The Company expects to conclude these arrangements shortly.

Off-balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at the end of Q2 2006 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	\$ 444	\$ -	\$ 148	\$ 148	\$148
Operating leases	\$ 3,358	\$ 502	\$ 1,590	\$ 970	\$296
Capital leases	\$ 414	\$ 222	\$ 189	\$ 3	\$ -
Purchase obligations*	\$ -	\$ -	\$ -	\$ -	\$ -
Other Long-term obligations**	\$18,000	\$18,000	\$ -	\$ -	\$ -
Total contractual obligations	\$22,216	\$18,724	\$ 1,927	\$1,121	\$444

* 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 April 30, 2006 the Company had outstanding forward foreign currency call options with a notional value of \$17.5 million maturing within a year at an average exchange rate of \$1.1667 (April 30, 2005: \$18.2 million at 1.2120). The

Company had outstanding forward foreign currency put options with a notional value of \$26.3 million maturing within a year at an average exchange rate of \$1.1699 (April 30, 2005: \$27.8 million at 1.2338). 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	\$32,706	\$38,162			\$70,869
Net Income from Continuing Operations	\$4,188	\$5,362			\$9,550
Net Income per share from Continuing Operations (basic and diluted)	\$0.07	\$0.09			\$0.16
Net Income – Total	\$4,188	\$5,362			\$9,550
Net Income per share (basic and diluted)	\$0.07	\$0.09			\$0.16

Fiscal 2005 Quarters	January 31	April 30	July 31	October 31	Total
Total Revenue*	\$30,410	\$32,621	\$31,296	\$29,889	\$124,216
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

* restated to conform to current method of presentation

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. Should these penalties actually be incurred, the gross margins of the business would be negatively impacted.

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 effect 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 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 has exercised its rights to call for early redemption of the Debenture on June 22, 2006. The holders of the debentures can exercise their right to convert their debentures into common shares up to June 21, 2006. It is expected that most debenture holders will convert their holdings into common shares. For those that don't elect to convert their debentures into shares, the Company will redeem their debenture holdings with a cash payment on June 22, 2006. For additional disclosure of the Convertible Debenture, please see the Notes to the Audited Consolidated Financial Statements as at October 31, 2005.

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 April 30, 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 May 30, 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 May 30, 2006 are as follows:

Common shares	59,991,469
Options on common shares	3,674,390

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



COM DEV International Ltd.
Second Quarter Financial Statements – Fiscal 2006
For the Period Ended
April 30, 2006

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

For the three months ended April 30,	2006	2005
Revenue	\$ 38,162	\$ 32,621
Cost of revenue	<u>26,657</u>	<u>25,569</u>
Gross margin	<u>11,505</u>	<u>7,052</u>
Research and development spending	2,890	2,471
Research and development recovery	<u>1,057</u>	<u>740</u>
Net research and development	1,833	1,731
Selling and general expenses	<u>3,705</u>	<u>3,100</u>
Operating income	5,967	2,221
Recovery of investment	-	(67)
Interest expense	491	583
Foreign exchange gain	(8)	(272)
Other expense	<u>77</u>	<u>130</u>
Income before non-controlling interest	5,407	1,847
Non-controlling interest	<u>45</u>	<u>76</u>
Net income	<u>\$ 5,362</u>	<u>\$ 1,771</u>
Earnings per share (note 3c)		
Basic and diluted earnings per share	\$0.09	\$0.03

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

For the six months ended April 30,	2006	2005
Revenue	\$ 70,868	\$ 63,031
Cost of revenue	<u>49,558</u>	<u>49,599</u>
Gross margin	<u>21,310</u>	<u>13,432</u>
Research and development spending	5,096	4,640
Research and development recovery	<u>1,841</u>	<u>1,112</u>
Net research and development	3,255	3,528
Selling and general expenses	<u>7,287</u>	<u>6,276</u>
Operating income	10,768	3,628
Recovery of investment	-	(67)
Interest expense	1,046	1,131
Foreign exchange (gain) loss	(296)	363
Other expense	<u>396</u>	<u>109</u>
Income before non-controlling interest	9,622	2,092
Non-controlling interest	<u>72</u>	<u>135</u>
Net income	<u>\$ 9,550</u>	<u>\$ 1,957</u>
Earnings per share (note 3c)		
Basic and diluted earnings per share	\$0.16	\$0.03

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

For the six months ended April 30,	2006	2005
Balance, beginning of the period	\$ (248,638)	\$ (253,828)
Net income	9,550	1,957
Balance, end of the period	<u>\$ (239,088)</u>	<u>\$ (251,871)</u>

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

	As at April 30, 2006	As at October 31, 2005
Assets		
Current		
Cash and cash equivalents	\$ 10,983	\$ 6,179
Accounts receivable	32,585	33,062
Inventory	23,596	20,468
Prepays and other	2,437	796
Income taxes recoverable	824	824
	70,425	61,329
Capital assets	34,507	33,695
Intangible assets (note 2)	4,269	2,178
Other assets	139	231
Total assets	\$ 109,340	\$ 97,433
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 16,651	\$ 15,439
Convertible debenture	17,471	-
Convertible debenture - interest payable	404	406
Deferred revenue	11,801	10,606
Current portion of loans payable	422	484
Current liabilities - discontinued operations	1,011	1,042
	47,760	27,977
Long term		
Loans payable	456	676
Convertible debenture	-	17,092
Long term liabilities - discontinued operations	852	1,042
Non-controlling interest	461	389
	1,769	19,199
Total liabilities	49,529	47,176
Shareholders' equity		
Convertible debentures - holder's conversion option	3,336	3,336
Share capital (note 3)	296,734	296,567
Contributed surplus	357	296
Deficit	(239,088)	(248,638)
Currency translation adjustment	(1,528)	(1,304)
Total	59,811	50,257
Total liabilities and shareholders' equity	\$ 109,340	\$ 97,433

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

For the three months ended April 30,	2006	2005
Cash flows from (used in) operating activities		
Net income from continuing operations	\$ 5,362	\$ 1,771
Amortization	1,838	1,611
Gain on disposal of assets	0	(11)
Convertible debenture - accretion	192	176
Stock compensation expense	107	36
Non-controlling interest	44	76
	<u>7,543</u>	<u>3,659</u>
Net change in non-cash working capital items	(4,411)	(7,580)
Cash flows provided by (used in) operating activities	<u>3,132</u>	<u>(3,921)</u>
Cash flows from (used in) financing activities		
Shares issued	44	5
Decrease in long term debt	(104)	(4,011)
Cash flows used in financing activities	<u>(60)</u>	<u>(4,006)</u>
Cash flows (used in) from investing activities		
Acquisition of capital assets	(409)	(1,825)
Proceeds on disposal of capital assets	0	12
Acquisition of intangible assets	(41)	(103)
Cash flows used in investing activities	<u>(450)</u>	<u>(1,916)</u>
Effect of exchange rate changes on cash	<u>5</u>	<u>73</u>
Net increase (decrease) in cash for continuing operations	2,627	(9,770)
Net cash used in discontinued operations	(150)	(90)
Net increase (decrease) in cash	<u>2,477</u>	<u>(9,860)</u>
Cash and cash equivalents, beginning of period	8,506	20,571
Cash and cash equivalents, end of period	<u>\$ 10,983</u>	<u>\$ 10,711</u>
Interest paid	<u>\$ 69</u>	<u>\$ 166</u>

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

For the six months ended April 30,	2006	2005
Cash flows from (used in) operating activities		
Net income from continuing operations	\$ 9,550	\$ 1,957
Amortization	3,521	3,327
Gain on disposal of assets	(26)	(36)
Convertible debenture - accretion	379	347
Stock compensation expense	185	258
Non-controlling interest	72	135
	<u>13,681</u>	<u>5,988</u>
Net change in non-cash working capital items	<u>(2,020)</u>	<u>(14,681)</u>
Cash flows provided by (used in) operating activities	<u>11,661</u>	<u>(8,693)</u>
Cash flows from (used in) financing activities		
Shares issued	44	44
Decrease in long term debt	(282)	(4,237)
Cash flows used in financing activities	<u>(238)</u>	<u>(4,193)</u>
Cash flows (used in) from investing activities		
Acquisition of capital assets	(886)	(3,224)
Proceeds on disposal of capital assets	27	52
Acquisition of intangible assets	(110)	(153)
Business Acquisition (note 2)	(5,261)	-
Cash flows used in investing activities	<u>(6,230)</u>	<u>(3,325)</u>
Effect of exchange rate changes on cash	<u>(125)</u>	<u>194</u>
Net increase (Decrease) in cash for continuing operations	5,068	(16,017)
Net cash used in discontinued operations	(264)	(456)
Net increase (decrease) in cash	<u>4,804</u>	<u>(16,473)</u>
Cash and cash equivalents, beginning of period	6,179	27,184
Cash and cash equivalents, end of period	<u>\$ 10,983</u>	<u>\$ 10,711</u>
Interest paid	<u>\$ 781</u>	<u>\$ 952</u>

COM DEV INTERNATIONAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED APRIL 30, 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.

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.

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The cash consideration was paid from the operating bank facility and was fully repaid during the first quarter from operating cash flows.

The following table summarizes the estimated fair value of the assets acquired on November 28, 2005, 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.

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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 six months ended April 30, 2006.

	Number	Amount
Balance, October 31, 2005	59,912,161	\$296,567
Issuance of common shares (i)	27,600	44
Shares issued through employee plans (ii)	51,708	123
Balance, April 30, 2006	59,991,469	\$296,734

- (i) During the 2nd quarter, the Company issued 27,600 common shares to satisfy the equivalent number of stock options exercised.
- (ii) On February 28, the Company issued 51,708 (56,731 in 2005) common shares under the Employee Stock Ownership Plan.

The value of ESOP shares amortized to compensation expense in the quarter was \$40 (\$36 in 2005) and in the six months ended April 30 was \$86 (\$79 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 six months ended April 30, 2006, the Company granted 862,100 options (150,000 in 2005). The options granted in 2006 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 six months ended April 30, 2006 and 2005 were

COM DEV INTERNATIONAL LTD

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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(Canadian dollars in thousands, except for per share figures)

estimated at the date of grant, using a Black-Scholes Option Model with the following weighted average assumptions:

	For the six months ended	
	April 30, 2006	April 30, 2005
Risk-free interest rate	3.9%	3.4%
Dividend yield	0.0%	0.0%
Volatility	0.452	0.531
Expect life of options	5 years	5 years
Weighted average fair value of options granted	<u>\$0.97</u>	<u>\$1.19</u>
Weighted average exercise price of options granted	<u>\$2.18</u>	<u>\$3.25</u>

The estimated fair value of the options is amortized to expense over the vesting period of the options. In the quarter compensation expense of \$67 (nil in 2005) was expensed. During the six months ended April 30, 2006, compensation expense of \$99 (\$179 in 2005) was recognized. This amount was added to contributed surplus.

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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	
	April 30, 2006	April 30, 2005
Net income – as reported	\$ 5,362	\$ 1,771
Additional pro forma stock-based compensation costs for the period	(103)	(103)
Basic net income – pro forma	<u>\$ 5,259</u>	<u>\$ 1,668</u>
Convertible debenture interest	303	--
Convertible debenture accretion	192	--
Diluted net income – pro forma	<u>\$ 5,754</u>	<u>\$ 1,668</u>
Pro forma earnings per common share:		
Basic and diluted	\$ 0.09	\$ 0.03
Weighted average number of shares:		
Basic	59,959,514	59,835,367
Diluted	66,831,703	60,531,044

	For the six months ended	
	April 30, 2006	April 30, 2005
Net income – as reported	\$ 9,550	\$ 1,957
Additional pro forma stock-based compensation costs for the period	(206)	(206)
Basic net income – pro forma	<u>\$ 9,344</u>	<u>\$ 1,751</u>
Convertible debenture interest	607	--
Convertible debenture accretion	379	--
Diluted net income – pro forma	<u>\$ 10,330</u>	<u>\$ 1,751</u>
Pro forma earnings per common share:		
Basic and diluted	\$ 0.16	\$ 0.03
Weighted average number of shares:		
Basic	59,935,445	59,805,932
Diluted	66,675,534	60,511,362

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c) Earnings Per Share

The following tables sets forth the computation of basic and diluted earnings per share for the three and six months ended April 30:

	3 months ended April 30	
	2006	2005
Numerator for basic and diluted earnings per share available to common stockholders		
Basic net income attributed to common stockholders	\$ 5,362	\$ 1,771
Convertible debenture interest	303	--
Convertible debenture accretion	192	--
Diluted net income attributed to common stockholders	<u>\$ 5,857</u>	<u>\$ 1,771</u>
Denominator for basic earnings per share- weighted average shares outstanding	<u>59,959,514</u>	<u>59,835,367</u>
Effect of dilutive securities		
ESOP	52,808	54,400
Employee stock options	1,056,773	814,639
Convertible debentures	5,714,286	--
Potential dilutive common shares	<u>6,823,867</u>	<u>869,039</u>
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	<u>66,783,381</u>	<u>60,704,406</u>
Earnings per share		
Basic and diluted earnings per share	\$0.09	\$0.03

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	6 months ended April 30	
	2006	2005
Numerator for basic and diluted earnings per share available to common stockholders		
Basic net income attributed to common stockholders	\$ 9,550	\$ 1,957
Convertible debenture interest	607	--
Convertible debenture accretion	379	--
Diluted net income attributed to common stockholders	\$ 10,536	\$ 1,957
Denominator for basic earnings per share- weighted average shares outstanding	59,935,445	59,805,932
Effect of dilutive securities		
ESOP	56,585	70,113
Employee stock options	864,675	804,531
Convertible debentures	5,714,286	--
Potential dilutive common shares	6,635,546	874,644
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	66,570,991	60,680,576
Earnings per share		
Basic and diluted earnings per share	\$0.16	\$0.03

The maximum number of shares outstanding if all options were exercised and the debentures were converted is 70,068,783.

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

d) Contributed Surplus

	3 months ended April 30	
	2006	2005
Balance, beginning of quarter	\$374	\$348
Value of ESOP awards	40	36
ESOP Matching	(123)	(162)
Compensation expense recognized for share options	67	--
Balance, April 30	\$358	\$222

	6 months ended April 30	
	2006	2005
Balance, beginning of year	\$296	\$126
Value of ESOP awards	86	79
ESOP Matching	(123)	(162)
Compensation expense recognized for share options	99	179
Balance, April 30	\$358	\$222

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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 April 30		6 months ended April 30	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue				
Canada	\$37,352	\$30,834	\$69,353	\$59,792
United Kingdom	1,477	3,352	3,007	5,841
	<u>38,829</u>	<u>34,186</u>	<u>72,360</u>	<u>65,633</u>
Inter-segment sales	<u>(667)</u>	<u>(1,565)</u>	<u>(1,492)</u>	<u>(2,602)</u>
Revenue for External Customers	<u>\$38,162</u>	<u>\$32,621</u>	<u>\$70,868</u>	<u>\$63,031</u>

5. Foreign Currency Options and Forward Contracts

As at April 30, 2006, the Canadian dollar amount that could be received under Canadian / U.S. foreign currency call options was \$17,499 (\$18,178 in 2005) and the amount that could be paid under foreign currency put options was \$26,322 (\$27,752 in 2005). The average contractual exchange rate on the call options was 1.1667 and on the put options was 1.1699. The settlement dates of all the outstanding contracts were less than one year. The exchange rate at April 30 was 1.1180 (1.2585 in 2005).

The Company recorded realized gains of \$254 and \$373 for the three and six months ended April 30, 2006, (compared to a loss of \$248 and gain of \$480 for the same periods in 2005) on foreign currency options that have been included in "foreign exchange gain (loss)" on the Consolidated Statements of Operations. At April 30, 2006 the fair value of option contracts of \$753 is included in "Prepays and other" on the Consolidated Balance Sheets. At April 30, 2005 the fair value of option contracts of (\$713) was included in "Accounts payable and accrued liabilities" on the Consolidated Balance Sheets.

6. Subsequent Events

On May 5, 2006 the Company announced that it has elected to redeem all of the issued and outstanding 6.75% convertible debentures issued December 6, 2001. The redemption will occur on June 22, 2006, for the debentures that have not been converted to common shares.

7. Comparative Consolidated Financial Statements

The comparative consolidated financial statements have been reclassified from statements

COM DEV INTERNATIONAL LTD

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previously presented to conform to the presentation of the current year consolidated financial statements.