



**COM DEV International Ltd.  
Second Quarter Report – Fiscal 2007  
For the Period Ended  
April 30, 2007**



## COM DEV Announces Second Quarter FY2007 Results

**CAMBRIDGE, ON – June 14, 2007** – COM DEV International Ltd. (TSX:CDV) today announced its second quarter financial results for the three-month period ended April 30, 2007. All amounts are stated in Canadian dollars.

### Second Quarter Highlights

- Revenue was \$38.6 million, marginally higher than the \$38.2 million recorded in the second quarter of 2006, and was lower than expected due to the time and effort devoted by a number of revenue-generating employees to analysis and testing related to a technical issue on a program which was uncovered by the Company's quality control procedures in April.
- Gross margin was 19%, compared to 30% in the comparable period of 2006. Margins were negatively impacted by a \$5.1 million charge incurred due to the program cost overrun.
- COM DEV recorded a net loss of \$1.4 million in the second quarter, compared to a net income of \$5.4 million a year earlier. Earnings per share were (\$0.02), compared to \$0.09 in Q2 2006.
- New orders won in the second quarter totaled \$81 million, compared to \$42 million a year earlier and \$22 million in the first quarter of fiscal 2007.
- Second quarter orders included a \$39 million civil space contract from the Canadian Space Agency for the production phase of the fine guidance sensor on NASA's James Webb Space Telescope. The project will be run out of COM DEV's recently opened Ottawa facility.
- Backlog at quarter-end was \$130 million, compared to \$89 million at the end of Q1 2007.
- Subsequent to quarter-end COM DEV purchased a 46,000 square foot facility in El Segundo, California which will be home to the production and engineering operations of COM DEV USA and serve as a platform for entry into the US government space market.

"We have made significant progress towards our long-term strategic growth objectives in recent months, including securing a major mandate for our new Ottawa facility, establishing a location for our US operations, and undertaking a significant expansion at our Cambridge site to accommodate expected production volumes. New orders and backlog reached record levels in the second quarter," said Mike Pley, President of COM DEV. "We also rallied our team and worked very closely with a customer to rectify a problem uncovered by our testing procedures. I am very pleased to have resolved that issue to the customer's satisfaction, and we are undertaking steps to ensure that this type of problem does not recur."

## **Program Cost Overrun Update**

The second quarter saw COM DEV's financial results impacted significantly by a technical issue on one of the Company's programs. In a press release dated April 18, 2007, the Company estimated that the total direct and indirect impacts could be up to \$9 million. Subsequently a team of senior technical subject matter experts worked to determine the root cause of the process failure and to implement corrective actions. The Company has worked closely with the customer to determine the extent to which equipment needed to be rebuilt and the criteria for accepting the remaining equipment. Following an extensive qualification testing process, the Company and the customer determined that the majority of the hardware could be used "as is", while some of the components required rework and a small number of components must be rebuilt. The Company is well into the required rebuild for the equipment so dispositioned, has completed rework as required, and is currently delivering hardware to the customer for integration onto the spacecraft.

Because much of the equipment originally built could be used, COM DEV has determined that the total financial impact of this issue is lower than initially estimated. The Company has included a \$5.1 million charge in cost of goods sold for the second quarter. This amount includes estimated follow-on effects from other programs that may be delayed. The Company does not anticipate recording any additional charges relating to this issue.

## **Financial Review**

COM DEV's fiscal 2007 second quarter revenues of \$38.6 million represented an increase of \$0.4 million or 1% over the prior year period. Revenue growth was lower than expected due to the time and effort devoted by a number of revenue-generating employees to analysis and testing related to the program cost overrun. The revenue split between the three sectors was 45% commercial, 31% civil and 24% military. Revenues over the first six months of fiscal 2007 are 10.1% higher than in the comparable period last year. Management continues to expect revenue growth of at least 10% in fiscal 2007.

The Company received new orders totaling \$81 million during the quarter, of which 28% were commercial, 60% were civil, and 12% were military. Backlog at quarter-end was a record high \$130 million compared to \$89 million three months earlier. Backlog was split between the Company's commercial, civil and military sectors at a ratio of 25%, 50% and 25% respectively, compared to 36%, 31% and 33% at the end of Q1 2007.

Second quarter gross profit was \$7.2 million, compared to \$11.5 million in Q2 2006. The gross margin of 19%, which compares to 30% a year earlier, was below management's target range of mid to high 20's. The \$5.1 million impact of the program cost overrun was incurred entirely at the gross profit level. Excluding this impact, gross margin would have been 31% in Q2 2007. Management anticipates a return to its target range in coming quarters, though the strengthening Canadian dollar is expected to have a suppressive effect on margins.

Net research and development expense increased by \$0.9 million to \$2.7 million following a strategic decision to pursue near and medium term growth opportunities. Selling, general and administrative

expense increased by \$1.3 million to \$5.0 million, due largely to the start-up of operations in California and higher bid-related costs. Operating loss was \$0.5 million in Q2 2007. The net loss of \$1.4 million includes a \$0.9 million provision for discontinued operations resulting from the settlement of a lease obligation in the UK.

COM DEV exited the second quarter of 2007 with \$25.6 million of cash and equivalents compared to \$15.2 million at January 31, 2007. Cash generated from operating activities was \$13.1 million, compared to \$3.1 million in Q2 2006. The Company's approved credit facilities totaling \$45 million remained undrawn at quarter-end.

The Company's basic share count averaged 67,585,551 in the second quarter, and stood at 67,649,638 on June 11, 2007.

### **Change to Board of Directors**

COM DEV also announced that Frank Hasenfratz has resigned from the Company's Board of Directors in order to devote more time to personal interests. Chairman Keith Ainsworth expressed his thanks to Mr. Hasenfratz on behalf of the Board, stating: "Frank joined COM DEV's board as a director in 1994, prior to COM DEV going public. His insight, contributions, and commitment to the Company during his tenure have been most appreciated. We thank Frank sincerely and wish him all the best in his future endeavors."

### **Conference Call**

A conference call will be held today, Thursday, June 14, 2007 at 5:30 pm EDT to discuss this announcement. To access the live webcast, please visit the Company's website at [www.comdev.ca](http://www.comdev.ca) or [www.newswire.ca](http://www.newswire.ca) for directions. Participants will require Windows Media Player™ to listen to the webcast.

### **About COM DEV**

COM DEV International Ltd. ([www.comdevintl.com](http://www.comdevintl.com)) is a leading global designer and manufacturer of space hardware subsystems. With facilities in Canada, the United Kingdom and the United States, COM DEV 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.

## **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 period ended April 30, 2007 (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, 2006 ("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 June 14, 2007.

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, 2006 and other documents available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **USE OF NON-GAAP MEASURES**

In this Management Discussion and Analysis (MD&A), we provide information about contract backlog. Backlog measures are not defined by generally accepted accounting principles (GAAP) and our measurement of backlog may vary from that used by others. While we believe that long-term backlog trends serve as a useful metric for assessing the growth prospects for our business, backlog is not a guarantee of future revenues and provides no information about the timing on which future revenue may be recorded.

## **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, Canada; El Segundo, California, USA; and Xian, China. The Company's common shares trade on The Toronto Stock Exchange under the symbol CDV. COM DEV employed approximately 989 people around the world as of April 30, 2007, compared to approximately 842 people as of April 30, 2006, and approximately 943 people as of January 31, 2007.

COM DEV 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 Unaudited Consolidated 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 was the run off of a lease related to a former location in England and discharge of some final obligations. Subsequent to the

end of the second quarter, a final resolution was reached on this long-standing lease obligation. The Company had received quotes for building remediation work that it believed would be required under the terms of the lease, however, as part of the lease term close-out, a building surveyors report was initiated by the landlord, which indicated additional repairs were required to the roof and other aspects of the building. Rather than taking on the distraction of managing this work, the Company negotiated a cash settlement, which transfers responsibility for any building remediation back to the landlord. This settlement was ultimately above managements' previous estimates, and as a result, as charge to Discontinued Operations of \$0.9 million was taken in the quarter, bringing our association with this building lease to a final conclusion.

The following analysis is related to the continuing operations of the Company unless otherwise noted.

## **OVERALL PERFORMANCE**

The second quarter saw the Company's financial results impacted significantly by a technical issue on one of the Company's programs. In April, the Company issued a press release announcing this issue, and at the time, estimated that the total direct and indirect impacts on the Company's second quarter results could be up to \$9 million. Subsequent to the issuance of this press release, a team of senior technical subject matter experts has worked to determine the root cause of the process failure found during a normal production quality control step, and to implement corrective actions. This team has characterized the failure mode, identified the root cause and was able to replicate the process failure mode. Through this work, corrective actions were identified and implemented. The Company has worked closely with the customer to determine the extent to which equipment needed to be rebuilt and the criteria for accepting the remaining equipment. To confirm those determinations, the Company reached agreement with the customer on an extensive qualification testing regimen, and the acceptance criteria stemming from this testing. The qualification testing was successfully completed, and the results presented to the customer. The end result was that the majority of the hardware, after completion of the testing regimen noted above, was dispositioned. The disposition decisions ranged from a rebuild of a small number of components, to rework on some of the equipment, and a "use as is" decision on the majority of the hardware. The Company is well into the required rebuild for the equipment so dispositioned, has completed rework as required, and is currently delivering hardware to the customer, for integration onto the spacecraft.

The amount of work that went into this failure analysis, retesting, and the rebuild and rework was time consuming and costly, however, the final impact of this issue was less than originally estimated, with the ultimate impact being approximately \$5.1 million, all of which is reflected in the second quarter's Unaudited Financial Statements as a gross margin impact. The impact however, was also felt in lower revenues for the second quarter, as manpower and management attention was directed towards resolution of this issue. Revenues for the quarter were below those expected at the beginning of the quarter, however, our year to date revenues, coupled with our record backlog, leaves management confident in reconfirming its previous guidance for at least 10% revenue growth year over year.

Turning to the market outlook now, during the second quarter of the Company's 2007 fiscal year three GEO-satellite programs were awarded in the global space market, bringing the year to date count to 14 awards during the Company's fiscal 2007. This compares with a year to date total of 16 programs announced by the end of the prior year's second quarter. In the full 2006 fiscal year a total of 33 satellite programs were awarded. Approximately 470 transponders are estimated to be on board the 14 satellite programs announced year to date in the current fiscal year, compared with the roughly 680 count from the 16 programs announced in the first half of fiscal 2006. It is important to note that 11 of the 33 programs awarded to prime satellite manufacturers in the market in the full fiscal year 2006 had not flowed out to next tier equipment providers within that fiscal year, and that COM DEV remained in the running on all of these 11 programs. In the first quarter of the current fiscal year COM DEV won mandates on five of these 11 programs. In the second quarter of the current fiscal year, there was no change in the award status of the remaining six.

The Company had an outstanding order booking quarter, with a record \$81 million in new contracts won during the quarter. In addition, several of these contract awards were "Authority to Proceed" (ATP) contracts, pending finalization of terms and conditions. The expected full value of the work that should follow-on for these ATP's is estimated at an additional \$48 million, but this expected work does not show up in either our orders entered, or backlog, until the contracts are finalized.

In addition to the geosynchronous satellite market, the Company was awarded a Phase D contract on the James Webb Space Telescope, valued at approximately \$39 million. 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 April 30			
	2007		2006	
	Satellites	Transponders	Satellites	Transponders
Commercial	2	68	3	118
Civil	1	24	-	-
Military/Defense	0	0	-	-
Total	3	92	3	118

Of the three satellites programs announced in the markets in fiscal 2007 Q2, COM DEV has secured orders on two, and is actively bidding on the third. This compares to fiscal 2006 Q2, when of the three satellites announced in the market, COM DEV ultimately won contracts on all three. Current bidding and negotiating activity remains very brisk.

Revenues in the second quarter were essentially flat year over year, with \$38.6 million in revenue in the second quarter of fiscal 2007, compared with \$38.2 million in Q2 of 2006. Sequentially, revenues were basically flat with the Company's reported Q1 revenue of \$39.5 million.

New business won in fiscal 2007 Q2 was weighted more heavily in the Space Electronics business unit, with the announcement of the aforementioned \$39 million Phase D award from the Canadian Space Agency for work on the James Webb Space Telescope. Total new orders booked during fiscal 2007 Q2 were a record \$81 million. In the prior year, new orders in Q2 totaled \$42 million, and in the first quarter of the current year, new orders were \$22 million.

Of the \$81 million in new orders won in the second quarter of 2007, 28% came from the commercial sector of the space market, 60% from the civil sector, and 12% from the defense sector, compared to a comparable split of 57%, 16%, and 27% in the second quarter of fiscal 2006. This shift in segment orders is indicative of the lumpy nature of the markets, rather than being indicative of any substantial change in the market dynamics. Military and civil sector awards tend to be less frequent, but often larger in size than awards in the commercial sector.

The Company closed out Q2 2007 with a record high \$130 million in backlog, excluding the expected ATP follow-on work, which is estimated to be an additional \$48 million, rebounding from \$89 million in Q1 2007. Backlog at the end of the prior year's Q2 stood at \$104 million. As noted earlier, the level of bidding and negotiation activity remains extremely high, and management is confident in the Company's ability to continue to win new business, as it has in the past. The Company has seen an increase in the interval between awards to prime satellite manufacturers, and full contract awards to equipment suppliers like COM DEV. More and more we are seeing awards of ATPs, followed by full contract awards later. The composition of the Company's backlog at the end of Q1 2007 was 25%, 50%, 25% split between commercial, civil, and defense, compared with a split of 30%, 36%, 34% as at the end of Q1 2007, and 36%, 31%, 33% at the end of the second quarter a year ago.

Foreign exchange remained relatively constant from Q1 to Q2 of fiscal 2007, with virtually no change in the average exchange rate between the two quarters. According to the Bank of Canada, the average value of the Canadian dollar decreased by approximately 0.3% compared 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 weakened by approximately 0.7% in the second quarter, as the currency shifted to \$0.864 from \$0.869.

Gross margins were significantly lower in the current quarter than those seen in the Company's recent history. At 19%, this is at variance with management's broad guidance of mid to high twenty percent margin levels. The impact of the program cost overrun and related impacts on other programs, which the Company announced during the quarter, while below the worst-case scenario impact of \$9 million, was still significant, at \$5.1 million. All of this impact was at the gross margin level, suppressing gross margins in the quarter. Prior quarter gross margins were 29%, and the comparable margins for the second quarter of fiscal 2006 were 30%. With the program cost overrun

now resolved, the Company expects to see margins move upwards again, although pressure from recent strengthening of the Canadian dollar will have a suppressive effect on margins. Management is currently assessing the likely impact of the recent and significant strengthening of the Canadian dollar, and will continue to seek every opportunity to improve efficiency and reduce cost in the organization, which it has done successfully in response to the exchange rate for the past 3 years.

Overall operating expenses increased by \$2.2 million from Q2 2006, due to a \$0.9 million increase in net research and development costs, and a \$1.3 million increase in selling, general and administrative costs. Compared to the first quarter of fiscal 2007, operating expenses increased by approximately \$2.1 million, driven primarily by increased spending on research and development projects in Cambridge, and selling, general and administrative costs in El Segundo, as the business continues to execute its strategic growth plans in the United States.

As noted above, the Company continued the start up of operations in El Segundo, California, and subsequent to the quarter end, announced the acquisition of an engineering and manufacturing facility in El Segundo. The purchase of this 46,000 square foot facility is a major milestone in the Company's efforts to make inroads into the US Government space market in a more fulsome way than has been possible to date due to the lack of a U.S. domiciled business.

COM DEV ended the second quarter of fiscal 2007 with \$25.6 million of cash and equivalents, up from \$15.2 million at January 31, 2007, and up from the comparable prior year second quarter balance of \$11.0 million. The increase in cash balance at the end of the second quarter is attributable to a decrease in working capital, primarily through increased accounts payable related to building expansion activities in Cambridge. The Company's \$17 million operating line of credit remained untouched at quarter-end. Compared to Q1, receivables were \$0.3 million lower at \$37.4 million, and compared with the prior year's Q2 receivables of \$32.6 million, were \$4.8 million higher.

Overall, the combined impacts of cost overruns and related costs, higher spending on research and development projects, and the ramp up of the Company's U.S. operations, resulted in a \$0.5 million loss from continuing operations, compared to income of \$5.4 million from continuing operations in Q2 2006, and \$5.6 million in income from continuing operations in Q1 2007. When the \$0.9 million impact from the final settlement on the discontinued operation's lease in the United Kingdom is factored into the overall results, the Company ended Q2 2007 with a loss of \$1.4 million.

## RESULTS OF OPERATIONS

### Revenues

(in millions of dollars)	Three months ended April 30		
	2007	2006	% Change
Commercial satellite programs	\$17.3	\$18.2	(4.9%)
Civil (government) programs	\$12.0	\$10.2	17.6%
Military & defense programs	\$ 9.3	\$ 9.8	(5.1%)
<b>Total Space revenues</b>	<b>\$ 38.6</b>	<b>\$38.2</b>	<b>1.0%</b>

Second quarter revenues for fiscal 2007, at \$38.6 million, were slightly weaker than Q1 revenues of \$39.5 million due to the impacts of time and effort spent on arriving at a resolution on the program issue noted earlier. Compared with Q2 2006, revenues of \$38.2 million, the current quarter showed slight year over year improvement. The Company's first quarter tends to have the lowest revenue of any quarter in the fiscal year, and management expects that, absent the impact of the program issue, our revenues for the second quarter would have been more in line with expectations, based on the high level of backlog which the Company currently has.

Backlog (millions of dollars)	April 30 2007	April 30 2006
Commercial satellite programs	\$ 32.6	\$ 39.5
Civil (government) programs	\$ 64.4	\$ 33.3
Military & defense programs	\$ 33.0	\$ 31.2
<u>Total Backlog</u>	<u>\$130.0</u>	<u>\$104.0</u>

The backlog of work increased by approximately \$41 million from the Q1 2007 level of \$89 million, and by \$26 million from the Q2 2006 level of \$104 million. The ending backlog of \$130 million is the highest in the Company's history. Management has continually underscored the lumpy nature of the space business, noting that as more civil and defence work is won, backlog numbers are likely to see periods of large increase, followed by periods where no significant contracts are awarded, and a downward drift in backlog until the next major award. The underlying conditions for our market segments remain strong, bidding and negotiation activity remain very high, and the Company is optimistic about the prospects for new orders for the remainder of the year.

Income from Continuing Operations and Net Income (millions of dollars except EPS)	Three months ended April 30		
	2007	2006	% Change
Income/(Loss) from continuing operations	(\$0.5)	\$5.4	(109.3%)
Income/(Loss) from discontinued operations	(\$0.9)	-	
Net Income/(Loss)	(\$1.4)	\$5.4	
<u>Earnings per share, basic and diluted</u>	<u>(\$0.02)</u>	<u>\$0.09</u>	<u>(122.2%)</u>

Net loss in the second quarter of 2007 was \$1.4 million compared with income of \$5.4 million in the comparable quarter of fiscal 2006. As noted earlier, the \$5.1 million impact stemming from the program issue announced earlier in the second quarter, while \$3.9 million lower than the originally estimated worst-case impact of \$9.0 million, was the single biggest factor in the Company recognizing its first quarterly loss in several years. As noted earlier, the final settlement agreement related to the Company's discontinued wireless facility lease in the United Kingdom, resulted in the need to augment prior reserves to address additional roofing and other facility repair costs, which will now be borne by the landlord. The Company has, as part of the final settlement agreement, surrendered the facility and the lease to the landlord, ending the Company's responsibilities for the facility.

#### Gross Margin

(millions of dollars)	Three months ended April 30		
	2007	2006	% Change
Total gross margin	\$7.2	\$11.5	(37.4%)
<u>Total gross margin %</u>	<u>18.8%</u>	<u>30.1%</u>	<u>(11.3%)</u>

Gross margins for the second quarter reflect the full impact of the \$5.1 million cost related to the underlying issues of the program referred to in the Overall Performance section of this document. Gross margins absent the impact of the \$5.1 million would have calculated out at approximately 31% on the level of revenue reported in Q2, which is in line with the Q2 2006 margin level, and compares with Q1 2007 where gross margins were approximately 29%. With the current quarter reflecting the full impact of the program issue, management anticipates gross margins could return to more normal levels before any impact from the recent strengthening of the Canadian dollar.

## Research and Development (R&D)

(millions of dollars)	Three months ended April 30		
	2007	2006	% Change
Total R&D Spending before funding	\$ 4.1	\$ 2.9	41.4%
Total R&D Funding received	(\$1.4)	\$(1.1)	27.0%
R&D, net of Funding	\$2.7	\$ 1.8	50.0%

The Company made the decision in the second quarter to expand its R&D program activity based on near and medium term opportunities to grow through both customer, and product offering expansions. While there is no guarantee that the objectives of this expanded program will succeed, management believes that investment in R&D is important to the future growth of the Company, and that the programs added are important opportunities, and in line with our strategic objectives. Net R&D spending in Q2 2007 of \$2.7 million is 50% above the level seen in the prior year's Q2, and is 75% above the Q1 2007 net spending level of \$1.6 million. Management is expecting to spend on R&D programs at similar net levels as seen in this quarter for the remainder of the current year, and then will reassess its overall R&D program as part of its normal business planning activities for next fiscal 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 external 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		
	2007	2006	% Change
Selling, general & administrative expenses (SG&A)	\$5.0	\$3.7	35.1%
SG&A % of total revenue	12.9%	9.7%	3.2%
Interest (income) expense	(\$ 0.2)	\$0.5	(140.0%)
Foreign exchange loss (gain)	\$ 0.1	-	-
Other expense	\$ 0.2	\$0.1	100.0%

## Selling, General and Administrative

SG&A expenses for the second quarter of 2007 increased from the prior year second quarter level, as a result of increases in spending related to the start-up of operations in El Segundo, an increase in bid related costs, increased spending on Corporate Development, and annual report and meeting costs. Compared to the first quarter of fiscal 2007, SG&A expenses increased sequentially by \$0.9 million, reflecting higher costs in El Segundo as the operations ramp up activity, and higher bid costs. Management expects that its SG&A costs will remain at the current level for the remainder of this fiscal year, as bid activity continues at its high pace, and as the El Segundo operation continues on its path to first revenue. Until this happens, with the exception of capital expenditures, all costs associated with the COM DEV USA operations are being reflected in SG&A.

## Interest Expense

With the 2006 retirement of the Company's \$18 million convertible debenture, the Company is virtually debt free, and as a result, interest is now being earned on the Company's cash balances. There were no draws on the Company's operating line of credit, or term debt facilities during the quarter, with the result that \$0.2 million in interest income was earned in the quarter. The Company did however, subsequent to the end of the second quarter, draw (U.S.) \$10 million of its term debt facility in support of the purchase of land and building in El Segundo, California.

The convertible debentures attracted interest at an annual rate of 6.75% until their retirement in June, 2006.

## Foreign Exchange

The foreign exchange loss in the second quarter of 2007 was \$0.1 million, compared with a \$0.1 million impact in Q1 2007, and no impact in the second quarter of 2006. The translation gain 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 January 31, 2007 and April 30, 2007:

(in millions of dollars)	Increase/ (Decrease)	Explanation
Cash and cash equivalents	\$10.4	Refer to Statement of Cash Flows
Accounts receivable	(0.3)	Normal billings in the second quarter, commensurate with business levels, coupled with good collection performance.
Inventory	(2.8)	Project inventory impacted by less time charged as a result of additional work done on failure mode evaluation on one program. This inventory will translate to Receivables and cash over the normal course of business.
Prepaid and other	0.7	Normal insurance renewal period, and other prepaids.
Capital assets	0.5	Capital additions of \$2.5 million in normal course of business, less normal depreciation.
Intangible assets	-	
Accounts payable and accrued	6.5	Normal accounts payable payments cycle, including capital asset purchases, and building expansion.
Deferred revenue	2.6	New programs won, and resulting cash profiles.
Current portion of loans payable	(0.1)	Normal reduction as per scheduled repayments.
Current liabilities – discontinued ops	0.9	Final settlement on wireless facility lease in U.K.
Long term loans payable	-	Normal reduction as per scheduled repayments.
Non-controlling interest	-	Presentation to reflect full consolidation of COM DEV X'ian, with minority interest elimination.
Shareholders' equity	(1.4)	Net income, currency translation adjustment, and shares issued through options

## Liquidity and Capital Resources

(in millions of dollars)	Three months ended April 30		
	2007	2006	% Change
Cash provided by (used in) operating activities	\$13.1	\$3.1	322.6%
Net increase (decrease) in cash	\$10.4	\$2.5	316.0%
Property and equipment additions	\$ 2.5	\$0.4	525.0%
Business acquisition	\$ -	\$ -	.

The Company generated \$13.1 million of cash from operating activities in the second quarter of 2007, compared with \$3.1 million generated a year earlier. The Company generated \$11.4 million in cash from working capital in the quarter,

as accounts payable grew by \$6.5 million over the prior quarter's level, and deferred revenue increased by \$2.6 million. The Company expects to invest a total of \$22.5 million in capital equipment, building expansion activities, and new land and building acquisition in the U.S. during fiscal 2007 as it ramps up to meet not just current, but expected future demand for the Company's products.

The Company has a \$17.0 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, 2007. The Company also has \$28 million in available term debt facilities, which it had not drawn at the end of the fiscal quarter. It did draw US\$10 million in support of the Company's acquisition of a production facility in El Segundo, California subsequent to the end of the second quarter.

### Off-balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at the end of the second quarter of the 2007 fiscal year.

### Related Party Transactions

None

### Proposed Transactions

The Company completed the acquisition of land and building in El Segundo, California subsequent to the end of the second quarter. Total cost of the facility was US\$8.75 million, which was funded through the use of a portion of the Company's term debt facilities.

### Contractual Obligations

(in thousands of dollars)

	Total	Payments Due by Fiscal Period			
		2007	2008 to 2009	2010 to 2011	2012 & beyond
Long-term debt*	\$ 444	\$ -	\$ 148	\$ 148	\$ 148
Operating leases	\$ 6,846	\$ 1,062	\$ 3,630	\$ 2,154	\$ -
Capital leases	\$ 28	\$ 28	\$ -	\$ -	\$ -
Purchase obligations**	\$ -	\$ -	\$ -	\$ -	\$ -
Other Long-term obligations	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total contractual obligations</b>	<b>\$ 7,318</b>	<b>\$ 1,090</b>	<b>\$ 3,778</b>	<b>\$ 2,302</b>	<b>\$ 148</b>

\* long-term debt appears on the balance sheet using the effective interest rate method of valuation in accordance with recent GAAP pronouncements. The figure appearing in this chart reflects the actual amount of the long-term debt payments that will be made over time.

\*\* 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.

### 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 Handbook Section 3865. 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, 2007 the Company had outstanding forward foreign currency call options with a notional value of \$16.6 million maturing within a year at an average exchange rate of \$1.131 (April 30, 2006: \$17.5 million at 1.1667). The Company had outstanding forward foreign currency put options with a notional value of \$25.1 million maturing within a year at an average exchange rate of \$1.1548 (April 30, 2006: \$26.3 million at 1.1699). 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)

<b>Fiscal 2007 Quarters</b>	January 31	April 30	July 31	October 31	Total
Total Revenue	\$39,454	\$38,590			
Net Income/(Loss) from continuing operations	\$5,619	(\$490)			
Income/(Loss) from discontinued operations	-	(\$934)			
Net Income/(Loss) – Total	\$5,619	(\$1,424)			
Net Income per share (basic and diluted)	\$0.08	(\$0.02)			

<b>Fiscal 2006 Quarters</b>	January 31	April 30	July 31	October 31	Total
Total Revenue	\$32,707	\$38,162	\$41,228	\$41,676	\$153,773
Net Income – Total	\$4,188	\$5,362	\$6,377	\$5,275	\$21,202
Net Income per share (basic and diluted)	\$0.07	\$0.09	\$0.10	\$0.08	\$0.34

<b>Fiscal 2005 Quarters</b>	January 31	April 30	July 31	October 31	Total
Total Revenue	\$30,212	\$32,402	\$31,181	\$29,839	\$123,634
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

## **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 as well as "cost-plus" government contracts. The revenue from short-term agreements and purchase orders are recognized when the goods and services are delivered to the customer and collection is reasonably assured. Cost-plus contract revenue is recognized as eligible costs are incurred on the applicable contracts.

### *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 not be incurred unless the project schedule indicates that contracted delivery dates will not be met. At that time, the individual projects are charged with the cost associated with expected penalties.

### **Changes in Accounting Policies including Initial Adoption**

#### *Financial Instruments Disclosures and Capital Disclosures*

In December 2006, the Accounting Standards Board issued three new Sections which provide a complete set of disclosure and presentation requirements for financial instruments: CICA 3862, Financial Instruments – Disclosures, CICA 3863, Financial Instruments – Presentation; and CICA 1535, Capital Disclosures. CICA 3862 is the Canadian equivalent to IFRS 7, Financial Instruments – Disclosure, and replaces the disclosure portion of CICA 3861, Financial Instruments – Disclosure and Presentation. The new standard places increased emphasis on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed. It is also intended to remove any duplicate disclosures and simplify the disclosures about concentrations of risk, credit risk, liquidity risk and price risk currently found in CICA 3861. CICA 3863 carries forward the presentation requirements from CICA 3861, unchanged.

CICA 1535 converges with the capital disclosures amendments to IAS 1, Presentation of Financial Statements.

CICA 1535 applies to all entities regardless of whether they have financial instruments and are subject to external capital requirements. The new Section requires disclosure of information about an entity's objectives, policies and processes for managing capital, as well as quantitative data about capital and whether the entity has complied with any capital requirements.

These standards are applicable for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

#### *Changes in Accounting Policies and Estimates, and Errors*

In July 2006, the Accounting Standards Board issued a new Section, Changes in Accounting Policies and Estimates, and Errors. This standard affects when an accounting policy may be changed, how any resulting changes are to be applied, and what disclosures must be made. Adoption is for fiscal years beginning on or after January 1, 2007. The impact of the adoption of this standard on the consolidated results of operations or financial position is not expected to be material. Adoption will not be required until the Company's fiscal 2008.

#### *Non-monetary Transactions*

In June 2005, the CICA released Handbook Section 3861, Non-monetary Transactions, effective for fiscal years beginning on or after January 1, 2006. This standard requires that non-monetary transactions be measured at fair value unless they meet one of four very specific criteria. Commercial substance replaces culmination of the earnings process as the test for fair value measurement. A transaction is deemed to have commercial substance if it causes an identifiable, measurable change in the economic circumstances of the entity. Commercial substance

is a function of the cash flows expected by the reporting entity. The impact from the adoption of this standard on the consolidated results of operations or financial position of the Company is not material.

### *Hedges*

In April 2005, the CICA issued Section 3865 of the CICA Handbook, Hedges, which effective for years beginning on or after October 1, 2006. This section establishes standards for when and how hedge accounting may be applied. Hedging is an activity designed to modify an entity's exposure to one or more risks. Hedge accounting modifies the normal basis for recognizing the gains, losses, revenues and expenses associated with a hedged item in an entity's statement of operations. It ensures that the counterbalancing gains, losses, revenues and expenses are recognized in the same period. The Company implemented this new standard effective November 1, 2006. The Company does not designate its forward foreign exchange contracts as hedges, and as a result, the impact of this standard on the consolidated results of operations or financial position of the Company is not material.

### *Comprehensive Income*

CICA 1530 Comprehensive Income sets the standards for the reporting and display of comprehensive income. Comprehensive income is defined as the change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period, except those resulting from investment by owners and distributions to owners. A statement of comprehensive income is included in a full set of financial statements for both interim and annual periods. The new statement presents net income and each component to be recognized in other comprehensive income. These components include, for example, exchange gains and losses arising on translation of the financial statements of self-sustaining foreign operations, which are currently included in a separate component of shareholders' equity. This standard is effective for years beginning on or after October 1, 2006, and the Company implemented the requirements of this standard effective November 1, 2006.

### *Financial Instruments – Recognition and Measurement*

In January 2005, the CICA released Handbook Section 3855, Financial Instruments – Recognition and Measurement, effective for all annual and interim periods beginning on or after October 1, 2006. All financial instruments must be classified into prescribed categories and reclassification is rarely possible. Classification determines how each instrument is measured and how gains and losses are recognized. Entities are permitted a "fresh start" in applying the new standards for classification of financial assets and liabilities. Any adjustments to carrying amounts are recognized as adjustments to opening retained earnings or, in the case of assets classified as available for sale or amounts previously deferred in respect of cash flow hedges which will be re-designated as new cash flow hedges, to other comprehensive income. The Company adopted this new standard effective November 1, 2006. The impact of this standard on the consolidated results of operations or financial position of the Company is not material.

## **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 represents most of 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 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 Company recognizes revenue on a percentage of completion basis for long-term contracts, it has experienced fluctuations in its quarterly operating results and anticipates that such fluctuations may continue. The Company'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 Company'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 Company'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's ability to continue to meet contractual delivery milestones is 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, and technical performance 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 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 Contracts*

Contracts for the Company'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 Company'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 Company often works on large individual contracts, the claims against the Company could be material.

### *Competition*

COM DEV'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 \$4.1 million, including accrued interest. 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*

There can be no assurance that the market demand for the Company's products will translate into orders within the timeframes anticipated. The timing and extent of satellite procurement, and the Company's ability to secure project orders stemming from 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.

### *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.

## **Multilateral Instrument 52-109 Disclosure**

The Chief Executive Officer and Chief Financial Officer of COM DEV International Ltd are responsible for designing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and have:

- (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, is made known to management by others within the Company, particularly during the period in which the annual filings are being prepared;
- (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP; and
- (c) evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period; and concluded that such disclosure controls and procedures are effective.

There have been no changes in COM DEV's internal control over financial reporting during the quarter ended April 30, 2007, that have materially affected, or are reasonably likely to materially affect its internal control over financial reporting.

## **Outstanding Share Data**

Details of the Company's outstanding share data as of June 14, 2007 are as follows:

Common shares	67,649,638
Options on common shares	2,359,419

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 April 30	2007	2006
Continuing Operations		
Revenue	\$ 38,590	\$ 38,162
Cost of revenue	31,353	26,657
Gross margin	<u>7,237</u>	<u>11,505</u>
Research and development costs	4,129	2,890
Research and development recovery	1,384	1,057
Net research and development	<u>2,745</u>	<u>1,833</u>
Selling and general expenses	4,997	3,705
Operating (loss) income	<u>(505)</u>	<u>5,967</u>
Interest (income) expense	(159)	491
Foreign exchange gain	(50)	(8)
Other expense	<u>221</u>	<u>77</u>
(Loss) income before non-controlling interest	<u>(517)</u>	<u>5,407</u>
Non-controlling interest	<u>(27)</u>	<u>45</u>
(Loss) income from continuing operations	<u>(490)</u>	<u>5,362</u>
Provision for discontinued operations	934	-
Net (loss) income	<u>\$ (1,424)</u>	<u>\$ 5,362</u>
 (Loss) earnings per share (note 3c)		
Basic and diluted (loss) earnings per share	(\$0.02)	\$0.09

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	2007	2006
Continuing Operations		
Revenue	\$ 78,044	\$ 70,868
Cost of revenue	59,524	49,558
Gross margin	<u>18,520</u>	<u>21,310</u>
Research and development costs	6,655	5,096
Research and development recovery	<u>2,338</u>	<u>1,841</u>
Net research and development	4,317	3,255
Selling and general expenses	<u>9,093</u>	<u>7,287</u>
Operating income	5,110	10,768
Interest (income) expense	(377)	1,046
Foreign exchange loss (gain)	73	(296)
Other expense	<u>276</u>	<u>396</u>
Income before non-controlling interest	5,138	9,622
Non-controlling interest	<u>9</u>	<u>72</u>
Income from continuing operations	5,129	9,550
Provision for discontinued operations	934	-
Net income	<u>\$ 4,195</u>	<u>\$ 9,550</u>
Earnings per share (note 3c)		
Basic and diluted earnings per share	\$0.06	\$0.16

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

	As at April 30, 2007	As at October 31, 2006
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 25,598	\$ 25,711
Accounts receivable	37,402	39,372
Inventory	30,564	24,302
Prepays and other	2,603	2,016
Income taxes recoverable	383	383
	<u>96,550</u>	<u>91,784</u>
Capital assets	36,670	36,950
Intangible assets	4,167	4,165
Total assets	<u>\$ 137,387</u>	<u>\$ 132,899</u>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 23,206	\$ 24,145
Deferred revenue	12,044	13,004
Current portion of loans payable	102	265
Current liabilities - discontinued operations	2,518	1,721
	<u>37,870</u>	<u>39,135</u>
Long term		
Loans payable	272	444
Long term liabilities - discontinued operations	49	36
	<u>321</u>	<u>480</u>
Total liabilities	<u>38,191</u>	<u>39,615</u>
Non-controlling interest	<u>486</u>	<u>477</u>
Shareholders' equity		
Share capital (note 3)	322,149	320,948
Contributed surplus	557	580
Deficit	(223,128)	(227,436)
Accumulated other comprehensive income	(868)	(1,285)
Total shareholders' equity	<u>98,710</u>	<u>92,807</u>
Total liabilities and shareholders' equity	<u>\$ 137,387</u>	<u>\$ 132,899</u>

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

For the three months ended April 30	2007	2006
<b>Cash flows from operating activities</b>		
Net (loss) income from continuing operations	\$ (490)	\$ 5,362
Amortization	1,811	1,838
Loss on disposal of assets	98	-
Convertible debenture - accretion and interest	-	192
Stock compensation expense	252	107
Non-controlling interest	(27)	44
	<u>1,644</u>	<u>7,543</u>
Net change in non-cash working capital items	11,448	(4,411)
<b>Cash flows from operating activities</b>	<u>13,092</u>	<u>3,132</u>
<b>Cash flows from (used in) financing activities</b>		
Shares issued	121	44
Repayment of long term debt	(61)	(104)
<b>Cash flows from (used in) financing activities</b>	<u>60</u>	<u>(60)</u>
<b>Cash flows (used in) from investing activities</b>		
Acquisition of capital assets	(2,465)	(409)
Proceeds on disposal of capital assets	22	-
Acquisition of intangible assets	(107)	(41)
<b>Cash flows used in investing activities</b>	<u>(2,550)</u>	<u>(450)</u>
Effect of exchange rate changes on cash	(179)	5
	<u>10,423</u>	<u>2,627</u>
<b>Net increase in cash for continuing operations</b>	<u>10,423</u>	<u>2,627</u>
Net cash used in discontinued operations	(28)	(150)
<b>Net increase in cash</b>	<u>10,395</u>	<u>2,477</u>
Cash and cash equivalents, beginning of period	15,203	8,506
<b>Cash and cash equivalents, end of period</b>	<u>\$ 25,598</u>	<u>\$ 10,982</u>
Interest paid	<u>\$ 16</u>	<u>\$ 69</u>

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

For the six months ended April 30	2007	2006
Cash flows from operating activities		
Net income from continuing operations	\$ 5,129	\$ 9,550
Amortization	3,607	3,521
Loss (gain) on disposal of assets	98	(26)
Convertible debenture - accretion and interest	-	379
Stock compensation expense	511	185
Non-controlling interest	9	72
	<u>9,354</u>	<u>13,681</u>
Net change in non-cash working capital items	<u>(6,776)</u>	<u>(2,020)</u>
Cash flows from operating activities	<u>2,578</u>	<u>11,661</u>
Cash flows from (used in) financing activities		
Shares issued	667	44
Repayment of long term debt	(223)	(282)
Cash flows from (used in) financing activities	<u>444</u>	<u>(238)</u>
Cash flows (used in) from investing activities		
Acquisition of capital assets	(3,170)	(886)
Proceeds on disposal of capital assets	22	27
Acquisition of intangible assets	(174)	(110)
Business acquisition	-	(5,261)
Cash flows used in investing activities	<u>(3,322)</u>	<u>(6,230)</u>
Effect of exchange rate changes on cash	<u>311</u>	<u>(125)</u>
Net increase in cash for continuing operations	11	5,068
Net cash used in discontinued operations	(124)	(264)
Net (decrease) increase in cash	(113)	4,804
Cash and cash equivalents, beginning of period	25,711	6,179
Cash and cash equivalents, end of period	<u>\$ 25,598</u>	<u>\$ 10,983</u>
Interest paid	<u>\$ 26</u>	<u>\$ 781</u>

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

For the six months ended April 30	Total	Deficit	Accumulated Other Comprehensive Income	Share Capital	Contributed Surplus	Convertible Debentures Holder's Conversion Option
Balance as reported, October 31, 2005	\$ 50,257	\$ (248,638)	\$ (1,304)	\$ 296,567	\$ 296	\$ 3,336
Comprehensive income						
Net Income	9,550	9,550	-	-	-	-
Foreign currency translation adjustments (net of taxes of \$nil)	(224)	-	(224)	-	-	-
	<u>9,326</u>	<u>9,550</u>	<u>(224)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Common stock issued	44			167	(123)	
Value of ESOP awards	85	-	-	-	85	-
Expense recognized for share options	99	-	-	-	99	-
Balance, April 30, 2006	<u>\$ 59,811</u>	<u>\$ (239,088)</u>	<u>\$ (1,528)</u>	<u>\$ 296,734</u>	<u>\$ 357</u>	<u>\$ 3,336</u>
Balance as reported, October 31, 2006	\$ 92,807	\$ (227,436)	\$ (1,285)	\$ 320,948	\$ 580	\$ -
Opening deficit adjustment (note 2b)	113	113	-	-	-	-
Adjusted balance October 31, 2006	<u>92,920</u>	<u>(227,323)</u>	<u>(1,285)</u>	<u>320,948</u>	<u>580</u>	<u>-</u>
Comprehensive income						
Net Income	4,195	4,195	-	-	-	-
Foreign currency translation adjustments (net of taxes of \$nil)	417	-	417	-	-	-
	<u>4,612</u>	<u>4,195</u>	<u>417</u>	<u>-</u>	<u>-</u>	<u>-</u>
Common stock issued	667	-	-	1,201	(534)	-
Value of ESOP awards	95	-	-	-	95	-
Expense recognized for share options	416	-	-	-	416	-
Balance, April 30, 2007	<u>\$ 98,710</u>	<u>\$ (223,128)</u>	<u>\$ (868)</u>	<u>\$ 322,149</u>	<u>\$ 557</u>	<u>\$ -</u>

**COM DEV INTERNATIONAL LTD**  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED APRIL 30, 2007 and 2006  
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**1. Summary of Significant Accounting Policies**

These unaudited, consolidated, interim financial statements of COM DEV International Ltd. (the "Company"), 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 have been prepared using the accounting policies as, and should be read in conjunction with, the audited consolidated financial statements for the year ended October 31, 2006, except for the adoption of the new accounting standards included in note 2 herein. All financial amounts are expressed in thousands of Canadian dollars, except per share information or as otherwise indicated. These consolidated interim 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 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"), COM DEV Europe Limited ("CDE"), and COM DEV USA LLC ("CDU"), and its 70% owned subsidiary, COM DEV Microwave Electronics Company Limited ("Xian"). COM DEV Europe Limited is a self-sustaining foreign subsidiary.

**2. Changes in Accounting Standards**

**a) Comprehensive Income**

Effective November 1, 2006, the Company adopted the requirements of the Canadian Institute of Accountants ("CICA") Handbook Section 1530, Comprehensive Income. This section establishes standards for reporting and display of comprehensive income. This section has been applied in accordance with the transitional provisions, which requires restatement of prior periods for certain items. Therefore, the prior period has been restated to include the foreign currency translation, which is the only component of 'other comprehensive income'.

**b) Financial Instruments**

Effective November 1, 2006, the Company adopted the requirements of the CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement and Section 3861, Financial Instrument Disclosure and Presentation. These sections have been applied in accordance with the transitional provisions, which do not require restatement of prior periods. The Company has recorded all financial assets and liabilities at fair value effective November 1, 2006. As a result, opening retained earnings has been adjusted to

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reflect required adjustments of the previous carrying amounts.

The Company, in the management of its foreign currency exposures, utilizes derivative financial instruments. The Company does not designate or measure the effectiveness of the utilized derivative financial instruments as hedges of specific firm commitments or forecasted transactions.

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 derivative instruments are included in foreign exchange gain or loss in the Consolidated Statements of Operations.

**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, 2007.

	Number	Amount
Balance, October 31, 2006	67,329,340	\$320,948
Issuance of common shares (i)	220,150	726
Shares issued through employees plan (ii)	80,748	475
Balance, January 31, 2007	67,630,238	\$322,149

The value of Employee Stock Ownership Plan (“ESOP”) shares amortized to compensation expense but not yet issued in the quarter was \$44 (\$40 in 2006) and in the six months ended April 30<sup>th</sup> was \$95 (\$85 in 2006). This amount is included in contributed surplus.

- (i) During the six months ended April 30<sup>th</sup>, the Company issued 220,150 (27,600 in 2006) common shares to satisfy the equivalent number of stock options exercised of which 64,800 (nil in 2006) options represent options issued after November 1, 2003 with a value of \$59 (nil in 2006).
- (ii) On February 28<sup>th</sup>, the Company issued 80,748 (51,708 in 2006) common shares under the ESOP.

The maximum number of shares outstanding if all options were exercised and ESOP shares were issued is 70,026,464.

**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

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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. In the six months ended April 30, 2007, the Company did not grant any options. For the six months ended April 30, 2006, the Company granted 862,100 options.

The estimated fair value of the options is amortized to expense over the vesting period of the options. In the three months ended April 30th, compensation expense of \$208 (\$67 in 2006) was recognized. During the six months ended April 30<sup>th</sup>, compensation expense of \$416 (\$99 in 2006) was recognized. This amount was added to contributed surplus.

As at April 30<sup>th</sup>, 2007, there were 2,378,819 options outstanding with exercise prices ranging from \$0.97 to \$13.75. Of the options outstanding, 1,225,780 shares have vested.

**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.

	<b>For the three months ended</b>	
	<b>April 30,</b>	<b>April 30,</b>
	<b>2007</b>	<b>2006</b>
Net (loss) income – as reported	\$ (1,424)	\$ 5,362
Additional pro forma stock-based compensation costs for the period	--	(103)
Basic (loss) net income – pro forma	<u>\$ (1,424)</u>	<u>\$ 5,259</u>
Convertible debenture interest	--	303
Convertible debenture accretion	--	192
Diluted net (loss) income – pro forma	<u>\$ (1,424)</u>	<u>\$ 5,754</u>
Pro forma (loss) earnings per common share:		
Basic and diluted	\$ (0.02)	\$ 0.09
Weighted average number of shares:		
Basic	67,585,551	59,959,514
Diluted	67,585,551	66,831,703

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	<b>For the six months ended</b>	
	<b>April 30, 2007</b>	<b>April 30, 2006</b>
Net income – as reported	\$ 4,195	\$ 9,550
Additional pro forma stock-based compensation costs for the period	--	(206)
Basic net income – pro forma	<u>\$ 4,195</u>	<u>\$ 9,344</u>
Convertible debenture interest	--	607
Convertible debenture accretion	--	379
Diluted net income – pro forma	<u>\$ 4,195</u>	<u>\$ 10,330</u>
Pro forma earnings per common share:		
Basic and diluted	\$ 0.06	\$ 0.16
Weighted average number of shares:		
Basic	67,478,863	59,935,445
Diluted	68,129,113	66,675,534

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**c) (Loss) Earnings Per Share**

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

	<b>3 months ended April 30</b>	
	<b>2007</b>	<b>2006</b>
Numerator for basic and diluted (loss) earnings per share available to common stockholders		
(Loss) income from continuing operations	\$ (490)	\$ 5,362
Convertible debenture interest	--	303
Convertible debenture accretion	--	192
Diluted net (loss) income attributed to common stockholders	\$ (490)	\$ 5,857
Provision for discontinued operations	(934)	--
Loss from discontinued operations	\$ (934)	\$ --
Net income attributable to common stockholders	\$ (1,424)	\$ 5,857
Denominator for basic (loss) earnings per share- weighted average shares outstanding	67,585,551	59,959,514
Effect of dilutive securities		
ESOP	--	52,808
Employee stock options	--	1,056,773
Convertible debentures	--	5,714,286
Potential dilutive common shares	--	6,823,867
Denominator for diluted (loss) earnings per share – adjusted weighted average shares and assumed conversions	67,585,551	66,783,381
(Loss) earnings per share		
Basic and diluted (loss) earnings per share from continuing operations	\$(0.01)	\$0.09
Basic and diluted loss per share from discontinued operations	\$(0.01)	\$0.00
Basic and diluted earning per share	\$(0.02)	\$0.09

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	<b>6 months ended April 30</b>	
	<b>2007</b>	<b>2006</b>
Numerator for basic and diluted earnings per share available to common stockholders		
Income from continuing operations	\$ 5,129	\$ 9,550
Convertible debenture interest	--	607
Convertible debenture accretion	--	379
Diluted net income attributed to common stockholders	\$ 5,129	\$ 10,536
Provision for discontinued operations	(934)	--
Loss from discontinued operations	\$ (934)	\$ --
Net income attributable to common stockholders	\$ 4,195	\$ 10,536
Denominator for basic earnings per share- weighted average shares outstanding	67,478,863	59,935,445
Effect of dilutive securities		
ESOP	53,268	56,585
Employee stock options	596,982	864,675
Convertible debentures	--	5,714,286
Potential dilutive common shares	650,250	6,635,546
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	68,129,113	66,570,991
Earnings per share		
Basic and diluted earnings per share from continuing operations	\$0.07	\$0.16
Basic and diluted loss per share from discontinued operations	\$(0.01)	\$0.00
Basic and diluted earning per share	\$0.06	\$0.16

The ESOP and stock options are excluded from the denominator in 3 months ended April 30 2007, as they are anti-dilutive.

**4. Discontinued Operations**

The Company increased the provision for discontinued operations by \$934 (nil in 2006). The provision was increased to account for the anticipated higher than expected costs of final discharge of the lease obligations related to the Dunstable facility.

**5. Financial Instruments**

For the Company's cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities, the fair values approximate their respective carrying amounts due to their short maturities. The fair values of foreign currency call and put option contracts have been estimated using market quoted rates of foreign currencies. The Government of Canada loan, included in loans payable, has a fair value and carrying value, as at April 30, 2007 of \$346. The carrying value as at November 1, 2006 of \$518 was adjusted through the opening retained

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earnings to a fair value of \$405. The fair values of capital lease obligations, included in loans payable, and discontinued operations liabilities approximate carrying values.

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency, the Canadian dollar. The majority of the Company's revenues are transacted in U.S. dollars. Portions of the revenues are denominated in Canadian dollars, British Pounds, and Euros. Purchases of raw materials, and other expenses, consisting primarily of the majority of salaries, certain operating costs and manufacturing overhead, are incurred primarily in Canadian dollars. At April 30, 2007 approximately 40% of cash and cash equivalents, 60% of accounts receivables, and 25% of accounts payable and accrued liabilities are denominated in foreign currencies (April 30, 2006 – 47%, 68%, and 21%, respectively).

These foreign currencies include the U.S. dollar, British Pound, and Euro.

As at April 30, 2007, the Canadian dollar amount that could be received under Canadian / U.S. foreign currency call options was \$16,624 (\$17,499 in 2006) and the amount that could be paid under foreign currency put options was \$25,110 (\$26,322 in 2006). The average contractual exchange rate on the call options was 1.1309 and on the put options was 1.1545. The settlement dates of all the outstanding contracts were less than one year. The exchange rate at April 30 was 1.1160 (1.1180 in 2006).

The Company recorded realized losses of \$96 and \$412 for the three and six months ended April 30, 2007 respectively, compared to gains of \$254 and \$373 for the same periods in 2006, on foreign currency options that have been included in "foreign exchange loss (gain)" on the Consolidated Statements of Operations. At April 30, the fair value of option contracts of \$298 (\$753 in 2006) is included in "Prepays and other" on the Consolidated Balance Sheet.

The Company, in the normal course of business, monitors the financial condition of its customers and reviews credit history of each new customer. The Company manages the collection risk on foreign receivables by carrying credit insurance that insures 90% of receivables, primarily those from foreign customers, to protect against commercial and political risk. Three customers comprise 52% of accounts receivable as at April 30, 2007. (Four customers comprised 51% as at April 30, 2006). Three customers comprise 51% of revenue for the six months ended April 30, 2007. (Four customers comprised 53% of the revenue for the six months ended April 30, 2006).

## **6. Segmented Information**

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

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Geographic Information

Revenue by customer is based on where the customer is located.

	<b>3 months ended April 30</b>		<b>6 months ended April 30</b>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenue from external customers				
Canada	\$7,822	\$7,218	\$15,200	\$12,368
U.S.A.	14,269	17,586	26,963	33,656
United Kingdom	14,209	10,035	31,250	17,259
Other	<u>2,290</u>	<u>3,323</u>	<u>4,631</u>	<u>7,585</u>
	<u>\$38,590</u>	<u>\$38,162</u>	<u>\$78,044</u>	<u>\$70,868</u>

**7. Subsequent Events**

On May 22, 2007 the Company announced the purchase of a 46,000 square foot facility in El Segundo, California. The facility will serve as the home of the engineering and production operations in the United States. The purchase cost is US\$8,750, which the Company has funded through existing debt facilities.

The Company has committed US\$25,000 of funding to the US expansion. This investment includes approximately US\$20,000 of capital costs for the purchase of the land, building and production equipment. The build-out of the facility will begin immediately and is expected to be substantially completed by the end of this fiscal year. An additional US\$5,000 has been committed to fund the operations over the next three years.