



**COM DEV International Ltd.
First Quarter Report – Fiscal 2010
For the Period Ended
January 31, 2010**

COM DEV Announces First Quarter Fiscal 2010 Results

CAMBRIDGE, ON – March 11, 2010 – COM DEV International Ltd. (TSX:CDV) today announced first quarter financial results for the three month period ended January 31, 2010. All amounts are stated in Canadian dollars unless otherwise noted.

First Quarter Highlights

- Revenue was \$56.7 million, compared to \$56.5 million recorded in the first quarter of 2009.
- Gross margin was 24%, compared to 26% in Q1 2009.
- Net income was \$2.2 million, or \$0.03 per share, compared to \$4.4 million or \$0.06 per share for the prior year period.
- New orders won in the first quarter totaled \$51 million, compared to \$88 million a year earlier and \$67 million in the fourth quarter of fiscal 2009.
- Backlog at January 31, 2010 was \$157 million, compared to \$163 million at the end of fiscal 2009.

“In the first quarter we maintained revenue levels from last year despite currency headwinds, but a number of additional factors contributed to suppressing our margins and profitability,” said John Keating, CEO of COM DEV. “The program performance issues identified at the end of fiscal 2009 had an impact on our margins this quarter, as anticipated, and we also experienced cost increases on a couple of other programs. Our continued investment in growth included over \$1 million of operating expenses for our exactEarth subsidiary which did not exist a year ago.”

Mr. Keating continued: “We remain optimistic about our prospects for fiscal 2010. We have seen a good start to contract awards already in the second quarter, and our new business pipeline indicates a strong possibility of achieving record orders for the year. exactEarth continues to meet our expectations, having opened its new data centre and won a \$1.4 million contract from the Canadian Government. The Government has also announced funding for the RADARSAT Constellation Mission, a program on which we expect to play an important role.”

Financial Review

COM DEV's fiscal 2010 first quarter revenues of \$56.7 million represented an increase of \$0.2 million or 0.3% over the first quarter of 2009. The revenue split between the three market segments was 59% commercial, 30% civil and 11% military, compared to a 59/24/17 split in the first quarter of 2009. Based on current market activity levels, and the Company's historic success rate at winning new business, management continues to expect fiscal 2010 revenue to grow by at least 10% over fiscal 2009.

COM DEV received new orders totaling \$51 million during the first quarter, of which 60% were commercial, 21% were civil, and 19% were military. In Q1 2009 the Company booked \$88 million of new orders, with a commercial/civil/military split of 51/12/37.

Order backlog at quarter-end was \$157 million, compared to backlog of \$163 million three months earlier, and \$189 million one year ago. These variations in backlog are consistent with historical patterns as the order profiles are typically lumpy in nature. Backlog was split between the Company's commercial, civil and military sectors at a ratio of 46%, 34% and 20% respectively, compared to 44%, 35% and 21% at January 31, 2009.

Gross margin was \$13.4 million in the first quarter, representing 24% of revenues, compared to \$14.7 million or 26% of revenues in the first quarter of 2009. The decrease in gross margin percentage was mainly the result of a small number of projects with reduced gross margins, as announced in Q4 2009, cost increases on a small number of commercial programs in Q1 2010 and less favourable exchange rates.

Net research and development expense was \$2.9 million in the quarter, compared to \$2.8 million in the first quarter of 2009. Gross R&D spending decreased by 4% from a year earlier to \$3.7 million, but outside funding of R&D decreased by 26% to \$0.8 million.

Selling expenses were \$2.7 million in the first quarter, compared to \$2.0 million in Q1 2009. The increase was due to a higher level of bidding costs in support of increased bidding activity, higher business development and sales and marketing costs in exactEarth and our COM DEV Canada division, and to an increase in commission costs. General and administrative expenses were \$6.3 million, compared with \$5.4 million in Q1 2009, with the increase due primarily to the startup activities in the exactEarth subsidiary and higher salary and benefit costs.

Net income for the quarter was \$2.2 million, compared to \$4.4 million in Q1 2009, while earnings per share were \$0.03, compared to \$0.06 a year earlier.

COM DEV ended the quarter with \$18.2 million of cash and equivalents, compared to \$21.4 million at October 31, 2009. Operating activities generated \$4.4 million of cash in the first quarter. Financing activities used \$1.6 million of cash, while investing activities used \$5.9 million of cash. At January 31, 2010, COM DEV had outstanding debt of \$18.2 million including the current portion, and the Company's \$32 million credit facility was not drawn upon.

The Company's basic share count did not change during the first quarter, and stood at 76,100,289 on January 31, 2010 (fully diluted: 77,249,777).

Conference Call

A conference call will be held Thursday, March 11, 2010 at 5:00 pm EST to discuss this announcement. To access the live webcast, please visit the Company's website at www.comdevintl.com or www.newswire.ca for directions. Participants will require Windows Media Player™ to listen to the webcast.

About COM DEV

COM DEV International Ltd. (www.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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This news release contains statements that, to the extent they are not recitations of historical fact, may constitute "forward-looking statements" within the meaning of applicable Canadian securities laws. Forward-looking statements may include financial and other projections, as well as statements regarding COM DEV's future plans, objectives or economic performance, or the assumptions underlying any of the foregoing. COM DEV uses words such as "may", "would", "could", "will", "likely", "expect", "anticipate", "believe", "intend", "plan", "forecast", "project", "estimate" and similar expressions to identify forward-looking statements. Any such forward-looking statements are based on assumptions and analyses made by COM DEV in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors COM DEV believes are appropriate under the relevant circumstances. However, whether actual results and developments will conform to COM DEV's expectations and predictions is subject to any number of risks, assumptions and uncertainties. Many factors could cause COM DEV's actual results, historical financial statements, or future events to differ materially from those expressed or implied by the forward-looking statements contained in this news release. These factors include, without limitation: uncertainty in the global economic environment; fluctuations in currency exchange rates; delays in the purchasing decisions of COM DEV's customers; the competition COM DEV faces in its industry and/or marketplace; and the possibility of technical, logistical or planning issues in connection with the deployment of COM DEV's products or services.

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

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) 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 consolidated financial statements, including notes thereto, for the three month period ended January 31, 2010 (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, 2009 ("the Consolidated Financial Statements"). The Unaudited Consolidated Financial Statements and the Consolidated Financial Statements (collectively, the "Financial Statements") have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are reported in Canadian dollars. The information contained herein is dated as of March 10, 2010, unless otherwise noted.

CAUTION REGARDING FUTURE ORIENTED FINANCIAL INFORMATION

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", "guidance", 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, 2009 and other documents available on SEDAR at www.sedar.com.

This Management's Discussion and Analysis (MD&A) contains Future Oriented Financial Information (FOFI) in several areas, notably: in discussing R&D spending levels, SG&A spending, revenue growth guidance, and gross margin trending. Readers are again cautioned that this FOFI is provided solely to provide a view of the operations through the eyes of management, based on management's current expectations in these areas, and should not be used for any other purpose. Readers are reminded that, as noted above, FOFI are not guarantees of future performance, and should not be considered such, since actual results may differ materially from those expressed in the FOFI.

COMMENT ON CURRENT GLOBAL ECONOMIC CONDITIONS

For a more complete analysis of risks faced by the Company, and additional comments on the global economic environment, please refer to the section "Business Risks and Prospects", included later in this MD&A.

USE OF NON-GAAP MEASURES

In this MD&A, we provide information about orders and contract backlog. Orders and backlog measures are not defined by Canadian generally accepted accounting principles (GAAP) and our measurement of them may vary from that used by others. The Company measures orders as the sum of fully executed contracts from our customers. The Company measures backlog as the sum of all customers' orders at contract value (including the contract value of change notices subsequently received) to date, less revenue recognized against those orders, plus or minus the impact of foreign exchange fluctuations on orders denominated in foreign currency. The Company includes in its backlog determination, only those amounts that are covered by contracts. 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

COM DEV is a leading global designer, manufacturer and distributor of space communications and space science 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; and Xian, China. The Company's common shares trade on The Toronto Stock Exchange under the symbol "CDV". COM DEV employed 1,344 people around the world as of January 31, 2010, compared to 1,243 people as of January 31, 2009.

COM DEV designs and manufactures advanced instruments and microwave products for space satellites such as multiplexers, filters, switches, surface acoustic wave (SAW) devices, signal processors, satellite payloads, and micro-satellite spacecraft. The products are sold to substantially all of the major satellite prime contractors for use in commercial communications, military/defense communications and space science satellites. Recently, the Company has begun to position itself for the sale of information from its own satellites, which are scheduled to launch in 2010.

OVERALL PERFORMANCE

During the Company's first quarter of fiscal year 2010, nine satellite programs were awarded in the global space market, compared with nine in the same quarter of fiscal 2009. The number of transponders on these satellites totaled 402 in the first quarter of fiscal 2010, representing an 11% increase from the 363 transponders awarded in the global market in fiscal Q1 2009. The increase in the absolute number of transponders was seen in the commercial and civil sectors. The breakdown of satellites and transponders awarded between the three market sectors (commercial, civil, and military/defense) can be summarized as follows:

| Sector | Three months ended January 31 | | | |
|------------------|-------------------------------|--------------|------------|--------------|
| | 2010 | | 2009 | |
| | Satellites | Transponders | Satellites | Transponders |
| Commercial | 7 | 274 | 7 | 271 |
| Civil | 1 | 64 | 1 | 28 |
| Military/Defense | 1 | 64 | 1 | 64 |
| Total | 9 | 402 | 9 | 363 |

Of the nine satellite programs announced in Q1 fiscal 2010, COM DEV has secured work on three, and is still in the running for work on the remaining six programs. This compares to fiscal Q1 2009, when of the 9 satellites announced in the market, COM DEV has secured work on all nine.

In Q1 2010, the Company received orders for a total of \$50.9 million in new business, compared with \$88.0 million the first quarter of the previous year. The profile of this new business reflects the continuing strength of the commercial market segment in 2010, and the Company's ability to capitalize on this available work. Of the \$50.9 million in new orders won in Q1 2010, 60% came from the commercial sector of the space market, 22% from the civil sector, and 18% from the military/defense sector. By comparison, of the \$88.0 million in business won in Q1 2009, 51% came from the commercial sector, with the civil and military/defense sectors accounting for 12% and 37% respectively.

Included in the \$50.9 million of new orders received in fiscal Q1 2010 are orders received under Authority to Proceed (ATP). In recent years, as delivery schedules have become more critical, customers are increasingly using ATPs as a way to start a subcontractor working, under contract, on a program while the full contract negotiations are concluded. COM DEV includes only the work for which it has contractual coverage in its reported orders and backlog. In the case of ATP awards, the Company includes only the value of the ATP, not the expected full value of the contract. Only after contract negotiations are completed, and the customer has awarded COM DEV the full contract, does the Company include the value above the ATP in its orders and backlog. At the end of fiscal Q1 2010, the amount of potential order value in excess of ATP, which management expects to realize,

stood at \$1.2 million.* This compares to \$37.2 million at the end of fiscal Q1 2009. The expected full contract amounts are based on bid values, and the historically high percentage of ATPs being ultimately turned into full contract values.

In addition to maintaining a balanced distribution of work between the commercial and non-commercial market sectors, the Company also continued to achieve diversification in its geographic markets. In Q1 2010, 9% of the Company's new orders were from Europe, 71% from the United States, 16% from Canada, and 4% from the rest of the world (ROW). This compares to 12%, 58%, 22% and 8% respectively in Q1 2009, again demonstrating that the Company's products continue to successfully penetrate the world's major satellite markets.

The Company closed out the fiscal first quarter of 2010 with backlog totaling \$156.6 million, which represents a 17% decrease over the Q1 2009 closing backlog of \$188.7 million. Approximately 27% of the Q1 2010 closing backlog is currently expected to be realized beyond the end of the Company's 2010 fiscal year,* compared to approximately 23% of the closing fiscal Q1 2009 backlog being realized beyond the end of its 2009 fiscal year. The expected amount of backlog to be realized beyond the upcoming fiscal year is based on the current projections for project performance.

The volatility of foreign currencies continued to have an impact on the business during Q1 2010. According to the Bank of Canada, the average USD/CAD exchange rate during Q1 2010 was 1.0530 which compares to the Q1 2009 average of 1.2266. Based on the revaluation of outstanding derivative contracts in the quarter, the hedging program in place at the Company had a positive impact on Q1 2010 net income of \$0.9 million, while in 2009 it had a positive impact on Q1 net income of \$0.2 million.

Gross margins for the quarter declined slightly over Q1 2009, averaging 24% in Q1 2010 compared with 26% in Q1 2009. This decline can be attributed to the lingering impact of program cost increases announced in the prior quarter on two Canadian government programs, cost increases causing program margin erosion on a small number of commercial projects, and lower exchange rates.

Net research and development for Q1 2010 was \$2.9 million, compared to \$2.8 million in Q1 2009. The current quarter spending represents 5.1% of revenues, compared with 5.0% of revenues in fiscal Q1 2009. The Company remains committed to its R&D technology roadmap.

The Company's \$32 million operating line of credit remains undrawn at the end of fiscal Q1 2010 except for \$0.1 million (\$0.9 million in 2009) in the form of guarantee letters issued to customers in the normal course of operations by the bank on behalf of the Company. The Company also has a term debt facility of \$30 million through GE Capital Solutions, which was almost fully drawn to complete the Company's 2007 / 2008 expansion into the U.S. Payments against this credit facility are being made in accordance with the terms of the agreement.

For an analysis of risks faced by the Company, please refer to the section "Business Risks and Prospects", included later in this MD&A.

* Future oriented financial information (FOFI). Please refer to Caution Regarding FOFI on Page 1 of this document.

RESULTS OF OPERATIONS

Revenues

| <u>(in millions of dollars)</u> | Three months ended January 31 | | |
|--------------------------------------|-------------------------------|----------------|-----------------|
| | <u>2010</u> | <u>2009</u> | <u>% change</u> |
| Commercial satellite programs | \$ 33.9 | \$ 33.4 | 1.5% |
| Civil (government) programs | \$ 16.5 | \$ 13.5 | 22.2% |
| Military and defense programs | \$ 6.3 | \$ 9.6 | (34.4%) |
| Total space revenues | \$ 56.7 | \$ 56.5 | 0.3% |

Total revenue for the Company in Q1 2010 was \$56.7 million compared to \$56.5 million in Q1 2009. Based on current market activity levels, and the Company's historic success rate at winning new business, management has indicated that it expects 2010 revenue to grow by at least 10% over fiscal 2009. ♦

Backlog

| <u>(in millions of dollars)</u> | Three months ended January 31 | | |
|--------------------------------------|-------------------------------|-----------------|-----------------|
| | <u>2010</u> | <u>2009</u> | <u>% change</u> |
| Commercial satellite programs | \$ 71.5 | \$ 83.8 | (14.6%) |
| Civil (government) programs | \$ 53.0 | \$ 65.5 | (19.1%) |
| Military and defense programs | \$ 32.1 | \$ 39.4 | (18.5%) |
| Total backlog | \$ 156.6 | \$ 188.7 | (17.0%) |

Backlog provides a measure of orders for which revenue has not yet been recognized. As such, backlog is influenced by the timing of orders and of revenues. The Company's backlog of work decreased from the January 31, 2009 level by \$32.0 million, or roughly 17%. These variations in backlog are consistent with historical patterns as the order profiles are typically lumpy in nature. Based on the current level of bidding activity, management is confident that this current backlog and projected new orders will be sufficient for the Company to achieve management's revenue growth guidance for 2010.

Net Income

| <u>(in millions of dollars except earnings per share)</u> | Three months ended January 31 | | |
|---|-------------------------------|----------------|-----------------|
| | <u>2010</u> | <u>2009</u> | <u>% change</u> |
| Net income | \$ 2.2 | \$ 4.4 | -50.0% |
| Earnings per share, basic and diluted | \$ 0.03 | \$ 0.06 | -50.0% |

Net income in Q1 2010 was \$2.2 million compared with \$4.4 million in Q1 2009. There were a number of factors that impacted net income in the quarter. Lower foreign exchange expenses and lower interest costs helped offset the impact of a lower gross margin, and higher Selling and G&A costs. Each of these is discussed later in this document.

♦ Future oriented financial information (FOFI). Please refer to Caution Regarding FOFI on page 1 of this document.

Gross Margin

| <u>(in millions of dollars)</u> | Three months ended January 31 | | |
|---------------------------------|--------------------------------------|-------------|-----------------|
| | 2010 | 2009 | % change |
| Total gross margin | \$ 13.4 | \$ 14.7 | -8.8% |
| Total gross margin % | 23.7% | 26.0% | -2.3% |

Gross margins for Q1 2010 averaged 23.7% compared to 26.0% in Q1 2009. The 2.3% decrease in average gross margin percentage was mainly the result of a small number of projects with reduced gross margins, as announced in Q4 2009, cost increases on a small number of commercial programs in Q1 2010 and less favourable exchange rates.

Research and Development (R&D)

| <u>(in millions of dollars)</u> | Three months ended January 31 | | |
|--|--------------------------------------|-------------|-----------------|
| | 2010 | 2009 | % change |
| Total R&D spending before funding | \$ 3.7 | \$ 3.8 | (2.6%) |
| Total R&D funding received | \$ (0.8) | \$ (1.0) | (20.0%) |
| R&D, net of funding | \$ 2.9 | \$ 2.8 | 3.6% |

Fiscal Q1 2010 R&D spending remained on par with Q1 2009. The amount of R&D funding received fell by 26.4% from 2009 levels, but the net cost of the Company's R&D efforts in the current quarter was in line with our established budgets. The Company has an established R&D technology roadmap that drives its internal research and development activities. This technology roadmap is reviewed semi-annually against longer term customer requirements, and potential new technologies that show promise in meeting those requirements. While the Company works to secure outside funding for its R&D efforts, in the absence of funding, it maintains its focus on the activities that form the Company's technology roadmap. The Company will continue to work closely with all available sources of outside funding to defray the costs of its R&D efforts, and to maintain its commitment to technological leadership in its industry. It is important to note that R&D costs noted in the table above reflect only Company-funded research and development activities (net of any external offset funding received). Customer-funded development costs are included in the Company's cost of revenue figures.

Other Expenses

| <u>(in millions of dollars)</u> | Three months ended January 31 | | |
|--|--------------------------------------|-------------|-----------------|
| | 2010 | 2009 | % change |
| Selling expense | \$ 2.7 | \$ 2.0 | 35.0% |
| General and administrative expenses (G&A) | \$ 6.3 | \$ 5.4 | 16.7% |
| Interest expense / (income) | \$ 0.1 | \$ 0.4 | (10.0%) |
| Foreign exchange gain | \$ 1.0 | \$ 0.4 | 150.0% |
| Other expense | \$ 0.1 | \$ 0.1 | 0.0% |

Selling, General and Administrative

Selling expenses were \$0.7 million higher in Q1 2010 than they were in Q1 2009 due to a higher level of bidding costs in support of increased bidding activity, higher business development and sales & marketing costs in exactEarth and our COM DEV Canada division and to an increase in commission costs. G&A expenses for Q1 2010 were \$6.3 million compared with \$5.4 million in Q1 2009. The primary reasons for the increase in G&A costs are the startup activities in the exactEarth subsidiary, and higher salary and benefit costs in Q1 2010 versus Q1 2009.

Interest (Income)/Expense

The Company incurred interest charges of \$0.1 million in fiscal Q1 2010, compared with interest charges of \$0.4 million in fiscal Q1 2009. The term debt attracts interest at rates varying from LIBOR plus 225 bps to LIBOR plus 360 bps.

Foreign Exchange

The foreign exchange gain in Q1 2010 was \$1.0 million, compared with a gain of \$0.4 million in Q1 2009. Foreign exchange amounts in the Consolidated Statement of Operations include realized and unrealized gains and losses that result from balance sheet translation of foreign denominated balances, realized gains and losses from settling U.S. dollar hedge contracts and mark to market valuation adjustments on the Company's outstanding U.S. dollar hedge contracts. They do not include the impact of foreign exchange fluctuations on customer program values, and their resulting profitability, which is reflected in the revenue, cost of revenue, and gross margin sections of the Consolidated Statement of Operations. For the quarter, the impact from the mark to market valuations on the U.S. dollar hedge contracts was an unrealized exchange gain of \$0.9 million, compared to an unrealized exchange gain of \$0.2 million in fiscal Q1 2009. The impact from settling U.S. dollar hedge contracts was a gain of \$0.7 million in Q1 2010 and loss of \$1.3 million in Q1 2009. The impact of translation of outstanding foreign denominated balance sheet items and of settling these items into cash during the quarter was a gain of \$0.1 million, compared to a gain of \$0.2 million in Q1 2009.

Other Expense

Other expense includes bank fees and Export Development Canada (EDC) accounts receivable insurance premiums, as well as other miscellaneous items. The Company insures its customer receivables with EDC to the extent possible in order to mitigate the risk of non-collection.

Financial Position

The following chart outlines the significant changes in the balance sheet between January 31, 2010 and October 31, 2009:

| (in millions of dollars) | Increase/ (Decrease) | Explanation |
|--|-------------------------|---|
| Cash and cash equivalents | (3.2) | Refer to Statement of Cash flows |
| Accounts receivable | (15.2) | Strong collections of customer accounts in Q1 2010 of the Q4 2009 accounts receivable balance. Q4 2009 billings were higher than Q1 2010 billings by \$25.2. |
| Inventory | 4.5 | Reductions in general inventory of \$1.7 offset by higher work in process on projects of \$6.2. |
| Prepaid and other | 0.5 | Increase in unrealized foreign exchange gain on derivative contracts offset by decreases in normal trade prepaid items. |
| Property, plant & equipment | 0.6 | Normal capital additions of \$2.7 less normal depreciation. |
| Intangible assets | 2.0 | Acquisition of software and the continued development of intangibles related to the Company's microsatellite business. |
| Accounts payable and accrued liabilities | (8.4) | Normal accounts payable payment cycle. |
| Deferred revenue | (2.7) | Work performed in advance of customer billings. This balance will fluctuate normally depending on billing milestones achieved and order timing. |
| Loans payable | (1.8) | Repayment of Company's term debt facilities. |
| Contributed surplus | 0.3 | Value of Employee Share Purchase plan awards, and expense recognized on stock based compensation and Long Term Incentive plans, net of amount transferred on options exercised. |
| Deficit | (2.2) | Net Income for the quarter |
| Accumulated other comprehensive income | 0.3 | Foreign currency translation of self-sustaining subsidiaries. |

Liquidity and Capital Resources

| (in millions of dollars) | Three months ended January 31 | | |
|--|-------------------------------|----------|----------|
| | 2010 | 2009 | % change |
| Cash (used in) / from operating activities | \$ 4.4 | \$ (3.6) | n/a |
| Net (decrease) / increase in cash | \$ (3.2) | \$ (6.9) | 53.6% |
| Property, Plant and Equipment additions | \$ 2.7 | \$ 0.5 | 440% |
| Acquisition of Intangible assets | \$ 3.0 | \$ 0.9 | 233% |

The Company generated \$4.4 million of cash from operating activities in Q1 2010, compared with Q1 2009 when \$3.6 million was used. The Company made a minimal investment in working capital in Q1 2010 which compares to the \$11.0 million invested in working capital in Q1 2009.

In 2009, the Company renegotiated its operating line of credit facility with the Canadian Imperial Bank of Commerce with the result being an increase in the available credit line from \$27 million to its new level of \$32 million, which was not drawn upon throughout fiscal Q1 2010, except for \$0.1 million in the form of guarantee letters issued to customers in the normal course of operations by the bank on behalf of the Company. In addition to this operating line of credit, the Company also has a treasury risk management facility to facilitate hedging of currency related risks arising in the normal course of operations. Under these facilities, the Company is required to maintain certain financial ratios, which the Company has met as of January 31, 2010.

In addition, the Company has a term credit facility totaling \$30 million (2009: \$30 million) to support its strategic and capital initiatives. The Company drew \$10.0 million USD in support of the Company's acquisition of a production facility in El Segundo, California, during the third quarter of 2007. In the third quarter of fiscal 2008 the Company further drew on the term debt facility by \$18.0 million USD to complete the acquisition of the PMD product line from L-3 Communications Ltd., and to complete additional build-out work on the building in El Segundo. The term debt draws are at interest rates that range from LIBOR plus 225 bps to LIBOR plus 360 bps.

In the second quarter of 2009 the Company issued 7,797,000 common shares in a bought deal transaction with a syndicate of underwriters. Gross proceeds of the transaction, which was completed on February 26, 2009, were \$23.0 million. Net proceeds were approximately \$21.4 million. The proceeds are being used primarily to progress the commercialization of the Company's strategic Automatic Identification System technology, with the remainder to be available for general corporate purposes.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements, other than operating leases disclosed in the Notes to the Consolidated Financial Statements, as at the end of the 2009 fiscal year.

Transactions with Related Parties

The Company had no transactions with related parties in fiscal Q1 2010.

Proposed Transactions

While the Company continues to evaluate potential business expansion initiatives, it has no firm proposed transactions as at January 31, 2010.

Financial Instruments and Other Instruments

The Company realizes a significant portion of its revenues in U.S. dollars and incurs most of its expenses in Canadian dollars. The Company utilizes foreign exchange options 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 of specific firm commitments or forecasted transactions and, accordingly, does not meet the requirements of CICA Handbook Section 3865, Hedges, to apply hedge accounting. 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" in the Consolidated Statements of Operations. In Q1 2010, the gain from appreciation in fair value of the Company's hedge options was \$1.0 million, compared to a gain of \$0.2 million in Q1 2009. Additional details of the Company's hedge contracts can be found in note 6 (Financial Instruments) in the Notes to the unaudited Interim Consolidated Financial Statements.

The Company is exposed to credit risk on derivative financial instruments arising from the potential for counterparties to default on their contractual obligations to the Company. The Company minimizes this risk by limiting counterparties to these contracts to Canadian Schedule A Chartered Banks.

Summary of Quarterly Financial Information (Unaudited)

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

| Fiscal 2010 Quarters | January 31 | April 30 | July 31 | October 31 | Total |
|--|------------|----------|---------|------------|-----------|
| Total revenue | \$ 56,687 | | | | \$ 56,687 |
| Net income – total | \$ 2,245 | | | | \$ 2,245 |
| Net income per share (basic and diluted) | \$ 0.03 | | | | \$ 0.03 |

| Fiscal 2009 Quarters | January 31 | April 30 | July 31 | October 31 | Total |
|--|------------|-----------|-----------|------------|------------|
| Total revenue | \$ 56,511 | \$ 64,104 | \$ 61,451 | \$ 58,344 | \$ 240,410 |
| Net income – total | \$ 4,354 | \$ 4,853 | \$ 5,241 | \$ 858 | \$ 15,306 |
| Net income per share (basic and diluted) | \$ 0.06 | \$ 0.07 | \$ 0.07 | \$ 0.01 | \$ 0.21 |

| Fiscal 2008 Quarters | January 31 | April 30 | July 31 | October 31 | Total |
|--|------------|-----------|-----------|------------|------------|
| Total revenue | \$ 44,880 | \$ 54,165 | \$ 51,483 | \$ 59,820 | \$ 210,348 |
| Net income – total | \$ 1,345 | \$ 1,964 | \$ 4,285 | \$ 4,785 | \$ 12,379 |
| Net income per share (basic and diluted) | \$ 0.02 | \$ 0.03 | \$ 0.06 | \$ 0.07 | \$ 0.18 |

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

Critical Accounting Estimates

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates are based upon management's historical experience and various other assumptions that are believed by management to be reasonable under the circumstances. Such assumptions and estimates are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

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

Revenue Recognition

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

A portion of the Company's revenue is derived from the sale of goods and services on short-term agreements and purchase orders 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.

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 historical 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. For a complete description of carry-forward tax balances, the future tax asset and associated valuation reserve against that future tax asset, see Note 5 to the 2009 audited Consolidated 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

International Financial Reporting Standards (IFRS)

The CICA Accounting Standards Board has announced that Canadian publicly accountable enterprises will adopt IFRS as issued by the International Accounting Standards Board effective for fiscal years beginning on or after January 1, 2011 and therefore will commence in the first quarter of the Company's 2012 fiscal year, with comparative figures.

COM DEV is receiving assistance from Ernst & Young LLP ("E&Y") with the Company's IFRS conversion project. The Company will follow a five key phase approach to ensure successful conversion to International Financial Reporting Standards. The five phases are:

1. IFRS diagnostic impact assessment

Perform a high level review to identify significant differences between Canadian Generally Accepted Accounting Principles ("GAAP"), as adopted by COM DEV, and IFRS.

Status: This Phase is complete. The findings of the diagnostic impact are that there are several areas that may require a significant degree of effort to quantify the impact on the opening balance sheet and to put in place procedures and controls to efficiently and effectively address the particular IFRS difference on an ongoing basis.

These areas include the following:

- Property, Plant and Equipment
- Impairment of Long Lived Assets
- Business Combinations
- Revenue Recognition
- Income Taxes
- Foreign Currency Translation
- Employee Benefits

2. Design and Planning

Using the outputs from the diagnostic assessment, a master plan for the conversion project will be compiled. This plan will include schedules, resource requirements and output specifications.

Status: Detailed plan, with estimates of resource requirements, has been carried out. The Company has developed detailed work plans for those areas expected to require high levels of effort. This phase is expected to carry on through Q2 and Q3 of the 2010 fiscal year.

3. Solution development

This phase will carry out a full assessment of the changes required to accounting and business systems in order to migrate to IFRS. This phase will include completing formal authorization process to approve recommended accounting policy changes and training processes across the Company's divisions.

Status: Not started. Phase 3 is expected to be carried out between Q2 and Q3 of fiscal year 2010.

4. Implementation

This phase will implement the solutions identified in Phase 3. The culmination of this phase will be collection of all the financial information necessary to produce IFRS-compliant financial statements, embedding IFRS in business processes and Audit Committee approval of IFRS financial statements.

Status: Not started. Phase 4 is expected to be carried out between Q2 and Q4 of fiscal year 2010.

5. Post implementation review.

This phase will be to ensure on-going compliance with IFRS and to take into account the changing IFRS landscape.

Status: Not started.

It is not practically possible at this time to quantify the impact of these differences. The Company expects to make changes to processes and systems before the 2011 fiscal year, in time to enable the Company to record transactions under IFRS for comparative purposes in the 2012 financial year reporting.

Business Combinations, Consolidated Financial Statements, and Non-Controlling Interests

In 2009, the CICA issued three new accounting standards which are aligned with International Financial Reporting Standards ("IFRS"): CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests. Section 1601 establishes standards for preparing consolidated financial statements after the acquisition date; Section 1602 establishes standards for the accounting and presentation of non-controlling interest. These new standards must be adopted concurrently with Section 1582. Section 1582 provides clarification as to what an acquirer must measure when it obtains control of a business, the basis of valuation and the date at which the valuation should be determined. Acquisition-related costs must be accounted for as expenses in the periods they are incurred, except for costs incurred to issue debt or share capital. This new standard will be applicable for acquisitions the Company completes on or after November 1, 2011 although adoption in 2010 is permitted to facilitate the transition to IFRS in 2011.

Business Risks and Prospects

Global Economic Environment

Recent events have demonstrated that businesses and industries throughout the world are very tightly connected to each other. Thus, events seemingly unrelated to the Company or to its industry, such as the recent extraordinary developments in global financial markets, may adversely affect the Company over the course of time. For example, rapid changes to foreign currency exchange rates may adversely affect the Company's financial results. Credit contraction in financial markets may hurt the Company's ability to access credit in the event that it identifies an acquisition opportunity or some other opportunity that would require a significant investment in resources. Government payments to support financial institutions and other distressed industries may reduce the amount of money governmental agencies have to spend on space and defence related projects. A reduction in credit, combined with reduced economic activity, may adversely affect prime contractors and other businesses that collectively constitute a significant portion of the Company's customer base. As a result, these customers may need to reduce their purchases of COM DEV's products or services, or the Company may experience greater difficulty in receiving payment for the products or services that these customers purchase from the Company. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on the Company's business, operating results, and financial condition.

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. A current example of this is the Company's efforts to exploit its Automatic Identification System (AIS) detection and de-collision capabilities by entering the AIS data sales market through its new subsidiary Company, exactEarth Ltd. 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

Any inability of the Company to execute customer projects in accordance with requirements, including adherence to delivery timetables, 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, the 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 strong 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. The Company has recently expanded into the U.S. with the purchase of a facility to be used to design, engineer, and produce equipment for its customers involved in U.S. government satellite programs. The inability to effectively address this new market could result in a material adverse effect on the results of the Company's operations.

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 its U.S. dollar-denominated net cash flows, 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. The Company also seeks to contract in Canadian dollars in its Canadian operations wherever possible.

Seasonal Volatility

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

Tax Assessments

The Company has recently undergone audits by Canada Revenue Agency and the Ontario Ministry of Finance. As a result of the audits, several adjustments to prior year returns have been proposed for capital taxes and corporate minimum taxes. The Company has considered the proposed assessments and opposes several matters on the basis of its interpretation of the tax rules and has made submission to the tax authorities on this basis. The Company is currently unable to determine the likelihood of success of its objection to the proposed assessments. The disputed tax amounts total \$3.3 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.

Timing Risks

There can be no assurance that the market demand for the Company's products will translate into orders within the time frames 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.

Enterprise Risk Management

In 2008, management established the position of Director, Enterprise Risk Management to oversee the Company's assessment of the various significant risks it faces, and to coordinate and facilitate the establishment of risk mitigation actions, plans, and processes.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable, but not absolute, assurance that material information required to be publicly disclosed by a public company is communicated in a timely manner to senior management to enable them to make timely decisions regarding public disclosure of such information. We have

conducted an evaluation of our disclosure controls and procedures as of January 31, 2010 under the supervision, and with the participation of, our Chief Executive Officer and our Chief Financial Officer. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures (as this term is defined in the rules adopted by Canadian securities regulatory authorities) are effective in providing reasonable assurance that material information relating to COM DEV is made known to them and information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under applicable law.

Management's Annual Report on Internal Control over Financial Reporting

Internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Additionally, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Our management used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the effectiveness of internal control over financial reporting. Our Chief Executive Officer and our Chief Financial Officer have assessed the effectiveness of our internal control over financial reporting and concluded that, as at January 31, 2010, such internal control over financial reporting is effective and that there were no material weaknesses.

Changes in Internal Controls over Financial Reporting

There have been no changes in our internal controls over financial reporting that occurred during the quarter ended January 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Outstanding Share Data

Details of the Company's outstanding share data as of March 10, 2010 are as follows:

| | |
|--------------------------|------------|
| Common shares | 76,100,289 |
| Options on common shares | 1,631,987 |

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

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

| For the three months ended January 31 | 2010 | 2009 |
|--|-----------------|-----------------|
| Revenue (note 7) | \$ 56,687 | \$ 56,511 |
| Cost of revenue | 43,262 | 41,833 |
| Gross margin | <u>13,425</u> | <u>14,678</u> |
| Research and development costs | 3,685 | 3,846 |
| Research and development recovery | 768 | 1,044 |
| Net research and development | <u>2,917</u> | <u>2,802</u> |
| Selling expenses | 2,653 | 2,036 |
| General expenses | 6,299 | 5,357 |
| Operating income | <u>1,556</u> | <u>4,483</u> |
| Interest expense | 147 | 423 |
| Foreign exchange gain | (964) | (402) |
| Other expense | 146 | 108 |
| Income before non-controlling interest | <u>2,227</u> | <u>4,354</u> |
| Non-controlling interest | (18) | - |
| Net income | <u>\$ 2,245</u> | <u>\$ 4,354</u> |
| Earnings per share (note 4(e)) | | |
| Basic and diluted earnings per share | \$0.03 | \$0.06 |

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

| | As at January 31, 2010 | As at October 31, 2009 |
|--|------------------------------|------------------------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents | \$ 18,228 | \$ 21,404 |
| Accounts receivable | 38,453 | 53,674 |
| Inventory (note 3) | 55,662 | 51,114 |
| Prepays and other | 3,612 | 3,112 |
| Income taxes recoverable | 4,615 | 4,615 |
| Future income tax assets - current | 6,192 | 6,192 |
| | <u>126,762</u> | <u>140,111</u> |
| Property, plant and equipment | 70,113 | 69,537 |
| Intangible assets | 23,502 | 21,459 |
| Goodwill | 2,360 | 2,388 |
| Future income tax assets - long term | 1,881 | 1,723 |
| Total assets | <u>\$ 224,618</u> | <u>\$ 235,218</u> |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 24,582 | \$ 32,939 |
| Deferred revenue | 19,836 | 22,510 |
| Current portion of loans payable | 6,562 | 6,587 |
| | <u>50,980</u> | <u>62,036</u> |
| Long term | | |
| Loans payable | 11,606 | 13,401 |
| Employee future benefits | 1,888 | 1,872 |
| | <u>13,494</u> | <u>15,273</u> |
| Total liabilities | <u>64,474</u> | <u>77,309</u> |
| Non-controlling interest | <u>468</u> | <u>486</u> |
| Shareholders' equity | | |
| Share capital (note 4(a)) | 345,885 | 345,885 |
| Contributed surplus | 3,138 | 2,804 |
| Deficit | (186,514) | (188,759) |
| Accumulated other comprehensive income | (2,833) | (2,507) |
| Total shareholders' equity | <u>159,676</u> | <u>157,423</u> |
| Total liabilities and shareholders' equity | <u>\$ 224,618</u> | <u>\$ 235,218</u> |

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

| For the three months ended January 31 | 2010 | 2009 |
|---|------------------|-----------------|
| Operating activities | | |
| Net income | \$ 2,245 | \$ 4,354 |
| Amortization | 2,617 | 2,849 |
| Loss on disposal of assets | 53 | - |
| Defined benefit plan expenses | 170 | 118 |
| Stock compensation expense | 277 | 176 |
| Employee stock option plan awards | 57 | 54 |
| Unrealized foreign exchange gain on derivatives | (947) | (209) |
| Non-controlling interest | (18) | - |
| | <u>4,454</u> | <u>7,342</u> |
| Net change in non-cash working capital items | (70) | (10,985) |
| Operating activities | <u>4,384</u> | <u>(3,643)</u> |
| Financing activities | | |
| Shares issued | - | 258 |
| Repayment of long term debt | (1,584) | (1,570) |
| Financing activities | <u>(1,584)</u> | <u>(1,312)</u> |
| Investing activities | | |
| Acquisition of property, plant and equipment | (2,700) | (449) |
| Proceeds on disposal of property, plant and equipment | 1 | - |
| Acquisition of intangible assets | (2,970) | (943) |
| Employee future benefits contributions | (197) | (153) |
| Investing activities | <u>(5,866)</u> | <u>(1,545)</u> |
| Effect of exchange rate changes on cash | (110) | (359) |
| Net decrease in cash | (3,176) | (6,859) |
| Cash and cash equivalents, beginning of period | 21,404 | 16,102 |
| Cash and cash equivalents, end of period | <u>\$ 18,228</u> | <u>\$ 9,243</u> |
| Interest paid | <u>\$ 161</u> | <u>\$ 322</u> |
| Taxes paid | <u>\$ 158</u> | <u>\$ -</u> |

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

| For the three months ended January 31, 2010 | Total | Deficit | Accumulated Other Comprehensive Income | Share Capital | Contributed Surplus |
|--|-------------------|---------------------|---|-------------------|------------------------|
| Balance, October 31, 2009 | \$ 157,423 | \$ (188,759) | \$ (2,507) | \$ 345,885 | \$ 2,804 |
| Comprehensive income | | | | | |
| Net Income | 2,245 | 2,245 | - | - | - |
| Foreign currency translation adjustments (net of taxes of \$nil) | <u>(326)</u> | <u>-</u> | <u>(326)</u> | <u>-</u> | <u>-</u> |
| | 1,919 | 2,245 | (326) | - | - |
| Common stock issued | - | - | - | - | - |
| Value of ESOP awards | 57 | - | - | - | 57 |
| Expense recognized for stock-based compensation | 277 | - | - | - | 277 |
| Balance, January 31, 2010 | <u>\$ 159,676</u> | <u>\$ (186,514)</u> | <u>\$ (2,833)</u> | <u>\$ 345,885</u> | <u>\$ 3,138</u> |

For the three months ended January 31, 2009

| | | | | | |
|--|-------------------|---------------------|-------------------|-------------------|-----------------|
| Balance, October 31, 2008 | \$ 121,060 | \$ (204,065) | \$ (729) | \$ 323,975 | \$ 1,879 |
| Comprehensive income | | | | | |
| Net Income | 4,354 | 4,354 | - | - | - |
| Foreign currency translation adjustments (net of taxes of \$nil) | <u>(434)</u> | <u>-</u> | <u>(434)</u> | <u>-</u> | <u>-</u> |
| | 3,920 | 4,354 | (434) | - | - |
| Common stock issued | 257 | - | - | 286 | (29) |
| Value of ESOP awards | 54 | - | - | - | 54 |
| Expense recognized for stock-based compensation | 176 | - | - | - | 176 |
| Balance, January 31, 2009 | <u>\$ 125,467</u> | <u>\$ (199,711)</u> | <u>\$ (1,163)</u> | <u>\$ 324,261</u> | <u>\$ 2,080</u> |

COM DEV INTERNATIONAL LTD
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2010 and 2009
(Canadian dollars in thousands, except for per share figures)
Unaudited

1. Summary of Significant Accounting Policies

These interim consolidated financial statements of COM DEV International Ltd. (the "Company"), have been prepared by management in accordance with Canadian generally accepted accounting principles on a basis consistent with prior periods 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 consolidated 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 determination of doubtful accounts, impairment of long-lived assets, intangibles, and goodwill, useful lives of intangible assets and property, plant, and equipment, determination of net recoverable value of assets, contracts in progress, and future income tax assets, valuation of employee future benefits liabilities, and contingencies. Actual results could differ from these estimates. These interim consolidated financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended October 31, 2009. All financial amounts are expressed in thousands of Canadian dollars, except per share information or as otherwise indicated. These interim consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies.

The consolidated financial statements 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"), COM DEV USA LLC ("CDU"), COM DEV US Property LLC ("CD US Property"), COM DEV Consulting Ltd. ("CD Consulting"), exactEarth Ltd., and the Company's 70% owned subsidiary, COM DEV Microwave Electronics Company Limited ("Xian").

2. Future Accounting Changes:

Business Combinations, Consolidated Financial Statements, and Non-Controlling Interests

In 2009, the CICA issued three new accounting standards which are aligned with International Financial Reporting Standards ("IFRS"): CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests. Section 1601 establishes standards for preparing consolidated financial statements after the acquisition date; Section 1602 establishes standards for the accounting and presentation of non-controlling interest. These new standards must be adopted concurrently with Section 1582. Section 1582 provides clarification as to what an acquirer must measure when it obtains control of a business, the basis of valuation and the date at which the valuation should be determined. Acquisition-related costs must be accounted for as expenses in the periods they are incurred, except for costs incurred to issue debt or share capital. This new standard will be applicable for acquisitions the Company completes on or after November 1, 2011 although adoption in 2010 is permitted to

COM DEV INTERNATIONAL LTD
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2010 and 2009
(Canadian dollars in thousands, except for per share figures)
Unaudited

facilitate the transition to IFRS in 2011.

International Financial Reporting Standards

The CICA Accounting Standards Board has announced that Canadian publically accountable enterprises will adopt IFRS as issued by the International Accounting Standards Board effective for fiscal years beginning on or after January 1, 2011 and therefore will commence in the first quarter of the Company's 2012 fiscal year, with comparative figures.

The Company will follow a four key phase approach to ensure successful conversion to International Financial Reporting Standards.

The four phases, described in more detail in the Management's Discussion and Analysis, are:

- 1) IFRS diagnostic impact assessment
- 2) Design and Planning
- 3) Solution development
- 4) Implementation

It is not practically possible at this time to quantify the impact of these differences. The Company expects to make changes to processes and systems before the 2011 fiscal year, in time to enable the Company to record transactions under IFRS for comparative purposes in the 2012 financial year reporting.

3. Inventory

Inventory is comprised of:

| | Jan. 31, 2010 | Oct. 31, 2009 |
|--|---------------|---------------|
| Raw Materials | \$12,836 | \$14,577 |
| Contracts in process – costs and profits earned in excess of progress billings | 42,826 | 36,537 |
| Total Inventory | \$55,662 | \$51,114 |

The amount of inventory recognized as an expense and included in cost of revenue accounted for other than by percentage-of-completion method during the three ended January 31, 2010 was \$1,257 (\$1,235 in 2009). The amount charged to net income and included in cost of revenue for the write-down of inventory for valuation issues during the three ended January 31, 2010 was \$393 (\$339 in 2009).

COM DEV INTERNATIONAL LTD
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2010 and 2009
(Canadian dollars in thousands, except for per share figures)
Unaudited

4. Share Capital and Earnings Per Share

a) Issued Capital

The following details the issued and outstanding common shares for the three months ended January 31, 2010.

| | <u>Number</u> | <u>Amount</u> |
|-------------------------------|-------------------|------------------|
| Balance, October 31, 2009 | 76,100,289 | \$345,885 |
| Issuance of common shares (i) | - | - |
| Balance, January 31, 2010 | <u>76,100,289</u> | <u>\$345,885</u> |

(i) During the three months ended January 31, 2010 there was no stock options exercised. During the three months ended January 31, 2009, the Company issued 185,500 common shares to satisfy the equivalent number of stock options exercised of which 32,400 of the options represent options issued after November 1, 2003.

The maximum number of shares outstanding if all options were exercised, and ESOP shares were issued is 77,849,644.

b) Employee Share Ownership Plan

The value of Employee Stock Ownership Plan ("ESOP") shares amortized to compensation expense but not yet issued in the three months ended January 31, 2010 was \$57 (\$54 in 2009). These amounts are included in contributed surplus.

c) Stock Based Compensation

In the three months ended January 31, 2010 the Company granted 13,548 options (nil in 2009).

Options granted vest over three years, and vested options can be exercised over a five-year period from the date of issue. The maximum number of shares authorized for grant under the option plan is 9.4% of the outstanding shares issued or 7,153,427.

The fair value of options issued was estimated at the date of grant, using the Black-Scholes Option Model with the following weighted average assumptions:

| | <u>For the three months ended</u> <u>January 31, 2010</u> |
|--------------------------|--|
| Risk-free interest rate | 2.66% |
| Dividend yield | 0.00% |
| Volatility | 47.3% |
| Expected life of options | 5 years |

COM DEV INTERNATIONAL LTD
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2010 and 2009
(Canadian dollars in thousands, except for per share figures)
Unaudited

| | |
|--|--------|
| Weighted average fair value of options granted | \$1.67 |
| Weighted average exercise price of options granted | \$3.78 |

The estimated fair value of the options is amortized to expense over the vesting period of the options. In the three months ended January 31, compensation expense of \$68 (\$176 in 2009) was recognized. These amounts were added to contributed surplus.

As at January 31, 2010, there were 1,631,987 options outstanding with exercise prices ranging from \$1.90 to \$5.14 with a weighted average exercise price of \$3.57 and a weighted average contractual life of 1.74 years. Of the options outstanding, 1,293,999 shares have vested.

The following details the options for the three months ended January 31.

| | | 2010 | | 2009 |
|---------------------------|-----------|--|-----------|--|
| | Number | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| Balance as at October 31, | 1,664,339 | \$3.56 | 1,509,099 | \$3.33 |
| Granted | 13,548 | \$3.78 | - | - |
| Exercised | - | - | 185,500 | \$1.39 |
| Forfeited | (45,900) | \$3.32 | - | - |
| Balance as at January 31 | 1,631,987 | \$3.57 | 1,323,599 | \$3.60 |
| Vested | 1,293,999 | | 1,038,635 | |

d) Long Term Incentive Plans

The following details the RSUs and PSUs for the three months ended January 31.

| | 2010 | |
|--|---------|---------|
| | RSUs | PSUs |
| Balance as at October 31, | 635,106 | 151,589 |
| Granted | 4,420 | 31,509 |
| Forfeited | 3,068 | 3,068 |
| Balance as at January 31 | 636,458 | 180,030 |
| Weighted fair value of units granted in the period | \$3.78 | \$3.78 |
| Compensation expense | \$160 | \$49 |

The Company did not grant restricted share units ("RSUs") or performance share units ("PSUs") until the second quarter of 2009.

COM DEV INTERNATIONAL LTD
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2010 and 2009
(Canadian dollars in thousands, except for per share figures)
Unaudited

e) Earnings Per Share

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

| | 3 months ended January 31 | |
|---|----------------------------------|-------------|
| | 2010 | 2009 |
| Numerator for basic and diluted earnings per share – net income | \$2,245 | \$4,354 |
| Denominator for basic earnings per share-weighted average shares outstanding | 76,100,289 | 68,133,978 |
| Effect of dilutive securities | | |
| ESOP | 62,499 | 49,527 |
| Employee stock options | 86,989 | 112,893 |
| Potential dilutive common shares | 149,488 | 162,420 |
| Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions | 76,249,777 | 68,296,398 |
| Earnings per share | | |
| Basic and diluted earnings per share | \$0.03 | \$0.06 |

5. Income Tax Expense

Operating loss carry forward amounts have offset current income tax expenses in the three months ended January 31, 2010. For the three months ended January 31, 2010 the Company's effective income tax rate differs from the combined federal and provincial income tax rate of 31.5% (33.08% for 2009) as a result of the utilization of unrecognized Scientific Research & Experimental Development tax pools and loss carry forwards in Canada, the U.S. and the U.K. The balance of the net future income tax asset increased \$158 from October 31, 2010.

6. Financial Instruments

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 at January 31, 2010 of \$267 (\$320 in 2009) that approximates the carrying value of \$263. The fair value of the Government of Canada loan is calculated using discounted cash flows with a discount rate comprised of the Bank of Canada prime rate plus 2% which is indicative of the Company's borrowing rate. The fair value of the GE Capital loans, included in loans payable, approximates the carrying value due to their variable interest rate terms.

COM DEV INTERNATIONAL LTD
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2010 and 2009
(Canadian dollars in thousands, except for per share figures)
Unaudited

The Company's derivatives, which are not designated in hedging relationships, are classified as held-for-trading and the changes in fair value are recognized in the Consolidated Statements of Operations. During the three months ended January 31, 2010, the fair value of derivatives classified as held-for-trading increased by \$947 (\$209 in 2009).

At January 31, 2010 approximately 11% of cash and cash equivalents, 54% of accounts receivables, and 34% of accounts payable and accrued liabilities are denominated in foreign currencies (43%, 55%, and 37% respectively as at October 31, 2009). These foreign currencies include the U.S. dollar, British Pound, and Euro.

The Company is exposed to foreign exchange risk on the following cash, accounts receivable, accounts payable, and loans denominated in foreign currencies:

| <u>Currency</u> | <u>Cash</u> | <u>Accounts Receivable</u> | <u>Accounts Payable</u> |
|-----------------|-------------|--------------------------------|-----------------------------|
| USD | \$ 950 | \$ 17,083 | \$ 6,722 |
| GBP | £ 167 | £ 241 | £ 881 |
| EUR | - | € 1,507 | € 618 |

As at January 31, 2010, the Canadian dollar amount that could be received under Canadian / U.S. foreign currency call options was \$68,729 (\$36,509 in 2009) and the amount that could be paid under foreign currency put options was \$92,573 (\$50,554 in 2009). The average contractual exchange rate on the call options was 1.0909 and on the put options was 1.1255. The settlement dates of all the outstanding contracts are distributed over the next two years. The exchange rate at January 31 was 1.0693 (1.2265 in 2009).

In the three months ended January 31, 2010, the Company recorded a net realized gain of \$738 (net realized loss of \$1,298 in 2009) and net unrealized gain of \$947 (\$209 in 2009) on foreign currency options that have been included in "foreign exchange gain" in the Consolidated Statements of Operations. At January 31, 2010 the fair value of option contracts of \$1,571 (\$624 at October 31, 2009) is included in "Prepays and other" in the Consolidated Balance Sheets.

There are trade accounts receivable balances past due but no amounts are considered impaired and therefore the Company does not have an impairment allowance. Three customers comprise 47% of accounts receivable as at January 31, 2010 and four customers comprised 61% of accounts receivable as at October 31, 2009. During the three months ended January 31, 2010 three customers comprise 53% (four customers comprised 56% in 2009) of revenue.

The Company has reviewed its outstanding trade receivables and contracts in progress unbilled in detail and has determined that the aging profiles are within historical expectations. The Company has historically had no impairment of its trade receivables and contracts in progress unbilled.

7. Segmented Information

The Company operates principally in the satellite communication industry using complimentary and

COM DEV INTERNATIONAL LTD
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2010 and 2009
(Canadian dollars in thousands, except for per share figures)
Unaudited

compatible products. The Company has one reportable business segment, the Space Division. The Space Division is a leading global designer and manufacturer of space hardware subsystems. With facilities in Canada, the United Kingdom, and the United States, the Space Division designs and manufactures advanced products and subsystems that are sold to the major satellite prime contractors for use in communications, space science, remote sensing and military markets.

Geographic Information

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

| | 3 months ended January 31 | |
|---------------------------------|----------------------------------|-----------------|
| | <u>2010</u> | <u>2009</u> |
| Revenue from external customers | | |
| Canada | \$10,344 | \$9,646 |
| U.S.A. | 28,370 | 30,530 |
| United Kingdom | 11,847 | 13,383 |
| Other | 6,126 | 2,952 |
| | <u>\$56,687</u> | <u>\$56,511</u> |

8. Employee Future Benefit Plans

The Company provides certain pension and other future employee benefits to eligible participants upon retirement.

CDE Pension Benefits

The Company's U.K. subsidiary has a defined contribution pension plan for its employees. The Company's contributions, which are based on the contributions by employees, were \$111 for the three months ended January 31, 2010 (\$97 in 2009) and have been included in "Selling and General Expenses" in the Consolidated Statements of Operations.

CDU Pension Benefits

The Company's US subsidiary has a defined benefit plan that has four different benefit structures that cover former L-3 Electron Technologies Employees.

During the three months ended January 31, 2010, the Company incurred benefit expenses of \$130 related to the plan (\$77 in 2009) and have been included in "Selling and General Expenses" in the Consolidated Statements of Operations.

Non-Pension Benefits

The Company provides non-pension retirement benefits including medical and vision benefits for eligible retirees, their spouses and qualified dependents for its US subsidiary on an accrual basis.

During the three months ended January 31, 2010 the Company incurred non-pension benefits

COM DEV INTERNATIONAL LTD
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2010 and 2009
(Canadian dollars in thousands, except for per share figures)
Unaudited

expenses of \$40 related to the plan (\$41 in 2009) and have been included in "Selling and General Expenses" in the Consolidated Statements of Operations.

9. Comparative Consolidated Financial Statements

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