



**COM DEV International Ltd.  
Third Quarter Report – Fiscal 2008  
For the Period Ended  
July 31, 2008**



## COM DEV Announces Third Quarter FY2008 Results

### *Company increases 2008 revenue guidance*

**CAMBRIDGE, ON – September 11, 2008** – COM DEV International Ltd. (TSX:CDV) today announced its third quarter financial results for the three-month period ended July 31, 2008. All amounts are stated in Canadian dollars unless otherwise noted.

#### **Third Quarter Highlights**

- Revenue was \$51.5 million, an increase of 20% over the \$42.9 million recorded in Q3 2007.
- Gross margin was 23%, compared to 26% in the third quarter of 2007.
- Net income was \$4.3 million, or \$0.06 per share, compared to \$2.5 million, or \$0.04 per share, in the same period last year.
- New orders won in the third quarter were \$95 million, compared to \$50 million a year earlier and \$42 million in the second quarter of fiscal 2008.
- Backlog at quarter-end was \$161 million, compared to \$120 million at the end of Q2 2008.
- Early in the quarter, COM DEV completed its US\$12.2 million acquisition of the Passive Microwave Devices product line from L-3 Communications.

“I’m pleased to report solid top line and bottom line growth in the quarter,” said John Keating, CEO of COM DEV. “Margins continued to edge upwards, and we made significant improvements in our operating expenses. In what remains a very active market for satellite program awards, our ongoing success at winning new business led to record highs in both new orders and backlog in the quarter. Based on our performance to date and a robust pipeline of business, we are increasing our fiscal 2008 revenue guidance to growth in excess of 20%.”

#### **Financial Review**

COM DEV’s fiscal 2008 third quarter revenues of \$51.5 million represented an increase of \$8.6 million or 20% over the previous year. For the first time, top line results included a meaningful contribution from COM DEV USA, which generated \$3.5 million of revenues in the quarter. The revenue split between the three market segments was 59% commercial, 26% civil and 15% military. On a year-to-date basis, revenues of \$150.5 million are 24% higher than revenues in the comparable period of fiscal 2007. Management now expects that full year revenue growth will be in excess of 20%, compared to earlier guidance of 15% to 20%.

New orders in the third quarter totaled \$95 million, the highest of any quarter in the Company's history. Among new orders, 38% were commercial, 43% were civil, and 19% were military. Backlog also reached a new record level of \$161 million, compared to \$120 million at the end of the previous quarter and \$135 million one year ago. Backlog was split between the Company's commercial, civil and military sectors at a ratio of 44%, 44% and 12% respectively, compared to 54%, 39% and 7% three months earlier.

Gross margin was 23% in the third quarter, down from 26% in Q3 2007, and up from 22% in the previous quarter. The sequential increase is due to improving margin performance of the Company's core products, partly offset by low margins in the El Segundo operations which have been staffed for higher volumes of work than is currently underway. As the COM DEV USA workload increases, management expects that gross margins will continue towards long term guidance of mid to high twenty percent levels.

Selling, general and administrative expenses for the third quarter were \$5.0 million, compared to \$5.2 million in the same quarter last year and \$7.6 million in Q2 2008. The sequential decrease in SG&A is attributable to the winding down of the Board-appointed Special Committee's review of historic stock option granting practices, and the transitioning of certain COM DEV USA expenses to factory overhead now that revenues are being generated by that division.

Net research and development expense was \$2.1 million the quarter, compared to \$3.0 million in Q3 2007. Total R&D spending (before funding) of \$4.6 million was similar to levels recorded in recent quarters, but in the third quarter the Company was successful in increasing the amount of external funding for its R&D efforts. Management expects gross R&D spending to remain at current levels in support of the development of its technology roadmap.

Net income for the quarter was \$4.3 million, up from \$2.5 million in Q3 2007, while earnings per share were \$0.06, compared to \$0.04 a year earlier.

COM DEV ended the third quarter of 2008 with \$11.1 million of cash and equivalents, compared to \$8.9 million at April 30, 2008. The Company drew US\$18 million on its term debt facility during the third quarter to complete the acquisition.

The Company generated \$2.7 million of cash from operating activities, compared to \$0.4 million of cash generated from operating activities a year earlier.

The Company's basic share count averaged 68,069,688 (fully diluted: 68,267,266) in the third quarter of fiscal 2008, unchanged from share count reported three months ago.

### **Conference Call**

A conference call will be held Thursday, September 11, 2008 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.

### **Contact information:**

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

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

COM DEV, COM DEV International Products, COM DEV Canada, COM DEV USA, and COM DEV Europe are registered trademarks of COM DEV International Ltd. 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: the determinations made by the special committee of COM DEV’s board of directors which is charged with reviewing COM DEV’s historical stock option granting practices; the determinations made by outside advisors, auditors and others with respect to this ongoing review; unanticipated developments and delays encountered during this ongoing review; developments relating to COM DEV’s communication with the Ontario Securities Commission during this ongoing review; additional corrections that may be required based on factual findings and analysis obtained during this ongoing review; legal and accounting developments regarding stock option grants and interpretations of such guidance; 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.

## **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 consolidated financial statements, including the notes thereto, for the three and nine month periods ended July 31, 2008 (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, 2007 ("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 September 6, 2008, 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, 2007 and other documents available on SEDAR at [www.sedar.com](http://www.sedar.com).

This Management's Discussion and Analysis 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.

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

In this Management's 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. 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 – 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 1,222 people around the world as of July 31, 2008, compared to 1,083 people as of July 31, 2007, and 1,123 people as of April 30, 2008.

COM DEV designs and manufactures advanced microwave products for space satellites such as multiplexers, filters, switches, surface acoustic wave (SAW) devices, lithium ion batteries, signal processors, optical instruments,

and space science instruments. 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 following analysis is related to the continuing operations of the Company unless otherwise noted.

## OVERALL PERFORMANCE

During the third quarter of fiscal 2008, the Company completed its acquisition of the Passive Microwave Devices (PMD) product line from L-3 Communications. This acquisition served to provide our El Segundo operations with a base of business from which to begin to earn revenues. In the quarter, the El Segundo business generated over \$3.5 million in revenue.

Revenue levels in Q3 of fiscal 2008, while declining by 5.0% sequentially from the prior quarter, grew by 20.0% over Q3 of fiscal 2007, and are up by 24.5% year to date over the same time last fiscal year. Q3 revenues this year were \$51.5 million, compared to \$42.9 million a year ago, and \$54.2 million in the second quarter of fiscal 2008. Year to date revenues of \$150.5 million increases management confidence in overall revenue growth for the full year. Based on year to date revenue performance and current forecasts, management is now projecting\* fiscal 2008 revenue growth to be in excess of 20% over the prior year. Prior guidance was for revenue growth of 15% to 20%.

Research & Development activities continued in support of the Company's strategic technology roadmap, Automatic Identification System (AIS) technology, and micro-satellite capabilities. The Company's nano-satellite, launched earlier in the year continued to provide data, which continues to validate our AIS technology. Gross spending in Q3 of fiscal 2008 was \$4.6 million, essentially unchanged from the level of spending on R&D activities in the prior quarter, and up 6.6% from the \$4.3 million spent in the third quarter of fiscal 2007. Management expects\* overall quarterly gross spending on its Research & Development activities to stay at a level similar to this quarter for the remainder of the year, based on historic spending and the current projects underway.

Selling, general and administrative (SG&A) costs in Q3 were \$5.0 million, representing a sequential decrease of 33.8% from the \$7.6 million experienced in the prior quarter, and a 2.8% reduction from the third quarter of the prior year. Factors that led to this decrease in SG&A costs included the lack of any significant costs related to the activity of the Board-appointed Special Committee's review of historic stock option granting practices. The work of this committee was essentially completed in the prior quarter, with only minimal costs arising in the current quarter. In addition, with the completion of the acquisition of L-3's Passive Microwave Devices product line in the quarter, the El Segundo operations are now running, and working on revenue-producing contracts. As a result, and as expected, COM DEV USA's costs have been assigned to cost of goods sold, factory overheads, R&D, and SG&A. Previously, virtually all of the costs of this operation had been categorized as SG&A as they worked to establish the business and the facility.

Foreign exchange was essentially unchanged from the prior quarter, but year over year the US dollar was approximately 6% weaker in Q3 of fiscal 2008 versus fiscal 2007 Q3, based on Bank of Canada average monthly exchange rate statistics. For additional discussion on foreign exchange risk, please see the Business Risks and Prospects later in this Management's Discussion and Analysis.

Turning to the market outlook, during the third quarter of the Company's 2008 fiscal year 13 GEO-satellite programs were awarded in the global space market. This compares with 15 GEO-satellite programs announced by

---

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

the end of the prior year's third quarter. In the full 2007 fiscal year a total of 32 satellite programs were awarded. In the second quarter of fiscal 2008, seven GEO-satellite programs were announced in the market.

Approximately 381 transponders are estimated to be on board the 13 GEO-satellite programs announced in Q3 of the current fiscal year, compared with approximately 600 on the 15 GEO-satellite programs announced in the third quarter of fiscal 2007. Of the 13 GEO programs announced this quarter, COM DEV has secured mandates on four, and remains in the running on the remaining nine. There were 352 transponders on the seven GEO-satellite programs announced in the second quarter of fiscal 2008.

The breakdown of satellite awards and transponders awarded between the three market sectors (commercial, civil, and military/defense) can be summarized as follows:

Sector	2008		Three months ended July 31	
	Satellites	Transponders	Satellites	Transponders
Commercial	9	325	12	566
Civil	2	48	3	34
Military/Defense	2	8	0	0
Total	13	381	15	600

The pace of COM DEV's contract awards in Q3 increased to \$95.1 million, up from \$42.4 million in the prior quarter, and \$49.3 million seen in Q3 of fiscal 2007. Noteworthy in the \$95.1 million of orders booked in Q3 of 2008 was a single \$27 million contract modification to an existing civil segment contract, and the Company's first micro-satellite order. Current bidding and negotiating activity continues to be very brisk.

New business won in fiscal 2008 Q3 was weighted more heavily in the civil sector. Of the \$95.1 million in new orders won in the third quarter of 2008, 43% came from the civil sector of the space market, 38% came from the commercial sector, and the remaining 19% came from the defense sector. This split compares to a split of 6%, 94%, and 0% in the third quarter of fiscal 2007 for the respective market segments, and a 34%, 64%, and 2% split for Q2 fiscal 2008. This profile 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 Q3 2008 with backlog at \$161 million, up from the Q2 2008 backlog of \$120 million and the prior year Q3 backlog of \$135 million. The level of bidding and negotiation activity remains high, and management is confident in the Company's ability to continue to win new business, as it has in the past, based on its historic bid success rate\*. 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 Authorities to Proceed (ATPs), followed by full contract awards later. The composition of the Company's backlog at the end of Q3 2008 was 44%, 44%, 12% split between commercial, civil, and defense, compared with a split of 54%, 39%, 7% as at the end of Q2 2008, and 41%, 40%, 19% at the end of the third quarter a year ago.

The Q3 2008 gross margins of 23.0% reflected an improvement over the 22.0% margins experienced in the second quarter. Margins were negatively impacted by the continued ramp up of the Company's El Segundo operation, which has sized its resources base in anticipation of a larger volume of work in the future. As the order book and resulting revenues expand in COM DEV USA, management expects\* its gross margins to improve, since less costs will remain unabsorbed. Prior year Q3 gross margins were 26.2%. The Company expects\* to see margins continue to move towards its longer-term margin guidance\* of mid to high twenty percent levels, based on an expectation that the volume of work through the U.S. operation will increase, resulting in less unabsorbed factory overheads.

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

Overall operating expenses decreased by \$1.1 million from Q3 2007, due to increased external funding of R&D costs. Compared to the second quarter of fiscal 2008, operating expenses decreased by approximately \$3.4 million, driven by an decrease of \$2.5 million in SG&A, and a \$0.9 million decrease in research and development net spending.

COM DEV ended the third quarter of fiscal 2008 with \$11.1 million of cash and equivalents, up from \$8.9 million at April 30, 2008, and down from the comparable prior year third quarter balance of \$19.7 million. The Company's cash resources are held in bank accounts at the Canadian Imperial Bank of Commerce, and US Bank. The Company does not engage in speculative investments with its cash resources. If the Company holds cash balances that are above its expected near term requirements, it may on occasion, buy bank term deposit certificates, which normally do not have maturity dates beyond 30 days. The Company does not invest in any other commercial paper, and therefore is not exposed to the risk of recent events in the financial markets. The increase in cash balance at the end of the third quarter is attributable to the cash generated from operating activities. Accounts receivable at the end of Q3 stood at \$39.9 million, compared with \$50.3 million at the end of the prior quarter, and \$49.3 million in the comparable Q3 of fiscal 2007. The Company's \$17 million operating line of credit remained undrawn at quarter-end. The Company drew U.S.\$18 million on its term debt facility in the current quarter to fund the acquisition of the PMD product line from L-3 Communications, and to provide funding for expansion of the El Segundo facility. The Company had previously made a draw of \$10 million USD on its term debt facility to purchase the El Segundo facility in Q3 of fiscal 2007. Regular quarterly repayments against these draws have been made.

Overall, the Company realized a net income of \$4.3 million, compared to a net income of \$2.0 million in the prior quarter, and \$2.5 million in Q3 2007.

## RESULTS OF OPERATIONS

### Revenues

<u>(in millions of dollars)</u>	Three months ended July 31		
	2008	2007	% Change
Commercial satellite programs	\$30.2	\$20.3	48.8%
Civil (government) programs	\$13.6	\$14.1	(3.5%)
<u>Military &amp; defense programs</u>	<u>\$ 7.7</u>	<u>\$ 8.5</u>	<u>(9.4%)</u>
<u>Total Space revenues</u>	<u>\$ 51.5</u>	<u>\$42.9</u>	<u>20.0%</u>

Third quarter revenues for fiscal 2008, at \$51.5 million, were down sequentially from Q2 revenues of \$54.2 million, but year over year were higher by 20%. The Company continued to benefit from higher levels of backlog. The Company's U.S. operations contributed approximately \$3.5 million in revenues in the current quarter – its first significant revenue generated to date. Management has increased its full year revenue growth guidance\* from between 15% and 20% growth, to growth in excess of 20% in fiscal 2008, based on year to date revenue performance and current forecasts for the remainder of the year.

### Backlog

<u>(millions of dollars)</u>	July 31	July 31
	2008	2007
Commercial satellite programs	\$ 70.2	\$ 55.8
Civil (government) programs	\$ 72.0	\$ 54.3
<u>Military &amp; defense programs</u>	<u>\$ 18.8</u>	<u>\$ 25.1</u>
<u>Total Backlog</u>	<u>\$161.0</u>	<u>\$135.2</u>

The backlog of work at the end of Q3 2008, at a record level of \$161 million, increased by 19% from the prior year Q3 level of \$135 million, and by 34% from the 2008 Q2 backlog of \$120 million. Management has continually underscored the lumpy nature of the space business, noting that as more civil and defense 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

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

remain strong, bidding and negotiation activity remain very high, and given the Company's historic success rate on space program bids, the Company is optimistic about the prospects for new orders for the remainder of the year. ♦

#### Net Income

(millions of dollars except EPS)	Three months ended July 30		
	2008	2007	% Change
Net Income	\$4.3	\$2.5	72.0%
Earnings per share, basic and diluted	\$0.06	\$0.04	50.0%

Net income in the third quarter of 2008 was \$4.3 million compared with \$2.5 million in the comparable quarter of fiscal 2007. Sequentially, net income for Q3 of 2008 increased from the \$2.0 million net income posted in Q2. The significant factors impacting Q3 net income performance included a reduction in SG&A expenses, an increase in external funding of the Company's R&D expenses, and an improvement in the gross margins in the Company's core products business.

#### Gross Margin

(millions of dollars)	Three months ended July 31		
	2008	2007	% Change
Total gross margin	\$11.8	\$11.2	5.4%
Total gross margin %	23.0%	26.2%	(3.2%)

Gross margins for the third quarter improved sequentially from the 22.0% realized in the second quarter of fiscal 2008 due to improving core product margin performance. The impact of foreign exchange in the quarter was negligible versus the second quarter. The stronger core product margins were partly offset in the quarter by low margins in the Company's El Segundo operations. This operation has been staffed and resourced for higher levels of work than it currently has in house. The result is a higher level of unabsorbed factory overhead than would be expected at higher volumes of work, and thus a suppressive effect on gross margins. Management expects the volume of work in COM DEV USA to increase in the future, and as it does, the gross margins realized from COM DEV USA to improve, as less factory overhead costs should remain unabsorbed. ♦

#### Research and Development (R&D)

(millions of dollars)	Three months ended July 31		
	2008	2007	% Change
Total R&D Spending before funding	\$ 4.6	\$ 4.3	7.0%
Total R&D Funding received	(\$ 2.5)	\$(1.3)	92.3%
R&D, net of Funding	\$ 2.1	\$ 3.0	(30.0%)

The Company's research and development activities continued at levels similar to those seen in the prior quarter, and the latter part of fiscal 2007, and management expects ♦ its activities associated with Automatic Identification System (AIS) work, micro-satellite development, and the Company's normal technology roadmap activities, will keep remaining quarterly gross R&D spending at levels similar to those seen in the current quarter. The Company was successful in increasing the amount of external funding for its R&D efforts in the current quarter, which resulted in a lower net cost to the Company for similar levels of R&D activity than experienced in the prior quarter and prior year Q3. While there is no guarantee that the objectives of this program will succeed, management believes that investment in R&D is important for the future growth of the Company, and that the programs are important opportunities, and in line with our strategic objectives. Net R&D spending in Q3 2008 of \$2.1 million is 30.0% below the level seen in the prior year's Q3, and 27.6% below the Q2 2008 net spending level of \$2.9 million, driven by the higher external funding level.

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

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 July 31		
	2008	2007	% Change
Selling, general & administrative expenses (SG&A)	\$5.0	\$5.2	(3.8%)
SG&A % of total revenue	9.7%	12.0%	(2.3%)
Interest expense/(income)	\$ 0.6	(\$0.1)	
Foreign exchange (gain)/loss	(\$ 0.1)	\$0.4	
Other expense	\$ -	\$0.1	

#### Selling, General and Administrative

SG&A expenses for the third quarter of 2008 decreased by 3.8% from Q3 2007, and by 33.8% from Q2 2008. The completion of the PMD acquisition by COM DEV USA has resulted in a business that is now fully operational and generating revenue. As a result, the prior practice of treating all costs as SG&A in El Segundo has been transitioned to reflecting costs in the categories appropriate for a fully structured and functioning business. The impact of this on SG&A was to see only approximately \$0.3 million of COM DEV USA's costs remaining in SG&A, and approximately \$1.2 million being properly classified as factory overhead. In addition, with the Special Committee's review of the Company's historic stock option granting practices being essentially completed by the end of the prior quarter, only minimal residual costs impacted SG&A in Q3, as compared to approximately \$0.75 million of cost being incurred in the second quarter this year. A favourable working capital adjustment, as a result of the finalization of the Company's 2005 acquisition of its Space and Optical Science operations in Ottawa, flowed through SG&A in Q3 as well, with a positive impact of approximately \$0.2 million. Comparable SG&A expenses for Q3 2007 were \$5.2 million. Management expects\* that its SG&A costs will increase slightly in the near term, since the working capital adjustment is not a recurring item, and underlying SG&A expenses in the Company's California operations are expected to increase slightly.

#### Interest Expense

The Company drew an additional U.S. \$18 million associated with its acquisition of the PMD product line, and the additional build-out of the El Segundo facility which resulted. This draw is in addition to the U.S. \$10 million draw, which was made in the prior fiscal year for the purchase of the land and building in California. These draws bear interest at rates ranging from LIBOR plus 3% to LIBOR plus 3.6%.

#### 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.

#### Foreign Exchange

The foreign exchange gain in the third quarter of 2008 was \$0.1 million, compared with \$0.4 million exchange loss in Q3 2007, and a gain of \$0.5 million in the second quarter of 2008. The exchange gain posted in the third quarter results primarily from both realized and unrealized gains on the Company's foreign exchange hedges, as well as a roughly equal and offsetting amount related to translations of foreign currency denominated balance sheet items.

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

Foreign exchange gains or losses included in this section of the Income Statement do not include the impact of foreign exchange fluctuations on gross margins. Those are reflected in revenue and gross margin. For additional discussion on foreign exchange impacts and risk, refer to the Business Risks and Prospects section later in this Management Discussion & Analysis.

### Financial Position

The following chart outlines the significant changes in the balance sheet between April 30, 2008 and July 31, 2008:

(in millions of dollars)	Increase/ (Decrease)	Explanation
Cash and cash equivalents	\$2.3	Refer to Statement of Cash Flows
Accounts receivable	(10.4)	Slightly lower billings in Q3 based on milestones, and higher collections.
Inventory	2.2	Project inventory increased as a result of higher volume customer work in house. This inventory will translate to Receivables and cash over the normal course of business.
Prepaid and other	(0.2)	decrease in mark to market valuation of forward contracts.
Income taxes recoverable	0.1	payment on account of disputed tax assessments less amounts related to issues where Company dropped disputes.
Capital assets	9.8	Normal capital additions during the quarter plus capital assets acquired through PMD product line acquisition, less normal depreciation.
Intangible assets	5.1	Intangibles purchased through PMD product line acquisition.
Deferred acquisition costs	(1.0)	Payment of acquisition related costs associated with the purchase of the PMD product line from L-3 Communications.
Goodwill	4.5	Price paid in excess of fair value of tangible and intangible assets of PMD product line.
Accounts payable and accrued	(6.6)	Normal accounts payable payments cycle.
Deferred revenue	(4.6)	Lower customer billings in advance of work performed. This balance fluctuates with order levels, and billing profiles.
Current portion of loans payable	3.4	Current portion of draws on term debt facility for land and building, and PMD acquisition.
Long term loans payable	13.7	Long term portion of all draws on GE facility.
Employee future benefits	2.1	Benefits obligations related to employees of the acquired Product Line from L-3 Communications
Shareholders' equity	4.5	Net income for Q3 plus ESOP shares issued

## Liquidity and Capital Resources

(in millions of dollars)

	Three months ended July 31		
	2008	2007	% Change
Cash flows from operating activities	\$ 2.6	\$ 0.4	550.0%
Net increase/(decrease) in cash	\$ 2.3	(\$ 5.9)	139.0%
Property and equipment additions	\$ 3.5	\$ 15.5	(77.4%)
Business acquisition	\$13.5	\$ -	-

The Company generated \$2.6 million of cash in operating activities in the third quarter of 2008, compared with \$0.4 million generated a year earlier. In the second quarter of fiscal 2008, the Company used \$1.9 million of cash in its operating activities. The Company invested \$5.2 million in working capital in the quarter, as accounts receivable decreased by \$10.4 million, inventories grew by \$2.2 million over the prior quarter's level, deferred revenue decreased by \$4.6 million, and accounts payable decreased by \$6.6 million versus the prior quarter.

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. The Company also has \$30 million in term debt facilities, of which, approximately \$2 million is still available at the end of the fiscal quarter. The Company drew CDN \$11.2 million (\$10 million U.S. dollars) in support of the Company's acquisition of a production facility in El Segundo, California during the third quarter of 2007. During the third quarter, the Company drew on the term debt facility by US \$18 million 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.

## Off-balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at the end of the third quarter of the 2008 fiscal year.

## Related Party Transactions

None

## Proposed Transactions

None

## Contractual Obligations

(in thousands of dollars)

	Total	Payments Due by Fiscal Period			
		2008	2009 to 2010	2011 to 2012	2013 & beyond
Long-term debt*	\$ 26,217	\$ 1,272	\$ 10,879	\$ 11,731	\$ 2,335
Operating leases	\$ 4,912	\$ 463	\$ 3,665	\$ 784	\$ -
Capital leases	\$ -	\$ -	\$ -	\$ -	\$ -
Purchase obligations**	\$ -	\$ -	\$ -	\$ -	\$ -
Other Long-term obligations***	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total contractual obligations</b>	<b>\$ 31,129</b>	<b>\$ 1,735</b>	<b>\$ 14,544</b>	<b>\$ 12,515</b>	<b>\$ 2,335</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.

\*\*\* As a result of the acquisition of the PMD product line from L-3 Communications in the quarter, the Company's financial statements include a liability of \$2,055 for employee future benefits. The payment schedule for this liability is dependent on several variables, including the results of actuarial valuation.

## 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 July 31, 2008 the Company had outstanding forward foreign currency call options with a notional value of \$19.6 million maturing within a year at an average exchange rate of \$1.0237 (July 31, 2007: \$5.8 million at 1.136). The Company had outstanding forward foreign currency put options with a notional value of \$26.5 million maturing within a year at an average exchange rate of \$1.0386 (July 31, 2007: \$8.7 million at 1.1639). 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 2008 Quarters</b>	January 31	April 30	July 31	October 31	Total
Total Revenue	\$44,880	\$54,165	\$51,483		
Net Income – Total	\$1,345	\$1,964	\$4,285		
Net Income per share (basic and diluted)	\$0.02	\$0.03	\$0.06		

<b>Fiscal 2007 Quarters</b>	January 31	April 30	July 31	October 31	Total
Total Revenue	\$39,454	\$38,590	\$42,899	\$43,387	\$164,330
Net income/(Loss) from continuing operations	\$5,619	(\$490)	\$2,544	\$4,180	\$11,853
Loss from discontinued operations	\$-	(\$934)	\$-	(\$40)	(\$974)
Net income/(Loss) - Total	\$5,619	(\$1,424)	\$2,544	\$4,140	\$10,879
Net Income per share (basic and diluted)	\$0.08	(\$0.02)	\$0.04	\$0.06	\$0.16

<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

### 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.

#### *Future Income Tax Assets:*

In assessing the realizable amount of future tax assets, management considers whether it is more likely than not that some portion or all the benefits of the future income tax assets will be realized. In making its determination of whether the benefits are more likely than not to be realized, the Company considers its recent past financial performance, its forecast for near term earnings, and the availability of discretionary tax deductions. When in managements' judgment it is more likely than not that some portion of the benefits will be realized, that portion of the future income tax assets are reflected as an asset in the Company's Balance Sheet. Any amount of the potential benefits of the future income tax assets, beyond that which is judged as more likely than not to be realized, has a valuation reserve established to offset it, and it does not appear on the Company's Balance Sheet. Management applies the "more likely than not" test on a quarterly basis, and adjusts the balances based on the outcome of that judgment test in order to ensure only those amounts that are more likely than not to be realized remain on the Company's Balance Sheet.

#### *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 & Presentation*

In December 2006, the CICA released Handbook Section 3862 & 3863, Financial Instruments – Disclosures & Presentation, effective for all annual and interim periods beginning on or after November 1, 2007, and accordingly, the Company has adopted these new Handbook Sections in Q1 of its 2008 fiscal year. CICA Handbook Section 3862 includes required disclosures for the assessment of the significance of financial instruments for an entity's financial position and performance and of the extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. CICA Handbook Section 3863 carries forward the presentation requirements of CICA Handbook Section 3861.

#### *Capital Disclosures*

In December 2006, the CICA released Handbook Section 1535 – Capital Disclosures, effective for all annual and interim periods beginning on or after November 1, 2007, and accordingly, the Company adopted this new Handbook Section in Q1 of its 2008 fiscal year. This new Handbook Section establishes standards for disclosing information about an entity's capital and how it is managed. The entity's disclosure should include information about its objectives, policies and processes for managing capital, and disclose whether or not it has complied with any capital requirements to which it is subject and the consequences of non-compliance.

#### *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, and therefore the Company has adopted this new Section, effective with Q1 fiscal 2008. There was no impact on the Unaudited Consolidated Financial Statements as a result of adopting this standard.

#### *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 adoption of this standard did not have a significant impact on the consolidated results of operations or financial position of the Company.

### *Hedges*

In April 2005, the CICA issued Section 3865 of the CICA Handbook, Hedges, which is effective for years beginning on or after October 1, 2006, and which the Company adopted in its fiscal year 2007. See Note 2 to the 2007 audited Consolidated Financial Statements for a full description of this change, and its impacts on the Company's results. 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. Since the Company does not designate its forward foreign exchange contracts as hedges the impact of this standard on the consolidated results of operations or financial position of the Company was not material.

### *Comprehensive Income*

In the fiscal year 2007, the Company adopted CICA 1530 Comprehensive Income, which set the standards for the reporting and display of comprehensive income. See Note 2 to the 2007 audited Consolidated Financial Statements for a description of the impact of adoption. 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 would 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 became effective for years beginning on or after October 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, and accordingly, the Company adopted this new Handbook Section 3855 in its fiscal year 2007. 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. See Note 2 to the 2007 audited Consolidated Financial Statements for additional description of the requirements of this Handbook Section 3855, including standards pertaining to stand-alone, and embedded derivatives.

### *Inventories*

In June 2007, the CICA released Handbook Section 3031 – Inventories. This new standard, with an effective date for adoption of November 1, 2008 provides more guidance on the measurement and disclosure requirements for inventories than the previous CICA Handbook Section 3030, and is currently being evaluated by the Company to determine the impact of its adoption.

### *International Financial Reporting Standards*

In January 2006, the Accounting Standards Board announced its decision to require all Publicly Accountable Enterprises to report under International Financial Reporting Standards for years beginning on or after January 1, 2011. After that date, the basis for financial reporting by Canadian Publicly Accountable Enterprises will change significantly, from current Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards. These changes are part of a worldwide shift to International Financial Reporting Standards (IFRS); they are intended to facilitate global capital flows and bring greater clarity and consistency to financial reporting in the global marketplace.

The change from Canadian GAAP to International Financial Reporting Standards will apply to COM DEV International Ltd., as a public company for the Company's 2012 fiscal year. The Company is currently considering its approach to addressing this significant change in financial reporting standards.

## **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*

In 2007 the Company experienced technical difficulties on one customer program, which were subsequently resolved to the satisfaction of that customer, avoiding any long-term damage to the relationship with that customer. 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, 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*

The Company 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 Space division's products are complex, use sophisticated technologies and often involve a lengthy development and manufacturing cycle. In addition, these products are integral to the customer's satellite payload and alternate sources of supply may not be available in the time required, or at all. Consequently, any failure by the Company to satisfy its contractual obligations could trigger losses in excess of the value of the contract. Since the Space division often works on large individual contracts, the claims against the Company could be material.

#### *Competition*

COM DEV'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, but does not enter into derivative instruments as hedges, and does not meet the requirements of CICA Handbook 3865 – Hedges. 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. The majority of the Company's foreign exchange risk resides with U.S. dollar transactions, with minimal impact on transactions in British Pounds and Euros. To evaluate the sensitivity of profit before tax to a reasonably possible change in the U.S. dollar exchange rate, various exchange rates are entered into models, which considered the valuation impact to our customer contracts, hedging contracts, U.S. dollar cash balances and U.S. denominated monetary balance sheet items. In the three and nine months ended July 31, 2008 the impact had the U.S. dollar appreciated in value by 5% would have been a decrease in profit before taxes of \$0.018 million and an increase in profit before taxes of \$0.787 million respectively in 2008 (increases of \$0.313 million and \$2.501 million in 2007). Had the U.S. dollar depreciated by 5%, the impact would have been a decrease in profit before tax of \$0.229 million and \$1.455 million respectively in 2008 (\$2.802 million and \$4.734 million in 2007)

#### *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 \$2.8 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.

#### *Risks Arising from the Independent Committee's Review of the Company's Historical Stock Option Granting Practice*

On November 29, 2007, the Company announced the formation of a special committee comprised of two independent directors (the "Special Committee") to commence a review of Com Dev's historical stock option granting practices. The Special Committee delivered its report to the Company's Board of Directors in June 2008. The Special Committee was assisted in its task by independent counsel and by independent accounting consultants. The Company, the Special Committee and independent counsel have met with the Ontario Securities Commission (the "OSC") to apprise the OSC of the review process undertaken by the Special Committee. The Special Committee made recommendations to the Company's Board with respect to reviewing and revising COM DEV's stock option granting procedures and corporate governance policies following completion of the review. As a result of their work in the review of stock options granted between November 1, 2003 and the present date, no material adjustments to, or restatements of the Company's financial statements will be required. While the Company is not currently aware of any litigation initiated by private parties regarding the Company's historical stock option granting practices, such activity could be initiated in the future and could lead to a civil or equitable judgment levied against the Company. The results of any civil judgment levied against the Company as a result of private litigation could each have a material adverse effect on the Company's business, operations, finances or 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 July 31, 2008, 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 September 6, 2008 are as follows:

Common shares	68,069,688
Options on common shares	1,898,099

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

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

For the three months ended July 31	2008	2007
Revenue	\$ 51,483	\$ 42,899
Cost of revenue	39,647	31,676
Gross margin	<u>11,836</u>	<u>11,223</u>
Research and development costs	4,576	4,292
Research and development recovery	2,492	1,277
Net research and development	<u>2,084</u>	<u>3,015</u>
Selling and general expenses	5,017	5,160
Operating income	<u>4,735</u>	<u>3,048</u>
Interest expense (income)	594	(59)
Foreign exchange (gain) loss	(148)	441
Other expense	<u>10</u>	<u>109</u>
Income before non-controlling interest	4,279	2,557
Non-controlling interest	<u>(6)</u>	<u>13</u>
Net income	<u><u>\$ 4,285</u></u>	<u><u>\$ 2,544</u></u>
Earnings per share (note 5c)		
Basic and diluted earnings per share	\$0.06	\$0.04

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

For the nine months ended July 31	2008	2007
Revenue	\$ 150,528	\$ 120,943
Cost of revenue	116,730	91,200
Gross margin	<u>33,798</u>	<u>29,743</u>
Research and development costs	11,983	10,947
Research and development recovery	4,922	3,615
Net research and development	<u>7,061</u>	<u>7,332</u>
Selling and general expenses	18,709	14,253
Operating income	<u>8,028</u>	<u>8,158</u>
Interest expense (income)	363	(436)
Foreign exchange (gain) loss	(122)	514
Other expense	<u>186</u>	<u>385</u>
Income before non-controlling interest	<u>7,601</u>	<u>7,695</u>
Non-controlling interest	<u>7</u>	<u>22</u>
Income from continuing operations	<u>7,594</u>	<u>7,673</u>
Provision for discontinued operations	-	934
Net income	<u><u>\$ 7,594</u></u>	<u><u>\$ 6,739</u></u>
Earnings per share (note 5c)		
Basic and diluted earnings per share from continuing operations	\$0.11	\$0.11
Basic and diluted loss per share from discontinued operations	\$0.00	(\$0.01)
Basic and diluted earnings per share	\$0.11	\$0.10

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

	As at July 31, 2008	As at October 31, 2007
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 11,127	\$ 31,713
Accounts receivable	39,912	35,523
Inventory	40,373	25,611
Prepays and other	2,291	4,864
Income taxes recoverable	2,368	956
Future income tax assets - current	3,957	3,957
	<u>100,028</u>	<u>102,624</u>
Capital assets	67,266	54,890
Intangible assets (note 4)	9,122	3,939
Goodwill (note 4)	4,540	-
Future income tax assets - long term	3,958	3,958
Total assets	<u>\$ 184,914</u>	<u>\$ 165,411</u>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 26,783	\$ 25,435
Deferred revenue	14,295	23,204
Current portion of loans payable	5,253	1,720
Current liabilities - discontinued operations	128	399
	<u>46,459</u>	<u>50,758</u>
Long term		
Loans payable (note 4)	20,964	7,692
Employee future benefits (note 10)	2,055	-
	<u>23,019</u>	<u>7,692</u>
Total liabilities	<u>69,478</u>	<u>58,450</u>
Non-controlling interest	<u>544</u>	<u>537</u>
Shareholders' equity		
Share capital (note 5a)	323,975	323,862
Contributed surplus	1,627	999
Deficit	(208,850)	(216,444)
Accumulated other comprehensive income	(1,860)	(1,993)
Total shareholders' equity	<u>114,892</u>	<u>106,424</u>
Total liabilities and shareholders' equity	<u>\$ 184,914</u>	<u>\$ 165,411</u>

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

For the three months ended July 31	2008	2007
<b>Cash flows (used in) from operating activities</b>		
Net income from continuing operations	\$ 4,285	\$ 2,544
Amortization	3,086	1,672
Stock compensation expense	244	247
Unrealized foreign exchange loss on long term debt	201	-
Non-controlling interest	(6)	13
	<u>7,809</u>	<u>4,476</u>
Net change in non-cash working capital items	<u>(5,572)</u>	<u>(4,079)</u>
<b>Cash flows from operating activities</b>	<u>2,237</u>	<u>397</u>
<b>Cash flows from financing activities</b>		
Shares issued	-	987
Advance of long term debt (note 4)	18,174	10,988
Repayment of long term debt	(1,110)	(389)
<b>Cash flows from financing activities</b>	<u>17,064</u>	<u>11,586</u>
<b>Cash flows used in investing activities</b>		
Acquisition of capital assets	(3,466)	(15,506)
Acquisition of intangible assets	(101)	(77)
Business acquisition (note 4)	(13,111)	-
<b>Cash flows used in investing activities</b>	<u>(16,678)</u>	<u>(15,583)</u>
Effect of exchange rate changes on cash	<u>(371)</u>	<u>(169)</u>
Net increase (decrease) in cash from continuing operations	2,252	(3,769)
Net cash used in discontinued operations	-	(2,141)
Net increase (decrease) in cash	<u>2,252</u>	<u>(5,910)</u>
Cash and cash equivalents, beginning of period	8,875	25,598
<b>Cash and cash equivalents, end of period</b>	<u>\$ 11,127</u>	<u>\$ 19,688</u>
Interest paid	<u>\$ 612</u>	<u>\$ 14</u>

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

For the nine months ended July 31	2008	2007
Cash flows (used in) from operating activities		
Net income from continuing operations	\$ 7,594	\$ 7,673
Amortization	7,030	5,280
(Gain) loss on disposal of assets	(211)	98
Stock compensation expense	739	758
Unrealized foreign exchange loss on long term debt	844	-
Non-controlling interest	7	22
	<u>16,002</u>	<u>13,831</u>
Net change in non-cash working capital items	<u>(28,802)</u>	<u>(10,856)</u>
Cash flows (used in) from operating activities	<u>(12,800)</u>	<u>2,975</u>
Cash flows from financing activities		
Shares issued	113	1,654
Advance of long term debt (note 4)	18,174	10,988
Repayment of long term debt	(2,013)	(612)
Cash flows from financing activities	<u>16,275</u>	<u>12,030</u>
Cash flows (used in) from investing activities		
Acquisition of capital assets	(9,683)	(18,676)
Proceeds on disposal of capital assets	213	22
Acquisition of intangible assets	(418)	(251)
Business acquisition (note 4)	(13,485)	-
Cash flows (used in) form investing activities	<u>(23,373)</u>	<u>(18,905)</u>
Effect of exchange rate changes on cash	<u>(417)</u>	<u>142</u>
Net decrease in cash from continuing operations	(20,315)	(3,758)
Net cash used in discontinued operations	(271)	(2,265)
Net decrease in cash	<u>(20,586)</u>	<u>(6,023)</u>
Cash and cash equivalents, beginning of period	31,713	25,711
Cash and cash equivalents, end of period	<u>\$ 11,127</u>	<u>\$ 19,688</u>
Interest paid	<u>\$ 1,079</u>	<u>\$ 40</u>

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

For the nine months ended July 31, 2008	Total	Deficit	Accumulated Other Comprehensive Income	Share Capital	Contributed Surplus
Balance, October 31, 2007	\$ 106,424	\$ (216,444)	\$ (1,993)	\$ 323,862	\$ 999
Comprehensive income					
Net Income	7,594	7,594	-	-	-
Foreign currency translation adjustments (net of taxes of \$nil)	133	-	133	-	-
	<u>7,727</u>	<u>7,594</u>	<u>133</u>	<u>-</u>	<u>-</u>
Common stock issued	2			113	(111)
Value of ESOP awards	134	-	-	-	134
Expense recognized for share options	605	-	-	-	605
Balance, July 31, 2008	<u>\$ 114,892</u>	<u>\$ (208,850)</u>	<u>\$ (1,860)</u>	<u>\$ 323,975</u>	<u>\$ 1,627</u>
<hr/>					
For the nine months ended July 31, 2007					
Balance as reported, October 31, 2006	\$ 92,807	\$ (227,436)	\$ (1,285)	\$ 320,948	\$ 580
Opening deficit adjustment (note 2)	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>
Comprehensive income					
Net Income	6,739	6,739	-	-	-
Foreign currency translation adjustments (net of taxes of \$nil)	68	-	68	-	-
	<u>6,807</u>	<u>6,739</u>	<u>68</u>	<u>-</u>	<u>-</u>
Common stock issued	1,654	-	-	2,226	(572)
Value of ESOP awards	134	-	-	-	134
Expense recognized for share options	624	-	-	-	624
Balance, July 31, 2007	<u>\$ 102,139</u>	<u>\$ (220,584)</u>	<u>\$ (1,217)</u>	<u>\$ 323,174</u>	<u>\$ 766</u>

**COM DEV INTERNATIONAL LTD**  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2008 and 2007  
(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 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, impairment of long-lived assets, useful lives of intangible assets, determination of net recoverable value of assets, contracts in progress, income taxes, future income tax assets, and contingencies. Actual results may differ from these estimates. These interim 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, 2007, 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 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, COM DEV Consulting Ltd., and 6645348 Canada Inc., and its 70% owned subsidiary, COM DEV Microwave Electronics Company Limited ("Xian").

**2. Changes in Accounting Standards**

**a) Comprehensive Income**

Effective November 1, 2006, the Company adopted the requirements of the Canadian Institute of Chartered 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 reclassified to include the foreign currency translation of self-sustaining foreign operations, which is the only component of Accumulated Other Comprehensive Income ("AOCI").

**COM DEV INTERNATIONAL LTD**  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2008 and 2007  
(Canadian dollars in thousands, except for per share figures)  
Unaudited

**b) Financial Instruments**

On November 1, 2007, the Company adopted the requirements of the CICA Handbook Section 3862, Financial Instruments – Disclosures and CICA Handbook Section 3863, Financial Instruments – Presentation, which modify the disclosure and presentation requirements for CICA Handbook Section 3861. These sections have been applied in accordance with the transitional provisions, which do not require restatement of prior periods. CICA Handbook Section 3862 requires disclosure that enables users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. CICA Handbook Section 3863 carries forward the presentation requirements of CICA Handbook Section 3861. The new disclosures are included in note 7.

Effective November 1, 2006, the Company adopted the requirements of CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement and Section 3861, Financial Instrument-Disclosure and Presentation. These sections were applied in accordance with the transitional provisions, which do not require restatement of prior periods. The Company has recorded all financial instruments at fair value or amortized cost based upon their classification effective November 1, 2006. As a result, the opening deficit on November 1, 2006 was adjusted to reflect required adjustments of the previous carrying amounts.

Under the new standard, all financial instruments are initially recorded on the Consolidated Balance Sheets at fair value except for certain related party transactions. They are subsequently valued either at fair value or amortized cost depending on the classification selected for the financial instrument. Financial assets are classified as "held-for-trading", "held-to-maturity", "available-for-sale" or "loans and receivables" and financial liabilities are classified as either "held-for-trading" or "other liabilities". Financial assets and liabilities classified as held-for-trading are measured at fair value with changes in fair value recorded in the Consolidated Statements of Operations. Financial assets classified as "loans and receivables", and "other financial liabilities" are carried at amortized cost using the effective interest rate method. The Company does not have any financial instruments classified as "held-to-maturity".

The Company has classified its financial instruments as follows:

- Cash and cash equivalents are classified as held-for trading.
- Accounts receivable are classified as loans and receivables.
- Bank indebtedness is classified as held-for-trading.
- Accounts payable and accrued liabilities and long-term debt are classified as other liabilities.
- Derivative financial instruments are classified as held-for-trading.

**COM DEV INTERNATIONAL LTD**  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2008 and 2007  
(Canadian dollars in thousands, except for per share figures)  
Unaudited

**Embedded Derivatives**

In addition to recognizing all stand-alone derivative financial instruments at fair value, CICA Handbook Section 3855 requires embedded derivatives, which are components included in a non-derivative host contract that have features similar to derivatives, to be accounted for separately when their economic characteristics and risks are not closely related to the host instrument and the combined contract is not recorded at fair value. These embedded derivatives are measured at fair value with subsequent changes recorded in the Consolidated Statements of Operations in relation to the host contract. The Company enters into certain non-financial instrument contracts, which contain embedded foreign currency derivatives. Where the contract is not leveraged, does not contain an option feature and is denominated in a currency that is commonly used in the economic environment where the transaction takes place, the embedded derivative is not accounted for separately from the host contract. As allowed under CICA Handbook Section 3855, the Company elected November 1, 2003 as the transition date for embedded derivatives and only reviewed contracts entered into after that date. Changes in the fair value of embedded derivatives will be recognized on a basis consistent with the host contract in the Consolidated Statements of Operations.

**Hedging**

CICA Handbook Section 3865 specifies the criteria that must be met in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies. If the derivative is designated as a fair value hedge, changes in fair value of the hedged item attributable to the hedged risk are recognized in the Consolidated Statements of Operations. If the derivative is designated as a cash flow hedge, the effective portions of the change in the fair value of the derivative are initially recorded in AOCI and are reclassified to the Consolidated Statements of Operations when the hedged item is recognized.

**Transition Adjustments**

The impact of adopting the new standards as at November 1, 2006 was as follows:

- \$1,285 of net foreign currency losses that were previously presented as a separate item in shareholders' equity has been reclassified to AOCI.
- The carrying value of the Government of Canada loan of \$518, included in loans payable as at November 1, 2006, was adjusted through the opening deficit to amortized cost of \$405 using the effective interest rate method as if the loan had been recorded at fair value at inception.

**COM DEV INTERNATIONAL LTD**  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2008 and 2007  
(Canadian dollars in thousands, except for per share figures)  
Unaudited

**c) Capital Disclosures**

On November 1, 2007, the Company adopted the requirements of the CICA Handbook Section 1535, Capital Disclosures. This new standard requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are shown in note 8.

**3. Future Accounting Changes:**

**a) Inventories (CICA 3031)**

CICA 3031, Inventories ("CICA 3031"), replaces CICA 3030, Inventories. The main features of CICA 3031 are: (1) measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of cost, including allocation of overheads and other costs to inventory; (2) cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects, assigned by using a specific identification of the individual costs; (3) consistent use (by type of inventory with similar nature and use) of either the first-in, first-out (FIFO) or weighted-average cost formula; (4) reversal of previous write-downs to net realizable value when there is a subsequent increase in value of inventories; and (5) possible classification of major spare parts and servicing stand-by equipment as property, plant and equipment (CICA 3061 – Property, Plant and Equipment, was amended to reflect this change). The Company is currently evaluating the impact of adoption of this new section. The effective date of adopting this new section is November 1, 2008.

**b) Goodwill and Intangible Assets (CICA 3064)**

In February 2008, the CICA issued new CICA 3064, Goodwill and Intangible Assets, replacing CICA 3062, Goodwill and Other Intangible Assets, and CICA 3450, Research and Development Costs. New Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The CICA also issued amendments to Section 1000, Financial Statement Concepts, and Accounting Guideline AcG-11, Enterprises in the Development Stage. EIC-27, Revenues and Expenditures during the Pre-operating Period, will not apply to entities that have adopted Section 3064. The objectives of the changes are to reinforce a principle-based approach to the recognition of costs as assets and to clarify the application of the concept of matching revenues and expenses in CICA 1000. Collectively, these changes bring Canadian practice closer to IFRS and U.S. GAAP by eliminating the practice of recognizing as assets a variety of startup, pre-production and similar costs that do not meet the definition and recognition criteria of an asset. Consequently, such costs will be expensed as incurred. The Company is currently evaluating the impact of adoption of this new section. The effective date of adopting this new section is November 1, 2008.

**COM DEV INTERNATIONAL LTD**  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2008 and 2007  
(Canadian dollars in thousands, except for per share figures)  
Unaudited

**4. Acquisition**

Effective May 9, 2008, the Company purchased certain assets of the Passive Microwave Devices product line of L-3 Communications Electron Technologies Inc. "ETI-PMD".

The acquisition has been accounted for using the purchase method and the Company has included the results of operations in its consolidated financial statements from the date of acquisition effective May 9, 2008.

The aggregate purchase price, which was paid in cash was \$13,485. The purchase price plus an additional amount to pay certain of the liabilities assumed noted below was advanced on the GE Capital term loan facility in the amount of \$18,174 (\$18,000 USD).

The following table summarizes the fair value of the assets acquired and liabilities assumed as agreed upon by the parties effective May 9, the date of acquisition. There are certain purchase adjustments to be finalized. Therefore the allocation of the purchase price is subject to refinement.

Acquisition price	\$12,405
Acquisition costs	1,080
Total purchase price	<u>\$13,485</u>
<u>Allocated to:</u>	
Capital and intangible assets acquired	\$18,590
Liabilities assumed	<u>(5,105)</u>
Total net assets acquired	<u>\$13,485</u>

Goodwill represents the excess of consideration paid over the fair value of the total tangible and intangible net assets acquired. It is expected that all of the goodwill acquired will be deductible for tax purposes.

Other intangibles acquired (processes, licenses, etc.) are to be amortized straight-line over 5 years based on the expected useful life. The non-compete agreement will be amortized straight-line over the contractually agreed upon term of 3 years. The customer intangible will be amortized straight-line over 8 years based on existing programs acquired. Patents will be amortized straight-line over their remaining contractual term of up to 17 years.

**COM DEV INTERNATIONAL LTD**  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2008 and 2007  
(Canadian dollars in thousands, except for per share figures)  
Unaudited

**5. Share Capital and Earnings Per Share**

**a) Issued Capital**

The following details the issued and outstanding common shares for the nine months ended July 31, 2008.

	<u>Number</u>	<u>Amount</u>
Balance, October 31, 2007	68,035,418	\$323,862
Issuance of common shares (i)	2,000	2
Shares issued through employees plan (ii)	32,270	111
Balance, July 31, 2008	<u>68,069,688</u>	<u>\$323,975</u>

The value of Employee Stock Ownership Plan (“ESOP”) shares amortized to compensation expense but not yet issued at quarter-end was \$38 (\$39 in 2007) and in the nine months ended July 31 was \$134 in both years. This amount is included in contributed surplus.

- (i) In the three months ended July 31, 2008, there were no stock options exercised. During the three months ended July 31, 2007, the Company issued 231,440 common shares to satisfy the equivalent number of stock options exercised of which 35,240 of the options represent options issued after November 1, 2003. During the nine months ended July 31, 2008, the Company issued 2,000 (451,590 in 2007) common shares to satisfy the equivalent number of stock options exercised of which none (100,040 in 2007) of the options represent options issued after November 1, 2003.
- (ii) On February 28, the Company issued 32,270 (80,748 in 2007) common shares under the ESOP.

The maximum number of shares outstanding if all options were exercised and ESOP shares were issued is 70,036,369.

**b) Stock Based Compensation**

The Company employs a fair value based method of accounting for all options issued to employees or directors on or after November 1, 2003. The Company recognizes compensation cost for all stock options granted to employees and directors under its stock option plan after that date. The option exercise price is the fair value of the Company’s common shares at the date of issue. In the three and nine months ended July 31, 2008 and 2007, the Company did not grant any options.

The estimated fair value of the options is amortized to expense over the vesting period of

**COM DEV INTERNATIONAL LTD**  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2008 and 2007  
(Canadian dollars in thousands, except for per share figures)  
Unaudited

the options. In the three months ended July 31, compensation expense of \$206 (\$208 in 2007) was recognized. During the nine months ended July 31, compensation expense of \$605 (\$624 in 2007) was recognized. This amount was added to contributed surplus.

As at July 31, 2008, there were 1,898,099 options outstanding with exercise prices ranging from \$1.27 to \$10.95. Of the options outstanding, 1,459,535 shares have vested.

**c) Earnings Per Share**

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

	<b>3 months ended July 31</b>	
	<b>2008</b>	<b>2007</b>
Numerator for basic and diluted earnings per share available to common stockholders		
Net income attributable to common stockholders	\$ 4,285	\$ 2,544
Denominator for basic earnings per share- weighted average shares outstanding	68,069,688	67,702,157
Effect of dilutive securities		
ESOP	23,810	28,070
Employee stock options	173,768	399,281
Potential dilutive common shares	197,578	427,351
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	68,267,266	68,129,508
Earnings per share		
Basic and diluted earnings per share	\$0.06	\$0.04

**COM DEV INTERNATIONAL LTD**  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2008 and 2007  
(Canadian dollars in thousands, except for per share figures)  
Unaudited

	<b>9 months ended July 31</b>	
	<b>2008</b>	<b>2007</b>
Numerator for basic and diluted earnings per share available to common stockholders		
Basic and diluted net income attributed to common stockholders	\$ 7,594	\$ 7,673
Provision for discontinued operations	-	(934)
Net income attributable to common stockholders	\$ 7,594	\$ 6,739
Denominator for basic earnings per share- weighted average shares outstanding	68,055,446	67,554,112
Effect of dilutive securities		
ESOP	29,302	44,775
Employee stock options	194,139	510,820
Potential dilutive common shares	223,441	555,595
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	68,278,887	68,109,707
Earnings per share		
Basic and diluted earnings per share from continuing operations	\$0.11	\$ 0.11
Basic and diluted loss per share from discontinued operations	\$0.00	\$(0.01)
Basic and diluted earnings per share	\$0.11	\$ 0.10

**6. Income Tax Expense**

Operating loss carry forward amounts have offset current income tax expenses in the three and nine months ended July 31, 2008. The balance of the net future income tax asset remains unchanged from October 31, 2007.

**7. Financial Instruments – Risk Management Objectives and Policies**

For the Company's cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities and discontinued operations 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 at July 31, 2008 of \$304 (\$351 in 2007) that approximates the carrying value of \$305. The fair value of the GE Capital loans, included in loans payable, approximates the carrying value due to its variable interest rate.

**COM DEV INTERNATIONAL LTD**  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2008 and 2007  
(Canadian dollars in thousands, except for per share figures)  
Unaudited

**Foreign Currency Risk**

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. 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 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 - Hedges. 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. Management policy is to hedge between 75% and 100% of expected USD net cash flows.

The Company's derivatives, which are not designated in hedging relationships, are classified as held-for-trading and the changes are recognized in the Consolidated Statements of Operations. During the three and nine months ended July 31, 2008, the fair value of derivatives classified as held-for-trading decreased by \$198 and \$2,870 respectively, and increased by \$84 and \$326 for the comparative periods in 2007.

At July 31, 2008 approximately 51% of cash and cash equivalents, 62% of accounts receivables, and 35% of accounts payable and accrued liabilities are denominated in foreign currencies (July 31, 2007 – 64%, 63%, and 43%, respectively). These foreign currencies include the U.S. dollar, British Pound, and Euro.

As at July 31, 2008, the Canadian dollar amount that could be received under Canadian / U.S. foreign currency call options was \$19,553 (\$5,792 in 2007) and the amount that could be paid under foreign currency put options was \$26,485 (\$8,729 in 2007). The average contractual exchange rate on the call options was 1.0237 and on the put options was 1.0386. The settlement dates of all the outstanding contracts were less than one year. The exchange rate at July 31 was 1.0196 (1.0668 in 2007).

The Company recorded realized gains of \$451 and \$1,230 for the three and nine months ended July 31, 2008, compared to gains of \$571 and \$159 for the same period in 2007, on foreign currency options that have been included in "foreign exchange (gain) loss" on the Consolidated Statements of Operations. At July 31, 2008 the fair value of option contracts of \$112 (\$2,983 October 31, 2007) is included in "Prepays and other" on the Consolidated Balance Sheet.

The majority of the Company's foreign exchange risk resides with U.S dollars transactions, with minimal impact on transactions in British Pounds and Euros. To evaluate the sensitivity of profit before tax to a reasonably possible change in the US dollar exchange rate, various exchange rates were entered into models which considered the valuation impact to our

**COM DEV INTERNATIONAL LTD**  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2008 and 2007  
(Canadian dollars in thousands, except for per share figures)  
Unaudited

customer contracts, hedging contracts, US dollar cash balances and US denominated monetary balance sheet items. In the three and nine months ended July 31, the impact had the US dollar appreciated in value by 5% would have been a decrease in profit before taxes of \$18 for the three months and an increase in profit before taxes of \$787 for the nine months in 2008 compared to an increase in profit before taxes of \$313 and \$2,501 for the same periods in 2007. Had the US dollar depreciated by 5%, the impact would have been a decrease in profit before tax of \$229 and \$1,455 respectively in 2008 (\$2,802 and \$4,734 in 2007).

**Interest Rate Risk**

The Company's exposure to the risk in market interest rates relates primarily to the Company's long-term debt obligation with GE Capital Solutions with floating interest rates. The Company did not have an exposure to the risk in market interest rates until the 3<sup>rd</sup> quarter of 2007 when the Company borrowed \$10,000 USD against the term loan facilities provided by GE Capital Solutions. The Company borrowed an additional \$14,000 USD on May 7 and \$4,000 USD on July 7, 2008 against the term facilities provided by GE Capital Solutions.

The Company's policy is to review its borrowing requirements on a continual basis and to enter into fixed or variable interest rate borrowing arrangements as required.

To evaluate the sensitivity of profit before tax from possible changes in interest rates, the impact of an interest rate change was modeled on the floating rate borrowings while all other variables were held constant. Based on these assumptions, the impact for the three and nine months ended July 31 from a 50 basis point increase in interest rates would have been a decrease in the profit before tax of \$26 and \$48 respectively (\$11 and \$11 in \$2007) and an increase in profit before tax of \$26 and \$48 respectively (\$11 and \$11 in 2007) if there had been a 50 basis point decrease.

**Credit Risk**

The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new customer. The Company manages the collection risk on foreign receivables by carrying credit insurance through Export Development Canada that insures 90% of receivables, primarily those from foreign customers, to protect against commercial and political risk. Trade receivables are non-interest bearing and are generally on 30-60 day terms. There are balances past due but no amounts are considered impaired and therefore the Company does not have an impairment allowance. Two customers comprise 51% of accounts receivable as at July 31, 2008 whereas three customers comprised 54% as at July 31, 2007. Four customers comprise 56% of revenue for the three and nine months ended July 31, 2008 (56% and 55% in 2007).

The Company has reviewed its outstanding trade receivables in detail and has determined

that the aging profiles are within historical expectations. The Company has historically had no impairment of its trade receivables.

**COM DEV INTERNATIONAL LTD**  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2008 and 2007  
(Canadian dollars in thousands, except for per share figures)  
Unaudited

**Liquidity Risk**

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of its financial assets (eg. accounts receivables, other financial assets), liabilities (eg. payables, loans), and projected cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through borrowing facilities available through the Company's bank and GE Capital Solutions, finance leases and employment purchase contracts. The Company's bank facility includes a treasury risk management facility to facilitate hedging of currency related risks arising in the normal course of operations.

The Company's policy is to ensure adequate funding is available from operations, established lending facilities and other sources as required. As at July 31, 2008, the Company has operating credit facilities of \$17,000 that has been approved but not drawn upon.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

	<u>On Demand</u>	<u>&lt; 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Total</u>
July 31, 2008					
Interest bearing loans and borrowing	-	1,298	3,955	20,964	26,217
Trade and other payables	2,043	17,511	7,229	-	26,783
Employee future benefits	-	-	-	2,055	2,055
Discontinued Operations	-	1	127	-	128
Total	<u>2,043</u>	<u>18,810</u>	<u>11,311</u>	<u>23,019</u>	<u>55,183</u>
October 31, 2007					
Interest bearing loans and borrowing	-	650	1,070	7,692	9,412
Trade and other payables	4,375	15,120	5,940	-	25,435
Discontinued Operations	-	272	49	78	399
Total	<u>4,375</u>	<u>16,042</u>	<u>7,059</u>	<u>7,770</u>	<u>35,246</u>

**COM DEV INTERNATIONAL LTD**  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2008 and 2007  
(Canadian dollars in thousands, except for per share figures)  
Unaudited

**8. Capital Management**

The primary objectives of the Company's capital management are:

- to ensure that it maintains strong credit ratings and exceeds its borrowing covenants in order to support its business and maximize shareholder value, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk undertaken.

The Company reviews its capital structure quarterly and makes adjustments as necessary.

**9. 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.

Geographic Information

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

	<b>3 months ended July 31</b>		<b>9 months ended July 31</b>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenue from external customers				
Canada	\$12,124	\$8,124	\$31,024	\$23,324
U.S.A.	23,574	12,906	72,178	39,869
United Kingdom	13,869	19,151	41,131	50,401
Other	1,916	2,718	6,195	7,349
	<u>\$51,483</u>	<u>\$42,899</u>	<u>\$150,528</u>	<u>\$120,943</u>

**10. Employee Future Benefit Plans**

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

**Pension Benefits**

The defined benefit plan has four different benefit structures that cover former L-3 Electron Technologies Employees. Retirement benefits are based on the employee's service and compensation history. Some of the employees are required to contribute towards the cost of their plan benefits. The employer's portion of plan costs is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of high quality long-term

**COM DEV INTERNATIONAL LTD**  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2008 and 2007  
(Canadian dollars in thousands, except for per share figures)  
Unaudited

bond rates, salary escalation and retirement ages of employees. Differences arising from plan amendments, changes in assumptions and experience gains and losses are recognized in income over the expected average remaining service life of employees. Gains related to plan curtailments are recognized when the event precipitating the curtailment has occurred. Actuarial gains and losses are amortized using the 10% corridor method. Plan assets are valued at fair value. The assets supporting the pension benefits are held in a separate trustee pension fund. The cost of providing benefits through defined contribution pension plans is charged to income in the period in respect of which contributions become payable.

The company incurred benefits expenses of \$70 related to the plan during the quarter (\$0 in 2007).

**Non-Pension Benefits**

The Company accounts for the cost of employer provided non-pension retirement benefits including medical and vision benefits for eligible retirees, their spouses and qualified dependents on an accrual basis. These costs are recognized in income in the period in which the services are rendered and actuarially determined using the projected benefit method pro-rated on service and management's best estimate of high quality long-term bond rates, retirement ages of employees and expected health care costs.

The company incurred non-pension benefits expenses of \$66 related to the plan during the quarter (\$0 in 2007).