

AUDITORS' REPORT

To the Shareholders of
COM DEV International Ltd.

We have audited the consolidated balance sheets of **COM DEV International Ltd.** as at October 31, 2009 and 2008 and the consolidated statements of operations, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Kitchener, Canada,
December 11, 2009.

Chartered Accountants
Licensed Public Accountants

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

	As at October 31, 2009	As at October 31, 2008
Assets		
Current		
Cash and cash equivalents	\$ 21,404	\$ 16,102
Accounts receivable	53,674	41,085
Inventories (notes 2 & 4)	51,114	45,941
Prepays and other	3,112	1,772
Income taxes recoverable (note 14(d))	4,615	2,819
Future income tax assets - current (note 5)	6,192	3,957
	140,111	111,676
Property, plant and equipment (note 7)	69,537	66,863
Intangible assets (notes 6 and 8)	21,459	18,510
Goodwill (note 6)	2,388	2,522
Future income tax assets - long term (note 5)	1,723	3,958
Total assets	\$ 235,218	\$ 203,529
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 32,939	\$ 35,467
Deferred revenue (note 4)	22,510	14,828
Current portion of loans payable (note 9(b))	6,587	6,203
	62,036	56,498
Long term		
Loans payable (note 9(b))	13,401	23,223
Employee future benefits (note 16)	1,872	2,224
	15,273	25,447
Total liabilities	77,309	81,945
Non-controlling interest	486	524
Shareholders' equity		
Share capital (note 13(a))	345,885	323,975
Contributed surplus	2,804	1,879
Deficit	(188,759)	(204,065)
Accumulated other comprehensive income	(2,507)	(729)
Total shareholders' equity	157,423	121,060
Total liabilities and shareholders' equity	\$ 235,218	\$ 203,529

On behalf of the Board:

Terry Reidel (signed)

Terry Reidel
Chairman of the Board

Kym Anthony (signed)

Kym Anthony
Chairman of the Audit Committee

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

For the year ended October 31, 2009	Total	Deficit	Accumulated Other Comprehensive Income	Share Capital	Contributed Surplus
Balance, October 31, 2008	\$ 121,060	\$ (204,065)	\$ (729)	\$ 323,975	\$ 1,879
Comprehensive income					
Net Income	15,306	15,306	-	-	-
Foreign currency translation adjustments (net of taxes of \$nil)	<u>(1,778)</u>	<u>-</u>	<u>(1,778)</u>	<u>-</u>	<u>-</u>
	13,528	15,306	(1,778)	-	-
Common stock issued	21,752			21,910	(158)
Value of ESOP awards	185	-	-	-	185
Expense recognized for stock-based compensation	898	-	-	-	898
Balance, October 31, 2009	<u>\$ 157,423</u>	<u>\$ (188,759)</u>	<u>\$ (2,507)</u>	<u>\$ 345,885</u>	<u>\$ 2,804</u>
<hr/>					
For the year ended October 31, 2008					
Balance, October 31, 2007	\$ 106,423	\$ (216,444)	\$ (1,993)	\$ 323,862	\$ 999
Comprehensive income					
Net Income	12,379	12,379	-	-	-
Foreign currency translation adjustments (net of taxes of \$nil)	<u>1,264</u>	<u>-</u>	<u>1,264</u>	<u>-</u>	<u>-</u>
	13,643	12,379	1,264	-	-
Common stock issued	2	-	-	113	(111)
Value of ESOP awards	179	-	-	-	179
Expense recognized for stock-based compensation	812	-	-	-	812
Balance, October 31, 2008	<u>\$ 121,060</u>	<u>\$ (204,065)</u>	<u>\$ (729)</u>	<u>\$ 323,975</u>	<u>\$ 1,879</u>

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

For the year ended October 31	2009	2008
Revenue (note 15)	\$ 240,410	\$ 210,348
Cost of revenue	175,553	156,227
Gross margin	<u>64,857</u>	<u>54,121</u>
Research and development costs	17,475	17,381
Research and development recovery	3,914	7,832
Net research and development	<u>13,561</u>	<u>9,549</u>
Selling and general expenses	33,065	29,531
Operating income	<u>18,231</u>	<u>15,041</u>
Interest expense	533	845
Foreign exchange loss	2,002	1,375
Other expense	<u>428</u>	<u>455</u>
Income before non-controlling interest	15,268	12,366
Non-controlling interest	<u>(38)</u>	<u>(13)</u>
Net income	<u>\$ 15,306</u>	<u>\$ 12,379</u>
Earnings per share (note 13(e))		
Basic and diluted earnings per share	\$0.21	\$0.18
Basic weighted average number of shares	73,551,227	68,057,380
Diluted weighted average number of shares	73,604,941	68,332,462

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

For the year ended October 31	2009	2008
Operating activities		
Net income	\$ 15,306	\$ 12,379
Amortization (notes 7 and 8)	11,300	9,891
Gain on disposal of assets	-	(92)
Defined benefit expenses	398	202
Stock compensation expense	898	812
Employee stock option plan awards	185	179
Unrealized foreign exchange loss on long term debt	-	1,528
Unrealized foreign exchange (gain) loss on derivatives	(3,639)	5,998
Non-controlling interest	(38)	(13)
	<u>24,410</u>	<u>30,884</u>
Net change in non-cash working capital items	<u>(14,339)</u>	<u>(32,144)</u>
Operating activities	<u>10,071</u>	<u>(1,260)</u>
Financing activities		
Shares issued	21,752	2
Advance of long term debt	-	18,174
Repayment of long term debt	(6,923)	(3,320)
Financing activities	<u>14,829</u>	<u>14,856</u>
Investing activities		
Acquisition of capital assets	(13,016)	(9,610)
Proceeds on disposal of property, plant, and equipment	79	213
Acquisition of intangible assets	(7,548)	(4,494)
Business acquisition (note 6)	(140)	(13,525)
Employee future benefits contributions (note 16)	(584)	(264)
Investing activities	<u>(21,209)</u>	<u>(27,680)</u>
Effect of exchange rate changes on cash	<u>1,611</u>	<u>(1,176)</u>
Net increase (decrease) in cash from continuing operations	5,302	(15,260)
Net cash used in discontinued operations	-	(351)
Net increase (decrease) in cash	<u>5,302</u>	<u>(15,611)</u>
Cash and cash equivalents, beginning of year	16,102	31,713
Cash and cash equivalents, end of year	<u>\$ 21,404</u>	<u>\$ 16,102</u>
Interest paid	<u>\$ 965</u>	<u>\$ 1,456</u>

COM DEV INTERNATIONAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2009
(Canadian dollars in thousands, except for per share figures)

1. Summary of Significant Accounting Policies

These consolidated financial statements of COM DEV International Ltd. (the "Company") have been prepared by management in accordance with Canadian generally accepted accounting principles on a basis consistent with prior periods. All financial amounts are expressed in thousands of Canadian dollars, except per share information or as otherwise indicated. These consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

a) Basis of Consolidation

The consolidated financial statements include the accounts of all of the Company's subsidiaries with inter-company transactions and balances eliminated. The Company's principal wholly owned subsidiaries are COM DEV Limited ("CDL"), COM DEV Europe Limited ("CDE"), COM DEV USA LLC ("CDU"), COM DEV US Property LLC ("CD US Property"), COM DEV Consulting Ltd. ("CD Consulting"), exactEarth Ltd., and the Company's 70% owned subsidiary, COM DEV Microwave Electronics Company Limited ("Xian").

b) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates include, but are not limited to, the value of contract work in progress and recognition of revenue related to the percentage of completion of contract work, the determination of doubtful accounts, impairment of long-lived assets, intangibles, and goodwill, useful lives of intangible assets and property, plant, and equipment, determination of net recoverable value of assets, contracts in progress, and future income tax assets, valuation of employee future benefits liabilities, and contingencies. Actual results could differ from these estimates.

c) Cash and Cash Equivalents

Cash and cash equivalents consist of balances with banks and short-term investments that mature within 90 days from the date of acquisition. Short-term deposits are carried at their fair values. Fair values of short-term investments with maturity less than 90 days approximate the carrying amount.

d) Inventory

Inventories, other than contracts in process, are valued at the lower of cost on a weighted average basis and net realizable value. Cost of raw materials includes the purchase cost and the cost incurred in bringing each product to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Items that are written down to net realizable value are adjusted back up to cost if there is a subsequent increase in the net realizable value. The majority of inventory is raw materials and component parts held for use in the contracts in progress projects and are not written down below cost if the finished products in which they will be incorporated are expected to

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be sold at or above cost.

Contracts in process are valued at cost plus accrued profit margins, less billings issued to date and less the full amount of any anticipated losses.

e) Property, Plant and Equipment

Property, plant and equipment are stated at cost and amortization is recorded using the straight-line method as follows:

Buildings	- forty years
Machinery	- five to fifteen years
Electrical equipment, furniture and fixtures	- five to ten years
Computer hardware and software integral to the hardware on which it operates	- three to five years

f) Goodwill

Goodwill represents the excess of consideration paid over the fair value of the total identifiable tangible and intangible assets acquired. Goodwill is tested for impairment in accordance with the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, on at least an annual basis or upon the occurrence of certain events or circumstances which may indicate that the asset might be impaired. CICA 3064 requires goodwill impairment to be assessed at a reporting unit level. The Company has defined the reporting units to be CDI, CDL, CDE, exactEarth Ltd., and the U.S. operations (CDU, CD US Property and CD Consulting). All of the goodwill acquired has been allocated to the U.S. operations reporting unit.

The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit including goodwill is compared with its fair value. Fair value of the reporting unit is measured using a discounted cash flow model. When the fair value exceeds the carrying amount, goodwill is considered not to be impaired and the second step is considered unnecessary. In the event that the fair value of the reporting unit, including goodwill, is less than the carrying value, a second step is performed whereby the implied fair value of goodwill is compared with its carrying amount to measure the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination using the reporting unit fair value as if it was a purchase price. When the carrying amount of goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line on the Consolidated Statements of Operations. Any impairment of goodwill is written off against income in the period that such impairment becomes evident.

g) Intangible Assets

Finite life intangible assets are valued at cost less accumulated amortization, which is provided at rates sufficient to write-off the costs over the estimated useful lives of the assets using the straight-line method as follows:

Patents	- up to seventeen years
Customer relationships	- the term of the programs up to eight years
Non-compete agreement	- over term of agreement (three years)
Acquired processes	- over the expected life of the technology up to five years
Computer software not integral to the hardware on which it operates	- three to five years
Internally developed technology	- five to seven years

Patent costs represent amounts paid to third parties for the development or acquisition of patents.

Costs that are directly attributable to the development and testing of identifiable and unique internally developed technology controlled by the Company are recognized as intangible assets when the criteria specified in CICA Handbook Section 3064 are met. Capitalized costs include employee costs for staff directly involved in technology development and other expenditures directly related to the project. Other development expenditures that do not meet the capitalization criteria under CICA Handbook Section 3064 are recognized as research and development expense as incurred.

h) Impairment of Long Lived Assets

When events and circumstances warrant a review, the Company evaluates the carrying value of its long-lived assets for potential impairment. An impairment loss is recognized when the estimated net recoverable amount of a long-lived asset is less than its carrying value. The impairment loss is measured as the excess, if any, of the carrying value over the fair value of the asset. Any impairment in these assets is written off against income in the year that such impairment becomes evident.

i) Leases

Leases that transfer substantially all of the benefits and risks of ownership of the leased assets to the Company are capitalized by recording the present value of future minimum payments under the lease as a capital asset and a liability on the Consolidated Balance Sheets. Assets recorded under capital leases are amortized using the rates consistent with those used by the Company for similar assets. All other leases are accounted for as operating leases and the related lease payments are expensed as incurred.

j) Income Taxes

The Company uses the liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined based upon differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. In assessing the realizable amount of future tax assets, management considers whether it is more likely than not that some portion or all the benefit of the future income tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income and/or tax planning strategies.

k) 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 where the Company recovers its' costs plus a profit margin as set out in the contract. 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.

l) Research and Development

The Company is engaged at all times in research and development work. The Company expenses research and development costs as incurred, unless they meet Canadian generally accepted accounting principles for recognition as an internally generated intangible asset. Investment tax credits reduce research and development expense and/or intangible assets in the same period in which the related expenditures are charged to earnings or capitalized, provided there is reasonable assurance the benefit will be realized.

Research and development costs that are funded by the Company are presented separately on the Consolidated Statements of Operations. Research and development costs that are funded by customers or other programs are included in cost of revenue. Government grants and other funding for research activity are presented as a reduction of the related expense. The Company recognized investment tax credits of \$nil in 2009 (nil in 2008), which are included in research and development recovery in the Consolidated Statements of Operations.

m) Foreign Currency Translation

Foreign denominated monetary items of Canadian operations are translated into Canadian dollars at the exchange rate in effect at year-end. Transactions in foreign currencies are translated at the rate prevailing at the time of the transaction. The resulting gain or loss from translation is recorded in income.

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The accounts of the Company's self-sustaining foreign operations, CDE and Xian, are translated using the current rate method, whereby assets and liabilities are translated at the exchange rate in effect at the Consolidated Balance Sheet date and revenue and expenses are translated at the average rate for the period, which approximates the rate prevailing at the time of the transaction. Unrealized translation gains and losses are deferred and included in Accumulated Other Comprehensive Income ("AOCI").

The accounts of the Company's operations in the United States, COM DEV USA LLC, COM DEV US Property LLC, and COM DEV Consulting Ltd., were translated up to August 31, 2008 using the temporal method as they were considered integrated foreign operations, whereby assets, liabilities, revenues and expenses are translated in a manner that retains their basis of measurement in terms of the Canadian dollar. Monetary items are translated at the exchange rate in effect at the period end. Non-monetary items are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rate in effect at the period end. Revenue and expense items are translated at the average rate for the period which approximates the rate prevailing at the time of the transaction. Amortization of assets is translated at historical exchange rates using the same exchange rates as the assets to which it relates.

Effective September 1, 2008 the Company determined that all of the U.S. operations met the conditions to be considered self-sustaining and accordingly, are translated using the current rate method from that date forward.

n) Derivative Financial Instruments

The Company, in the management of its foreign currency exposures, utilizes derivative financial instruments. 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 Company has elected not to apply hedge accounting and accordingly, carries derivatives at their fair value on the Consolidated Balance Sheets. Changes in the fair value of derivatives are recognized in "Foreign exchange loss" in the Consolidated Statements of Operations.

o) Government Assistance

Government assistance is periodically received in the form of grants or loans that may be repayable in the form of royalties based on future sales levels related to the technology funded. Amounts that are repayable will be accounted for in the period in which conditions arise that will cause repayment. Government assistance with predetermined repayment requirements is recorded as a liability when received. If no predetermined repayment requirements exist, the assistance is treated as a reduction in the cost of the related item.

p) Earnings Per Share

Basic earnings per share is calculated on the basis of income attributable to holders of common shares, divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of the in-the-money stock options together with unamortized compensation expense are used to repurchase common

shares at the prevailing market rate, thereby reducing the number of shares otherwise used to calculate the diluted earnings per share.

q) Stock-Based Compensation, Employee Share Ownership Plan (“ESOP”) and Long Term Incentive Plan (“LTIP”)

The Company provides compensation to employees in the form of a stock option plan. The Company only grants stock options with an exercise price equal to the market value of the underlying stock on the date of grant. The Company employs a fair value method of accounting for all options granted to employees or directors. The fair value of the direct grants of stock is determined by the quoted market price of the Company’s stock at the time of the award and the fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of awards issued is recorded over the period of vesting as compensation expense and contributed surplus. When the options are exercised, the proceeds received, together with any related amount in contributed surplus, are credited to share capital.

Direct grants of stock to employees and stock options granted to non-employees are being accounted for in accordance with a fair value method of accounting for stock-based compensation.

The Company offers employees the option of contributing a portion, between 2.5% and 10%, of their gross salary towards the purchase of common shares of the Company through the ESOP. The Company issues one share for every four shares that employees purchase during the plan year, which runs from March 1 to February 28. The Company’s matching contribution will be issued to the employee contingent upon the employee remaining employed by the Company on the date one year following the end of the plan year. The fair values on the date that the employees commit to purchase shares are used to determine the applicable compensation expense to the Company. The compensation expense is recognized over the period from the date the employee acquires the shares to the date the Company-matching shares are issued to the employee. The accumulated amount of ESOP shares charged to income but not yet issued is included in contributed surplus.

During the year, the Company established an LTIP for executives and certain employees. Under the terms of this plan, participants are eligible to receive incentive remuneration in the form of Restricted Share Units (“RSUs”) and/or Performance Share Units (“PSUs”). RSUs are time based and will vest automatically (“cliff vest”) three years after the grant date. Each RSU, once vested, entitles the holder to receive one common share of the Company. The Company will buy common shares on the open market to satisfy obligations under the plan. The value of the RSUs is based on the fair market value of the Company’s shares on the day of the grant and accounted for as an equity settled instrument. The estimated fair value of the RSUs is amortized to expense over the vesting period.

The value of the PSUs is based on the fair market value of the shares on the day of the grant and is accounted for as an equity settled instrument. The vesting term of the PSUs is three years commencing on the date of the grant, and incorporates performance vesting features based upon achieving certain return on net assets and revenue growth targets established over the vesting period. Each PSU, once vested, entitles the holder to receive one common share of the Company. The Company will buy common shares

on the open market to satisfy obligations under the plan. The estimated fair value of the PSUs that are expected to achieve the performance targets is amortized to expense over the vesting period. If, in the future, the performance criteria are expected to not be met,

then the change is treated as a change in estimate and therefore, the cumulative effect of the change will be adjusted through income in the period.

r) Employee Future Benefit Plans

Defined Contribution Pension Plan

The Company sponsors a defined contribution pension plan for certain of its employees. The cost of providing benefits through the defined contribution pension plan is charged to income in the period in which the contributions become payable.

Defined Benefit Pension Plan

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 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 where the Company recognizes amortization of actuarial gains or losses in a period in which the unamortized net actuarial gain or loss exceeds 10% of the greater of the accrued benefit obligation or the fair value of the plan assets at the beginning of the year. Plan assets are measured at fair value. The assets supporting the pension benefits are held in a separate trustee pension fund.

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.

s) Financial Instruments

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 CONSOLIDATED FINANCIAL STATEMENTS
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(Canadian dollars in thousands, except for per share figures)

All financial instruments are initially recognized at fair value and are subsequently accounted for based on their classification. The fair value of a financial instrument is the

amount of consideration that would be agreed upon in an arms-length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received.

Subsequent to initial recognition, financial assets and liabilities classified as held-for-trading are measured at fair value with changes in fair value recorded on the Consolidated Statements of Operations. The fair values are based on quoted market bid prices if available, otherwise fair value is obtained using discounted cash flow analysis. Financial assets classified as loans and receivables, and other financial liabilities are carried at amortized cost using the effective interest rate method.

In accordance with CICA Handbook Section 3862, Financial Instruments – Disclosures, the Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 – fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date.

Level 2 – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates and credit risks) and inputs that are derived from or corroborated by observable market data.

Level 3 – fair value measurements using significant non-market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable data, including assumptions about risk.

Embedded Derivatives

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. Changes in the fair value of embedded derivatives will be recognized on a basis consistent with the host contract on the Consolidated Statements of Operations.

2. Changes in Accounting Standards

a) Inventories (CICA 3031)

On November 1, 2008, the Company adopted the requirements of the CICA Handbook Section 3031, Inventories, which replaces CICA Handbook Section 3030. The new standard does not apply to the Company's contracts in progress. The standard prescribes

the measurement of inventory at the lower of cost and net realizable value. Items that are written down to net realizable value are required to be adjusted back up to cost if there is a subsequent increase in the net realizable value. Other than additional required disclosures, which are provided in note 1(d) and note 4, there was no material impact on the consolidated financial statements.

b) Goodwill and Intangible Assets (CICA 3064)

On November 1, 2008, the Company adopted the requirements of the CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaces CICA Handbook Sections 3062, Goodwill and Intangible Assets, and 3450, Research and Development Costs. Section 3064 establishes guidance for the recognition, measurement, presentation of goodwill and intangible assets, including internally generated intangible assets.

As required by the standard, the Company has retroactively reclassified computer software assets and internally developed technology on the consolidated balance sheets from property, plant and equipment to intangible assets. The net book value of the computer software reclassified as of October 31, 2008 was \$3,885. The net book value of the internally developed technology reclassified as of October 31, 2008 was \$1,212.

c) Credit risk and the fair value of financial assets and financial liabilities

On November 1, 2008, the Company adopted EIC issued Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. EIC-173 requires an entity to take into account its own credit risk and that of the relevant counterparties when determining the fair value of financial assets and financial liabilities, including derivative instruments. The new guidance did not have a material impact on the consolidated financial statements.

d) Fair value and liquidity risk disclosure

In 2009, the Company adopted an amendment to CICA Handbook Section 3862, Financial Instruments – Disclosures, that provides improvements to fair value and liquidity risk disclosures. The new disclosures are included in note 10. The new guidance has not affected the consolidated financial position or net income of the Company. Comparative information is not required in the year of adoption.

3. Future Accounting Changes

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

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

International Financial Reporting Standards

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

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

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

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

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

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4. Inventory and Deferred Revenue

Inventory is comprised of:

	<u>2009</u>	<u>2008</u>
Raw Materials	\$14,577	\$13,626
Contracts in process – costs and profits earned in excess of progress billings	<u>36,537</u>	<u>32,315</u>
Total Inventory	<u>\$51,114</u>	<u>\$45,941</u>

The amount of inventory recognized as an expense and included in cost of revenue accounted for other than by percentage-of-completion method during the year ended October 31, was \$4,538 (\$4,487 in 2008). The amount charged to net income and included in cost of revenue for the write-down of inventory for valuation issues during the year ended October 31, 2009 was \$1,160 (\$1,249 in 2008). There have been no reversals of previous write-downs during the year.

Deferred revenue is comprised of:

Contract billings in excess of cost and accrued profit margins earned on contract work in process	<u>\$ 22,510</u>	<u>\$ 14,828</u>
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5. Income Taxes

a) Carry Forward Amounts

The Company has non-refundable investment tax credits, which total \$30,561 federally and \$911 provincially. These investment tax credits are available to offset future federal and provincial income taxes payable. The Company has federal and provincial operating loss carry forwards in Canada of \$5,204. The carry forwards subject to expiration are as follows:

	Investment Tax Credits	Operating Loss Carry Forward
2018	676	--
2019	2,180	--
2020	2,167	--
2021	2,555	--
2022	1,468	--
2023	1,165	--
2024	936	--
2025	2,829	--
2026	4,299	15
2027	4,038	82
2028	4,201	1,946
2029	4,958	3,161
	<u>\$31,472</u>	<u>\$ 5,204</u>

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The Company has unclaimed scientific research and experimental development ("SRED") tax pools for Canada of \$63,881 for both federal and provincial, which are available to offset future taxable income. These SRED amounts have an unlimited carry forward period. The Company's subsidiary in the United Kingdom has unlimited loss carry forwards of \$19,572 (£11,025). The Company's US subsidiaries have loss carry forwards of \$22,952 (\$21,215US) that expire between 2011 and 2029. In addition, the Company has capital loss carry forwards in the amount of \$76,112 which have an unlimited life and can be used to offset any future capital gains.

b) Reconciliation of Income Tax Rates

The difference between the amount of the consolidated provision for income taxes and the amount computed by multiplying income before taxes by the statutory rate is reconciled as follows:

	2009		2008	
Income before non-controlling interest and income taxes multiplied by the Company's tax rate	\$5,051	<u>33.08%</u>	\$4,224	<u>34.16%</u>
Differences in income taxes resulting from:				
Non-deductible expenses	615		(61)	
Utilization of losses and SR&ED pool not recognized for accounting	(6,927)		(8,316)	
Tax rate changes in utilization of losses not recognized for accounting	(329)		(1,156)	
Losses not recognized for accounting	1,590		4,419	
Foreign exchange translation	-		890	
	<u>\$ --</u>		<u>\$ --</u>	

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Tax effects of significant temporary differences are as follows:

	2009	2008
Assets		
Tax paid reserves	\$ 1,368	\$ 3,171
Research and development incentives	41,424	30,297
Loss carry forwards	16,559	21,194
Capital assets	-	631
	<u>\$59,351</u>	<u>\$55,293</u>
Liabilities		
Deferred revenue	\$10,252	\$11,424
Capital assets	1,149	-
	<u>\$11,401</u>	<u>\$11,424</u>
Net future tax assets	\$47,950	\$43,869
Valuation allowance	40,035	35,954
Future tax asset	\$7,915	\$7,915
Less: current portion	6,192	3,957
Future tax asset	<u>\$1,723</u>	<u>\$3,958</u>

On November 16, 2009, Ontario Bill 218, an Act to implement 2009 Budget measures and to enact, amend or repeal various Acts was tabled and received 1st reading in the Legislature. This Bill contains previously announced proposed Ontario corporate tax rate reductions. Since there is a majority government and the Bill has received 1st reading, these tax rate changes are considered substantively enacted. The effect of these rate changes would be a reduction in the future tax asset of \$1,200 and a reduction in the valuation allowance of \$1,200.

6. 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 paid in cash was \$13,665. Final negotiations of the purchase price and related allocations for this acquisition were completed during the year. Goodwill increased by \$140 for additional acquisition costs related to the transaction.

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	2009	2008
Acquisition price	\$12,405	\$12,405
Acquisition costs	1,260	1,120
Total purchase price	\$13,665	\$13,525
<u>Allocated to:</u>		
Capital assets	\$7,686	\$7,686
Non compete agreement	1,274	1,274
Customer relationships	3,388	3,388
Patents	3,680	3,680
Acquired processes	474	474
Payable to vendor	(324)	(324)
Employee future benefits	(1,936)	(1,936)
Other liabilities	(2,845)	(2,845)
Goodwill	2,268	2,128
Total net assets acquired	\$13,665	\$13,525

7. Property, Plant and Equipment

Property, plant and equipment are comprised as follows:

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	\$ 8,341	\$ --	\$ 8,341	\$ 8,041	\$ --	\$ 8,041
Buildings	40,344	13,135	27,209	38,101	11,799	26,302
Machinery	19,641	6,902	12,739	20,139	4,606	15,533
Electrical equipment	76,732	58,310	18,422	70,688	55,802	14,886
Computer hardware	19,140	17,977	1,163	18,182	17,783	399
Furniture and fixtures	7,739	6,076	1,663	7,662	5,960	1,702
	\$171,937	\$102,400	\$69,537	\$162,813	\$95,950	\$66,863

Included in property, plant and equipment is \$5,241 of machinery and equipment (\$919 in 2008), \$2,109 of buildings and furniture and fixtures (\$3,211 in 2008), and \$881 of computer hardware (nil in 2008) that has not yet commenced being amortized as the assets are capital in progress and not yet ready for use. There were no capital leases entered into during fiscal 2009 and 2008.

Amortization of property, plant and equipment for the year was \$7,856 (\$7,223 for 2008).

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8. Intangible Assets

Intangible assets are comprised as follows:

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patents	\$8,879	\$2,995	\$5,884	\$8,814	\$2,300	\$6,514
Customer relationships	5,778	1,743	4,035	6,186	1,047	5,139
Non-compete agreement	1,354	677	677	1,507	251	1,256
Acquired processes	503	151	352	560	56	504
Computer software	14,210	9,940	4,270	12,469	8,584	3,885
Internally developed technology	6,241	-	6,241	1,212	-	1,212
	<u>\$36,965</u>	<u>\$15,506</u>	<u>\$21,459</u>	<u>\$30,748</u>	<u>\$12,238</u>	<u>\$18,510</u>

Included in intangible assets is computer software of \$1,006 (\$86 in 2008) and internally developed technology of \$6,241 (\$1,212 in 2008) that has not yet commenced being amortized, as development is still in progress. Amortization of intangible assets for the year was \$3,444 (\$2,668 for 2008).

9. Bank Indebtedness and Loans Payable

a) Bank Indebtedness

During the 2009 fiscal year, the Company's bank has made available working capital facilities to the Company. This agreement provides for an operating facility of up to \$32,000 (\$27,000 in 2008). The only outstanding drawings against this operating facility at year-end are \$1,031 in the form of guarantee letters issued to customers in the normal course of operations by the bank on behalf of the Company. The interest rate applicable to the operating credit facility available from the Company's bank is the chartered bank prime rate plus 0.75%. This facility is provided subject to certain covenants, including certain minimum financial ratios.

The collateral for this arrangement includes a general security agreement on certain assets of the Company, security under Section 427 of the Bank Act (Canada), as well as assignment of insurance policies.

As at October 31, 2009, the Company was in compliance with its bank covenants.

Interest paid on bank indebtedness during the year was \$17 (\$67 in 2008).

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b) Loans Payable

Loans payable are comprised as follows:

	<u>2009</u>	<u>2008</u>
Government of Canada	\$ 258	\$ 310
GE Capital Solutions loans	19,730	29,116
	<u>19,988</u>	<u>29,426</u>
Less: current portion of loans payable	(6,587)	(6,203)
Long term loans payable	<u>\$ 13,401</u>	<u>\$ 23,223</u>

Principal repayments are due as follows:

For the year ending	
2010	\$ 6,587
2011	6,789
2012	5,218
2013	1,394
	<u>\$ 19,988</u>

The interest rate applicable to the GE Capital Solutions loans is the LIBOR rate plus a rate that varies between 2.25% and 3.60%.

The collateral for these arrangements includes a general security agreement on the capital assets of the Company as well as assignment of insurance policies.

The GE Capital Solutions loans are being amortized over 5 years with quarterly payments of principal and interest totaling \$7,720 (\$6,579 USD) in 2009 (\$4,302 (\$4,270 USD) in 2008). Interest paid on the GE Capital Solutions loan in the year was \$918 (\$778 USD) and \$881 (\$876 USD) in 2008.

The Company has a product development agreement with Technology Partnerships Canada (TPC) that provides partial funding for certain research and development projects. Royalties of 4.9% are to be paid on annual gross product revenues resulting from the project to March 1, 2013. If total royalties paid by March 1, 2013 are equal to or exceed \$3,263, the payment obligation will be terminated. If total royalties paid at that date are less than \$3,263, the payment obligation shall continue until March 1, 2016 or until \$3,263 is paid, whichever comes first. A royalty payment of \$34 was made in 2009 (\$17 in 2008). It is not possible to determine the timing of the ultimate amount that will be repaid in connection with this arrangement and accordingly, no amount is accrued.

The Government of Canada loan in conjunction with TPC is without interest or specific security with payments due annually until March 2013. The carrying value of the Government of Canada loan included in loans payable was arrived at using a discount rate of 6%. During 2009 and 2008 installment payments totaling \$74 were made, reducing the carrying value, net of the effective interest, to \$258 as at October 31, 2009 (\$310 in 2008).

10. Financial Instruments – Risk Management Objectives and Policies

For the Company's cash and cash equivalents, accounts receivables and accounts payable and accrued liabilities, the fair values approximate their respective carrying amounts due to their short maturities. The fair values of foreign currency call and put option contracts have been estimated using market quoted rates of foreign currencies. These option contracts have been classified as Level 2 within the 3-level, fair value hierarchy. The Government of Canada loan, included in loans payable, has a fair value at October 31, 2009 of \$267 (\$312 in 2008) that approximates the carrying value of \$258. The fair value of the Government of Canada loan is calculated using discounted cash flows with a discount rate comprised of the Bank of Canada prime rate plus 2% which is indicative of the Company's borrowing rate. The fair value of the GE Capital loans, included in loans payable, approximates the carrying value due to their variable interest rate terms policy.

Foreign Currency Risk

Transaction Exposure

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 foreign exchange put options and related call options 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. Management policy is to mitigate between 75% and 100% of the foreign exchange fluctuations on expected USD net cash flows.

Translation Exposure

The Company's foreign operations, CDE and Xian, are considered self-sustaining. Accordingly, assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Unrealized translation gains and losses are deferred in AOCI. The accumulated currency translation adjustments are recognized in income when there is a reduction in the net investment in the foreign operations.

The Company's foreign operations, COMDEV USA LLC, COM DEV US Property LLC and COM DEV Consulting Ltd., are translated up to August 31, 2008 into Canadian dollars using the temporal method. Unrealized gains and losses are recorded in net income. Effective September 1, 2008 the Company assessed the U.S. operations to be self-sustaining. Accordingly, from September 1 forward the assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates using the current rate method. Unrealized translation gains and losses are deferred in AOCI. The accumulated currency translation adjustments are recognized in income when there is a reduction in the net investment in the foreign operations.

Foreign currency risks arising from translation of assets and liabilities of foreign operations into the Company's functional currency are generally not hedged, however, the Company does hedge this risk with respect to the U.S. operations. Effective September 1, 2008, the Company began to

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hedge the translation risk by designating the U.S. dollar denominated loans used in the

acquisition of the U.S. Operations as a hedge of the net investment. The foreign exchange on the translation of the US dollar denominated loans is also deferred in AOCI, as the hedge is considered effective.

The Company's derivatives, which are not designated in hedging relationships, are classified as held-for-trading and the changes in fair value are recognized in the Consolidated Statements of Operations. During the year ended October 31, 2009, the fair value of derivatives classified as held-for-trading increased by \$3,639 (decreased by \$5,998 in 2008).

At October 31, 2009 approximately 43% of cash and cash equivalents, 55% of accounts receivables, and 37% of accounts payable and accrued liabilities are denominated in foreign currencies (October 31, 2008 – 49%, 60%, and 32%, respectively). These foreign currencies include the U.S. dollar, British Pound, and Euro.

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

<u>Currency</u>	<u>Cash</u>	<u>Accounts Receivable</u>	<u>Accounts Payable</u>
USD	\$ 5,757	\$ 21,311	\$ 8,184
GBP	£ 658	£ 126	£ 1,544
EUR	-	€ 3,888	€ 180

As at October 31, 2009, the Canadian dollar amount that could be received under Canadian / U.S. foreign currency call options was \$92,309 (\$42,802 in 2008) and the amount that could be paid under foreign currency put options was \$123,883 (\$59,219 in 2008). The average contractual exchange rate on the call options was 1.0885 and on the put options was 1.1237. The settlement dates of all the outstanding contracts are distributed over the next two years. The exchange rate at October 31 was 1.0819 (1.2045 in 2008).

During 2009 the Company recorded a net realized loss of \$2,224 (\$275 in 2008) and net unrealized gain of \$3,639 (net unrealized loss of \$5,998 in 2008) on foreign currency options that have been included in "foreign exchange loss" on the Consolidated Statements of Operations. At October 31, 2009 the fair value of option contracts of \$624 is included in "Prepays and other", and \$3,015 in 2008 is included in "Accounts payable and accrued liabilities" on the Consolidated Balance Sheets.

The majority of the Company's foreign exchange risk resides with U.S dollars and Euro transactions, with minimal impact on transactions in British Pounds. To evaluate the sensitivity of net income and Other Comprehensive Income ("OCI") to a reasonably possible change in the US dollar and Euro exchange rates, various exchange rates were entered into models which considered the valuation impact to customer contracts, hedging contracts, US dollar cash balances and US and Euro denominated monetary balance sheet items. During 2009, the impact if the US dollar had appreciated in value by 5% would have been an increase in net income and OCI of \$4,056 (\$2,880 in 2008). Had the US dollar depreciated by 5% used as an indicative range in a volatile currency environment, the impact would have been a decrease in net income and OCI of \$4,563 (\$2,998 in 2008). During 2009, the impact had the Euro appreciated in value by 5% would have resulted in an increase in net income and OCI of \$922 (\$1,055 in 2008). Had the Euro depreciated by 5%, the impact would have been a decrease in net income and OCI of \$922 (\$1,055 in 2008).

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Interest Rate Risk

The Company's risk exposure to market interest rates relates primarily to the Company's long-term debt obligation with GE Capital Solutions with floating interest rates.

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 on net income 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 year ended October 31 from a 200 basis point increase in interest rates as indicative of the change in prime lending rates over the past year would have been a decrease in net income of \$293 (\$207 in 2008) and an increase in net income of \$293 (\$207 in 2008) if there had been a 200 basis point decrease.

Credit Risk

The maximum exposure to credit risk at the balance sheet date is best represented by the carrying amount of the Company's accounts receivable, unbilled contracts in progress, and derivative financial instruments. The Company is exposed to credit risk from the potential default by counterparties that carry the Company's cash, cash equivalents, and derivative financial instruments, and attempts to mitigate this risk by dealing only with large financial institutions with good credit ratings. All of the financial institutions within the bank syndicate providing the Company's credit facility meet these qualifications.

Credit risk also arises from the inability of customers to discharge their obligation to the Company. 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. 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. 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. 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. Four customers comprise 61% of accounts receivable as at October 31, 2009 (58% in 2008). Four customers comprise 60% of revenue for the year ended October 31, 2009 (54% in 2008).

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

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Liquidity Risk

Liquidity risk is the Company's ability to meet its financial obligations when they come due. 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 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 October 31, 2009, the Company has operating credit facilities of \$32,000 that have been approved but not drawn upon except for the guarantee letters described in note 9.

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

	<u>On Demand</u>	<u>< 3 Months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Total</u>
October 31, 2009					
Loans and interest payable	\$ -	\$ 1,769	\$ 5,380	\$ 13,908	\$ 21,057
Accounts payable and accrued liabilities	2,368	23,799	6,772	-	32,939
Total	<u>\$ 2,368</u>	<u>\$ 25,568</u>	<u>\$ 12,152</u>	<u>\$ 13,908</u>	<u>\$ 53,996</u>
October 31, 2008					
Loans and interest payable	\$ -	\$ 1,972	\$ 5,990	\$ 23,448	\$ 31,410
Accounts payable and accrued liabilities	2,784	23,057	9,626	-	35,467
Total	<u>\$ 2,784</u>	<u>\$ 25,029</u>	<u>\$ 15,616</u>	<u>\$ 23,448</u>	<u>\$ 66,877</u>

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11. 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 monitors capital on a basis consistent with others in the industry based on total debt to shareholders' equity. Capital is defined as shareholders' equity as presented on the balance sheet excluding AOCI and total debt is defined as the sum of short-term and long-term interest-bearing debt. The Company uses the percentage of total debt to total capital to monitor the capitalization of the Company. The Company is not subject to any capital requirements imposed by a regulator.

12. Discontinued Operations

The Company established a provision for discontinuance of the Wireless Division in 2001. The provision has been drawn down through time as expenses have been paid. The remaining obligation for discontinued operations is included in the liabilities section of the Consolidated Balance Sheets. The balance of the provision as at October 31, 2009 is \$45 (\$47 in 2008).

13. Share Capital and Earnings Per Share

a) Issued Capital

The Company has authorized an unlimited number of preferred shares of which there are none outstanding. The Company has authorized an unlimited number of common shares with no par value. The following details the changes in issued and outstanding common shares for the two years ended October 31, 2009:

	Common Shares	
	Number	Dollar Value
Balance, October 31, 2007	68,035,418	\$323,862
Issuance of common shares (i)	2,000	2
Shares issued through employee plan (iii)	15,515	111
Balance, October 31, 2008	68,052,933	\$323,975
Issuance of common shares (i)	215,100	389
Equity issue of common shares (ii)	7,797,000	21,423
Shares issued through employee plan (iii)	35,256	98
Balance, October 31, 2009	76,100,289	\$345,885

- (i) In fiscal 2009, the Company issued 215,100 (2,000 in 2008) common shares to satisfy the equivalent number of stock options exercised of which 62,000 of the options represent options issued after November 1, 2003 (nil in 2008).

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- (ii) On February 26, 2009, the Company entered into an agreement with a syndicate of underwriters led by Genuity Capital Markets and including GMP Securities L.P. and Paradigm Capital Inc. Under the agreement, the syndicate purchased 6,780,000 and exercised the option to acquire an additional 1,017,000 of common shares from the Company. Net proceeds of \$21,423 will be used to pursue strategic opportunities, including progressing the commercialization of the Company's Automatic Identification System (AIS) technology.
- (iii) On February 28, 2009 the Company issued 35,256 (32,270 in 2008) common shares under the ESOP. On September 24, 2008 the Company directed its Transfer Agent to cancel 16,755 common shares issued in error in the administration of ESOP.

The maximum number of shares outstanding if all options were exercised and ESOP shares were issued is 77,850,036.

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 the grant. During 2009 the Company granted 370,340 options (nil in 2008).

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

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

	<u>For the year ended</u> <u>October 31, 2009</u>
Risk-free interest rate	3.71%
Dividend yield	0.00%
Volatility	49.3%
Expected life of options	5 years
Weighted average fair value of options granted	\$1.51
Weighted average exercise price of options granted	\$3.30

The estimated fair value of the options is amortized to expense over the vesting period of the options. In the year, compensation expense of \$478 (\$812 in 2008) was recognized. This amount was added to contributed surplus.

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A summary of option activity for the two years ended October 31, 2009 is as follows:

	Number	Weighted Average Exercise Price
Balance, October 31, 2007	1,922,039	\$3.50
Stock options exercised	(2,000)	1.12
Stock options expired	<u>(410,940)</u>	5.29
Balance, October 31, 2008	1,509,099	3.33
Stock options granted	370,340	3.30
Stock options exercised	<u>(215,100)</u>	1.53
Balance, October 31, 2009	<u>1,664,339</u>	3.56

The outstanding options are summarized as follows:

	<u>Options Outstanding</u>			<u>Options Vested</u>	
	Number Outstanding at October 31, 2009	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Number Outstanding at October 31, 2009	Weighted Average Exercise Price
Range of Exercise Prices					
\$1.90 – 2.85	689,616	1.22	\$ 2.18	658,220	\$ 2.17
\$2.86 – 4.29	358,944	4.63	3.32	-	-
\$4.30 – 5.14	<u>635,779</u>	1.66	5.14	<u>635,779</u>	5.14
\$1.90 – 5.14	<u>1,664,339</u>			<u>1,293,999</u>	

c) Employee Share Ownership Plan

The value of Employee Stock Ownership Plan shares amortized to compensation expense but not yet issued at year-end was \$185 (\$179 in 2008). This amount is included in contributed surplus. The estimated number of shares, if all outstanding ESOP shares were issued is 85,407.

d) Long Term Incentive Plan

During the year there was 635,106 RSUs granted. At October 31, 2009 the weighted fair value per RSU granted is \$2.93 and the aggregate fair value of RSUs granted is \$1,858. Compensation expense of \$357 was recognized during the year. This amount is included in contributed surplus.

During the year 151,589 PSUs were granted. At October 31, 2009 the weighted average fair value per PSU granted is \$3.29 and the aggregate fair value of PSUs granted is \$499. Compensation expense of \$63 was recognized during the year. This amount is included in contributed surplus.

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e) Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the comparable reporting periods:

	2009	2008
Numerator for basic and diluted earnings per share available to common shareholders		
Net income attributable to common stockholders	\$15,306	\$12,379
Denominator for basic earnings per share- weighted average number of shares outstanding	73,551,227	68,057,380
Effect of dilutive securities		
Employee stock options	13,716	244,102
ESOP	39,998	30,980
Potential dilutive common shares	53,714	275,082
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	73,604,941	68,332,462
Basic and diluted earnings per share	\$0.21	\$0.18

14. Commitments and Contingencies

a) General

The preparation of these consolidated financial statements requires management's best estimate related to events whose outcome will not be fully resolved until future periods. The Company's revenue is derived primarily from long term fixed price contracts, some of which are subject to significant technology risk. The preparation of these consolidated financial statements is based on management estimates of revenue and the costs required to complete the projects. Revisions to the estimates used in preparation of the consolidated financial statements could have a material impact on financial results of future periods. Revenue under such contracts may include incentive payments for specified performance and costs may include performance related penalties.

b) Lease Commitments

The Company is committed to various operating leases, primarily related to buildings and computers. Future minimum lease payments under the operating leases for the following fiscal years are approximately as follows:

Year ending October 31,	
2010	\$1,954
2011	767
2012	195

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c) Claims or Legal Actions

In the normal course of business, the Company is involved on an ongoing basis in various legal actions, the outcome of which is indeterminable. In management's opinion, the resolution of such actions will not have a material adverse effect on the financial condition of the Company.

d) Tax Audits

In a prior year, Canada Revenue Agency and the Ontario Ministry of Finance completed tax audits. As a result of the audits, prior year tax returns have been reassessed for capital taxes and corporate minimum taxes. The Company opposes several matters on the basis of interpretation of the tax rules and has appealed to the tax authorities on this basis. The Company is currently unable to determine the likelihood of success of its objections to the reassessments. The disputed tax and accumulated interest amounts, including estimates for un-assessed years subsequent to the audit period, total \$3,296. The Company will continue to provide information to the tax authorities and attempt to resolve these issues favorably. Any amount of tax liability arising from these matters will be recorded when the probable amounts can be determined. The Company expects that if it is required to pay additional taxes, a significant amount will be recoverable by offset against future tax amounts.

As part of the objection process, the Company, as required, paid the full amount of the taxes in dispute.

15. Segment and Geographic 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 is a leading global designer and manufacturer of space hardware subsystems. With facilities in Canada, the United Kingdom and the United States, the Space Division designs and manufactures advanced products and subsystems that are sold to major satellite prime contractors for use in communications, space science, remote sensing and military satellites.

Geographic Information

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

	<u>2009</u>	<u>2008</u>
Revenue from external customers		
Canada	\$42,173	\$43,709
USA	131,427	94,844
Europe	49,784	64,084
Other	17,026	7,711
	<u>\$240,410</u>	<u>\$210,348</u>

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Capital assets are attributed to the country in which they are located and patents and acquired contracts in the country they relate to.

Capital assets		
Canada	\$43,984	\$36,242
USA	22,665	27,477
United Kingdom	2,888	3,144
	<u>\$69,537</u>	<u>\$66,863</u>
Intangible assets		
Canada	\$10,526	\$4,305
USA	10,919	14,197
United Kingdom	14	8
	<u>\$21,459</u>	<u>\$18,510</u>

Goodwill of \$2,388 all relates to USA.

Four customers comprise 60% of revenue for the year ended October 31, 2009 (54% in 2008.)

16. Employee Future Benefit Plans

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

CDE Pension Benefits

The Company's UK subsidiary has a defined contribution pension plan for its employees. The Company's contributions, which are based on the contributions by employees, were \$415 (\$431 for 2008) and have been included in selling and general expenses on the Consolidated Statements of Operations.

CDU Pension Benefits

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

Managements best estimate of the assumptions used include:

	<u>2009</u>	<u>2008</u>
Accrued benefit obligation		
Discount rate	5.5%	7.1%
Rate of compensation increase	3.5%	5.0%
Net periodic benefit cost		
Discount rate	7.1%	6.0%
Rate of compensation increase	5.0%	5.0%
Expected return on plan assets	7.0%	7.0%
Actual return on plan assets	12.6%	(9.6%)
Average remaining service life of employees	8.6	8.8

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The year-end balances were measured as of October 31.

Information about the Company's defined benefit pension plans is as follows:

	2009	2008
Accrued benefit obligation		
Beginning of year	\$ 7,408	\$ 7,142
Current service	279	145
Interest costs	511	216
Actuarial losses (gains)	4,679	(1,288)
Benefits paid	(118)	--
Currency translation (gains) losses	(1,155)	1,193
End of year	\$ 11,604	\$ 7,408
Plan assets at fair value		
Beginning of year	\$ 7,153	\$ 6,485
Return on plan assets	944	(732)
Employer contributions	584	264
Benefits paid	(118)	--
Currency translation (gains) losses	(833)	1,136
End of year	\$ 7,730	\$ 7,153
Plan deficit	\$ 3,874	\$ 255
Unamortized actuarial (losses) gains	(3,584)	367
Accrued benefit liability	\$ 290	\$ 622
Net periodic benefit cost		
Current service	\$ 279	\$ 145
Interest costs	511	216
Actuarial loss (gain)	407	(966)
	\$ 1,197	\$ (605)
Less: return on plan assets	944	(732)
Net periodic benefit cost	\$ 253	\$ 127

CDU Non-Pension Benefits

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

	2009	2008
The assumption used in measuring the Company's projected retirement medical benefit obligations and net periodic cost are as follows:		
Retirement medical benefit obligations	5.5%	7.1%
Net periodic benefit cost	7.1%	6.0%
Health care cost inflation	8.0%	9.0%

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Information about the Company's retirement medical benefits plan is as follows:

Accrued benefit obligation		
Beginning of year	\$ 1,602	\$ 1,279
Current service cost	75	30
Interest costs	89	45
Amortization of gain	(19)	-
Currency translation	(174)	248
End of year	<u>\$ 1,573</u>	<u>\$ 1,602</u>
Plan deficit	\$ 1,573	\$ 1,602
Unamortized actuarial gains	9	-
Accrued benefit liability	<u>\$ 1,582</u>	<u>\$ 1,602</u>
Net periodic benefit cost		
Current service costs	\$ 75	\$ 30
Interest costs	89	45
Amortization of gain	(19)	-
Net periodic benefit cost	<u>\$ 145</u>	<u>\$ 75</u>

Sensitivity to Change In Health Care Trend Rates

	Trend Minus 1% in every year	Current Trend	Trend Plus 1% in every year
Retirement medical benefit obligation	1,133	1,254	1,387
Difference Due to trend change	(120)		133
Percentage Difference	(9.6%)		10.6%
Service Cost plus Interest Cost	148	164	182
Difference Due to trend change	(16)		18
Percentage Difference	(9.7%)		10.8%

CDU Future Benefit Payments

	Defined Benefit Pension Plan	Retirement Medical	Total
Expected employer contribution for fiscal year ending October 31, 2010	\$811	\$--	\$811
Expected benefit payments			
2010	\$ 132	\$ --	\$ 132
2011	175	4	179
2012	226	26	252
2013	281	56	337
2014	358	102	460
Thereafter	2,823	1,119	3,942
	<u>\$ 3,995</u>	<u>\$ 1,307</u>	<u>\$ 5,302</u>

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CDU Plan Assets

The weighted-average asset allocation of the Company's defined benefit pension plans at October 31, are as follows:

Asset Category	2009	2008
Equity securities	46.8%	35.8%
Fixed income securities	40.3%	26.7%
Cash and cash equivalents	2.0%	23.9%
Other	10.9%	13.6%
Total	<u>100.0%</u>	<u>100.0%</u>

The expected rate of return on plan assets was determined by considering the Company's current investment mix, the historic performance of these investment categories and expected future performance of these investment categories.

17. Comparative Consolidated Financial Statements

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