

AUDITORS' REPORT

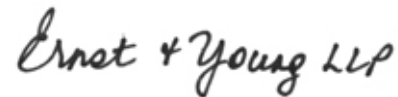
To the Shareholders of
COM DEV International Ltd.

We have audited the consolidated balance sheets of **COM DEV International Ltd.** as at October 31, 2008 and 2007 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Kitchener, Canada,
December 10, 2008.



Chartered Accountants
Licensed Public Accountants

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

As at October 31	2008	2007
Assets		
Current		
Cash and cash equivalents	\$ 16,102	\$ 31,713
Accounts receivable (note 10)	41,085	35,523
Inventory (note 4)	45,941	25,611
Prepays and other	1,772	4,864
Income taxes recoverable (note 15(d))	2,819	956
Future income tax assets - current (note 5)	3,957	3,957
	<u>111,676</u>	<u>102,624</u>
Property, plant and equipment (note 7)	71,960	54,890
Intangible assets (notes 6 and 8)	13,413	3,939
Goodwill (note 6)	2,522	-
Future income tax assets - long term (note 5)	3,958	3,958
Total assets	<u>\$ 203,529</u>	<u>\$ 165,411</u>
Liabilities		
Current		
Accounts payable and accrued liabilities (note 10)	\$ 35,420	\$ 25,435
Deferred revenue (note 4)	14,828	23,204
Current portion of loans payable (note 9(b))	6,203	1,720
Current liabilities - discontinued operations	47	399
	<u>56,498</u>	<u>50,758</u>
Long term		
Loans payable (note 9(b))	23,223	7,692
Employee future benefits (note 17)	2,224	-
	<u>25,447</u>	<u>7,692</u>
Total liabilities	<u>81,945</u>	<u>58,450</u>
Non-controlling interest	<u>524</u>	<u>537</u>
Shareholders' equity		
Share capital (note 13(a))	323,975	323,862
Contributed surplus	1,879	999
Deficit	(204,065)	(216,444)
Accumulated other comprehensive income	(729)	(1,993)
Total shareholders' equity	<u>121,060</u>	<u>106,424</u>
Total liabilities and shareholders' equity	<u>\$ 203,529</u>	<u>\$ 165,411</u>

On behalf of the Board:

Keith Ainsworth (signed)

Keith Ainsworth
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, 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	12,379	12,379	-	-	-
Foreign currency translation adjustments (net of taxes of \$nil)	1,264	-	1,264	-	-
	<u>13,643</u>	<u>12,379</u>	<u>1,264</u>	<u>-</u>	<u>-</u>
Common stock issued	2			113	(111)
Value of ESOP awards	179	-	-	-	179
Expense recognized for share options	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>
<hr/>					
For the year ended October 31, 2007					
Balance as reported, October 31, 2006	\$ 92,807	\$ (227,436)	\$ (1,285)	\$ 320,948	\$ 580
Opening deficit adjustment (note 1s)	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	10,879	10,879	-	-	-
Foreign currency translation adjustments (net of taxes of \$nil)	(708)	-	(708)	-	-
	<u>10,171</u>	<u>10,879</u>	<u>(708)</u>	<u>-</u>	<u>-</u>
Common stock issued	2,321	-	-	2,914	(593)
Value of ESOP awards	180	-	-	-	180
Expense recognized for share options	832	-	-	-	832
Balance, October 31, 2007	<u>\$ 106,424</u>	<u>\$ (216,444)</u>	<u>\$ (1,993)</u>	<u>\$ 323,862</u>	<u>\$ 999</u>

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

For the year ended October 31	2008	2007
Revenue (note 16)	\$ 210,348	\$ 164,330
Cost of revenue	160,403	129,759
Gross margin	<u>49,945</u>	<u>34,571</u>
Research and development costs (note 14)	17,381	14,971
Research and development recovery (note 14)	7,832	7,120
Net research and development	<u>9,549</u>	<u>7,851</u>
Selling and general expenses (note 17)	25,355	19,668
Operating income	<u>15,041</u>	<u>7,052</u>
Interest expense (income)	845	(427)
Foreign exchange loss	1,375	127
Other expense	<u>455</u>	<u>554</u>
Income before non-controlling interest and income taxes	12,366	6,798
Non-controlling interest	(13)	60
Recovery of income taxes (note 5(b))	<u>-</u>	<u>(5,115)</u>
Income from continuing operations	12,379	11,853
Provision for discontinued operations	<u>-</u>	<u>974</u>
Net income	<u><u>\$ 12,379</u></u>	<u><u>\$ 10,879</u></u>
Earnings per share (note 13(d))		
Basic and diluted earnings per share from continuing operations	\$0.18	\$0.17
Basic and diluted loss per share from discontinued operations	\$0.00	(\$0.01)
Basic and diluted earnings per share	\$0.18	\$0.16
Basic weighted average number of shares	68,057,380	67,657,753
Diluted weighted average number of shares	68,332,462	68,181,398

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

For the year ended October 31	2008	2007
Cash flows (used in) from operating activities		
Net income from continuing operations	\$ 12,379	\$ 11,853
Amortization (notes 7 and 8)	9,891	7,621
(Gain) loss on disposal of assets	(92)	177
Stock compensation expense	990	1,012
Future income taxes (note 5)	-	(7,915)
Unrealized foreign exchange loss (gain) on long term debt	1,528	(1,492)
Employee stock option plan awards	111	-
Non-controlling interest	(13)	60
	<u>24,794</u>	<u>11,316</u>
Net change in non-cash working capital items	(26,147)	10,611
Cash flows (used in) from operating activities	<u>(1,353)</u>	<u>21,927</u>
Cash flows from financing activities		
Shares issued	2	2,321
Advance of long term debt (notes 6 and 9)	18,174	10,988
Repayment of long term debt	(3,320)	(680)
Cash flows from financing activities	<u>14,856</u>	<u>12,629</u>
Cash flows (used in) from investing activities		
Acquisition of property, plant, and equipment	(13,726)	(25,224)
Proceeds on disposal of property, plant, and equipment	213	22
Acquisition of intangible assets	(378)	(310)
Business acquisition (note 6)	(13,525)	-
Cash flows used in investing activities	<u>(27,416)</u>	<u>(25,512)</u>
Effect of exchange rate changes on cash	<u>(1,347)</u>	<u>(710)</u>
Net (decrease) increase in cash from continuing operations	(15,260)	8,334
Net cash used in discontinued operations	(351)	(2,332)
Net (decrease) increase in cash	(15,611)	6,002
Cash and cash equivalents, beginning of year	31,713	25,711
Cash and cash equivalents, end of year	<u>\$ 16,102</u>	<u>\$ 31,713</u>
Interest paid	<u>\$ 1,456</u>	<u>\$ 292</u>

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, COM DEV Consulting Ltd., 6645348 Canada Inc., and its 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 accounting for 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, 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**

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, 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	- 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 3062, 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 3062 requires goodwill impairment to be assessed at a reporting unit level. The Company has defined the reporting unit to be CDU. Impairment testing will be assessed at CDU to which all goodwill is allocated.

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 multiple of annual revenue. When the fair value exceeds its 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 in 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 17 years
Customer relationships	- the term of the programs up to 8 years
Non-compete agreement	- over term of agreement (3 years)
Acquired processes	- over the expected life of the technology up to 5 years

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

h) 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 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 deferral. The Company has deferred development costs to date of \$1,385 that will be amortized over seven years. Investment tax credits reduce research and development expense and/or capital 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. No amortization has been recorded against the deferred development costs.

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.

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 year. Unrealized translation gains and losses are deferred and included in Accumulated Other Comprehensive Income ("AOCI").

The accounts of the Company's integrated foreign operations, COM DEV USA LLC, COM DEV US Property LLC, and COM DEV Consulting Ltd., are translated up to August 31, 2008 using the temporal method, 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. Depreciation or 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 in the Consolidated Balance Sheet. Changes in the fair value of derivatives are recognized in gains or losses on foreign exchange 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 amounts are 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 and Employee Share Ownership Plan ("ESOP")

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 award and the fair value of stock options is determined using the Black-Scholes option pricing model. Under the fair value method, 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, will be 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.

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 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 at the beginning of the period 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 valued 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

Subsequent to November 1, 2006, all of the Company's financial instruments are classified into one of the three categories as defined below.

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.

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 arm's 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.

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 have 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.

Subsequent to initial recognition, 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 fair values are based on quoted market bid prices if available, otherwise fair value is obtained using discounted cash flow analysis.

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 in the Consolidated Statements of Operations.

2. Changes in Accounting Standards

a) 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 the users of the financial statements to evaluate the significance of the Company's financial instruments. CICA Handbook Section 3863 carries forward the presentation requirements of the CICA Handbook Section 3861. The new disclosures are included throughout the financial statements.

b) 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 11.

c) 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. Other comprehensive income includes the foreign currency translation of all of the Company's self-sustaining foreign operations.

3. Future Accounting Changes

The CICA has issued the following new Standards that will become effective for the Company:

- CICA Handbook Section 3031, Inventories
- CICA Handbook Section 3064, Goodwill and Intangible Assets
- Adoption of International Financial Reporting Standards

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. The effective date of adopting this new section for the Company is November 1, 2008. The impact of adoption of this new section will not have a material impact on the financial statements as the Company already records the inventories at the lower of cost and net realizable value.

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 International Financial Reporting Standards ("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 effective date of adopting this new standard for the Company is November 1, 2008. This standard will have no effect on the Company's consolidated net income.

The CICA's Accounting Standards Board has announced that Canadian publicly accountable enterprises will adopt IFRS as issued by the International Accounting Standards Board effective January 1, 2011 and therefore will commence in the first quarter of the Company's 2012 fiscal year with comparative figures. The Company is in the process of developing a plan for the implementation of IFRS and will assess the impact of the differences in accounting standards on the Company's consolidated financial statements. It is not practically possible to quantify the impact of these differences at this time. The Company expects to make changes to processes and system 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.

COM DEV INTERNATIONAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2008
(Canadian dollars in thousands, except per share figures)

4. Inventory and Deferred Revenue

	<u>2008</u>	<u>2007</u>
Inventory is comprised of:		
Raw materials	\$ 13,626	\$ 10,902
Contracts in process – costs and profits earned in excess of progress billings	<u>32,315</u>	<u>14,709</u>
	<u>\$ 45,941</u>	<u>\$ 25,611</u>
 Deferred revenue is comprised of:		
Contract billings in excess of cost and accrued profit margins earned on contract work in progress	<u>\$ 14,828</u>	<u>\$ 23,204</u>

5. Income Taxes

a) Carry Forward Amounts

The Company has non-refundable investment tax credits, which total \$24,065. These investment tax credits are available to offset future federal income taxes payable. The Company has federal and provincial operating loss carry forwards in Canada of \$5,657 and \$6,213 respectively. The carry forwards subject to expiration are as follows:

	<u>Investment Tax Credits</u>	<u>Operating Loss Carry Forward</u>
2009	\$ --	\$ 877
2015	--	1,186
2019	1,718	--
2020	2,167	--
2021	2,555	--
2022	1,468	--
2023	1,165	--
2024	936	--
2025	2,846	--
2026	4,299	--
2027	4,038	686
2028	<u>2,873</u>	<u>2,908</u>
	<u>\$24,065</u>	<u>\$ 5,657</u>

COM DEV INTERNATIONAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The Company has unclaimed scientific research and experimental development (“SRED”) tax pools for Canada of \$57,756 (federal) and \$33,330 (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 \$13,606. The Company’s US subsidiaries have loss carry forwards of \$23,707 that commence expiring in 2018 to 2028. In addition, the Company has capital loss carry forwards in the amount of \$75,575 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:

	<u>2008</u>		<u>2007</u>	
Income before non-controlling interest and income taxes multiplied by the Company’s tax rate	\$4,224	<u>34.16%</u>	\$2,455	<u>36.12%</u>
Differences in income taxes resulting from:				
Non-deductible expenses	(61)		1,295	
Utilization of losses not recognized for accounting	(8,316)		(6,267)	
Tax rate changes in utilization of losses not recognized for accounting	(1,156)		(473)	
Losses not recognized for accounting	4,419		4,377	
Foreign exchange translation	890		(848)	
Recognition of future tax asset	--		(5,654)	
	<u>\$ --</u>		<u>\$(5,115)</u>	

The tax provision / (recovery) consists of:

	<u>2008</u>		<u>2007</u>	
Current	\$ --		\$ 539	
Future	--		(5,654)	
Total	<u>\$ --</u>		<u>\$(5,115)</u>	

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Tax effects of significant temporary differences are as follows:

	2008	2007
Assets		
Tax paid reserves	\$ 3,171	\$ 2,573
Research and development incentives	30,297	30,265
Loss carry forwards	21,194	24,919
Capital assets	631	3,599
	<u>\$55,293</u>	<u>\$61,356</u>
Liabilities		
Deferred revenue	\$11,424	\$13,504
	<u>\$11,424</u>	<u>\$13,504</u>
Net future tax assets	\$43,869	\$47,852
Valuation allowance	35,954	39,937
Future tax asset	<u>\$7,915</u>	<u>\$7,915</u>
Less: current portion	3,957	3,957
Future tax asset	<u>\$3,958</u>	<u>\$3,958</u>

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 \$13,525. 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. Final negotiation of the purchase price and related allocations for this acquisition have not been completed, however, any subsequent adjustments, will be made through the purchase equation.

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Acquisition price	\$12,405
Acquisition costs	1,120
Total purchase price	<u>\$13,525</u>

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

It is expected that all of the goodwill acquired will be deductible for tax purposes.

7. Capital Assets

Capital assets are comprised as follows:

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	\$ 8,041	\$ --	\$ 8,041	\$ 7,635	\$ --	\$ 7,635
Buildings	38,005	11,799	26,206	29,820	10,520	19,300
Machinery	20,039	4,606	15,433	9,401	2,884	6,517
Electrical equipment	70,798	55,802	14,996	69,598	52,054	17,544
Computers	30,564	26,367	4,197	27,112	24,706	2,406
Furniture and fixtures	7,662	5,960	1,702	7,017	5,529	1,488
Deferred Development	1,385	--	1,385	--	--	--
	<u>\$176,494</u>	<u>\$104,534</u>	<u>\$71,960</u>	<u>\$150,583</u>	<u>\$95,693</u>	<u>\$54,890</u>

Included in capital assets are computers and test equipment under capital leases with a cost of \$2,653 (\$2,653 as at October 31, 2007) and accumulated amortization of \$2,642 (\$2,627 as at October 31, 2007). Also included in capital assets is \$746 of machinery and equipment (\$2,706 in 2007), \$3,211 of buildings (\$4,509 in 2007), \$86 of software (\$126 in 2007) that has not yet commenced being depreciated, as the assets are capital in progress and not yet ready for use. Capital leases entered into during fiscal 2008 amounted to nil (\$nil in 2007).

Amortization of capital assets for the year was \$8,656 (\$7,151 for 2007).

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8. Intangible Assets

Intangible assets are comprised as follows:

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patents	\$8,814	\$2,300	\$6,514	\$4,096	\$1,811	\$2,285
Customer relationships	6,186	1,047	5,139	2,178	524	1,654
Non-compete agreement	1,507	251	1,256	-	-	-
Acquired processes	560	56	504	-	-	-
	<u>\$17,067</u>	<u>\$3,654</u>	<u>\$13,413</u>	<u>\$6,274</u>	<u>\$2,335</u>	<u>\$3,939</u>

Amortization of intangible assets for the year was \$1,235 (\$470 for 2007).

9. Bank Indebtedness and Loans Payable

a) Bank Indebtedness

During the 2008 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 \$27,000, an increase of \$10,000 from the previous agreement. The only outstanding drawings against this operating facility at year-end are \$887 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's 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, 2008, the Company was in compliance with its bank covenants.

Interest paid on bank indebtedness during the year was \$67 (\$nil in 2007).

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b) Loans Payable

Loans payable are comprised as follows:

	<u>2008</u>	<u>2007</u>
Government of Canada	\$ 310	\$ 358
GE Capital Solutions loans	29,116	9,054
	<u>29,426</u>	<u>9,412</u>
Less: current portion of loans payable	(6,203)	(1,720)
Long term loans payable	<u>\$ 23,223</u>	<u>\$ 7,692</u>

Principal repayments are due as follows:

For the year ending	
2009	\$ 6,203
2010	6,610
2011	7,055
2012	6,800
2013	2,758
	<u>\$ 29,426</u>

In 2006, GE Capital Solutions made available term loan facilities of up to \$28,000 USD, consisting of a Capex/Acquisition loan facility of up to \$10,000, and a Debenture Retirement loan facility of up to \$18,000. On May 15, 2007 the Company borrowed \$10,000 USD against these facilities for the acquisition of land, building, and production equipment in El Segundo, California. On May 7, 2008, and July 7, 2008 the Company borrowed an additional \$14,000 USD and \$4,000 USD respectively, against these facilities for the acquisition of certain assets of ETI-PMD. The interest rate applicable to both facilities 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 of \$4,302 (\$4,270 USD) in 2008 (\$643 [\$606 USD] in 2007). Interest paid on the GE Capital Solutions loan in the year was \$1,036 (\$1,030 USD) and \$202 (\$190 USD) in 2007.

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 \$17 was made in 2008 (\$12 in 2007). 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.

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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 of \$518, included in loans payable as at November 1, 2006, was adjusted through the opening deficit to a carrying value of \$405 using a discount rate of 6% (Note 1). During 2008 and 2007 installment payments totaling \$74, net of the effective interest, were made, reducing the carrying value to \$310 as at October 31, 2008 (\$358 in 2007).

10. 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 October 31, 2008 of \$312 (\$358 in 2007) that approximates the carrying value of \$310. 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. 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 U.S. dollar 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 has been a reduction in the net investment of the self-sustaining foreign operations.

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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. As a result, fluctuations in the fair value of the Canadian dollar relative to these currencies will impact reported net income. Effective September 1, 2008 the Company considered 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. Unrealized translation gains and losses are deferred in AOCI.

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 decided to hedge this risk with respect to the U.S. operations. Effective September 1, 2008, the Company began to hedge the translation risk by designating the U.S. dollar denominated loans as a hedge of the net investment in the U.S. operations.

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, 2008, the fair value of derivatives classified as held-for-trading decreased by \$5,998, and increased by \$2,927 for the comparative period in 2007.

At October 31, 2008 approximately 49% of cash and cash equivalents, 60% of accounts receivables, 32% of accounts payable and accrued liabilities, and 99% of loans payable are denominated in foreign currencies (October 31, 2007 – 73%, 56%, 31%, and 96%, 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, accounts payable, and loans denominated in foreign currencies:

<u>Currency</u>	<u>Cash</u>	<u>Accounts Receivable</u>	<u>Accounts Payable</u>	<u>Loans</u>
USD	4,245	16,384	5,329	24,345
GBP	195	140	254	-
EUR	-	2,835	571	-

As at October 31, 2008, the Canadian dollar amount that could be received under Canadian / U.S. foreign currency call options was \$42,802 (\$26,433 in 2007) and the amount that could be paid under foreign currency put options was \$59,219 (\$35,598 in 2007). The average contractual exchange rate on the call options was 1.1383 and on the put options was 1.1703. The settlement dates of all the outstanding contracts are distributed over the next two years. The exchange rate at October 31 was 1.2045 (0.9447 in 2007).

During 2008 the Company recorded a net realized loss of \$275 (net realized gain of \$1,022 in 2007) and net unrealized loss of \$5,998 (net unrealized gain of \$2,927 in 2007) on foreign currency options that have been included in "foreign exchange loss" in the Consolidated Statements of Operations. At October 31, 2008 the fair value of option contracts of \$3,015 is included in "Accounts payable and accrued liabilities", and \$2,983 in 2007 is included in "Prepays and other" on the Consolidated Balance Sheet.

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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 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 our customer contracts, hedging contracts, US dollar cash balances and US and Euro denominated monetary balance sheet items. During 2008, the impact had the US dollar appreciated in value by 5% would have been a decrease in net income and Other Comprehensive Income ("OCI") of \$1,686, whereas it would have been an increase of \$6,928 in 2007. Had the US dollar depreciated by 5% provided as an indicative range in a volatile currency environment, the impact would have been an increase in net income and OCI of \$1,530, whereas it would have been a decrease of \$7,465 in 2007. During 2008, the impact had the Euro appreciated in value by 5% would have resulted in an increase in net income and OCI of \$1,368 (\$1,591 in 2007). Had the Euro depreciated by 5%, the impact would have been a decrease in net income and OCI of \$1,368 (\$587 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 third 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, 2008 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 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 100 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 \$169 (\$48 in 2007) and an increase in net income of \$169 (\$48 in 2007) if there had been a 100 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 cash, accounts receivable, contracts in progress unbilled, 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.

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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 58% of accounts receivable as at October 31, 2008, whereas three customers comprised 57% as at October 31, 2007. Four customers comprise 54% of revenue for the year ended October 31, 2008, whereas three customers comprised 52% in 2007.

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

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 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 October 31, 2008, the Company has operating credit facilities of \$27,000 that have been approved but not drawn upon except for the guarantee letters described in Note 9.

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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, 2008					
Loans and interest payable	-	1,971	5,985	25,993	33,949
Accounts payable and accrued liabilities	2,784	23,056	9,580	-	35,420
Employee future benefits	-	-	-	2,224	2,224
Discontinued Operations	-	1	46	-	47
Total	<u>2,784</u>	<u>25,028</u>	<u>15,611</u>	<u>28,217</u>	<u>71,640</u>
October 31, 2007					
Loans and interest payable	-	646	1,717	8,956	11,319
Accounts payable and accrued liabilities	4,375	15,120	5,940	-	25,435
Discontinued Operations	-	272	49	78	399
Total	<u>4,375</u>	<u>16,038</u>	<u>7,706</u>	<u>9,034</u>	<u>37,153</u>

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.

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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 Company increased the provision by \$974 in 2007 to account primarily for the higher than expected costs of discharge of the lease obligations related to the Dunstable facility, which was paid during that year. 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, 2008 is \$47 (\$399 in 2007).

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, 2008:

	Common Shares	
	Number	Dollar Value
Balance, October 31, 2006	67,329,340	\$320,948
Issuance of common shares (i)	625,330	2,439
Shares issued through employee plan (ii)	80,748	475
Balance, October 31, 2007	68,035,418	\$323,862
Issuance of common shares (i)	2,000	2
Shares issued through employee plan (ii)	15,515	111
Balance, October 31, 2008	68,052,933	\$323,975

(i) In fiscal 2008, the Company issued 2,000 (625,330 in 2007) common shares to satisfy the equivalent number of stock options exercised of which none (120,280 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. On September 24, the Company directed Computershare 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 69,628,533.

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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 exercise price of any options granted is no less than the closing price of the Company's common shares on the date of the grant. During fiscal years 2008 and 2007, the Company did not grant any options.

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 6,396,976.

The estimated fair value of the options is amortized to expense over the vesting period of the options. In the year, compensation expense of \$811 (\$832 in 2007) was recognized. This amount was added to contributed surplus.

A summary of option activity for the two years ended October 31, 2008 is as follows:

	Number	Weighted Average Exercise Price
Balance, October 31, 2006	2,613,969	\$3.65
Stock options exercised	(625,330)	3.90
Stock options expired	(66,600)	7.83
	<hr/>	
Balance, October 31, 2007	1,922,039	3.50
Stock options exercised	(2,000)	1.12
Stock options expired	(410,940)	5.29
	<hr/>	
Balance, October 31, 2008	<u>1,509,099</u>	3.33

The exercise price with respect to 635,779 stock options granted to certain executive officers and senior management of the Company on July 4, 2006 has been increased from \$4.44 per share to \$5.14 per share. There was minimal impact on the compensation expense. None of these options have been exercised.

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The outstanding options are summarized as follows:

	Options Outstanding			Options Vested	
	Number Outstanding at October 31, 2008	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Number Outstanding at October 31, 2008	Weighted Average Exercise Price
Range of Exercise Prices					
\$1.27 – 1.91	253,100	0.89	\$ 1.52	223,100	\$ 1.47
\$1.92 – 2.88	620,220	2.13	2.22	402,390	2.22
\$2.89 – 4.34	-	-	-	-	-
\$4.35 – 5.14	635,779	2.66	5.14	445,045	5.14
\$1.27 – 5.14	<u>1,509,099</u>			<u>1,070,535</u>	

c) Employee Share Ownership Plan

The value of Employee Stock Ownership Plan (“ESOP”) shares amortized to compensation expense but not yet issued at year-end was \$179 (\$180 in 2007). This amount is included in contributed surplus. The estimated number of shares, if all outstanding ESOP shares were issued, is 66,501.

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d) Earnings Per Share

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

	2008	2007
Numerator for basic and diluted earnings per share available to common shareholders		
Basic and diluted net income attributed to common shareholders	\$12,379	\$11,853
Loss from discontinued operations	-	(974)
Net income attributable to common stockholders	<u>\$12,379</u>	<u>\$10,879</u>
Denominator for basic earnings per share- weighted average number of shares outstanding	<u>68,057,380</u>	<u>67,657,753</u>
Effect of dilutive securities		
Employee stock options	244,102	481,049
ESOP	30,980	42,596
Potential dilutive common shares	<u>275,082</u>	<u>523,645</u>
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	<u>68,332,462</u>	<u>68,181,398</u>
Earnings per share		
Basic and diluted earnings per share from continuing operations	\$ 0.18	\$0.17
Basic and diluted earnings per share from discontinued operations	\$ -	\$(0.01)
Basic and diluted earning per share	<u>\$ 0.18</u>	<u>\$0.16</u>

14. Research and Development

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 2008 (\$2,774 in 2007), which are included in "Research and development recovery" in the Consolidated Statements of Operations.

15. 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	
2009	\$1,841
2010	1,863
2011	864
2012	1

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 the prior year, Canada Revenue Agency and the Ontario Ministry of Finance completed 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 \$3,254. The Company will continue to provide information to the tax authorities and attempt to resolve these issues favourably. 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 is required to pay the amount of taxes in dispute. To-date the Company has made payments in the amount of \$2,725 to the Ontario Ministry of Finance.

16. 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>2008</u>	<u>2007</u>
Revenue from external customers		
Canada	\$43,709	\$30,794
USA	94,844	61,557
United Kingdom	64,084	62,438
Other	7,711	9,541
	<u>\$210,348</u>	<u>\$164,330</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	\$39,963	\$39,869
USA	28,845	11,674
United Kingdom	3,152	3,347
	<u>\$71,960</u>	<u>\$54,890</u>
Intangible assets		
Canada	\$3,840	\$3,939
USA	9,573	--
United Kingdom	--	--
	<u>\$13,413</u>	<u>\$3,939</u>

Goodwill of \$2,522 all relates to USA.

Four customers comprise 54% of revenue for the year ended October 31, 2008. Three customers comprised 52% of the revenue for the year ended October 31, 2007.

17. Employee Future Benefit Plans

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

CDE Pension Benefits

The Company's U.K. subsidiary has a defined contribution pension plan for its employees. The Company's contributions, which are based on the contributions by employees, were \$431 (\$352 for 2007) and have been included in "Selling and general expenses" on the Consolidated Statements of Operations.

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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>2008</u>
Projected benefit obligation	
Discount rate	7.1%
Rate of compensation increase	5.0%
Net periodic benefit cost	
Discount rate	6.0%
Rate of compensation increase	5.0%
Expected return on plan assets	7.0%
Average remaining service life of employees	8.1

The most recent actuarial valuation was prepared as of May 9, 2008. The year-end balances were measured as of October 31, 2008.

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

	<u>2008</u>
Projected benefit obligation	
As of May 9, 2008 (note 6)	\$ 7,142
Current service	145
Interest costs	216
Actuarial gains	(1,288)
Benefits paid	--
Currency translation	1,193
End of year	<u>\$ 7,408</u>
Plan assets at fair value	
As of May 9, 2008 (note 6)	\$ 6,485
Return on plan assets	(732)
Employer contributions	264
Benefits paid	--
Currency translation	1,136
End of year	<u>\$ 7,153</u>
Unfunded amount	\$ 255
Unrecognized actuarial losses	367
Net amount recognized in the consolidated balance sheets	<u><u>\$ 622</u></u>

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Net periodic benefit cost	
Current service	\$ 145
Interest costs	216
Return on plan assets	732
Actuarial loss	(966)
Net periodic benefit cost	<u>\$ 127</u>

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.

	<u>2008</u>
The assumptions used in measuring the Company's projected retirement medical benefit obligations and net periodic cost are as follows:	
Retirement medical benefit obligations	6.0%
Net periodic benefit cost	7.1%
Health care cost inflation	9.0%

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

Unfunded amount as of May 9, 2008	\$ 1,279
Current service cost	30
Interest costs	45
Currency translation	248
Unfunded amount at end of year	<u>\$ 1,602</u>
Unfunded amount	\$ 1,602
Unrecognized actuarial losses	-
Net amount recognized in the consolidated balance sheets	<u>\$ 1,602</u>
Net periodic benefit cost	
Current service costs	\$ 30
Interest costs	45
Net periodic benefit cost	<u>\$ 75</u>

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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	1,370	1,516	1,677
Difference Due to trend change	(145)		161
Percentage Difference	-9.6%		10.6%
Service Cost plus Interest Cost	68	75	84
Difference Due to trend change	(7)		8
Percentage Difference	-9.7%		10.8%

CDU Future Benefit Payments

	Defined Benefit Pension Plan	Retirement Medical	Total
Expected employer contributions for fiscal year ending October 31, 2009	\$602	\$--	\$602
Expected benefit payments			
2009	\$ 54	\$ --	\$ 54
2010	83	--	83
2011	123	7	130
2012	172	34	206
2013	243	70	313
Thereafter	2,859	1,112	3,971
	<u>\$ 3,534</u>	<u>\$ 1,223</u>	<u>\$ 4,757</u>

CDU Plan Assets

The weighted-average asset allocation of the Company's defined benefit pension plans at October 31, 2008 are as follows:

<u>Asset Category</u>	<u>October 31, 2008</u>
Equity securities	35.8%
Fixed income securities	26.7%
Cash and cash equivalents	23.9%
Other	13.6%
Total	<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.

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18. **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.