INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") provides information that management believes is relevant to an assessment and understanding of COM DEV International Ltd's ("the Company", or "COM DEV") consolidated results of operations and financial condition. This discussion should be read in conjunction with the Company's audited Consolidated Financial Statements, including notes thereto, for the year ended October 31, 2014 (the "Consolidated Financial Statements"). The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars ("CAD"). Unless otherwise noted, the information contained herein is dated as of January 15, 2014.

CAUTION REGARDING FORWARD LOOKING INFORMATION

Certain statements contained in this report contain forward-looking statements, including, (without limitation) statements concerning possible or assumed future results of operations of the Company preceded by, followed by or that include the words "believes", "expects", "anticipates", "estimates", "intends", "plans", "forecasts", "guidance", or similar expressions. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions and the Company's actual results may differ materially from those anticipated in these forward-looking statements. Additional information relating to the Company and the risks inherent in its business is provided in the Company's Annual Information Form for the year ended October 31, 2014 and other documents available on SEDAR at www.sedar.com.

This MD&A contains financial outlooks in several areas, notably: in discussing new orders, research and development ("R&D") spending levels, selling, general and administrative ("SG&A") spending, revenue growth guidance, and gross margin trending. Readers are again cautioned that these financial outlooks are included solely to provide a view of the operations through the eyes of management, based on management's current expectations in these areas, and should not be used for any other purpose. Readers are reminded that, as noted above, financial outlooks are not guarantees of future performance, and should not be considered such, since actual results may differ materially from those expressed in the financial outlooks.

USE OF NON-GAAP MEASURES

In this MD&A, we provide information about orders, contract backlog and earnings before interest, taxes, depreciation and amortization ("EBITDA"). Orders, backlog and EBITDA measures are not defined by IFRS and our measurement of them may vary from that used by others.

The Company defines Orders as the dollar value sum of fully executed contracts for the supply of the Company's products and/or services to its customers received during a defined period of time. Orders are indicative of firm future revenue streams; however, they do not provide a guarantee of future net income and provide no information about the timing of future revenue.

The Company measures backlog as the sum of all orders at contract value (including the contract value of change notices subsequently received) to date, less revenue recognized against those orders, plus or minus the impact of foreign exchange fluctuations on orders denominated in foreign currency. The Company includes in its backlog determination, only those amounts that are covered by contracts. Management monitors orders and contract backlog over the long term to evaluate whether there are any market trends that we should be acting on. The longer term view of orders and contract backlog allows management to consider trends without over-reacting to the natural quarter by quarter fluctuation in orders in the markets we serve. While we believe that long-term backlog trends serve as a useful metric for assessing the growth prospects for our business, backlog is not a guarantee of future revenues and provides no information about the timing of future revenue.

Orders and backlog do not have any equivalent financial measures and therefore cannot be reconciled to measures defined by IFRS.

The Company measures EBITDA as net income attributable to shareholders plus interest, taxes, depreciation and amortization. The Company believes that EBITDA is useful supplemental information as it provides an indication of the income generated by the Company's main business activities before taking into consideration how they are financed or taxed. Readers should be cautioned, however, that EBITDA should not be construed as an alternative to net income (loss) determined in accordance with IFRS as an indicator of the Company's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. EBITDA attributable to shareholders is reconciled to net income attributable to shareholders later in this MD&A.

OVERVIEW

COM DEV is a leading global tier two designer, manufacturer and distributor of space communications and space science products and systems. The Company began operations in 1974 and completed its initial public offering in December 1996. The Company is headquartered in Cambridge, Ontario, Canada, with additional operations in Aylesbury, England; Ottawa, Ontario, Canada; El Segundo, California; Bangalore, India; and Xian, China. The Company's common shares trade on The Toronto Stock Exchange under the symbol "CDV". COM DEV employed 1,128 people around the world as of October 31, 2014 compared to 1,233 people as of October 31, 2013.

COM DEV designs and manufactures advanced instruments and microwave products for space satellites ("Equipment segment") such as multiplexers, filters, switches, microwave components, surface acoustic wave ("SAW") devices, signal processors, satellite payloads, and micro-satellite spacecraft. The products are sold to substantially all of the major satellite prime contractors and many government space agencies for use in commercial communications, military/defence communications and space science satellites. The Company sells maritime vessel tracking information ("Data Services segment") from its own satellites through its majority owned subsidiary, exactEarth™ Ltd. ("exactEarth™"). Commercial operations for exactEarth™ commenced in June 2010, and it has continued since then to expand its customer base, as well as its space and ground infrastructure. Currently, exactEarth™ receives data from eight satellites and expects to receive data from three additional satellites. ♦

OVERALL PERFORMANCE

During each of the Company's 2014 and 2013 fiscal years, twenty-three satellite programs were awarded in the global space market. The number of transponders on these satellites totalled 968 in 2014, representing a 6.7% decrease from the 1,038 transponders awarded in the global market in 2013. Transponders are a measure of a satellite's capacity and this capacity can vary significantly between satellites. Historically, a higher number of transponders on a satellite is favourable for COM DEV as this provides an indication of the demand for the Company's traditional passive microwave product lines. More recently, the introduction of commercial satellites that provide not just video or audio broadcast capacity, but also general broadband capacity for underserved areas, has reduced the correlation between the number of transponders on a satellite and the demand for the Company's equipment. These newer satellites, known as High Throughput Satellites ("HTS"), or Ka Band Satellites, have fewer transponders on them than their broadcast satellite counterparts; however, due to the size and function of these new satellites, they require more of the type of equipment that COM DEV sells on board. These satellites are primarily commercial segment satellites, and that segment of the market shows continuing strength. The government (military and defence and civil) segment has continued to see headwinds due to the impact of budget sequestrations in the United States. These headwinds are expected to continue until government spending constraints in the United States begin to ease.♦

♦ Forward-looking Information. Please refer to Caution Regarding Forward-looking Information on Page 1 of this document.

(Canadian dollars in thousands, except for per share figures and where otherwise noted)

The breakdown of satellites and transponders awarded between the three market sectors (commercial, civil (government), and military and defence) can be summarized as follows:

	Years Ended October 31			
	2014		2013	
Sector	Satellites	Transponders	Satellites	Transponders
Commercial	20	856	17	818
Civil (government)	3	112	4	173
Military and defence	-	-	2	47
Total	23	968	23	1,038

Of the twenty-three satellite programs announced in 2014, COM DEV has won contracts on twenty-one satellites. COM DEV was able to secure work on eighteen of the twenty-three satellites announced in the market in 2013 and is still in the running to secure work on one additional satellite that was announced during 2013.◆

In 2014, COM DEV received orders totalling $199.5 million, compared with $243.3 million in the previous year, representing an 18.0% year over year decrease. Of the new orders won in 2014, 65% came from the commercial sector of the space market, 19% from the civil sector, and 16% from the military/defence sector. The breakdown of the 16% in new orders from the military/defence sector during 2014 is 95% from the Data Services and related segment and 5% from SatCom military orders. Of the new orders won in 2013, 68% came from the commercial sector, 26% from the civil sector and the remaining 6% from the military sector. The civil (non-SatCom) and military/defence segments continue to be plagued by uncertainty as various government organizations have been slow to award new contracts due to ongoing budget pressures. Significant management time and attention are being invested to manage this situation, however, it is expected that this environment will continue for the foreseeable future.◆

Included in the $199.5 million of new orders received in 2014 are orders received under Authorities to Proceed ("ATPs"). As delivery schedules have become more critical, customers are increasingly using ATPs as a way to start a subcontractor working, under contract, on a program while the full contract negotiations are concluded. COM DEV includes only the work for which it has contractual coverage in its reported orders and backlog. In the case of ATP awards, the Company includes only the value of the ATP, not the expected full value of the contract. Only after contract negotiations are completed, and the customer has awarded COM DEV the full contract, does the Company include the value above the ATP in its orders and backlog. At the end of 2014, the amount of potential order value in excess of ATP, which management expects to realize, stood at $33.8 million.◆ This compares to $35.3 million at the end of 2013. The expected full contract amounts are based on bid values, with a historically high percentage of ATPs being ultimately turned into full contract values.

The Company closed out 2014 with backlog totalling $155.1 million, as compared to the 2013 level of $164.7 million. Approximately 16% of the 2014 (2013: 24%) closing backlog is expected to be realized beyond the end of the Company's 2015 fiscal year.◆ Backlog represents the amount of orders for which the Company has not yet recognized revenue and therefore the expected amount of backlog to be realized beyond the upcoming fiscal year end is based on the current projections for project performance. Backlog levels fluctuate as a function of timing of contract awards and progress on projects.

Revenues for the year ended October 31, 2014 were $208.2 million compared to $215.5 million during 2013, representing a decrease of 3.4% year over year. The effects of government spending constraints, particularly in the United States, suppressed the Company's revenue growth. In contrast to the diminished near-term prospects in the US government market, the core commercial equipment market continued to show strength.

◆ Forward-looking Information. Please refer to Caution Regarding Forward-looking Information on Page 1 of this document.

As a result of the continued losses at the Company's US operations due to the effect of the ongoing spending reductions in the US government market, combined with the recent changes in International Traffic in Arms Regulations ("ITAR") US Munitions List, which moved certain satellite components to the less restrictive Commerce Control List classification, management decided to scale down the Company's US operations and initiated a restructuring plan subsequent to year end to optimize the facilities in Cambridge, Ontario. The estimated cost of the restructuring plan is expected to be $5.0 million.♦

With the effects of sequestration continuing to drive down the profitability of the Company's US operations during 2014, the Company reassessed its ability to utilize the US tax loss carryforwards that it had previously recognized as a deferred tax asset. Based on this assessment, the Company recorded a deferred income tax provision of $2.6 million relating to US deferred tax assets during 2014. During 2014, the Company also reassessed its ability to utilize loss carryfowards in the UK jurisdiction that were previously not recognized. Based on this assessment, the Company determined that there was sufficient positive evidence to support the recognition of a deferred tax asset in the UK jurisdiction which resulted in a deferred income tax recovery of $0.9 million.

At the end of each reporting period, the Company assesses whether there are events or circumstances indicating that an asset may be impaired or that a previously recognized impairment loss should be reversed. During 2013, the Company's impairment assessment determined that there was impairment in one cash generating unit ("CGU") in the Equipment segment and an impairment loss of $3.5 million was recognized. During 2014, the Company recognized an impairment reversal of $2.7 million as a result of changes in events and circumstances surrounding three of its CGUs in the Equipment segment. For additional information, refer to note 8 (Impairment of long-lived assets) in the Notes to the Consolidated Financial Statements.

Volatility in exchange rates between CAD and foreign currencies such as the US dollar ("USD"), the euro ("EUR") and the British Pound ("GBP") impact the business as a large portion of the Company's revenues are billed in non-Canadian currencies (predominately USD) and recognized in the Company's Consolidated Statements of Financial Position in the form of cash, receivables and payables. The Bank of Canada average closing USD/CAD exchange rate during 2014 was $1.0903, which compares to the 2013 average of $1.0198. The Company continually mitigates its foreign exchange risks through the use of derivatives and included in the foreign exchange gains and losses are the results of the Company's hedging program that resulted in a loss of $2.7 million in 2014 compared with a loss of $0.2 million in 2013.

The Company's Data Services segment is primarily comprised of the Company's exactEarth™ subsidiary, in which it shares ownership with HISDESAT. exactEarth™ continued to progress its business plan during 2014. The Data Services segment achieved $2.8 million in EBITDA for fiscal 2014 (2013: $1.7 million), had order bookings of $34.9 million (2013: $14.5 million) and generated revenue of $16.0 million (2013: $12.0 million). For further details, please refer to the EBITDA attributable to shareholders by segment reconciliation included later in this MD&A.

During 2013, exactEarth™ signed an interest-free loan agreement with the Federal Development Agency for Southern Ontario ("FED DEV"). Under this agreement, exactEarth™ is eligible to receive interest free repayable funding to a maximum of $2.5 million to offset capital and operating expenditures. During the year, exactEarth™ received proceeds of $0.4 million (2013: $2.1 million) from FED DEV. For additional information, refer to note 5 (Government assistance) and note 9 (Bank loans, loans payable and financial instruments) in the Notes to the Consolidated Financial Statements.

The Company's $20 million operating line of credit remains undrawn at the end of 2014 except for $2.8 million (2013: $2.8 million) in the form of guarantee letters issued by the bank on behalf of the Company to customers in the normal course of operations and to government agencies while certain tax objections are resolved. The amount outstanding on all long-term debt at the end of 2014 was $19.3 million (2013: $20.7 million), of which $4.7 million (2013: $3.6 million) was attributed to the Company's exactEarth™ subsidiary.

During a prior fiscal year, the Canada Revenue Agency ("CRA") and the Ontario Ministry of Finance completed tax audits which resulted in reassessed capital taxes and corporate minimum taxes, which the Company appealed. During the second

♦ Forward-looking Information. Please refer to Caution Regarding Forward-looking Information on Page 1 of this document.

quarter of 2013, the Company agreed to a settlement with the tax authorities. The Company received the final reassessments during the fourth quarter of 2014 which resulted in the Company recognizing a $0.5 million recovery of interest and capital tax in the Consolidated Statements of Income. For additional information refer to note 13 (Commitments and contingencies) in the Notes to the Consolidated Financial Statements.

During the first quarter of 2014, the Company adopted the amended IAS 19, Employee Benefits. As a result of this change in accounting policy, several line items in the Company's Consolidated Financial Statements issued in prior periods have been amended. The change in accounting policy was applied on a retrospective basis, in accordance with the transitional provisions, resulting in an amendment to certain consolidated financial statement balances previously reported in the November 1, 2012 and October 31, 2013 Consolidated Statements of Financial Position and the Consolidated Statements of Income, Consolidated Statements of Comprehensive Income and Consolidated Statements of Cash Flows for the year ended October 31, 2013. For details of the change in accounting policy and the related financial impact, see note 2 c) and note 20 in the Notes to the Consolidated Financial Statements. Any comparative amounts in this MD&A that were amended are noted.

As part of its fourth quarter meetings, the Board of Directors declared a dividend of $0.03 per share to be paid on February 6, 2015, to shareholders of record on January 23, 2015. For the year ended October 31, 2014, dividends of $0.06 per common share were declared and paid totalling $4.6 million.

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

SELECTED ANNUAL INFORMATION* (prepared in accordance with IFRS)

(in millions of dollars except earnings and dividends per share)		2014		2013
Revenue	$	208.2	$	215.5
Net income		9.1		17.2•
Net income attributable to shareholders		10.1		18.3•
Basic and diluted earnings per share		0.13		0.24
Total assets		275.2		267.9
Total non-current liabilities		18.1		18.7
Cash dividends declared per common share		0.06		-

* For 2014 to 2013 year-to-year variation commentaries, see the additional comments included in Results of Operations sections below.

• Amended. See note 20 in the Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

Revenues

		Years ended October 31		
(in millions of dollars)	2014		2013	% Change
Commercial programs	$ 137.4		$ 108.6	26.5%
Civil (government) programs	$ 50.2		$ 66.8	(24.9%)
Military and defence programs	$ 20.6		$ 40.1	(48.6%)
Total revenue	$ 208.2		$ 215.5	(3.4%)

Total revenue for the Company in 2014 was $208.2 million compared to $215.5 million in 2013. The Company's mix of revenue changed as compared to 2013, with revenues in the commercial sector increasing $28.8 million while civil and military customer revenues decreased by $16.6 and $19.5 million, respectively, compared to a year earlier. The increase in commercial program revenue reflects the continued strength of the market, while decreases in the civil and military and defence sectors reflect the continued government budget constraints and sequestration in the US. The Company's Data Services segment generated 30% of the military and defence revenue for 2014 compared to 14% during 2013, which reflects a shift in the mix of revenue in the military and defence sector from the Equipment segment to the Data Services segment. As the Company looks to scale back its US operation during 2015, management expects this shift in the mix of revenue from the military and defence sector to increase.♦

Backlog

		Years ended October 31		
(in millions of dollars)	2014		2013	% Change
Commercial programs	$ 88.6		$ 95.0	(6.7%)
Civil (government) programs	$ 40.6		$ 54.4	(25.4%)
Military and defence programs	$ 25.9		$ 15.3	69.3%
Total backlog	$ 155.1		$ 164.7	(5.8%)

The Company's overall backlog of work at the end of 2014 decreased by 5.8% compared to the ending 2013 backlog. Backlog is a measure of the Company's orders for which revenue has not been recognized and consequently, backlog levels are heavily influenced by the timing of orders and program performance. The decrease in the commercial program backlog of $6.4 million is primarily attributed to the timing of orders and program performance relative to the same point in time in the prior year. The decrease of $13.8 million in the civil program backlog is primarily related to the Equipment segment, which decreased $13.1 million, while the Data Services segment civil backlog decreased by $0.7 million. The increase of $10.6 million in the military and defence backlog is driven by the Data Services segment, which increased by $15.9 million, offset by a decrease in the Equipment segment backlog of $5.3 million. Backlog does not have an equivalent financial measure and therefore cannot be reconciled to measures defined by IFRS.

♦ Forward-looking Information. Please refer to Caution Regarding Forward-looking Information on Page 1 of this document.

Net income attributable to shareholders

Net income (loss) by segment for the years ended October 31:

(in millions of dollars except earnings per share)	Equipment segment	Data services segment	Intra-segment eliminations	Total	Earnings per share basic and diluted
2014 net income (loss) attributable to shareholders	$ 12.1	$ (2.6)	$ 0.6	$ 10.1	$ 0.13
2013 net income (loss) attributable to shareholders	$ 20.7[•]	$ (2.9)	$ 0.5	$ 18.3[•]	$ 0.24

The net income attributable to shareholders reflects the Company's consolidated net income adjusted by the 27% minority interest's portion of the net loss for exactEarth™ in the Data Services segment.

Net income attributable to shareholders was $10.1 million in 2014, compared to $18.3[•] million in 2013. The decrease in net income is primarily attributed to operating losses in the Company's US operation, which included negative gross margin of $5.3 million (2013: $2.8 million positive gross margin) from a combination of insufficient work to absorb overhead costs, inventory and related charges and a $2.6 million write down of previously recognized US tax losses, as a result of the ongoing spending reductions in the US government market.

Additional contributing factors to the decrease in net income from 2013 include the following:

- Research and development recoveries relating to external funding and investment tax credits recoverable were reduced by $1.2 million and $6.6 million, respectively, compared to the prior year, a combined decrease of $7.8 million year over year
- The Company recognized a foreign exchange loss of $0.9 million during 2014, compared to a foreign exchange gain of $0.9 million during 2013, contributing to a $1.8 million decrease year over year

Offsetting the decrease in net income was the increase in margins realized in the Company's non-US operations due to the effective execution of contracts. In addition, the impairment reversal recognized during 2014 on certain of the Company's property, plant and equipment (PP&E) and intangible assets compared to an impairment loss recognized during 2013, contributed to an improvement to net income of $6.2 million year over year.

[•] Amended. See note 20 in the Notes to the Consolidated Financial Statements.

Gross margin

	Year ended October 31		
(in millions of dollars)	2014	2013	% Change
Gross margin	$ 53.8	$ 58.0•	(7.2%)
Total gross margin %	25.8%	26.9%•	

Gross margin for 2014 averaged 25.8% compared to 26.9%• in 2013. The Equipment segment gross margin percentage in 2014 decreased from 26% to 25% primarily as a result of the negative gross margin of $5.3 million realized in the Company's US operation due to ongoing sequestration. This compares to $2.8 million in positive gross margin achieved by the US operation during fiscal 2013.

The Company achieved a year over year increase in gross margin in its non-US operations due to effective execution of contracts and a more favourable mix of contracts in progress compared to the prior year.

The Data Services segment gross margin percentage increased during 2014 due to higher revenue from its growing customer base after the successful commissioning of two exactEarth™ satellites, offsetting the increased operational costs of the expanded constellation of low earth orbiting satellites owned and operated by exactEarth™.

Other expenses

	Year ended October 31			
(in millions of dollars)	2014	2013	$ Change	% Change
Selling expenses	$ 12.0	$ 11.9	$ 0.1	0.8%
General expenses	$ 20.4	$ 20.2	$ 0.2	1.0%
Net research and development expenses (income)	$ 3.2	$ (3.9)	$ 7.1	N/A
Impairment (reversal) loss	$ (2.7)	$ 3.5	$ (6.2)	N/A
Restructuring	$ 1.5	$ 0.7	$ 0.8	114.3%
Interest expense	$ 0.2	$ 0.5	$ (0.3)	(60.0%)
Foreign exchange loss (gain)	$ 0.9	$ (0.9)	$ 1.8	N/A
Other expense (income)	$ 0.5	$ (0.1)	$ 0.6	N/A

• Amended. See note 20 in the Notes to the Consolidated Financial Statements.

Selling and general expenses

Selling and general expenses increased in 2014 compared to 2013. Selling expenses will fluctuate from quarter to quarter and year to year depending on the volume of bids and proposal work that is underway. General expenses increased by $0.2 million during 2014 and include a $0.7 million increase in corporate development expenses, reflecting the Company's investment as it executes on its strategic plan, offset by the Company's effective management of general expenses with a view to minimizing these costs while not hindering the achievement of the Company's overall business objectives.

Research and development (R&D)

	Year ended October 31		
(in millions of dollars)	2014	2013	% Change
Research and development costs	$ 9.2	$ 9.9	(7.1%)
Research and development recovery	$ (0.9)	$ (2.1)	(57.1%)
Investment tax credits recoverable	$ (5.1)	$ (11.7)	(56.4%)
Net research and development expense (recovery)	$ 3.2	$ (3.9)	(182.1%)

R&D costs noted in the table above reflect only Company-funded R&D (net of any external funding received). Customer-funded development costs are included in the Company's cost of revenue figures.

During the year, the Company recognized a $5.1 million Investment Tax Credit ("ITC") relating to R&D activities compared to $11.7 million in 2013. The ITC recognized represents the benefit of tax savings gained from R&D expenditures made in prior periods.

With the inclusion of this ITC and with the normal external funding sources, there was $3.2 million net expense for research and development compared to a $3.9 million net recovery in 2013.

Impairment reversal / loss

The Company is required to evaluate its CGUs annually under IFRS for signs of potential impairment in the carrying value of the CGU's assets. At October 31, 2013, the Company's US CGU, CDU, which is part of the Equipment segment, was assessed as a separate CGU and an impairment loss of $3.5 million was recognized as a result of a decrease in profitability stemming from sequestration. In 2014, the US Government removed certain satellite hardware and related technologies from the restrictive ITAR US Munitions List and moved these items to the less restrictive Commerce Control List. In light of this change, the Company reassessed its determination of CGUs and concluded that the cash inflows associated with the group of assets in CDU were not largely independent of the cash inflows from the group of assets in the Company's passive microwave hardware CGU, which is part of the Equipment segment. The combined CGU had sufficient forecasted cash flows to support the reversal of previously recognized impairment loss and accordingly, the Company recognized an impairment reversal of $0.9 million at October 31, 2014.

The value in use of the Company's UK and CDIS-Canada CGUs, which are part of the Equipment segment, were previously depressed due to the lack of profitability that existed at the time that the original impairment loss was recognized. These CGUs have experienced positive income over the past several quarters and there has been a change in the estimated future cash flows for these CGUs based on their return to profitability and future orders forecasts. As a result, the Company recognized an impairment reversal of $0.8 million for the UK CGU and $1.0 million for the CDIS-Canada CGU at October 31, 2014.

The reversal of impairment loss is included in Impairment (reversal) loss line in the Consolidated Statements of Income. See note 8 (Impairment of long-lived assets) in the Notes to the Consolidated Financial Statements.

Restructuring

The Company incurred $1.5 million in restructuring charges during 2014 compared to $0.7 million during 2013. Restructuring charges primarily related to headcount reductions in the Equipment segment.

Interest expense

Interest charges primarily relate to the Company's outstanding term debt facilities. Interest income relates to the settlement of tax disputes and other financing income.

The Company incurred interest expense of $0.8 million during 2014 (2013: $0.7 million), offset by interest income of $0.6 million (2013 - $0.2 million), for a net interest expense in 2014 of $0.2 million (2013: $0.5 million). The decrease is primarily attributed to interest income of $0.3 million related to the CRA and Ontario Ministry of Finance tax audits that were completed during 2014. For additional information refer to note 13 (Commitments and contingencies) in the Notes to the Consolidated Financial Statements.

Foreign exchange

The foreign exchange loss in 2014 was $0.9 million, compared with a gain of $0.9 million in 2013. Foreign exchange amounts in the Consolidated Statements of Income include realized and unrealized gains and losses that result from translation of foreign denominated balances in the Company's Consolidated Statements of Financial Position, realized gains and losses from settling USD forward contracts, and mark to market fair value adjustments on the Company's outstanding USD forward contracts. They do not include the impact of foreign exchange fluctuations on customer program values, which is reflected in the revenue, cost of revenue, and gross margin sections of the Consolidated Statements of Income. The impact of translation of outstanding foreign denominated balances in the Consolidated Statements of Financial Position and of settling foreign denominated balances into cash during the year was a gain of $1.8 million in 2014, compared to a gain of $1.1 million in 2013.

The Company attempts to mitigate the impact of sudden changes in foreign currency rates by entering into foreign exchange future contracts. The Company reflects the change in the fair value ('mark to market') of the unexpired contracts as part of its foreign exchange loss or gain in the period. At October 31, 2014, there was a $1.9 million loss in the mark to market valuations on the USD derivative contracts, compared to an unrealized exchange loss of $0.9 million at October 31, 2013. The realized exchange impact from settling USD hedge contracts was loss of $0.8 million in 2014, compared to a gain in 2013 of $0.7 million.

Other expense

Other expense of $0.5 million in 2014 (2013: $0.1 million gain) is comprised of gains (losses) on disposal of assets, withholding tax recovery (recognized during 2013), Fed Dev operating grant income, the discounting adjustment for investment tax credits, and bank fees, discounts, Export Development Canada (EDC) premiums and other miscellaneous expenses. See note 14 (Other expense (income)) in the Notes to the Consolidated Financial Statements.

EBITDA

EBITDA attributable to shareholders by segment for the year ended October 31, 2014:

	Equipment segment	Data services segment	Intra-segment eliminations	Total
Net income (loss) attributable to shareholders	$ 12.1	$ (2.6)	$ 0.6	$ 10.1
Interest expense (income)	(0.6)	0.7	0.1	0.2
Income tax expense	8.7	-	-	8.7
Depreciation & amortization	7.2	4.7	(0.6)	11.3
EBITDA attributable to shareholders	$ 27.4	$ 2.8	$ 0.1	$ 30.3

EBITDA attributable to shareholders by segment for the year ended October 31, 2013[•]:

	Equipment segment	Data services segment	Intra-segment eliminations	Total
Net income (loss) attributable to shareholders	$ 20.7	$ (2.9)	$ 0.5	$ 18.3
Interest expense	0.1	0.4	-	0.5
Income tax expense	8.9	-	-	8.9
Depreciation & amortization	7.1	4.2	(0.6)	10.7
EBITDA attributable to shareholders	$ 36.8	$ 1.7	$ (0.1)	$ 38.4

EBITDA attributable to shareholders was $30.3 million in 2014, compared to $38.4[•] million in 2013. The year over year decrease in EBITDA is primarily related to the lower net income during 2014 as compared to 2013. The Equipment segment experienced a decrease in EBITDA attributable to shareholders over the prior year related primarily to losses in the US operations. The Data Services segment EBITDA increased to $2.8 million in 2014 as compared to a 2013 EBITDA of $1.7 million.

Financial position

The following chart outlines the significant changes in the Consolidated Statements of Financial Position between October 31, 2014 and October 31, 2013:

(in millions of dollars)	Increase/ (Decrease)	Explanation
Cash and cash equivalents	$ (1.3)	Refer to the Consolidated Statements of Cash Flows.
Accounts receivable	$ (1.8)	Collections exceeded billings in 2014 net of allowances for doubtful accounts.
Inventory	$ 2.6	Contracts-in-progress increased by $3.2 million and general inventory decreased by $0.6 million. To get a complete view of the actual change in contracts-in-progress, the change in "Billings in excess of costs and earnings on contracts in progress" (further below in this table) must be considered in conjunction with this section of the table. The contracts-in-

[•] Amended. See note 20 in the Notes to the Consolidated Financial Statements.

(in millions of dollars)	Increase/ (Decrease)	Explanation
		progress balance will vary from year to year depending on the billing and revenue profiles of programs in progress. Refer to note 4 (Construction contracts and inventory) in the Notes to the Consolidated Financial Statements.
Prepaid expenses and other	$ 1.0	Miscellaneous prepaid expenses, primarily related to insurance, accrued at a rate slower than the related expense was recognized.
Property, plant and equipment	$ 5.2	PP&E increased as a result of capital expenditures of $10.5 million, impairment reversal of $1.9 million, $1.5 million relating to foreign exchange and $0.1 million relating to disposals and other, and was reduced by $8.8 million of depreciation.
Intangible assets	$ 5.7	Intangible assets increased as a result of capital expenditures of $7.3 million, an impairment reversal of $0.8 million and $0.2 million relating to foreign exchange, and were reduced by $2.5 million of amortization and $0.1 million relating to disposals and other.
Investment tax credits (current and non-current)	$ 2.9	Increase in recognized investment tax credits from scientific research and experimental development activities.
Deferred income tax assets	$ (5.5)	Decrease comprised of a reduction in deferred tax asset related to US tax loss carry forwards ($2.6 million) and changes in temporary differences ($4.5 million), offset by recognition of a deferred tax asset related to UK loss carry forwards ($0.9 million), the settlement of RSU and PSU awards ($0.5 million) and foreign exchange ($0.2 million). Refer to note 12 (Income taxes) in the Notes to the Consolidated Financial Statements.
Current accounts payable and accrued liabilities	$ 5.2	Increase in trade payables and accrued expense accounts outstanding at the end of 2014, primarily attributed to timing.
Income taxes payable	$ 0.3	Increase in income taxes payable from prior year end.
Provisions	$ (0.8)	Net usage of $1.0 million and additions of $0.1 million pertaining to loss contracts plus $0.1 million foreign exchange impact on these contracts.
Billings in excess of costs and earnings on contracts in progress	$ (4.3)	Billings in excess of costs and earnings on contracts in progress reflects the amount of billings that occur in advance of the Company recognizing revenue. The decrease reflects this timing difference on the composition of projects where revenue outpaced billings as compared to prior year end. Also see Inventory, above in this table, and note 4 (Construction contracts and inventory) in the Notes to the Consolidated Financial Statements.
Non-current accounts payable and accrued liabilities	$ 0.2	Increase in non-current liabilities during 2014 primarily related to the exactEarth™ incentive plan.
Employee future benefits	$ 2.4	Increase is comprised of pension expense of $0.8 million, actuarial losses of $2.1 million and foreign currency translation of $0.3 million, offset by the Company's contribution to the defined benefit plans of $0.8 million.

(in millions of dollars)	Increase/ (Decrease)	Explanation
Loans payable (current and non-current)	$ (1.4)	Decrease in loans outstanding is primarily due to loan payments.
Share capital	$ (169.5)	$170 million of the decrease relates to a reduction in stated capital to enable dividend payments, which resulted in a corresponding increase in contributed surplus. See note 11 (Share capital and earnings per share) in the Notes to the Consolidated Financial Statements and the Consolidated Statements of Changes in Equity.
Treasury stock	$ (0.1)	The change is attributed to the difference between the value of treasury stock issued during 2014 in settlement of the Company's long-term incentive plan ("LTIP") obligations compared to the common shares purchased during 2014 to be held as treasury stock to be used to settle the Company's LTIP obligations.
Contributed surplus	$ 170.1	The $170.1 million decrease primarily relates to the reduction in stated capital described above. Refer to Consolidated Statements of Changes in Equity for further details.
Deficit	$ (5.5)	Net income attributable to shareholders of $10.1 million offset by dividend payments of $4.6 million.
Non-controlling interest	$ (1.0)	Decrease attributed to the portion of exactEarth™'s net comprehensive loss attributable to the non-controlling interest for the year ended October 31, 2014.
Accumulated other comprehensive income (loss)	$ 0.4	Increase attributed to the portion of other comprehensive income attributed to shareholders for the year ended October 31, 2014.

Liquidity and capital resources

	Year October 31		
(in millions of dollars)	2014	2013	% Change
Cash from operating activities	$ 24.3	$ 31.8	(23.6%)
Cash used in financing activities	(8.6)	(1.9)	352.6%
Cash used in investing activities	(17.6)	(19.8)	(11.1%)
Effect of exchange rate changes on cash and cash equivalents	0.6	(1.0)	N/A
Net (decrease) increase in cash and cash equivalents	(1.3)	9.1	N/A
Cash and cash equivalents, beginning of year	34.9	25.8	35.3%
Cash and cash equivalents, end of year	$ 33.6	$ 34.9	(3.7%)

Operating activities

The Company generated $24.3 million of cash from operating activities in 2014, compared with 2013 when $31.8 million was generated. The Company generated $0.5 million from changes in working capital in 2014 which compares to the $3.5 million generated from changes in working capital in 2013. The change in non-cash working capital balances in 2014 was mainly due to changes associated with decreases in accounts receivable and income taxes recoverable and increases in accounts payable and accrued liabilities, partially offset by increases in inventory and prepaid expenses and decreases in provisions and billings in excess of costs and earnings on contracts in progress.

Financing activities

The Company used $8.6 million of cash for financing activities in 2014, compared with $1.9 million used in 2013. The use of cash in 2014 is primarily attributed to $4.6 million in dividends paid (2013: nil) and $3.8 million in repayments of long-term debt (2013: $3.2 million), partially offset by proceeds from common share issuances and advances of long-term debt.

Investing activities

The Company used $17.6 million of cash for investing activities in 2014, compared with $19.8 million used in 2013. The use of cash in 2014 is primarily attributed to acquisitions of PP&E totalling $10.5 million (2013: $14.1 million) and intangible assets totalling $7.3 million (2013: $5.8 million), partially offset by $0.2 million (2013: $0.1 million) in proceeds received on the disposal of assets.

Credit facilities

The Company's operating credit line of $20 million was not drawn upon at the end of 2014, except for $2.8 million (2013: $2.8 million) in the form of guarantee letters issued to customers and government agencies. In addition to the operating line of credit, the Company also has a treasury risk management facility to facilitate hedging of currency related risks arising in the normal course of operations, a committed term debt facility, and an additional uncommitted term debt facility. Under these facilities, the Company is required to maintain certain financial ratios, which the Company has met as of October 31, 2014. For additional information refer to note 9 (Bank loans, loans payable and financial instruments) in the Notes to the Consolidated Financial Statements.

Management believes that it has sufficient resources to allow it to meet its business plan objectives, including normal commitments for capital expenditures.[◆]

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements, other than operating leases as disclosed in note 13 (Commitments and contingencies) in the Notes to the Consolidated Financial Statements, as at the end of the 2014 fiscal year.

Transactions with related parties

During 2012, Hisdesat, the minority interest investor in exactEarth™, made available a revolving credit facility to exactEarth™ which is described in note 9 b) iv) in the Notes to the Consolidated Financial Statements. During 2014, exactEarth™ made interest payments on this loan totalling $0.2 million (2013: $0.1 million).

Proposed transactions

The Company has no firm proposed transactions as at October 31, 2014. See subsequent events discussion later on in this MD&A.

Fourth quarter

The Company booked $91.1 million in new orders in the fourth quarter of fiscal 2014, compared with approximately $87.9 million in the fourth quarter of 2013 and $36.5 million of the third quarter of 2014. The size and timing of contract awards in the space market has historically resulted in uneven new order levels on a quarter-by-quarter basis.

[◆] Forward-looking Information. Please refer to Caution Regarding Forward-looking Information on Page 1 of this document.

Revenues for the fourth quarter were $51.2 million, compared with $50.8 million in the third quarter of 2014, and $53.8 million in the fourth quarter of fiscal 2013. Gross margin was 22.0% in the fourth quarter, down from 26.1% in the prior quarter, and down from 28.3%[•] in the fourth quarter of fiscal 2013. The decrease in fourth quarter gross margin is primarily attributed to the impact of reduced gross margin in the US business, which realized a negative gross margin of $4.2 million during the fourth quarter of 2014, compared to a negative gross margin of $0.8 million during the third quarter of 2014 and a negative margin of $1.1 million during the fourth quarter of 2013.

During the fourth quarter, the Company generated $7.9 million in cash from operating activities, compared to the prior quarter where the Company invested $1.0 million in cash from operating activities. In the fourth quarter of 2013, the Company generated $12.6 million in cash from operating activities.

The Company invested $6.8 million in PP&E and intangible asset additions during the fourth quarter of 2014. The Company invested $9.6 million in PP&E and intangible assets during the fourth quarter of fiscal 2013 and $3.7 million in PP&E and intangible assets in the third quarter of 2014. The Company ended the quarter with $33.6 million in cash, compared with $36.4 million at the end of the prior quarter, and $34.9 million at the end of the fourth quarter of fiscal 2013.

Financial instruments and other instruments

The Company realizes a significant portion of its revenues in USD and incurs most of its expenses in CAD. The Company utilizes foreign exchange options to hedge the net cash flow risk associated with forecasted transactions in foreign currencies but does not enter into derivatives for speculative purposes. The Company utilizes derivative instruments to manage the risk associated with anticipated cash flows that will be denominated in foreign currencies. The Company does not designate or measure the effectiveness of the derivative instruments as hedges of specific firm commitments or forecasted transactions and, accordingly, does not meet the requirements of IFRS IAS 39, *Financial instruments: recognition and measurement*, to apply hedge accounting. The Company generally uses foreign exchange put options and related call options to manage foreign currency risk related to sales to customers in the United States and United Kingdom.

Derivative financial instruments are carried at their fair values. Realized and unrealized gains and losses associated with the derivative instruments are included in "Foreign exchange loss (gain)" in the Consolidated Statements of Income. In 2014, the unrealized loss from the change in fair value of the Company's hedge options was $1.9 million compared to an unrealized loss of $0.9 million in 2013. The impact from settling USD hedge contracts in 2014 was a $0.8 million loss, compared to a $0.7 million gain in 2013. Additional information relating to the Company's hedge contracts can be found in note 9 (Bank loans, loans payable and financial instruments) in the Notes to the Consolidated Financial Statements.

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

Subsequent events

On December 31, 2014, the Company acquired 100 percent of the outstanding shares of MESL Holdings Ltd. and MESL Microwave Ltd. (collectively "MESL"). MESL is based in Edinburgh, Scotland, and specializes in the global microwave technology market, including the design and manufacture of high-reliability components and subsystems for the radar, communications, defence and aerospace industries. The primary reason for the acquisition is to provide the Company with greater access to the aerospace market with microwave component products that are complementary to the Company's product offering in the space market.

[•] Amended. See note 20 in the Notes to the Consolidated Financial Statements.

The estimated purchase price for MESL is £12.8 million ($23.0 million CAD) and is subject to final working capital adjustments. This purchase will be financed by a combination of cash on hand and additional borrowings under the Company's credit facility.

Summary of quarterly financial information (unaudited)

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

Fiscal 2014 Quarters	January 31	April 30	July 31	October 31
Total revenue	$ 51,821	$ 54,332	$ 50,814	$ 51,234
Net income attributable to shareholders	2,092	5,011	3,547	(600)
Net income per share (basic and diluted)	0.03	0.07	0.05	(0.02)

Fiscal 2013 Quarters	January 31	April 30	July 31	October 31
Total revenue	$ 52,283	$ 55,229	$ 54,157	$ 53,780
Net income attributable to shareholders	4,513•	4,700•	5,015•	4,022•
Net income per share (basic and diluted)	0.06	0.06	0.07	0.05

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

Critical accounting estimates

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

Management believes the following critical accounting policies affect its more significant estimates and assumptions used in the preparation of its Consolidated Financial Statements.

Revenue recognition

The Company generally provides goods and services to its customers under long-term contracts. The Company recognizes revenue on long-term contracts on the percentage of completion basis, based on costs incurred relative to the estimated total contract costs. Losses on such contracts are accrued in provisions when the estimate of total costs indicates that a loss will be realized. Provisions are drawn down as loss contracts progress. Contract billings received in excess of recognized revenue are 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 including "cost-plus" government contracts. The revenue from short-term agreements and purchase orders are recognized when the goods and services are delivered to the customer and collection is reasonably assured. Cost-plus contract revenue is recognized as eligible costs are incurred on the applicable contracts.

• Amended. See note 20 in the Notes to the Consolidated Financial Statements.

Project costs to complete

At the outset of each customer project, an estimate of the total expected cost to complete the scope of work under contract is made. During the course of the projects, these estimates are reviewed and revised to reflect current expectations of cost to complete, and total cost. These estimates are based on specific knowledge of the status of the project, as well as historical understanding of costs on similar projects. Cost elements include material, direct labour, and overhead costs, with labour and overhead costs being determined using pre-established costing rates applied to estimated labour hours required to complete the scope of work under contract. These estimates are reviewed on a monthly and quarterly basis to ensure the estimates reflect the current expectations for total costs, however this is not a guarantee that unforeseen or additional costs won't be incurred, which would have an impact on project total cost, reported revenue, and gross margins. Management believes it has effective control procedures in place to ensure the validity of these estimates at the time they are made.

Contract penalties

In some cases, the Company enters into contracts with its customers for the delivery of equipment, where penalties are incurred for late delivery. When the Company wins these orders, it assumes that the cost of the penalties will not be incurred unless the project schedule indicates that contracted delivery dates will not be met. The contract values are reduced by the expected penalties at the time the Company determines that the contractual delivery date will not be met.

Useful life of intangible and long-term assets

The Company has established policies for determining the useful life of its intangible and long-term assets, and amortizes the costs of these assets over those useful lives. The useful life for each category of asset is determined based on the expectation of its ability to continue to generate revenues, and thus, cash flows for the Company. This ability is tested periodically to ensure the conditions still exist to allow the asset to be reflected at its net-recorded value in the accounts of the Company, and any impairment to the valuation is reflected in the accounts at the time the impairment is determined.

Income tax liabilities

The Company establishes a tax provision based on its calculation of accounting income subject to tax in any period. Occasionally, the Company is subjected to audits by various federal and provincial agencies. When adjustments are proposed, the Company assesses its position with respect to the issue, and when it considers the Company's position to be correct, may object to proposed adjustments. Management estimates the likelihood of succeeding in its position, and where appropriate, provides for amounts estimated to be payable, or reports in notes to the Company's Consolidated Financial Statements. For a complete description of carry-forward tax balances and the deferred tax asset, see note 12 in the 2014 Notes to the Consolidated Financial Statements. For a complete description regarding the current status of ongoing income tax audits, see note 13 in the 2014 Notes to the Consolidated Financial Statements.

Deferred taxes

Income taxes are determined based on estimates of the Company's current income taxes and estimates of deferred income taxes. Deferred tax assets are assessed to determine the likelihood that they will be realized from future taxable income before they expire. In determining the amount of deferred tax assets to recognize by jurisdiction, the Company considers various factors including, but not limited to, current estimates of taxable income over future periods, history of losses for tax purposes, tax planning opportunities and the expiry date of income tax loss carryforwards.

Investment tax credits

ITCs are accounted for using the cost reduction method whereby the credits are applied to reduce the related qualifying expenditure. ITCs have been recognized in the accounts on the basis of reasonable assurance of realization. The amounts recorded have been determined by the Company based on current legislation and management's best estimates of future taxable income.

Recoverable amount for long-lived assets

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use, and is determined for an individual asset or at the CGU level if individual assets do not have largely independent cash inflows. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Capitalization of development costs

When capitalizing development costs, the Company must assess the technical and commercial feasibility of the projects and estimate the useful lives of resulting products. Determining whether future economic benefits will flow from the assets, and therefore, the estimates and assumptions associated with these calculations are instrumental in: (i) deciding whether project costs can be capitalized, and (ii) accurately calculating the useful life of the projects for the Company.

Employee benefits

The Company considers a number of factors in developing the pension assumptions, including an evaluation of relevant discount rates, plan asset allocations, mortality, expected changes in wages and retirement benefits, analysis of current market conditions, economic benefits available and input from actuaries and other consultants. Costs of the programs are based on actuarially determined amounts and are accrued over the period from the date of hire to the full eligibility date of employees who are expected to qualify for these benefits.

Financial instruments

The valuation of the Company's derivative instruments and certain other financial instruments requires estimation of the fair value of each instrument at the reporting date. Details of the basis on which fair value is estimated are provided in note 9(c) (Bank loans, loans payable and financial instruments) in the Notes to the 2014 Consolidated Financial Statements.

Inventory provision

To estimate recoverable value of inventory, the Company takes into account age of items, time since last activity and future expected usage.

Changes in accounting policies including initial adoption

Change in accounting policies

International Accounting Standard 19R, Employee Benefits

During the first quarter of fiscal 2014, the Company adopted the amended International Accounting Standard 19, Employee Benefits ("IAS 19R"). IAS 19R eliminates the option to defer the recognition of gains and losses, known as the 'corridor method'. This means all changes in value of defined benefit plans will be recognized as they occur. Profit or loss will be charged with service costs and net interest income or expense, while re-measurements will be presented in other comprehensive income. The amendment also enhances the disclosure requirements for defined benefit plans. For details of the policy change see notes 2 c) and 20 in the Notes to the Consolidated Financial Statements.

International Financial Reporting Standard 7, Financial Instruments: Disclosures

International Financial Reporting Standard 7, Financial Instruments: Disclosures ("IFRS 7"), was amended in 2011 and requires entities to disclose information about the effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after January 1, 2013. The adoption of this amendment did not result in any changes to the Consolidated Financial Statements.

International Financial Reporting Standard 10, Consolidated Financial Statements

International Financial Reporting Standard 10, Consolidated Financial Statements ("IFRS 10"), requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 supersedes IAS 27, Consolidated and Separate Financial Statements, and Standing Interpretations Committee Interpretation 12, Consolidation – Special Purpose Entities, and is effective for annual periods beginning on or after January 1, 2013. The adoption of this new standard did not result in any changes to the Consolidated Financial Statements.

International Financial Reporting Standard 11, Joint Arrangements

International Financial Reporting Standard 11, Joint Arrangements ("IFRS 11"), requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes current International Accounting Standard 31, Interests in Joint Ventures, and Standing Interpretations Committee Interpretation 13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers, and is effective for annual periods beginning on or after January 1, 2013. The adoption of this new standard did not result in any changes to the Consolidated Financial Statements.

International Financial Reporting Standard 12, Disclosure of Interests in Other Entities

International Financial Reporting Standard 12, Disclosure of Interests in Other Entities ("IFRS 12"), establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosure requirements and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The adoption of this new standard did not result in any changes to the Consolidated Financial Statements.

International Financial Reporting Standard 13, Fair Value Measurements

International Financial Reporting Standard 13, Fair Value Measurements ("IFRS 13"), is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is to be applied prospectively for annual periods beginning on or after January 1, 2013. The methods, assumptions, processes and procedures for determining fair value were revisited and adjusted where applicable. The resulting calculations under IFRS 13 affected the principles that the Company uses to assess fair value, but the assessment of fair value under IFRS 13 has not materially changed the fair values recognized or disclosed. The application of IFRS 13 resulted in additional disclosures in the Notes to the Consolidated Financial Statements.

International Accounting Standard 28, Investments in Associates and Joint Ventures

International Accounting Standard 28, Investments in Associates and Joint Ventures ("IAS 28"), was amended in 2011 and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for annual periods beginning on or after January 1, 2013. The adoption of this amendment did not result in any changes to the Consolidated Financial Statements.

International Accounting Standard 36, Impairment of Assets

International Accounting Standard 36, Impairment of Assets ("IAS 36"), was amended in 2013 to address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs to sell. Specifically, for any material impairment losses recognized or reversed during the reporting period, this amendment requires an entity to disclose the recoverable amount of the CGU and when the recoverable amount has been based on fair value less costs to sell, the entity must disclose the level of the IFRS 13 'fair value hierarchy' within which the fair value measurement of the asset or CGU has been determined. For all measurements at Level 2 or Level 3 of the fair value hierarchy, the entity must disclose the valuation technique used as well as any changes in that valuation technique and key assumptions used in the measurement of fair value including the discount rates used if a present value technique is applied. The amendments are effective for annual periods beginning on or after January 1, 2014. The Company has early adopted the amendments to IAS 36. The early adoption of these amendments did not result in any significant changes to the Consolidated Financial Statements.

Future changes in accounting policies

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended October 31, 2014, and have not been applied in preparing the Consolidated Financial Statements. The following standards and interpretations have been issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

International Financial Reporting Standard 9 Financial Instruments: Classification and Measurement

International Financial Reporting Standard 9 Financial Instruments: Classification and Measurement ("IFRS 9") as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. On November 19, 2013, the IASB published IFRS 9, Hedge Accounting, which is a part of the third phase of its replacement of IAS 39. The new requirements allow entities to better reflect their risk management activities in the financial statements. As part of the amendments, entities may change the accounting for liabilities that they have elected to measure at fair value before applying any of the requirements in IFRS 9. This change in accounting would mean that gains caused by a worsening in an entity's own credit risk on such liabilities would no longer be recognized in profit or loss. Because the second phase of the IFRS 9 project related to impairment is not yet completed, the IASB decided that a mandatory effective date of January 1, 2015 would not allow sufficient time for entities to prepare to apply IFRS 9. Accordingly, the IASB determined to apply a later mandatory effective date, which will be determined when IFRS 9 is closer to completion. However, entities may still choose to apply IFRS 9 immediately. IFRS 9 must be applied retrospectively; however, hedge accounting is to be applied prospectively (with some exceptions). The amendment becomes effective for COM DEV on November 1, 2018. The adoption of the first phase of IFRS 9 will have an impact on the classification and measurement of financial assets, but will potentially have no impact on classification and measurement of financial liabilities. The Company does not anticipate any material impact from the adoption of this standard on the Consolidated Statements of Income, the Consolidated Statements of Comprehensive Income or the Consolidated Statements of Financial Position of the Company.

International Accounting Standard 32 Financial Instruments: Presentation

In December 2011, International Accounting Standard 32 Financial Instruments: Presentation ("IAS 32") was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future event. The Company does not anticipate any material impact from the adoption of this standard on the Consolidated Statements of Income, the Consolidated Statements of Comprehensive Income or the Consolidated Statements of Financial Position of the Company. The amendment becomes effective for COM DEV on November 1, 2014.

IFRS Interpretations Committee ("IFRIC") 21 Levies

In May 2013, the IFRIC, with the approval by the IASB, issued IFRIC 21 – Levies. IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by government that is accounted for in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. The Company does not anticipate any material impact from the adoption of this standard on the Consolidated Statements of Income, the Consolidated Statements of Comprehensive Income or the Consolidated Statements of Financial Position of the Company.

International Financial Reporting Standard 15 Revenue from Contracts with Customers

In May 2014, the IASB issued International Accounting Standard 15 Revenue from Contracts with Customers ("IFRS 15"), which replaces IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently assessing the impact of adopting this new standard.

Business risks and prospects

New products and technological change

The market for the Company's products is characterized by rapidly changing technology involving industry standards and frequent new product introductions. The Company's success will depend upon: (i) market acceptance of its existing products; and (ii) its ability to enhance its existing products and to introduce new products and features to meet changing customer requirements. A current example of this is the Company's efforts to exploit its Automatic Identification System (AIS) detection and de-collision capabilities by entering the AIS data sales market through its 73% owned subsidiary company, exactEarth™ Ltd. There can be no assurance that the Company will be successful in identifying, developing, manufacturing and marketing new products or enhancing its existing products. The Company's business will be adversely affected if the Company incurs delays in developing new products or enhancements or if such products or enhancements do not gain market acceptance. In addition, there can be no assurance that products or technologies developed by others will not render the Company's products or technologies non-competitive or obsolete.

Changing business conditions

The Company's future operating results will substantially depend on the ability of its officers and key employees to manage changing business conditions and to implement its strategic plans and improve its operational, financial control and reporting systems. If the Company is unable to respond to and manage changing business conditions, the quality of the Company's services, its ability to retain key personnel and its results of operations could be materially adversely affected. The Canadian and US government's ability to continue funding of current and planned projects could have a material adverse effect on the Company's business.

Global economic environment

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

New market risks

The Company has identified, as part of its strategic direction, civil/government, and military/defence markets for its product and service offerings. While the Company has seen success in penetration into these markets, there can be no assurance that the Company's investment and efforts in these markets will continue to be successful. Failure to succeed in the civil/government and military/defence markets may adversely affect the Company's future business, financial condition and operating results. In addition, the Company has identified AIS as a promising area for profitable growth, and it has determined that exactEarth™ will be an integral part of its future strategic direction. The Company has committed or invested approximately $60 million towards the establishment and development of exactEarth™, an amount that is equal to approximately 32% of the total shareholder's equity of the Company. If the Company's investment in exactEarth™ does not obtain the desired return, management believes that the Company may be able to recover a portion of its investment; however, the inability of the Company to achieve its investment objective in its exactEarth™ subsidiary may lead to a material adverse effect on the Company's business, operations and prospects.

Acquisition and integration risk

The Company has identified, as part of its strategic direction, lateral expansion of its products through acquisition. There can be no assurance that the Company's investment and efforts, including merger and acquisition activities and post-acquisition integration will yield the benefits anticipated. Failure to successfully complete and integrate an acquisition transaction may adversely affect the Company's future business, financial condition and operating results.

Intangible asset impairment

The Company has recognized certain development activities as an intangible asset. The Company assesses these assets periodically to evaluate if the carrying value recognized as an asset has become impaired. If the Company were to determine that the applicable expected future cash flows do not support the intangible asset carrying values, impairment would need to be recognized resulting in an adverse impact on the financial results of the Company.

Cyber security

The Company utilizes and maintains databases of information and systems infrastructure to conduct its operations. Security over these systems is a priority to ensure uninterrupted business operations, meet contractual service level obligations, and protect Company information. While management, through its information systems department professionals, has established security standards to protect its systems, there can be no assurance that these will be totally effective in protecting the business systems used by the Company. Should those security standards and procedures prove to be ineffective, adverse impacts on the operations of the Company could result.

Foreign exchange risk

COM DEV carries on a significant portion of its business in the United States and elsewhere outside Canada, and the majority of its sales outside of Canada are made in USD. Any weakening in the value of the USD, GBP or EUR against the CAD would result in lower revenues and margins for the Company when stated in CAD. Changes in the CAD/USD exchange rate and in the CAD/EUR exchange rate over the past few years demonstrate a recent, material increase in the volatility of these exchange rates compared to the long-term trend and this is reflected in the value of the financial products the

Company maintains to hedge its exposure to fluctuations in the CAD/USD exchange rate. For example, for the 2014 fiscal year, the Company recognized a $1.9 million unrealized loss on the mark-to-market value of its portfolio of currency hedge instruments. For the 2013 fiscal year, the Company recognized a $0.9 million unrealized loss with respect to this portfolio. This example and others which demonstrates recent volatility in currency exchange rates underscores the importance of designing and implementing an effective currency hedging strategy. COM DEV does engage in hedging a portion of its USD-denominated net cash flows, and this helps to mitigate the economic impact caused by volatility in currency exchange rates. The Company also seeks to contract in CAD in its Canadian operations wherever possible. However, since the Company is required to report all unrealized gains and losses on its currency hedging portfolio in its consolidated financial statements, volatility in currency exchange rates may materially and adversely affect the (non-cash) earnings reported on such consolidated financial statements.

Reliance on significant customers and credit concentration

The satellite industry is characterized by a small number of prime contractors, which represents most of the Company's customer base. The relatively small number of customers leads to a concentration of the Company's revenues and accounts receivable. If one or more customers were to delay, reduce or cancel orders, or experience financial or operational difficulties, the overall orders of the Company may decrease and this development could adversely affect the Company's operations and financial condition. COM DEV is increasing its penetration with a number of smaller satellite manufacturers, as well as in satellite market segments outside the traditional commercial communications sector, to help mitigate the risk associated with having a small number of customers. However, concentration of revenues amongst a small number of customers continues. In addition, while the Company's accounts receivable tend to be concentrated, certain of its customer receivables, by virtue of their non-Canadian status, have been insured with Export Development Canada ("EDC"). However, there is no assurance that EDC will continue to provide this insurance to the Company. Any credit loss could have a material adverse effect on the Company's business, and its financial condition.

Satellite launch delays or failures

The Company's exactEarth™ subsidiary derives its revenue from selling data-based services from satellites equipped with AIS receivers. The Company's ability to control launch schedules is limited, and launch delays could adversely affect the Company's ability to earn revenues. Similarly, if a satellite were to fail in orbit or were to enter an incorrect orbit, then the Company's revenues could be adversely affected. While the Company insures its launches, enabling any satellite lost on launch to be replaced, the delay in satellite deployment could adversely affect revenues. During fiscal 2014, the proposed M3M satellite launch that was to take place on the Soyuz launch in July was postponed. While the Company has been able to reschedule the launch with the commercial arm of ISRO in 2015 there can be no guarantees that there will be no further delays.

Geopolitical events

Global political events can negatively impact the Company. The Company does business in many countries around the globe. As demonstrated by the political response and economic sanctions imposed after the annexation of Crimea by Russia, global events beyond the control of the Company can significantly impact international relationships, including collaboration with other countries and domestic government policies around granting of export permits. As a result, the international satellite industry generally and the Company specifically, can be limited in its dealings with certain countries, which could in turn have material adverse financial effects on the Company.

Future capital requirements

The Company's future capital requirements will depend on many factors, including inorganic growth initiatives, the development of new products, the progress of the Company's research and development efforts, the rate of expansion and the status of competitive products. Depending on these factors, the Company may require additional financing which may or may not be available on acceptable terms. If additional funds are raised by issuing equity securities, dilution to the existing shareholders may result. If adequate funds are not available, the Company may not be able to achieve its growth objectives and operational targets, which could have a material adverse effect on the Company's business.

Product failure

COM DEV operates in a market where product reliability is essential. While the Company enjoys a strong reputation for product reliability, any significant product failure could materially affect the Company's reputation, revenue and future business prospects.

Environmental risks

The Company's operations are subject to a variety of laws and regulations concerning, among other things, emissions to the air, water and land, sewer discharge, handling, storage and disposal of, or exposure to, hazardous substances and wastes, recycling, remediation of contaminated sites, or otherwise relating to protection of the environment and employee health and safety. The Company uses and stores hazardous substances in conjunction with operations at its facilities. Some of its facilities are located in areas with a history of long-term industrial use, and may be impacted by past activities onsite or by contamination emanating from nearby industrial sites. Environmental laws and regulations and their interpretation have become increasingly more stringent, and COM DEV incurs expenses to monitor and comply with existing requirements, and could incur expenses to comply with future requirements. If the Company fails to comply with environmental or health and safety requirements, it could incur monetary fines, or other costs which could have a material adverse impact on the Company.

Regulatory environment for technology and materials

Certain of the Company's programs are subjected to export controls either domestically or through International Traffic in Arms Regulations. This regulatory environment places strict controls over receipt, use, transfer, and export of technology, material, and equipment. While the Company understands the requirements of these controls and regulations, there is no assurance that these regulations, or their interpretations by regulatory authorities, will not change in a way that would cause a material adverse effect to the Company's business, operations and prospects.

Timing risks

There can be no assurance that the market demand for the Company's products will translate into orders within the time frames anticipated. The timing and extent of satellite procurement, and the Company's ability to secure project orders stemming from the anticipated satellite procurement activity could have a material adverse effect on the Company's business, operations and prospects.

Competition

COM DEV's competitors, who are generally its customers, are larger, better capitalized and have greater resources than the Company. The Company believes that its ability to compete depends in part on a number of competitive factors, some of which are outside its control, such as innovative products or cost-saving production techniques developed by the Company's competitors. There can be no assurance that the Company will be able to compete successfully with its existing competitors or with potential new entrants into the marketplace where the Company competes.

Risks associated with intellectual property

The Company's success is dependent upon proprietary technology. The Company relies upon patent protection to protect its proprietary technology. In addition, the Company attempts to protect its trade secrets and other proprietary information through agreements with customers, suppliers, employees and consultants and other security measures. There can be no assurance that the steps taken by the Company in this regard will be adequate to prevent misappropriation or independent third-party development of its technology. Furthermore, the laws of certain countries in which the Company sells its products do not protect the Company's intellectual property rights to the same extent, as do the laws of Canada or the United States.

Although the Company believes that its products and technology do not infringe patents or other proprietary rights of others, there can be no assurance that third parties will not claim that the Company's current or future products infringe the patents or other proprietary rights of others. Any such claim, with or without merit, could result in costly litigation or could require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all.

Failure to perform contracts

Contracts for the Company's products may include penalties and/or incentives related to performance, which could materially affect operating results. Management provides for any anticipated penalty costs in its estimates of the costs to complete a contract and the contract generally limits any penalties to 5% or less of the contract value (although it is possible that some contracts may allow for higher penalty amounts). The Company's products are complex, use sophisticated technologies and often involve a lengthy development and manufacturing cycle. In addition, these products are integral to the customer's satellite payload and alternate sources of supply may not be available in the time required, or at all. Consequently, any failure by the Company to satisfy its contractual obligations could trigger losses in excess of the value of the contract. Since the Company often works on large individual contracts, the claims against the Company could be material.

Project performance

Any inability of the Company to execute customer projects in accordance with requirements, including adherence to delivery timetables, could have a material adverse effect on the Company's business, operations and prospects.

Dependence on key personnel

The Company is highly dependent on the continued service of and its ability to attract and retain qualified technical and engineering personnel who are able to provide outstanding service to the Company. The competition for such personnel is intense and the loss of particular people, as well as the failure to recruit additional key technical personnel in a timely manner, could have a material adverse effect on the Company's business.

Global launch capacity

Satellite launch vehicle manifests tend to fill months, or even years, in advance of an actual launch date. Recent events involving Russia and the Ukraine have caused some governments to step in to limit or even suspend the use of Russian launch capabilities and facilities, by rejecting or revoking export licence applications for products destined to be launched in Russia. The government of Canada recently stepped in to stop the M3M satellite from being shipped to its launch site in Russia. Launch capacity is a pacing item in the process of getting a satellite into operation, and any prolonged net reduction of such capacity could result in longer wait times to get on a launch manifest, which in turn could lead to a slowing of new satellites being ordered. The impact of such a slowdown, should it materialize, could have a material adverse impact on the Company's operations and results.

Fluctuations in operating results

The Company's revenues and earnings fluctuate from quarter to quarter, or year to year, based on customer requirements and the timing of orders. While the Company recognizes revenue on a percentage of completion basis for long-term contracts, it has experienced fluctuations in its quarterly operating results and anticipates that such fluctuations may continue. The Company's revenue is derived in large part from long-term fixed price contracts, some of which are subject to significant technology risk. As a result, the Company's financial reporting relies upon management's estimates of earned revenues and the costs required to complete the project. Revision to the estimates used in the preparation of the Company's consolidated financial results could have a material impact on consolidated financial results of future periods. There can be no assurance that levels of profitability will not vary significantly among quarterly or annual periods. The Company's operating results may fluctuate as a result of many factors, including increased competition, the size and timing of significant customer orders, cancellations of significant projects by customers, changes in operating expenses, changes in the Company's strategy, personnel changes, foreign currency exchange rates and general economic and political factors.

The Company's expense levels are based in significant part on its expectations regarding future revenues. Accordingly, the Company may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Any significant revenue shortfall could therefore have a material adverse effect on the Company's results of operations.

Sources of supply

The Company uses some subcomponents for which there is only a single source of supply. As a result, the Company may occasionally suffer shortages of such subcomponents, which may have short-term adverse effects on the Company's revenue. Although the Company seeks to reduce exposure to single source suppliers through a continual evaluation of competent alternate sources of supply, loss of certain of these suppliers, or the inability of certain of these suppliers to deliver to the Company on a timely basis, could have a material adverse effect on the Company's operations and prospects.

Seasonal volatility

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

Tax assessments

The Company is subject to periodic assessments of its various tax filings. While the Company is committed to compliance with all tax laws in the jurisdictions within which it operates, there is no assurance that its tax filings will be accepted by the relevant government authorities, and reassessments could result. Any reassessment could have a material adverse impact on the consolidated financial position of the Company.

An assessment was received in the third quarter of 2011 resulting from a Canada Revenue Agency audit that indicated that the Company failed to make required withholdings on payments made to a certain vendor from 2006 to 2010. The Company has a contractual right to recover the amount of withholding taxes under its contract with the vendor and accordingly has recognized a receivable. A letter of credit has been issued in favour of Canada Revenue Agency to secure this disputed amount. For a complete description regarding the current status of ongoing income tax audits, see note 13 in the 2014 Notes to the Consolidated Financial Statements.

(Canadian dollars in thousands, except for per share figures and where otherwise noted)

CONTROLS AND PROCEDURES

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable, but not absolute, assurance that material information required to be publicly disclosed by a public company is communicated in a timely manner to senior management to enable them to make timely decisions regarding public disclosure of such information. We have conducted an evaluation of our disclosure controls and procedures as of October 31, 2014 under the supervision, and with the participation of, our Chief Executive Officer and our Chief Financial Officer. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures (as this term is defined in the rules adopted by Canadian securities regulatory authorities) are effective in providing reasonable assurance that material information relating to COM DEV is made known to them and information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under applicable law.

Management's quarterly report on internal control over financial reporting

Internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Additionally, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Our management used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 framework to evaluate the effectiveness of internal control over financial reporting. Our Chief Executive Officer and our Chief Financial Officer have assessed the effectiveness of our internal control over financial reporting and concluded that, as at October 31, 2014, such internal control over financial reporting is effective and that there were no material weaknesses.

Changes in internal controls over financial reporting

There have been no changes in our internal controls over financial reporting that occurred during the year ended October 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Outstanding Share Data

Details of the Company's outstanding share data as of January 15, 2015 are as follows:

Common Shares	76,486,927
Options On Common Shares	1,494,680

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