MacDonald, Dettwiler and Associates Ltd.

# First Quarter Report 2013

Three Months Ended March 31, 2013

Management's Discussion and Analysis and
Unaudited Consolidated Financial Statements

Q1

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2013

For purposes of this discussion, *MDA* and *the Company* refer to MacDonald, Dettwiler and Associates Ltd. and its subsidiaries. *This quarter* means the three months ended March 31, 2013.

### ADVISORY

*This management's discussion and analysis ("MD&A"), dated May 2, 2013, should be read in conjunction with the cautionary statement regarding forward-looking statements below and the Company's consolidated financial statements and accompanying notes for the three months ended March 31, 2013, as well with the Company's MD&A and consolidated financial statements and accompanying notes for the year ended December 31, 2012. Unless otherwise indicated, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars. An additional advisory with respect to the use of non-IFRS financial measures is set out in section "Non-IFRS Financial Measures" of this MD&A. All quarterly information disclosed in the MD&A is based on unaudited figures.*

*Unless otherwise indicated, the Company's significant accounting policies and estimates, contractual obligations, commitments, and business risks and uncertainties, as described in its MD&A for the year ended December 31, 2012, are substantially unchanged.*

### FORWARD-LOOKING STATEMENTS

*This MD&A contains forward-looking statements that reflect the Company's current view of future events and financial performance. Forward-looking statements in this MD&A include, but are not limited to, statements regarding: anticipated revenues and customer contract values under sections "Overview", "Consolidated Results" and "Results By Segment"; progress of construction activity on the RADARSAT Constellation Mission under section "Results By Segment"; and the Company's liquidity and financial resources under section "Liquidity".*

*The forward-looking statements in this MD&A are based on the Company's current expectations, estimates, projections and assumptions made in light of its experience and perception of historical trends. The Company has made the following assumptions with respect to the forward-looking statements: anticipated revenues and customer contract values was based on the Company's continuing ability to effectively service customers and there being no adverse changes to customer priorities and funding levels; progress of construction activity on the RADARSAT Constellation Mission was based on current project plans; and the Company's liquidity and financial resources was based on stable market conditions and the Company's current plans and forecasts.*

*Any such forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from current expectations. MDA cautions readers that should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. The risks that could cause actual results to differ from current expectations include, but are not limited to: changes in government policies, priorities, funding levels, contracts or regulations; failure of third party subcontractors to complete contracts for which the Company is the prime contractor; risks of performance on firm fixed price construction contracts; changes in estimates of total revenues and costs on contracts; potential for product liability or the occurrence of defects in products or systems and resulting loss of revenue and harm to the Company's reputation; quality issues and failure of systems to meet performance requirements; failure of the Company to manage its acquisitions and breaches of contracts and indemnities and related risks on divestitures; partial or complete satellite failure; dependence on electronic systems and data and system security threats; detrimental reliance on third parties for data; dependence on key employees, potential for work stoppages and lack of oversight over a U.S.*

*proxy board and management; failure to anticipate changes in technology, technical standards and offerings or comply with the requisite standards; failure to maintain technological advances and market positions; significant competition; potential infringement of the intellectual property rights of others through licensed software or otherwise; inadequate protection of the Company's intellectual property rights; exposure to foreign currency fluctuations; changes in law and economic and political conditions; inability of suppliers or subcontractors to effect technology transfer; changes in customer security requirements and the resulting cancellation of contracts; failure to maintain business alliances; uncertainty in financing arrangements; failure of counterparties in financing arrangements and financial derivative contracts and potential breach of financial covenants in credit agreements and note purchase agreements; wrongful call on letters of credit and performance bonds; insufficient insurance against material claims or losses; and exposure to fines and/or legal sanctions under anti-corruption laws.*

*The risks specific to the operation of MDA's wholly-owned subsidiary Space Systems/Loral, LLC ("SSL") that could cause actual results to differ materially from current expectations include, but are not limited to: significant competition in the satellite manufacturing market; unanticipated changes in SSL's end-user markets; inclusion of satellite performance incentives in many of SSL's customer contracts; failure to maintain technological advances that meet its customers' changing requirements; potential that SSL's satellites will not be successfully developed or manufactured; potential for component failure or performance issues on SSL's on-orbit satellites and resulting loss of revenue and harm to SSL's reputation; SSL's future operating results are dependent on the growth in the businesses of its customers and on its ability to sell to new customers; SSL's contracts are subject to adjustments, cost overruns and termination; certain of SSL's customers are highly leveraged and may not fulfill their contractual payment obligations with SSL; many of SSL's costs are fixed and SSL may not be able to cut costs sufficiently to maintain profitability in the event of a downturn in its business; the availability of facility space and qualified personnel may affect SSL's ability to perform its contracts as efficiently as planned; SSL's ability to obtain certain satellite construction contracts depends, in part, on its ability to provide the customer with financing; reliance on key suppliers to provide certain component parts; changes in regulations, telecommunication standards and laws due to political and economic instability in the countries in which SSL conducts business; reliance on patents and potential infringement of third party patents by SSL; and changes in U.S. and foreign laws and regulations, including U.S. export control and economic sanction laws, governing SSL's business.*

*For additional information with respect to certain of these risks or factors, reference should be made to section "Business Risks and Uncertainties" of the MD&A and notes to the consolidated financial statements for the year ended December 31, 2012, as well with the Company's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, which are available online at www.sedar.com or on the Company's website at www.mdacorporation.com.*

*The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. MDA disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law, rule or regulation. You should not place undue reliance on forward-looking statements.*

## COMPANY PROFILE

MDA is a global communications and information company providing operational solutions to commercial and government organizations worldwide.

MDA's business is focused on markets and customers with strong repeat business potential, principally in the Communications sector and the Surveillance and Intelligence sector. In addition, the Company conducts a significant amount of advanced technology development.

The Company's comprehensive capabilities in business and program management, systems engineering, systems integration, testing, and support services address complex customer requirements through the full solutions life cycle. Customers that procure MDA's infrastructure and sustaining engineering services represent some of the world's leading commercial and government enterprises.

MDA's well-established global customer base is served by more than 4,500 employees operating from 11 offices located in the United States, Canada, and internationally.

The Company's common shares trade on the Toronto Stock Exchange under the symbol "MDA".

**Communications**
MDA designs, manufactures and integrates satellites, satellite sub-systems and advanced antennas for commercial and government customers worldwide. The Company's solutions meet a broad range of customer requirements for broadband internet service to the home, mobile video and internet service, broadcast feeds for television and radio distribution, phone service, civil and defence communications, direct-to-home television broadcast, satellite radio, telecommunications backhaul and trunking, weather and environmental monitoring and air traffic control. In addition, the Company produces spacecraft subsystems and integrates government and other add-on missions on commercial satellites.

**Surveillance and Intelligence**
MDA provides ground-based and space-based information solutions that support the operational needs of government, both military and civilian, and commercial customers worldwide. MDA's information solutions include Earth observation ground systems, defence information systems, airborne surveillance systems, transportation management systems, geospatial services, space-based platforms for Earth observation and advanced solutions for space exploration missions, as well as various mission sub-systems and support services.

## NON-IFRS FINANCIAL MEASURES

In addition to results reported in accordance with IFRS, the Company uses certain non-IFRS financial measures as supplemental indicators of its financial and operating performance. These non-IFRS financial measures include *operating earnings*, *operating earnings per share* and *operating EBITDA*. The Company believes these supplementary financial measures reflect the Company's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in its business.

The Company defines *operating earnings* as net earnings excluding the after-tax effects of specified items affecting comparability, including, where applicable, non-operational income and expenses, share-based compensation, fair value adjustments on financial instruments not subject to hedge accounting, and other gains or losses. The use of the term "non-operational income and expenses" is defined by the Company as those that do not impact operating decisions taken by the Company's management and is based upon the way the Company's management evaluates the performance of the Company's business for use in the Company's internal management reports. *Operating earnings per share* is calculated using diluted weighted average shares outstanding and does not represent actual earnings per share attributable to shareholders. The Company believes that the disclosure of operating earnings and operating earnings per share allows investors to evaluate the operational and financial performance of the Company's ongoing business using the same evaluation measures that its management uses, and is therefore a useful indicator of the Company's performance or expected performance of recurring operations.

The Company defines *operating EBITDA* as earnings before corporate expense, net finance expense, income tax expense, depreciation and amortization, and items affecting comparability as specified in the calculation of operating earnings. Operating EBITDA is presented on a basis consistent with the Company's internal management reports. The Company discloses operating EBITDA to capture the profitability of its business before the impact of items not considered in management's evaluation of operating unit performance.

Operating earnings, operating earnings per share and operating EBITDA do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies. The Company cautions readers to consider these non-IFRS financial measures in addition to, and not as an alternative for, measures calculated in accordance with IFRS.

## OVERVIEW

The following table provides selected financial information of the Company.

| **Results of Operations** | **Three months ended March 31, 2013** | **Three months ended March 31, 2012** |
|---|---|---|
| *($ millions, except per common share amounts)* | | |
| Revenues | 428.6 | 172.0 |
| Operating EBITDA[1] | 78.6 | 47.6 |
| Operating earnings[1] | 41.8 | 28.9 |
| Operating earnings per share[1], diluted | 1.30 | 0.91 |
| Net earnings | 2.2 | 33.2 |
| Net earnings per share, basic and diluted | 0.07 | 1.04 |
| Weighted average number of common shares outstanding: *(millions)* | | |
| Basic and diluted | 32.1 | 31.8 |
| **Financial Position** | **March 31, 2013** | **December 31, 2012** |
| *($ millions)* | | |
| Total assets | 2,344.0 | 2,314.5 |
| Cash and cash equivalents | 24.9 | 24.8 |
| Short-term investments | 5.9 | 5.7 |
| Long-term debt | 730.3 | 847.7 |
| Shareholders' equity | 541.5 | 266.8 |

[1] This is a non-IFRS financial measure. Refer to section "Consolidated Results" for a reconciliation of operating EBITDA and operating earnings to net earnings.

Revenues, operating EBITDA and operating earnings for the first quarter of 2013 were higher compared to the first quarter of 2012 due to the Company's acquisition of Space Systems/Loral, LLC and Space Systems/Loral Land, LLC (collectively "SSL") from Loral Space & Communications Inc. ("Loral") on November 2, 2012.

The Company ended the quarter with record order backlog of $3.0 billion (December 31, 2012 - $2.2 billion) with increases across all markets.

On March 27, 2013, the Company closed a public offering of 4,145,750 common shares at a price of $69.40 per share for gross proceeds of $287.7 million. The net proceeds of the share offering were used to reduce bank indebtedness, providing additional capacity to support future growth opportunities. Refer to section "Liquidity – Financing activities" of this MD&A for more information on the share offering.

Comparative prior period information in this MD&A has been restated for retrospective application of new amendments to IAS 19, *Employee Benefits*. The International Accounting Standards Board amended IAS 19 for annual accounting periods beginning January 1, 2013, with retrospective application. Refer to section "New Accounting Standard" of this MD&A for further information.

## CONSOLIDATED RESULTS

The following table provides selected financial information for the periods indicated, including a reconciliation of operating EBITDA and operating earnings to net earnings.

| | **Three months ended March 31, 2013** | **Three months ended March 31, 2012** |
|---|---|---|
| *($ millions, except per common share amounts)* | | |
| **Revenues** | 428.6 | 172.0 |
| **Operating EBITDA** | 78.6 | 47.6 |
| *Operating EBITDA as a percentage of revenues* | *18%* | *28%* |
| Corporate expense | (2.5) | (2.6) |
| Net finance expense | (10.1) | (2.4) |
| Depreciation and amortization | (10.9) | (3.0) |
| Income tax expense, excluding tax on items affecting comparability | (13.3) | (10.7) |
| **Operating earnings** | 41.8 | 28.9 |
| *Operating earnings per diluted share* | *1.30* | *0.91* |
| Items affecting comparability: | | |
| Business acquisition costs | (1.9) | - |
| Amortization of acquisition related intangible assets | (7.3) | - |
| Write-off of bank facility fees | (3.1) | - |
| Share-based compensation | (30.5) | 3.3 |
| Fair value adjustments on equity forward contracts | - | (0.9) |
| Foreign exchange timing differences on certain project-related foreign exchange forward contracts not subject to hedge accounting | 0.2 | (0.2) |
| Foreign exchange gain (loss) on translation of intercompany balances | (0.4) | 3.4 |
| Foreign exchange loss on translation of foreign currency long-term debt and cash balances | (3.5) | (1.3) |
| Tax on items affecting comparability | 6.9 | 0.0 |
| Net earnings | 2.2 | 33.2 |

### Revenues

Consolidated revenues for the first quarter of 2013 were $428.6 million, up from $172.0 million for the same period of 2012. The increase was primarily due to the inclusion of a full quarter of activity from SSL, partially offset by lower levels of activity on the RADARSAT Constellation Mission and on space robotics programs. Refer to section "Results by Segment" of this MD&A for a review of the Company's revenues by segment.

### Order backlog

Order booking activity was strong in the first three months of 2013, resulting in order backlog of $3.0 billion at March 31, 2013 compared to $2.2 billion at the end of 2012. Notable additions to backlog at March 31, 2013 included contracts with the Canadian Space Agency related to the RADARSAT Constellation Mission and extension of support services for Canada's robotic elements on the International Space Station. As well, the Company was awarded a contract with a subsidiary of EchoStar Corporation to build the Jupiter 2/EchoStar XIX satellite. Refer to section "Results by Segment" of this MD&A for a review of the Company's order backlog by segment.

Order backlog represents the estimated dollar value of firm funded contracts for which work has not been performed. Order backlog does not include unexercised contract options and potential orders under indefinite delivery/indefinite quantity contracts.

**Operating EBITDA**

Operating EBITDA increased to $78.6 million for the first quarter of 2013 compared to $47.6 million for the same period of 2012. The increase reflected a higher volume of activity, driven by the acquisition of SSL.

Operating EBITDA as a percentage of revenues will fluctuate from period to period with changes in the sales mix and contract life cycle of large dollar value contracts. The margins on large dollar value contracts are impacted by the ratio of MDA value-added components to flowthrough costs, with MDA value-added components attracting a higher margin relative to flowthrough costs. In addition, the Company revises cost and revenue estimates on contracts in the ordinary course of business. Changes in estimates are included in the determination of estimated cumulative revenues in the period the changes are determined. Furthermore, any gains on contracts are recognized only when such amounts can be reliably determined and are reasonably assured of being realized.

**Corporate expense**

Corporate expense for the first quarter of 2013 was $2.5 million, in-line with the corresponding period of 2012. Corporate expense is not considered in management's evaluation of operating unit performance and includes such items as corporate head office costs, regulatory costs, executive and director compensation, strategic business development expenditures, and fees for audit, legal and consulting services.

**Net finance expense**

Finance expense for the first quarter of 2013 was $13.9 million compared to $3.0 million for the same period a year ago. The increase was primarily due to higher levels of debt to finance the acquisition of SSL. Finance expense this quarter also included a charge of $3.1 million to write-off the unamortized portion of prepaid bank facility fees relating to the term loans under the syndicated credit facility, which were fully repaid with proceeds from the share offering. Finance income for the first quarter of 2013 was $0.7 million, consistent with the comparable period of 2012.

**Depreciation and amortization**

The following table shows depreciation and amortization expense, excluding amortization of intangible assets arising from the acquisition of SSL, for the periods indicated.

| | **Three months ended March 31, 2013** | **Three months ended March 31, 2012** |
|---|---|---|
| *($ millions)* | | |
| Property, plant and equipment | 8.9 | 2.0 |
| Intangible assets | 2.0 | 1.0 |
| Depreciation and amortization | 10.9 | 3.0 |

The increase in depreciation and amortization expense was primarily due to significant additions of depreciable tangible assets as a result of the acquisition of SSL. Refer to section "Net earnings" of this MD&A for a discussion of amortization of intangible assets arising from the acquisition of SSL.

**Income tax expense**

For accounting purposes, income tax expense for the first quarter of 2013 was $6.4 million compared to $10.7 million for the same period of 2012. Income tax expense is impacted by the variability of non-deductible share-based compensation expense. After adjusting for items affecting comparability, the effective income tax rate on operating earnings for the first quarter of 2013 was 24% compared to 27% for the same period in the prior year. The decrease in the effective income tax rate on operating earnings was due to the change in mix of income from various jurisdictions.

**Operating earnings**

Operating earnings, or net earnings excluding the after-tax effects of specified items affecting comparability, for the first quarter of 2013 increased to $41.8 million ($1.30 per diluted share) compared to $28.9 million ($0.91 per diluted share) for the same period of 2012 on higher levels of operating activity.

**Net earnings**

Net earnings for the first quarter of 2013 were $2.2 million ($0.07 per diluted share) compared to $33.2 million ($1.04 per diluted share) for the first quarter of last year. The results this quarter were impacted by the variability of specified items not indicative of performance, which hinder the comparison of financial results to other periods. The specified items affecting comparability are discussed below.

*Business acquisition costs*

In the first quarter of 2013, the Company incurred transaction costs of $1.9 million relating to the acquisition of SSL. Since the business acquisition costs are transaction specific, the Company believes that excluding these costs allows for more meaningful period-to-period comparisons of operating results.

*Amortization of acquisition related intangible assets*

The Company recorded amortization expense of $7.3 million in first quarter of 2013 relating to intangible assets arising from the acquisition of SSL. The acquisition of SSL resulted in significant fair value adjustments to definite life identifiable intangible assets, which are being amortized over estimated lives of five to twenty years. These intangible assets, consisting of technology, software, trade names and other intellectual property, are generally non-recurring expenditures as the Company does not need to replace these assets at the end of their lives to continue to operate its business. Ongoing maintenance and support costs are expensed as incurred and any internally developed technology and software that can be capitalized post-acquisition will be amortized in the normal course of business. All other research and development costs are expensed as incurred.

*Write-off of bank facility fees*

In the first quarter of 2013, the Company recorded a $3.1 million charge to write-off the unamortized portion of prepaid facility fees related to the term loans. This accounting charge is a non-cash item that has no relationship to the Company's operations, and which management believes reduces the comparability of the Company's financial performance between periods.

*Share-based compensation*

Share-based compensation is an important aspect of compensation for management and key employees. However, the accounting expense or recovery based on fair valuation, which is estimated using complex option pricing models incorporating factors such as expected option lives and market volatility, is beyond the Company's control and can vary significantly from period to period. Further, the accounting fair value adjustments are not reflective of actual cash outlays by the Company in any particular period. The average cash outlay on share-based compensation was approximately $25 million per year over the rolling five-year period ended March 31, 2013. The Company believes that the exclusion of share-based compensation reduces volatility in net earnings and facilitates the comparison of financial results across periods.

*Foreign exchange timing differences on certain project-related foreign exchange forward contracts not subject to hedge accounting*

Certain foreign exchange derivative contracts entered into by the Company relating to certain large dollar satellite solution programs did not qualify for hedge accounting at inception of the contracts as the timing of the anticipated cash flows and/or the contract currency for certain subcontracts could not be predicted with sufficient certainty. Accordingly, the fair value adjustments on these derivative contracts were recognized in net earnings immediately, resulting in foreign exchange timing differences. The foreign exchange timing differences can result in significant variability in net earnings but have little bearing, other than timing, on the performance of the related programs.

*Foreign exchange gains and losses on translation of intercompany balances*
As part of its cash management efforts, the Company frequently advances funds between group entities that have differing functional currencies. The foreign currency exposure on these intercompany loans is not hedged. As a result, currency fluctuations, particularly between the Canadian and U.S. dollar, can result in significant unrealized foreign exchange gains or losses on the translation of these balances that impact the comparability of net earnings. These unrealized foreign exchange gains or losses will only reverse upon disposal or liquidation of the associated foreign operation.

*Foreign exchange gains and losses on translation of foreign currency long-term debt and cash balances*
A significant portion of the long-term debt issued to finance the acquisition of SSL was denominated in U.S. dollars and is neither hedged with foreign currency forward contracts nor designated as part of a net investment hedge. The Company recognizes unrealized foreign exchange gains and losses when translating the U.S. dollar denominated debt to Canadian dollars at each period end and realizes foreign exchange gains and losses when repaying U.S. dollar debt balances. Additionally, the Company received a significant amount of U.S. dollars from the sale of its Property Information Business in January 2011. The majority of the U.S. funds were converted to Canadian dollars to fund the 2011 substantial issuer bid and the remainder was used to finance the SSL acquisition. The Company realized foreign exchange gains and losses on translation and conversion of the U.S. dollar cash balances to Canadian dollars during this period. The foreign exchange gains and losses described above can result in significant variability in net earnings but have little bearing on operating performance.

**Financial position**
Total assets employed by the Company amounted to $2.3 billion at March 31, 2013, consistent with the balance at December 31, 2012. The purchase consideration for the acquisition of SSL was allocated to the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. During the first quarter of 2013, the Company made revisions to certain estimates that had the effect of increasing goodwill and contingent liabilities by $1.1 million. Certain estimates of fair value, including those for definite life intangible assets, goodwill, contingent liabilities and provisions, remain preliminary and are subject to further adjustments.

Long-term debt at March 31, 2013 was $730.3 million, decreasing by $117.4 million from the balance at December 31, 2012. The following table shows the changes to long-term debt for the three months ended March 31, 2013.

| *($ millions)* | |
|---|---|
| Balance at January 1, 2013 | 847.7 |
| Repayment of long-term debt | (252.1) |
| Draws on revolving loans | 116.7 |
| Change in prepaid facility fees | 3.3 |
| Foreign exchange and other | 14.7 |
| Balance at March 31, 2013 | 730.3 |

The Company fully repaid the Canadian dollar and U.S. dollar denominated term loans under the syndicated credit facility with proceeds from the share offering. The Company drew on the revolving loans to primarily fund general operating expenses and changes in non-cash working capital.

Shareholders' equity increased by $274.7 million in the first three months of 2013. The increase was mainly due to issuance of common shares under the share offering, partially offset by dividend payments of $20.7 million. The following table shows the changes to shareholders' equity for the three months ended March 31, 2013.

| *($ millions)* | |
|---|---:|
| Balance at January 1, 2013 | 266.8 |
| Net earnings | 2.2 |
| Payment of dividends | (20.7) |
| Common shares issued in conjunction with share offering | 278.3 |
| Common shares issued in conjunction with an employee share purchase plan | 0.6 |
| Other comprehensive income | 14.3 |
| Balance at March 31, 2013 | 541.5 |

## RESULTS BY SEGMENT

The Company analyzes results by segments, which regroup related activities within the Company consistent with the way management performance is evaluated. The Company's segments are *Communications* and *Surveillance and Intelligence*. Inter-segment transactions have been eliminated from the segmented financial information discussed below.

### Communications

The Company's Communications operations provide complete communications satellite solutions, satellite payloads, antenna and electronic subsystems, spacecraft subsystems and hosted payloads for commercial and government customers worldwide.

Revenues from Communications for the first quarter of 2013 were $330.3 million compared to $40.7 million for the same period of 2012. The increase was primarily due to the inclusion of activity from SSL. Orbital income of $5.6 million is included in segment revenues this quarter. Orbital income consists of interest earned on orbital receivables on SSL's satellite construction contracts, which refer to the portion of the purchase price (about 10%) that certain customers pay over the life of the satellite, subject to the continued performance of the satellite.

Changes in revenues from period to period are influenced by the size, timing and number of satellite contracts awarded in the current and preceding years and the length of the construction period for satellite contracts awarded. Revenues on satellite contracts are recognized on a percentage of completion method over the construction period, which usually ranges between 24 to 36 months. Large satellites with significant new development can require up to 48 months for completion.

Backlog from Communications at March 31, 2013 was $1.9 billion (December 31, 2012 - $1.8 billion), which included the contract signed with Hughes Network Systems, LLC, a subsidiary of EchoStar Corporation, to build the Jupiter 2/EchoStar XIX satellite. The new Ka-band satellite will help meet the growing demand for the customer's high-speed Internet service in North America.

*Operations*

In March 2013, the Satmex 8 satellite was launched and commenced post-launch maneuvers. The Satmex 8 satellite, built for a Mexican telecom operator, is a fixed satellite services spacecraft that will provide video content and distribution, broadband services, and cellular backhaul in the Americas. It will also help people in remote areas with services for telemedicine, distance learning and emergency communications.

In April 2013, the Anik G1 satellite was launched and commenced post-launch maneuvers. Designed and built for Telesat, Anik G1 is a multi-mission satellite with three distinct payloads that will provide: direct-to-home television service in Canada; broadband, voice, data and video services in South America; and substantial X-band payload for government communications over the Americas and the Pacific Ocean, including Hawaii.

**Surveillance and Intelligence**

In the Surveillance and Intelligence segment, MDA provides turnkey solutions developed around proprietary and purchased technologies and services, tailored to meet the operational requirements of military, civilian, and commercial customers worldwide. MDA's geospatial services operations provide optical and radar satellite imagery, and value added products derived from satellite and other data sources.

Revenues from Surveillance and Intelligence for the first quarter of 2013 were $98.4 million compared to $131.2 million for the same period of last year. Revenues this quarter were impacted by lower levels of activity on the RADARSAT Constellation Mission and on space robotics programs. Also, the Company sold its operations based in Los Alamitos, California at the end of 2012. This business unit, which provided satellite composite structures and assemblies, became non-strategic following the acquisition of SSL. The geospatial services business remained strong, as first quarter revenues increased to $34.0 million in 2013 compared to $31.6 million in 2012.

Order booking activity in Surveillance and Intelligence was strong during the first quarter of 2013, resulting in order backlog of $1.1 billion at March 31, 2013 (December 31, 2012 - $348.2 million). Notable bookings during the quarter included:

- contract valued at $706 million with the Canadian Space Agency (the "CSA") to build, launch and provide initial operations for the RADARSAT Constellation Mission;
- contract valued at $81 million with the CSA to provide sustaining engineering and operational support for Canada's robotic elements on the International Space Station through to December 2015;
- contract valued at $15.8 million with the CSA to provide the preliminary design of an advanced technology solution for NASA's New Frontiers Program-OSIRIS-REx, the purpose of which is to launch a spacecraft in 2016 to study and eventually return an asteroid sample to Earth; and
- several contracts with DigitalGlobe Inc. to provide a ground station solution for an international customer and to upgrade and provide operational support for DigitalGlobe's WorldView production systems.

*Operations*

The Company has commenced work on the $706 million RADARSAT Constellation Mission contract. The Company has not been able to ramp up to full production for this program due to ongoing negotiations with the customer and potential suppliers regarding an alternative approach to manufacturing the spacecraft bus.

In April 2013, the RADARSAT-1 satellite commenced to experience technical difficulties. The Canadian Space Agency is continuing to diagnose and attempt to resolve the technical issues. The impact of RADARSAT-1 not functioning is not significant to MDA's business as customers have been transitioning their data requirements to RADARSAT-2.

## QUARTERLY INFORMATION

The following table summarizes selected financial information (unaudited) for the eight most recently completed quarters.

| | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Q1 2012 | Q4 2011 | Q3 2011 | Q2 2011 |
|---|---|---|---|---|---|---|---|---|
| *($ millions, except per common share amounts)* | | | | | | | | |
| From continuing operations | | | | | | | | |
| Revenues | 428.6 | 372.6 | 171.4 | 164.0 | 172.0 | 178.2 | 181.5 | 194.9 |
| Operating EBITDA[1] | 78.6 | 70.3 | 45.8 | 47.4 | 47.6 | 52.3 | 46.5 | 48.9 |
| Operating earnings[1] | 41.8 | 39.0 | 27.9 | 28.6 | 28.9 | 31.1 | 30.1 | 28.6 |
| Operating earnings per share, diluted | 1.30 | 1.22 | 0.88 | 0.90 | 0.91 | 0.97 | 0.73 | 0.69 |
| Net earnings (loss) | 2.2 | 11.0 | 41.0 | (1.3) | 33.2 | 29.0 | 40.3 | 31.4 |
| Net earnings (loss) per share, basic and diluted | 0.07 | 0.35 | 1.29 | (0.04) | 1.04 | 0.90 | 0.98 | 0.76 |
| From discontinued operations | | | | | | | | |
| Loss on sale of discontinued operations, net of income taxes | - | - | - | - | - | (22.9) | (1.2) | (2.0) |
| Total | | | | | | | | |
| Revenues | 428.6 | 372.6 | 171.4 | 164.0 | 172.0 | 178.2 | 181.5 | 194.9 |
| Net earnings (loss) | 2.2 | 11.0 | 41.0 | (1.3) | 33.2 | 6.1 | 39.1 | 29.4 |
| Net earnings (loss) per share, basic and diluted | 0.07 | 0.35 | 1.29 | (0.04) | 1.04 | 0.19 | 0.95 | 0.71 |
| Weighted average number of common shares outstanding *(millions)* | | | | | | | | |
| Basic and diluted | 32.1 | 31.9 | 31.8 | 31.8 | 31.8 | 32.2 | 41.2 | 41.2 |

[1] Refer to section "Reconciliations" for reconciliation to net earnings from continuing operations for the last eight quarters.

Continuing operations

The Company acquired SSL on November 2, 2012. The operations of SSL are reported in the Company's financial results from the date of acquisition. Hence, revenues, operating EBITDA and operating earnings increased commencing in the fourth quarter of 2012.

Revenues and operating EBITDA may vary from quarter to quarter due to changes in the sales mix and contract life cycle of large dollar value contracts. Revenues and operating EBITDA are also influenced by the size and number of satellite contracts under construction.

The variability in share-based compensation expense over the last eight quarters largely explains the fluctuation in quarterly net earnings. Share-based compensation varied from a recovery of $13.7 million for the third quarter of 2011 and $11.0 million for the third quarter of 2012, to an expense of $31.9 million for the second quarter of 2012 and $30.5 million for the first quarter of 2013. Share-based compensation includes realized and unrealized fair value adjustments on share-based compensation awards, which will vary with changes to the Company's share price and timing of award exercises. Relating to the acquisition of SSL, the Company incurred considerable business acquisition costs in the fourth quarter of 2012 and incrementally higher amortization expense on intangible assets commencing in the fourth quarter of 2012. Net earnings can also fluctuate significantly from quarter to quarter due to the variability of other non-operational income and expenses, fair value adjustments on financial instruments not subject to hedge accounting, and other gains and losses. For further information on the items affecting the comparability of quarterly net earnings, refer to section "Reconciliations" of this MD&A.

The substantial issuer bid completed in October 2011 has an accretive effect on earnings per share for subsequent quarters.

While the Company reports quarterly, its results should be viewed from a long-term perspective. For this reason and the reasons cited above, the Company cautions readers that quarter to quarter comparisons of the Company's financial results may not necessarily be meaningful and should not be relied upon as an indication of future performance.

Discontinued operations

On January 4, 2011, the Company completed the sale of all its Property Information business to a third party buyer. The Company has reported the results of the Property Information business as discontinued operations for all periods presented. The net loss from discontinued operations for the fourth quarter of 2011 reflected a provision for warranty and other post-transaction obligations related to the products and infrastructure acquired by the buyer in the sale of the Property Information business.

## LIQUIDITY

The Company's principal sources of liquidity are cash provided by operations, including collection of orbital receivables and advance payments from customers related to long-term construction contracts, and access to credit facilities and equity capital resources, including public common share offerings. The Company's primary short-term cash requirement is to fund working capital, including supplier payments on long-term construction contracts and fixed overhead costs. Working capital requirements can vary significantly from period to period. The Company's medium-term cash requirements are to service and repay debt and to invest in the construction or acquisition of facilities, equipment and intangible assets for growth initiatives. Cash is also used to pay dividends and finance other long-term strategic business initiatives. In 2012, the Company financed the acquisition of SSL with a combination of cash on hand, promissory notes and new long-term debt. The Company currently does not operate capital intensive businesses.

The Company believes that its cash balances, expected cash flow from operations, and access to credit facilities and equity capital resources will be sufficient to enable the Company to meet its anticipated operating, capital expenditure, growth, investment, debt service, dividend, and other financial requirements in the near term.

### Cash flow highlights

The following table provides selected cash flow information.

| | Three months ended March 31, 2013 | Three months ended March 31, 2012 |
|---|---|---|
| *($ millions)* | | |
| Cash provided by operating activities[1] | 67.3 | 44.0 |
| Changes in operating assets and liabilities | (171.7) | (40.9) |
| Net cash provided by (used in) operating activities | (104.4) | 3.1 |
| Cash used in investing activities | (8.8) | (4.1) |
| Cash provided by (used in) financing activities | 115.9 | (22.1) |
| Effect of foreign currency on cash and cash equivalents | 0.2 | (0.2) |
| Cash and cash equivalents used in discontinued operations | (2.8) | (2.7) |
| Cash and cash equivalents, beginning of period | 24.8 | 254.8 |
| Cash and cash equivalents, end of period | 24.9 | 228.8 |

[1] Before changes in operating assets and liabilities.

### Operating activities

Cash provided by operating activities, before changes in operating assets and liabilities, increased to $67.3 million for the first quarter of 2013 compared to $44.0 million for the same period of 2012, reflecting growth to operating EBITDA. Cash of $171.7 million was used this quarter to fund changes in operating assets and liabilities primarily due to the timing of milestone payments and receipts on large dollar construction contracts. With the acquisition of SSL, the Company's cash requirements for operating expenses and to execute ongoing programs are subject to greater variability.

**Investing activities**

Cash used in investing activities for the first quarter of 2013 was $8.8 million compared to $4.1 million for the corresponding period of 2012. With the acquisition of SSL, capital expenditures increased to $14.2 million compared to $4.1 million for the same period of 2012. Capital expenditures generally consisted of investments in infrastructure and technology to support the growth of the Company. In the first quarter of 2013, the Company received interest of $1.8 million, primarily from short-term investments, and changes in restricted cash balances provided cash of $3.6 million.

**Financing activities**

Cash provided by financing activities in the first quarter of 2013 amounted to $115.9 million, reflecting the proceeds of the share offering less net repayment to long-term debt. For the first quarter of 2012, cash of $22.1 million was used in financing activities primarily for payment of dividends.

On March 7, 2013, the Company agreed to issue, on a "bought deal" basis, 3,605,000 of its common shares at $69.40 per share to a syndicate of underwriters (the "Underwriters"). The Company also granted the Underwriters an over-allotment option to purchase up to an additional 540,750 common shares on the same terms and conditions, exercisable in whole or in part at any time following closing of the share offering. The Company filed a short form final prospectus in each of the provinces of Canada on March 21, 2013 in connection with the share offering. On March 27, 2013, the Company closed the share offering and issued 4,145,750 common shares for gross proceeds of $287.7 million, which included the exercise in full of the over-allotment option by the Underwriters. The Company paid share issuance costs of $11.6 million related to the share offering in the first quarter of 2013.

During the first quarter of 2013, the Company received government funding of $3.1 million under an interest free refundable contribution agreement with Investissement Quebec relating to the expansion of its satellite systems facility in Montreal. Funding received under the refundable contribution agreement is repayable in 84 equal and consecutive monthly installments beginning three years subsequent to the receipt of the first disbursement.

Other financing activities in the first quarter of 2013 included payment of dividends of $20.7 million (first quarter 2012 - $20.7 million) and payment of interest on long-term debt of $7.0 million (first quarter 2012 - $1.4 million)

**Credit facilities**

The following table summarizes the Company's long-term debt.

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| *($ millions)* | | |
| Syndicated credit facility | | |
| Term loans | - | 249.6 |
| Revolving loans | 267.8 | 148.6 |
| Senior secured notes | 355.4 | 348.2 |
| Promissory note | 102.6 | 100.5 |
| Prepaid facility fees | (0.6) | (3.9) |
| Finance lease obligations | 5.1 | 4.7 |
| Long-term debt | 730.3 | 847.7 |

*Syndicated credit facility*
At March 31, 2013, the Company had available a four-year senior secured syndicated credit facility with several North American and international banks. The syndicated credit facility is comprised of a revolving loan facility of up to US$600 million, which can be drawn in Canadian and U.S. dollars. The revolving loan facility includes a US$125 million sub limit under which letters of credit can be issued. The syndicated credit facility matures in November 2016. The syndicated credit facility had included a term loan facility with principal amounts of $125 million and US$125 million. The term loan facility was fully repaid and permanently reduced during the quarter with proceeds from the share offering. The drawn amount of the revolving loan facility is repayable in full in November 2016.

Loans under the syndicated credit facility bear interest at Canadian LIBOR plus an applicable margin for Canadian dollar advances and at U.S. LIBOR plus an applicable margin for U.S. dollar advances. The margin ranges from 1.5% to 3% and will vary with the Company's consolidated debt to EBITDA ratio. At March 31, 2013, the applicable margin was 2.25%. The syndicated credit facility is guaranteed by designated subsidiaries of the Company and the loans are secured by specific assets of the Company and its designated subsidiaries.

At March 31, 2013, the Company also had available a US$100 million letter of credit agreement with a major bank.

*Senior secured notes*
At March 31, 2013, the Company had a twelve-year senior secured note purchase agreement for US$250 million with two major U.S. private lenders (the "2024 Term Notes"). The 2024 Term Notes bear interest at a fixed rate of 4.31% per annum and are repayable in five equal annual installments beginning in November 2020.

The Company also has a long-term debt agreement for US$100 million with a private lender (the "2017 Term Notes"), which was amended in November 2012. The 2017 Term Notes bear interest at a fixed rate of 5.3% per annum and are repayable in full in February 2017.

The 2024 Term Notes and the 2017 Term Notes are together called the "senior secured notes". The senior secured notes are guaranteed by designated subsidiaries of the Company and secured by specific assets of the Company and the designated subsidiaries. The senior secured notes can be repaid, at the Company's option, in whole or in part, at any time, together with accrued interest and any applicable make-whole amount. The senior secured notes rank equally with the obligations under the credit agreements.

*Promissory note*
At the close of the acquisition of SSL, the Company provided a US$101 million promissory note payable to Loral. The promissory note is secured by a bank letter of credit. Under the initial terms of the Purchase Agreement, the promissory note bears interest at a fixed rate of 1.0% per annum and is repayable in three equal annual installments beginning in March 2013. On March 28, 2013, the Company and Loral agreed to defer to March 31, 2014 the due date of the US$33.7 million principal repayment due originally on March 31, 2013, with an increase in the interest rate applicable to this tranche of the promissory note from 1.0% to 1.5% effective as of April 1, 2013.

As at March 31, 2013, the Company was in compliance with all covenants under its various credit facilities and long-term debt agreements.

## RELATED PARTY TRANSACTIONS

At March 31, 2013, the Company had no transactions with related parties as defined in IAS 24, *Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements.

## NEW ACCOUNTING STANDARD

In June 2011, the International Accounting Standards Board ("IASB") amended IAS 19, *Employee Benefits*, for annual accounting periods beginning January 1, 2013, with retrospective application. The new standard introduces a measure of net interest income (expense) computed on the net pension asset (obligation) that replaces separate measurement of the expected return on plan assets and interest expense on the benefit obligation. The new standard also requires immediate recognition of past service costs associated with benefit plan changes. Under the previous standard, past service costs were recognized over the remaining vesting period.

The Company has applied the amendments to IAS 19 to its financial statements beginning on January 1, 2013, with prior periods being restated accordingly. The effects to the financial statements include higher expenses related to pension and other post-retirement benefits recognized in the statement of earnings. The impact to the consolidated financial statements of prior periods was immaterial. For comparative purposes, the Company has also restated operating earnings and operating EBITDA for prior periods.

## FINANCIAL INSTRUMENTS

The Company considers the management of financial risks to be an important part of its overall corporate risk management policy. Foreign exchange forward contracts are used to hedge the Company's exposure to currency risk on sales, purchases, cash and loans denominated in a currency other than the functional currency of the Company's domestic and foreign operations. Forward contracts on the Company's common shares ("equity forward contracts") have been used to reduce the cash exposure to settle obligations under certain long-term compensation plans. The Company uses derivative financial instruments to manage existing exposures, irrespective of whether the Company formally documents such relationships as hedges in accordance with hedge accounting requirements.

At March 31, 2013, the Company had Canadian dollar foreign exchange forward purchase contracts for $276 million (December 31, 2012 - $300 million) and U.S. dollar foreign exchange forward purchase contracts for $22 million (December 31, 2012 - $14 million). The Company also had Canadian dollar foreign exchange forward sale contracts for $368 million (December 31, 2012 - $404 million) and U.S. dollar foreign exchange forward sale contracts for $20 million (December 31, 2012 - $21 million).

The fair values of the Company's derivative financial instruments are determined with reference to quoted bid or ask prices where available. In the absence of an active market or direct quote, the Company determines fair value based on internal valuation models, such as discounted cash flow analysis, using management estimates and observable market-based inputs, as applicable. Management estimates include assumptions concerning the amount and timing of estimated future cash flows and application of appropriate discount rates. Observable market-based inputs are sourced from third parties and include interest rates and yield curves, currency spot and forward rates, and credit spreads, as applicable.

Gains and losses on fair valuation of derivative financial instruments that are subject to hedge accounting are deferred and accumulated in other comprehensive income. The gains and losses arising from these derivative financial instruments are transferred to earnings in the same period that the hedged item affects earnings. Gains and losses on the fair values of derivative financial instruments that are not subject to hedge accounting and the ineffective portion of any foreign currency hedging relationships are recorded in *foreign exchange loss (gain)* for foreign exchange forward contracts, and in *fair value loss (gain) on equity forward contracts* for equity forward contracts.

At March 31, 2013, the Company's foreign exchange forward contracts had a cumulative unrealized loss on fair valuation of $1.6 million (December 31, 2012 - cumulative unrealized loss of $4 thousand). Derivative financial instruments that qualified for hedge accounting had a cumulative net gain on fair valuation of $3.1 million recorded in other comprehensive income at March 31, 2013 (December 31, 2012 - cumulative net gain of $2.6 million).

The Company enters into foreign exchange derivative contracts to hedge its exposure to non-Canadian dollar, or for its U.S. subsidiaries, non-U.S. dollar denominated anticipated cash inflows and outflows in certain construction contracts. Certain derivative contracts entered into by the Company did not qualify for hedge accounting as the timing of the anticipated cash flows and/or the contract currency for certain subcontracts could not be predicted with sufficient certainty. Accordingly, the fair value adjustments on these derivative contracts were recognized in net earnings immediately. This resulted in timing differences between the recognition of fair value adjustments in earnings versus revenues and costs, which were recognized on the percentage of completion basis using spot rates. Had these derivative contracts qualified for hedge accounting, the fair value adjustments would have been deferred and accumulated in other comprehensive income until the hedged revenues or costs were recognized, eliminating the timing differences. For the three months ended March 31, 2013, management's estimate of the foreign exchange timing differences on these derivative contracts not subject to hedge accounting was a gain of $0.2 million compared to a loss of $0.2 million for same period of 2012.

The Company settled all outstanding equity forward contracts in 2012. The equity forward contracts did not qualify for hedge accounting and all gains and losses on fair valuation were immediately recognized in earnings. For the first quarter of 2012, the Company recorded a fair value loss of $0.9 million relating to the equity forward contracts.

The nature and extent of risks arising from financial instruments, and their related risk management, are described in the Company's MD&A and consolidated financial statements for the year ended December 31, 2012. In the first three months of 2013, there was no material change to the nature of risks arising from financial instruments, related risk management or classification of financial instruments.

## ADDITIONAL INFORMATION

### Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### Dividend

Semi-annual common share dividend paid in the three months ended March 31, 2013:

| | |
|---|---|
| Dividend per share, paid March 28, 2013 | $0.65 |

### Outstanding share data

As at April 19, 2013, the Company had 36,016,871 common shares with no par value outstanding.

### Public securities filings

Additional information related to MDA, including its most recent Annual Information Form, is available online at the Company's website at www.mdacorporation.com and on SEDAR at www.sedar.com.

## RECONCILIATIONS

The following table reconciles operating EBITDA and operating earnings to net earnings from continuing operations for the last eight quarters.

| | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Q1 2012 | Q4 2011 | Q3 2011 | Q2 2011 |
|---|---|---|---|---|---|---|---|---|
| *($ millions)* | | | | | | | | |
| **Operating EBITDA** | 78.6 | 70.3 | 45.8 | 47.4 | 47.6 | 52.3 | 46.5 | 48.9 |
| Corporate expense | (2.5) | (4.0) | (2.6) | (3.5) | (2.6) | (3.7) | (3.9) | (3.3) |
| Net finance expense | (10.1) | (4.6) | (0.1) | 0.0 | (2.4) | 0.6 | 0.0 | (0.8) |
| Depreciation and amortization | (10.9) | (8.9) | (3.6) | (3.5) | (3.0) | (3.0) | (2.6) | (2.9) |
| Income tax expense, excluding tax on items affecting comparability | (13.3) | (13.8) | (11.6) | (11.8) | (10.7) | (15.1) | (9.9) | (13.3) |
| **Operating earnings** | 41.8 | 39.0 | 27.9 | 28.6 | 28.9 | 31.1 | 30.1 | 28.6 |
| Items affecting comparability: | | | | | | | | |
| Business acquisition costs | (1.9) | (10.8) | (2.7) | (1.9) | - | - | - | - |
| Amortization of acquisition related intangible assets | (7.3) | (4.8) | - | - | - | - | - | - |
| Write-off of bank facility fees | (3.1) | - | - | - | - | - | - | - |
| Loss on disposal of assets | - | (1.7) | - | - | - | - | - | - |
| Share-based compensation | (30.5) | (11.6) | 11.0 | (31.9) | 3.3 | (4.5) | 13.7 | (1.5) |
| Fair value adjustments on equity forward contracts | - | - | (1.0) | 6.0 | (0.9) | (0.1) | (3.5) | 1.8 |
| Foreign exchange timing differences on certain project-related foreign exchange forward contracts not subject to hedge accounting | 0.2 | (1.1) | 2.8 | 0.0 | (0.2) | (1.2) | 3.1 | (0.8) |
| Foreign exchange gain (loss) on translation of intercompany balances | (0.4) | (0.7) | 4.9 | (4.1) | 3.4 | 4.4 | (6.2) | 1.1 |
| Foreign exchange gain (loss) on translation of foreign currency long-term debt and cash balances | (3.5) | 2.1 | (1.5) | 0.0 | (1.3) | (1.5) | 3.7 | 1.8 |
| Tax on items affecting comparability | 6.9 | 0.6 | (0.4) | 2.0 | 0.0 | 0.8 | (0.6) | 0.4 |
| Net earnings (loss) from continuing operations | 2.2 | 11.0 | 41.0 | (1.3) | 33.2 | 29.0 | 40.3 | 31.4 |

Condensed Consolidated Interim Financial Statements of

# MACDONALD, DETTWILER AND ASSOCIATES LTD.

Three months ended March 31, 2013 and 2012
(Unaudited)

## MACDONALD, DETTWILER AND ASSOCIATES LTD.

Consolidated Statements of Earnings
(Unaudited)
(In thousands of Canadian dollars, except per share amounts)

Three months ended March 31, 2013 and 2012

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | | (Restated - note 3) |
| Revenues | | $ 423,019 | $ 171,970 |
| Orbital income | | 5,607 | - |
| Total revenues | 4 | 428,626 | 171,970 |
| Direct costs, selling, general and administration | 5 | 351,238 | 126,935 |
| | | 77,388 | 45,035 |
| Depreciation and amortization | | 18,205 | 3,047 |
| Foreign exchange loss (gain) | | 4,973 | (1,915) |
| Share-based compensation expense (recovery) | 10 | 30,486 | (3,282) |
| Fair value loss on equity forward contracts | | - | 910 |
| Finance income | | (732) | (610) |
| Finance expense | | 13,906 | 3,020 |
| Business acquisition costs | | 1,931 | - |
| Earnings, before income taxes | | 8,619 | 43,865 |
| Income tax expense | | 6,374 | 10,711 |
| Net earnings | | $ 2,245 | $ 33,154 |
| Net earnings per common share: | | | |
| Basic and diluted | 9 | $ 0.07 | $ 1.04 |

See accompanying notes to condensed consolidated interim financial statements.

# MACDONALD, DETTWILER AND ASSOCIATES LTD.

Consolidated Statements of Comprehensive Income
(Unaudited)
(In thousands of Canadian dollars)

Three months ended March 31, 2013 and 2012

| | 2013 | 2012 (Restated - note 3) |
|---|---|---|
| Net earnings | $ 2,245 | $ 33,154 |
| Other comprehensive income (loss): | | |
| Items that may be subsequently reclassified to earnings: | | |
| Foreign currency translation adjustment | 15,305 | (6,333) |
| Net gain (loss) on hedge of net investment in foreign operations (net of income taxes of nil, respectively) | (1,543) | 1,790 |
| Effective portion of changes in fair value of derivatives designated as cash flow hedges (net of income tax expense of $123 and $458, respectively) | 207 | 1,651 |
| Net change in fair value of derivatives designated as cash flow hedges transferred to earnings (net of income tax expense of $65 and income tax recovery of $62, respectively) | 109 | (223) |
| Net change in fair value of available-for-sale financial assets (net of income tax expense of $7 and $171, respectively) | 50 | 479 |
| | 14,128 | (2,636) |
| Items that will not be subsequently reclassified to earnings: | | |
| Actuarial gains (losses) on defined benefit pension plans and other post-retirement benefit plans (net of income tax recovery of $178 and income tax expense of $460, respectively) | 178 | (58) |
| | 178 | (58) |
| Other comprehensive income (loss), net of income taxes | 14,306 | (2,694) |
| Comprehensive income | $ 16,551 | $ 30,460 |

See accompanying notes to condensed consolidated interim financial statements.

# MACDONALD, DETTWILER AND ASSOCIATES LTD.

Consolidated Balance Sheets
(Unaudited)
(In thousands of Canadian dollars)

| | Note | March 31, 2013 | December 31, 2012 (Restated - note 3) |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | | $ 24,950 | $ 24,836 |
| Trade and other receivables | | 240,280 | 251,828 |
| Financial assets, other | | 54,701 | 50,864 |
| Construction contract assets | | 126,615 | 125,452 |
| Inventories | | 91,468 | 82,291 |
| Non-financial assets | | 83,669 | 94,769 |
| Current tax assets | | 13,318 | 15,180 |
| | | 635,001 | 645,220 |
| Non-current assets: | | | |
| Orbital receivables | | 344,916 | 330,741 |
| Financial assets, other | | 3,196 | 6,449 |
| Non-financial assets | | 7,275 | 8,994 |
| Deferred tax assets | | 21,099 | 12,806 |
| Property, plant and equipment | | 342,967 | 336,157 |
| Intangible assets | | 332,908 | 329,682 |
| Goodwill | | 656,653 | 644,433 |
| | | 1,709,014 | 1,669,262 |
| | | $ 2,344,015 | $ 2,314,482 |
| **Liabilities and Shareholders' Equity** | | | |
| Current liabilities: | | | |
| Trade and other payables | | $ 165,350 | $ 214,337 |
| Current tax liabilities | | 28,600 | 34,063 |
| Financial liabilities, other | | 26,880 | 20,074 |
| Provisions | | 3,190 | 4,568 |
| Employee benefits | | 118,005 | 101,468 |
| Non-financial liabilities | | 14,007 | 14,814 |
| Construction contract liabilities | | 321,432 | 427,216 |
| Current portion of long-term debt | 7 | 71,517 | 48,207 |
| | | 748,981 | 864,747 |
| Non-current liabilities: | | | |
| Financial liabilities, other | | 5,568 | 6,394 |
| Provisions | | 21,871 | 21,218 |
| Employee benefits | | 347,570 | 339,966 |
| Non-financial liabilities | | 8,547 | 8,572 |
| Deferred tax liabilities | | 11,225 | 7,323 |
| Long-term debt | 7 | 658,752 | 799,453 |
| | | 1,802,514 | 2,047,673 |
| Shareholders' equity: | | | |
| Share capital | 8 | 492,140 | 213,222 |
| Contributed surplus | | 2,665 | 2,698 |
| Retained earnings | | 55,722 | 74,221 |
| Accumulated other comprehensive loss | | (9,026) | (23,332) |
| | | 541,501 | 266,809 |
| | | $ 2,344,015 | $ 2,314,482 |

See accompanying notes to condensed consolidated interim financial statements.

# MACDONALD, DETTWILER AND ASSOCIATES LTD.

Consolidated Statements of Change in Shareholders' Equity
(Unaudited)
(In thousands of Canadian dollars)

Three months ended March 31, 2013

| | **Share capital** | **Contributed surplus** | **Retained earnings** | Net gain (loss) on hedge of net investment in foreign operations | Foreign currency translation adjustment | Fair value gains on cash flow hedges | Fair value gains on available-for-sale financial assets | Actuarial gains (losses) on defined benefits pension plans | **Total accumulated other comprehensive income (loss)** | **Total shareholders' equity** |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance as at January 1, 2013 (Restated – note 3) | **$ 213,222** | **$ 2,698** | **$ 74,221** | $ 3,900 | $ (17,055) | $ 1,958 | $ 448 | $ (12,583) | **$ (23,332)** | **$ 266,809** |
| Common shares issued in conjunction with employee share purchase plan | **599** | **-** | **-** | - | - | - | - | - | **-** | **599** |
| Settlement of share-based compensation | **-** | **(33)** | **(29)** | - | - | - | - | - | **-** | **(62)** |
| Issuance of common shares | **278,319** | **-** | **-** | - | - | - | - | - | **-** | **278,319** |
| Dividends | **-** | **-** | **(20,715)** | - | - | - | - | - | **-** | **(20,715)** |
| Comprehensive income (loss) | **-** | **-** | **2,245** | (1,543) | 15,305 | 316 | 50 | 178 | **14,306** | **16,551** |
| Balance as at March 31, 2013 | **$ 492,140** | **$ 2,665** | **$ 55,722** | $ 2,357 | $ (1,750) | $ 2,274 | $ 498 | $ (12,405) | **$ (9,026)** | **$ 541,501** |

Three months ended March 31, 2012

| | **Share capital** | **Contributed surplus** | **Retained earnings** | Net gain on hedge of net investment in foreign operations | Foreign currency translation adjustment | Fair value gains on cash flow hedges | Fair value gains on available-for-sale financial assets | Actuarial losses on defined benefits pension plans | **Total accumulated other comprehensive loss** | **Total shareholders' equity** |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance as at January 1, 2012 (Restated – note 3) | **$ 210,505** | **$ 4,440** | **$ 34,162** | $ 1,690 | $ (8,166) | $ 4,276 | $ 934 | $ (9,750) | **$ (11,016)** | $ **238,091** |
| Common shares issued in conjunction with employee share purchase plan | **814** | **-** | **-** | - | - | - | - | - | **-** | **814** |
| Settlement of share-based compensation | **-** | **(96)** | **(19)** | - | - | - | - | - | **-** | **(115)** |
| Dividends | **-** | **-** | **(20,684)** | - | - | - | - | - | **-** | **(20,684)** |
| Comprehensive income (loss) (Restated – note 3) | **-** | **-** | **33,154** | 1,790 | (6,333) | 1,428 | 479 | (58) | **(2,694)** | **30,460** |
| Balance as at March 31, 2012 (Restated – note 3) | **$ 211,319** | **$ 4,344** | **$ 46,613** | $ 3,480 | $ (14,499) | $ 5,704 | $ 1,413 | $ (9,808) | **$ (13,710)** | $ **248,566** |

See accompanying notes to condensed consolidated interim financial statements.

# MACDONALD, DETTWILER AND ASSOCIATES LTD.

Consolidated Statements of Cash Flows
(Unaudited)
(In thousands of Canadian dollars)

Three months ended March 31, 2013 and 2012

| | Note | 2013 | 2012 |
|---|---|---|---|
| | | | (Restated - note 3) |
| Cash flows provided by (used in): | | | |
| Operating activities: | | | |
| Earnings, before income taxes | | $ 8,619 | $ 43,865 |
| Adjustments to reconcile to net cash from operating activities: | | | |
| Depreciation of property, plant and equipment | | 8,928 | 2,060 |
| Amortization of intangible assets | | 9,277 | 987 |
| Share-based compensation expense (recovery) | 10 | 30,486 | (3,282) |
| Fair value loss on equity forward contracts | 10 | - | 910 |
| Finance income | | (732) | (610) |
| Finance expense | | 13,906 | 3,020 |
| Foreign exchange loss (gain) | | 4,625 | (173) |
| Income taxes paid | | (9,409) | (3,380) |
| Income taxes recovered | | 1,520 | 589 |
| Changes in operating assets and liabilities | 12 | (171,656) | (40,902) |
| Cash provided by (used in) operating activities of continuing operations | | (104,436) | 3,084 |
| Investing activities: | | | |
| Purchase of property, plant and equipment | | (8,383) | (3,765) |
| Purchase/development of intangible assets | | (5,856) | (310) |
| Disposal (purchase) of short-term investments | | 34 | (442) |
| Decrease in restricted cash | | 3,634 | - |
| Interest received on short-term investments and others | | 1,785 | 435 |
| Cash used in investing activities of continuing operations | | (8,786) | (4,082) |
| Financing activities: | | | |
| Repayment of long-term debt | | (136,105) | (643) |
| Interest paid on long-term debt | | (6,961) | (1,388) |
| Proceeds from interest free government assistance | | 3,092 | - |
| Proceeds from issuance of common shares relating to public offering | 8 | 287,715 | - |
| Share issuance costs of public share offering | | (11,616) | - |
| Proceeds from issuance of common shares relating to share-based compensation plans | | 509 | 692 |
| Purchase of common shares for settlement of share-based compensation plans | | (62) | (115) |
| Payment of dividends | | (20,715) | (20,684) |
| Cash provided by (used in) financing activities of continuing operations | | 115,857 | (22,138) |
| Cash and cash equivalents provided by (used in) continuing operations | | 2,635 | (23,136) |
| Cash and cash equivalents used in discontinued operations | | (2,752) | (2,731) |
| Effect of foreign currency on cash and cash equivalents of continuing operations | | 231 | (182) |
| Cash and cash equivalents, beginning of period | | 24,836 | 254,831 |
| Cash and cash equivalents, end of period | | $ 24,950 | $ 228,782 |

See accompanying notes to condensed consolidated interim financial statements.

## 1. General business description:

MacDonald, Dettwiler and Associates Ltd. (the "Company" or "MDA"), is a Canadian corporation with common shares listed on the Toronto Stock Exchange ("TSX"). The Company's head office is located at 13800 Commerce Parkway, Richmond, British Columbia, Canada. MDA is a global communications and information company providing operational solutions to commercial and government organizations worldwide. MDA's business is focused on markets and customers with strong repeat business potential. In addition, the Company conducts a significant amount of advanced technology development.

## 2. Basis of preparation:

The unaudited condensed consolidated interim financial statements were prepared using the same accounting policies and methods as those used in the Company's consolidated financial statements for the year ended December 31, 2012, except as described in note 3. These condensed consolidated interim financial statements have been prepared in compliance with IAS 34 – *Interim Financial Reporting*. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards have been omitted or condensed. These condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2012, which are included in the Company's 2012 annual report.

## 3. Changes in accounting policies:

(a) Amendments to IAS 19 – *Employee Benefits*

On January 1, 2013, the Company adopted the amended version of IAS 19 – *Employee Benefits* and changed its basis for determining the expense for defined benefit pension plans and other post-retirement plans.

The Company now determines net interest expense on the net defined benefit liability for the period by applying the discount rate to the net defined benefit liability. The net interest on the net defined benefit liability comprises interest cost on the defined benefit obligation and interest income on plan assets. Previously, the Company determined interest income on plan assets based on a long-term rate of expected return. Additionally, the Company now recognizes unvested past service costs immediately in earnings whereas previously, the Company amortized unvested past service costs to earnings on a straight-line basis over the remaining vesting period.

**3. Changes in accounting policies (continued):**

(a) Amendments to IAS 19 – *Employee Benefits* (continued):

The change in accounting policy has been applied retrospectively with prior periods being restated accordingly. The impact to the consolidated financial statements of current and prior periods was immaterial. On the consolidated statement of earnings, the change in accounting policy resulted in an increase to direct costs, selling, general and administration and decreases to income tax expense, net earnings and earnings per share. On the consolidated balance sheet, the change in accounting policy resulted in an increase to accumulated other comprehensive income and decreases to retained earnings, employee benefit liabilities and deferred tax assets.

(b) Other accounting standards:

On January 1, 2013, the Company adopted the following accounting standards and amendments issued by the IASB:

- Amendments to IAS 1 – *Presentation of Financial Statements*
- Amendments to IFRS 7 – *Financial Instruments: Disclosures*
- IFRS 10 – *Consolidated Financial Statements*
- IFRS 11 – *Joint Arrangements*
- IFRS 12 – *Disclosure of Interests in Other Entities*
- IFRS 13 – *Fair Value Measurement*

The adoption of these accounting standards resulted in additional note disclosure and minor changes to presentation in the Company's statement of comprehensive income, but otherwise did not have a significant impact on the Company's consolidated financial statements.

(Tabular amounts in thousands of Canadian dollars)

## 4. Revenue and segmented information:

The Company has two reportable operating segments: i) Communications; and ii) Surveillance and Intelligence.

The Company measures the performance of each segment based on revenue and segmented profits, which is equal to revenue less direct costs, selling, general and administration, and depreciation and amortization. Certain corporate expenses, foreign exchange gains and losses, share-based compensation expense or recovery, fair value gains and losses on equity forward contracts, finance income and expense, and income tax expense are managed on a total company basis and are not reflected in segmented results.

The following table summarizes the operating performance of the reporting segments:

| Three months ended March 31, 2013 | Communications | Surveillance and Intelligence | Inter-segment eliminations | Total |
|---|---|---|---|---|
| External revenue | $ 330,265 | $ 98,361 | $ - | $ 428,626 |
| Internal revenue | 385 | 548 | (933) | - |
| | 330,650 | 98,909 | (933) | 428,626 |
| Direct costs, selling, general and administration | 280,770 | 68,870 | (933) | 348,707 |
| Depreciation and amortization | 16,332 | 1,873 | - | 18,205 |
| Segment profits | 33,548 | 28,166 | - | 61,714 |
| Corporate expenses | | | | (2,531) |
| Foreign exchange loss | | | | (4,973) |
| Share-based compensation expense | | | | (30,486) |
| Finance income | | | | 732 |
| Finance expense | | | | (13,906) |
| Business acquisition costs | | | | (1,931) |
| | | | | (53,095) |
| Earnings before income taxes | | | | 8,619 |
| Income tax expense | | | | 6,374 |
| Net earnings | | | | $ 2,245 |

(Tabular amounts in thousands of Canadian dollars)

## 4. Revenue and segmented information (continued):

| Three months ended March 31, 2012 | Communications | Surveillance and Intelligence | Inter-segment eliminations | Total |
|---|---|---|---|---|
| | | | | (Restated - note 3) |
| External revenue | $ 40,734 | $ 131,236 | $ - | $ 171,970 |
| Internal revenue | 1,159 | 768 | (1,927) | - |
| | 41,893 | 132,004 | (1,927) | 171,970 |
| Direct costs, selling, general and administration | 24,578 | 101,695 | (1,927) | 124,346 |
| Depreciation and amortization | 1,097 | 1,950 | - | 3,047 |
| Segment profits | 16,218 | 28,359 | - | 44,577 |
| Corporate expenses | | | | (2,589) |
| Foreign exchange gain | | | | 1,915 |
| Share-based compensation recovery | | | | 3,282 |
| Fair value loss on equity forward contracts | | | | (910) |
| Finance income | | | | 610 |
| Finance expense | | | | (3,020) |
| | | | | (712) |
| Earnings before income taxes | | | | 43,865 |
| Income tax expense | | | | 10,711 |
| Net earnings | | | | $ 33,154 |

The Company's primary sources of revenue are as follows:

| | Three months ended March 31, 2013 | Three months ended March 31, 2012 |
|---|---|---|
| Construction contracts | $ 369,485 | $ 118,584 |
| Services | 59,141 | 53,386 |
| | $ 428,626 | $ 171,970 |

(Tabular amounts in thousands of Canadian dollars)

### 4. Revenue and segmented information (continued):

The approximate revenue based on geographic location of customers is as follows:

| | Three months ended March 31, 2013 | 2012 |
|---|---|---|
| Revenue: | | |
| United States | $ 119,677 | $ 42,750 |
| Australia | 86,511 | 12,211 |
| Europe | 74,501 | 39,861 |
| Asia | 62,411 | 6,969 |
| Canada | 42,078 | 67,520 |
| Brazil | 36,105 | 222 |
| Other | 7,343 | 2,437 |
| | $ 428,626 | $ 171,970 |

Revenue from significant customers is as follows:

| | Three months ended March 31, 2013 | 2012 |
|---|---|---|
| NBN Co Limited | $ 64,872 | $ - |
| Intelsat S.A. | 54,731 | - |
| Canadian Federal Government and agencies | 30,561 | 58,044 |
| U.S. Federal Government and agencies | 30,334 | 30,175 |

The Company's non-current non-financial assets, property, plant and equipment, intangible assets and goodwill are geographically located as follows:

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| United States | $ 1,186,822 | $ 1,164,139 |
| Canada | 152,260 | 154,369 |
| Europe | 721 | 758 |
| | $ 1,339,803 | $ 1,319,266 |

(Tabular amounts in thousands of Canadian dollars)

## 5. Operating costs:

| | Three months ended March 31, 2013 | Three months ended March 31, 2012 |
|---|---|---|
| | | (Restated - note 3) |
| Employee salaries and benefits | $ 163,233 | $ 57,843 |
| Costs (recovery) related to defined benefit plans | 7,301 | (552) |
| Subcontractor costs relating to construction and service contracts | 139,672 | 38,460 |
| Materials, equipment, professional fees, travel and other | 41,032 | 31,184 |
| Direct costs, selling, general and administration | 351,238 | 126,935 |
| Depreciation and amortization | 18,205 | 3,047 |
| Share-based compensation expense (recovery) | 30,486 | (3,282) |
| Business acquisition costs | 1,931 | - |
| | $ 401,860 | $ 126,700 |

## 6. Business combination:

On November 2, 2012, the Company acquired 100% equity interests in Space Systems/Loral, LLC and Space Systems/Loral Land, LLC (collectively “SSL”) from Loral Space & Communications Inc. (“Loral”) for cash consideration of U.S.$774,000,000, a promissory note payable of U.S.$101,000,000 and working capital and other adjustments of U.S.$231,352,000. Headquartered in Palo Alto, California, SSL is a global market leading provider of commercial communications satellites, serving a worldwide customer base.

On March 28, 2013, the Company and Loral amended the purchase agreement to modify SSL’s capped cost-sharing obligations relating to the lawsuit between SSL and ViaSat, Inc. that existed prior to the acquisition and to amend certain terms of the U.S.$101,000,000 promissory note payable from the Company to Loral (note 7).

The Company recognized the major classes of assets acquired and liabilities assumed at the acquisition date based on estimated fair values. During the three months ended March 31, 2013, the Company made revisions to certain estimates that had the effect of increasing goodwill and contingent liabilities by $1,089,000 (U.S.$1,093,000). Certain estimates of fair value, most notably, for definite life intangible assets, goodwill, contingent liabilities, and provisions, remain preliminary and are subject to further adjustments.

(Tabular amounts in thousands of Canadian dollars)

### 7. Long-term debt:

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Syndicated credit facility: | | |
| Term loan payable in Canadian dollars | $ - | $ 125,175 |
| Term loan payable in U.S. dollars (March 31, 2013 - U.S. nil; December 31, 2012 - U.S.$125,000,000) | - | 124,363 |
| Revolving loan payable in Canadian dollars | 88,000 | 76,000 |
| Revolving loan payable in U.S. dollars (March 31, 2013 - U.S.$177,000,000; December 31, 2012 - U.S.$73,000,000) | 179,761 | 72,628 |
| Senior term notes payable: | | |
| 2024 Term notes payable in U.S. dollars (March 31, 2013 - U.S.$250,000,000; December 31, 2012 - U.S.$250,000,000) | 253,900 | 248,725 |
| 2017 Term notes payable in U.S. dollars (March 31, 2013 - U.S.$100,000,000; December 31, 2012 - U.S.$100,000,000) | 101,560 | 99,490 |
| Promissory note payable: | | |
| Promissory note payable in U.S. dollars (March 31, 2013 - U.S.$101,000,000; December 31, 2012 - U.S.$101,000,000) | 102,576 | 100,485 |
| Financing fees | (617) | (3,901) |
| Obligations under finance leases | 5,089 | 4,695 |
| Total long-term debt | 730,269 | 847,660 |
| Current portion | (71,517) | (48,207) |
| Non-current portion | $ 658,752 | $ 799,453 |

(Tabular amounts in thousands of Canadian dollars)

**7. Long-term debt (continued):**

On March 27, 2013, the Company repaid the U.S. and Canadian dollar denominated term loans under the Syndicated Credit Facility with net proceeds from a public offering of common shares (note 8).

On March 28, 2013, the Company and Loral agreed to defer the principal repayment of U.S.$33,667,000 originally due on March 31, 2013 under the U.S.$101,000,000 Promissory note payable to March 31, 2014. The Company and Loral also agreed to an increase in the interest rate applicable to this tranche from 1.0% to 1.5% effective April 1, 2013.

**8. Shareholders' equity:**

Share capital:

Authorized:
Unlimited number of common shares with no par value
Unlimited number of preferred shares, issuable in series, convertible to common shares

Common shares issued and fully paid:

| | Number of shares | Amount |
|---|---|---|
| Balance as at December 31, 2012 | 31,858,716 | $ 213,222 |
| Common shares issued in conjunction with public share offering | 4,145,750 | 278,319 |
| Common shares issued in conjunction with employee share purchase plan | 9,796 | 599 |
| Balance as at March 31, 2013 | 36,014,262 | $ 492,140 |

On March 27, 2013, the Company completed a public share offering of 4,145,750 common shares at a price of $69.40 per share for gross proceeds of $287,715,000. In conjunction with the public share offering, the Company incurred share issuance costs of $9,396,000, net of income tax benefit of $3,132,000.

For the three months ended March 31, 2013, the Company declared and paid a semi-annual dividend of $0.65 per common share (2012 - $0.65).

(Tabular amounts in thousands of Canadian dollars)

## 9. Earnings per common share:

| | Three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 (Restated – note 3) | | |
| | Net earnings | Weighted average number of common shares outstanding | Per share amount | Net earnings | Weighted average number of common shares outstanding | Per share amount |
| **Net earnings:** | | | | | | |
| Earnings per common share: | | | | | | |
| Basic and diluted | $ 2,245 | 32,093,039 | $ 0.07 | $ 33,154 | 31,815,799 | $ 1.04 |

## 10. Share-based payment plans:

Total share-based compensation expense, excluding the impact of equity forward contracts, from all forms of share-based compensation for the three months ended March 31, 2013 and 2012 was an expense of $30,486,000 (2012 - recovery of $3,282,000). The details are as follows:

| | Three months ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Share appreciation rights | $ 29,248 | $ (3,456) |
| Deferred share units | 1,016 | 26 |
| Share matching program | 132 | 26 |
| Employee share purchase plan | 90 | 122 |
| | $ 30,486 | $ (3,282) |

The intrinsic value of a share-based payment plan is the positive difference between the market price of the Company's share and the exercise price of the award. At March 31, 2013, the intrinsic value for vested share-based payment plans is $27,274,000 (December 31, 2012 - $13,427,000).

The Company had historically entered into forward purchase agreements for common shares of the Company in order to manage the economic risks associated with fluctuations in the share price of the Company relating to share-based compensation plans. In the third quarter of 2012, the Company settled the remaining equity forward purchase agreements for 450,600 common shares of the Company. For the three months ended March 31, 2012, the Company recorded a fair value loss of $910,000 relating to the equity forward purchase agreements.

(Tabular amounts in thousands of Canadian dollars)

## 11. Financial instruments and fair value disclosures:

(a) Financial instruments by category:

The classification of financial instruments and their carrying amounts are as follows:

At March 31, 2013:

| | Financial assets at fair value through earnings | Derivative instruments in a qualifying hedging relationship | Loans and receivables | Available-for-sale financial assets | Not considered financial instruments | Total carrying amount |
|---|---|---|---|---|---|---|
| Financial assets: | | | | | | |
| Current: | | | | | | |
| Cash and cash equivalents | $ - | $ - | $ 24,950 | $ - | $ - | $ 24,950 |
| Trade and other receivables: | | | | | | |
| Trade accounts receivable | - | - | 207,500 | - | - | 207,500 |
| Orbital receivables | - | - | 15,644 | - | - | 15,644 |
| Other | - | - | - | - | 17,136 | 17,136 |
| | - | - | 223,144 | - | 17,136 | 240,280 |
| Financial assets, other: | | | | | | |
| Short-term investments | - | - | - | 5,872 | - | 5,872 |
| Notes receivable | - | - | 399 | - | - | 399 |
| Derivative financial instruments | 5,524 | 2,345 | - | - | - | 7,869 |
| Restricted cash | - | - | 40,561 | - | - | 40,561 |
| | 5,524 | 2,345 | 40,960 | 5,872 | - | 54,701 |
| Non-current: | | | | | | |
| Orbital receivables | - | - | 344,916 | - | - | 344,916 |
| Financial assets, other: | | | | | | |
| Notes receivable | - | - | 865 | - | - | 865 |
| Derivative financial instruments | 2,152 | 179 | - | - | - | 2,331 |
| | 2,152 | 179 | 865 | - | - | 3,196 |

(Tabular amounts in thousands of Canadian dollars)

## 11. Financial instruments and fair value disclosures (continued):

(a) Financial instruments by category (continued):

At March 31, 2013 (continued):

| | Financial liabilities at fair value through earnings | Derivative instruments in a qualifying hedging relationship | Other financial liabilities | Total carrying amount |
|---|---|---|---|---|
| Financial liabilities: | | | | |
| Current: | | | | |
| Trade and other payables | $ - | $ - | $ 165,350 | $ 165,350 |
| Financial liabilities, other: | | | | |
| Non-trade payables | - | - | 12,502 | 12,502 |
| Derivative financial instruments | 4,963 | 1,690 | - | 6,653 |
| Contingent liabilities | - | - | 7,725 | 7,725 |
| | 4,963 | 1,690 | 20,227 | 26,880 |
| Long-term debt: | | | | |
| Long-term debt | - | - | 68,277 | 68,277 |
| Obligations under finance leases | - | - | 3,240 | 3,240 |
| | - | - | 71,517 | 71,517 |
| Non-current: | | | | |
| Financial liabilities, other: | | | | |
| Non-trade payables | - | - | 3,628 | 3,628 |
| Derivative financial instruments | 1,327 | 613 | - | 1,940 |
| | 1,327 | 613 | 3,628 | 5,568 |
| Long-term debt: | | | | |
| Long-term debt | - | - | 656,903 | 656,903 |
| Obligations under finance leases | - | - | 1,849 | 1,849 |
| | - | - | 658,752 | 658,752 |

As at March 31, 2013 and December 31, 2012, the Company had designated U.S.$79,215,000 of its U.S.$100,000,000 2017 Term Notes Payable as a hedge of its investment in certain U.S. subsidiaries.

(Tabular amounts in thousands of Canadian dollars)

**11. Financial instruments and fair value disclosures (continued):**

(b) Fair value of financial instruments:

Financial instruments carried at amortized cost:

As at March 31, 2013 and December 31, 2012, the fair values of all financial instruments carried at amortized cost, other than long-term debt, approximate their carrying value. The fair value of long-term debt is estimated based on a discounted cash flow approach. The estimated fair value of long-term debt, excluding obligations under finance leases, at March 31, 2013, was $738,828,000 (December 31, 2012 - $852,075,000) as compared to the carrying value of $725,180,000 (December 31, 2012 - $842,965,000). The fair value of obligations under finance leases approximate their carrying value. As at March 31, 2013, included in long-term debt is the designated portion of the net investment hedge, which had a fair value of $87,322,000 (December 31, 2012 - $85,151,000) and a carrying value of $80,451,000 (December 31, 2012 - $78,811,000).

Financial instruments carried at fair value:

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| March 31, 2013 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Short-term investments | $ 5,872 | $ - | $ - | $ 5,872 |
| Derivative financial instruments | - | 10,200 | - | 10,200 |
| Total assets | $ 5,872 | $ 10,200 | $ - | $ 16,072 |
| **Liabilities** | | | | |
| Derivative financial instruments | $ - | $ 8,593 | $ - | $ 8,593 |

During the quarter, no transfers occurred between Level 1 and Level 2 financial instruments.

(Tabular amounts in thousands of Canadian dollars)

## 11. Financial instruments and fair value disclosures (continued):

(b) Fair value of financial instruments (continued):

Financial instruments carried at fair value (continued):

The fair values of the short-term investments are based on their quoted prices. The Company determines fair value of its derivative financial instruments based on internal valuation models, such as discounted cash flow analysis, using management estimates and observable market-based inputs, as applicable. Management estimates include assumptions concerning the amount and timing of estimated future cash flows and application of appropriate discount rates. Observable market-based inputs are sourced from third parties and include interest rates and yield curves, currency spot and forward rates, and credit spreads, as applicable.

## 12. Supplemental cash flow information:

| | Three months ended March 31, 2013 | Three months ended March 31, 2012 (Restated - note 3) |
|---|---|---|
| **Change in operating assets and liabilities:** | | |
| Trade and other receivables | $ 13,502 | $ 7,818 |
| Construction contract assets | 29 | (13,551) |
| Financial assets, other | (988) | 8 |
| Inventories | (7,453) | (2,357) |
| Current tax assets | (4,052) | (2,763) |
| Non-financial assets | 13,998 | 5,908 |
| Orbital receivables | (7,232) | - |
| Trade and other payables | (55,122) | (14,986) |
| Financial liabilities, other | 2,248 | (2,915) |
| Provisions | (1,228) | (1,062) |
| Construction contract liabilities | (110,907) | (12,311) |
| Employee benefits | (13,430) | (5,382) |
| Non-financial liabilities | (1,021) | 691 |
| | $ (171,656) | $ (40,902) |

## 13. Approval of financial statements:

These consolidated financial statements were approved for issuance by the Board of Directors on May 2, 2013.