MacDonald, Dettwiler and Associates Ltd.

Q2 Second Quarter Report 2012

Three and Six Months Ended June 30, 2012

Management's Discussion and Analysis and
Unaudited Consolidated Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three and six months ended June 30, 2012

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 June 30, 2012. *Year to dat*e means the six months ended June 30, 2012.

ADVISORY

This management's discussion and analysis ("MD&A"), dated July 25, 2012, should be read in conjunction with the cautionary statement regarding forward-looking statements below and the Company's consolidated financial statements and notes thereto for the six months ended June 30, 2012 and the year ended December 31, 2011, as well with the Company's MD&A for the year ended December 31, 2011. Unless otherwise noted, 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 noted, 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, 2011, 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: the proposed acquisition of Space Systems/Loral, Inc. (SS/L) and the benefits from the proposed transaction under section "Overview – Transformational acquisition"; anticipated revenues and customer contract values under section "Results of Continuing Operations - Order backlog"; and the Company's liquidity, financial resources and borrowing commitments 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: the proposed acquisition of SS/L and related benefits were based on the Company being able to complete the transaction in the timeframe anticipated and realize the benefits from the proposed transaction, such as accretion to earnings; anticipated revenues and customer contract values were based on the Company's continuing ability to effectively service customers and there being no adverse changes to customer priorities and funding levels; and the Company's liquidity, financial resources and borrowing commitments were 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. With regard to MDA's proposed acquisition of SS/L and related benefits, the risks include, but are not limited to: inability to complete the acquisition in the timeframe anticipated or at all; inability to obtain governmental approvals of the transaction or satisfy other conditions to the transaction on the proposed terms and timeframe; the terms of the proposed transaction may need to be modified to obtain governmental approvals of the transaction or satisfy other conditions to the transaction; the ability to promptly and effectively *integrate the businesses of MDA and SS/L; changes in general economic and market conditions, laws and regulations and their enforcement; and the degree of competition in the geographic and business areas in which SS/L operates.*

Other risks that could cause actual results to differ from current expectations include, but are not limited to: changes in government priorities, funding levels, contracts and regulations; failure of third parties and 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 software and other products and resulting loss of revenue and loss of 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; 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; 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; wrongful call on letters of credit and performance bonds; and insufficient insurance against material claims or losses.

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, 2011, 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's solutions capture and process large amounts of data, produce essential information, and improve the decision making and operational performance of business and government organizations worldwide.

MDA's business is focused on information solutions for market sectors which offer strong repeat business potential, principally the Surveillance and Intelligence sector and the Communications sector. In addition, the Company conducts a broad range of customer funded Advanced Technology development for various other market sectors.

MDA serves its worldwide customer base from more than 16 offices located throughout the United States, Canada, and internationally.

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

Information solutions

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.

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 information solutions life cycle. Customers that procure MDA's infrastructure and sustaining engineering services represent some of the world's leading commercial and government enterprises.

Through its geospatial services operations, the Company provides geospatial information and decision support solutions that are derived using both satellite and aerial Earth observation sources. These solutions are used by organizations worldwide that monitor and manage changes and activities on the Earth, such as defence, intelligence and surveillance, resource management and environmental agencies.

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 share-based compensation, fair value adjustments on financial instruments not subject to hedge accounting, write-downs and other gains or losses. The Company uses operating earnings and operating earnings per share as a more meaningful way to compare financial results from one period to another. 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 defines *operating EBITDA* as earnings before corporate expense, net finance costs, 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 reporting. The Company discloses operating EBITDA to capture the profitability of its business units before the impact of items not considered in management's evaluation of operating unit performance.

Operating earnings 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 June 30, 2012**	**2011**	**Six months ended June 30, 2012**	**2011**
($ millions, except per common share amounts)				
From continuing operations				
Revenues	164.0	194.9	336.0	401.4
Operating EBITDA[1]	47.8	49.2	95.8	94.9
Operating earnings[1]	28.9	28.8	58.1	55.6
Operating earnings per share[1], diluted	0.91	0.70	1.82	1.35
Net earnings (loss)	(1.0)	31.6	32.4	59.9
Net earnings (loss) per share, basic	(0.03)	0.77	1.02	1.46
Net earnings (loss) per share, diluted	(0.03)	0.77	1.02	1.45
From discontinued operations				
Gain (loss) on sale of discontinued operations, net of income taxes	-	(2.0)	-	54.2
Total				
Net earnings (loss)	(1.0)	29.6	32.4	114.1
Net earnings (loss) per share, basic	(0.03)	0.72	1.02	2.77
Net earnings (loss) per share, diluted	(0.03)	0.72	1.02	2.77
Weighted average number of common shares outstanding: *(millions)*				
Basic[2]	31.8	41.2	31.8	41.1
Diluted[2]	31.8	41.2	31.8	41.2

Financial Position	**June 30, 2012**	**December 31, 2011**
($ millions)		
From continuing operations		
Total assets	715.2	765.2
Cash and cash equivalents	206.8	254.8
Short-term investments	27.8	26.6
Debt, long-term portion	103.7	103.8
Shareholders' equity	250.3	237.4

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

[2] On October 4, 2011, the Company repurchased and cancelled 9,433,962 common shares (representing approximately 22.9% of the shares outstanding) at a price of $53 per common share under a substantial issuer bid. After giving effect to the repurchase, the Company had approximately 31.8 million common shares outstanding at October 4, 2011. Refer to section "Quarterly Information" for comparison of weighted average number of common shares outstanding for the last eight quarters.

Net earnings for the second quarter of 2012 were impacted negatively by share-based compensation expense of $32 million, an amount that had no bearing on operations or cash flow for the quarter. Share-based compensation expense consisted predominantly of unrealized fair value adjustments on share-based compensation awards resulting from the sharp rise in the Company's share price at quarter-end. Furthermore, a large portion of share-based compensation expense was non-deductible for income tax purposes, which significantly reduced the amount of related income tax recovery.

Transformational acquisition

On June 26, 2012, the Company signed a definitive agreement to acquire 100% of Space Systems/Loral, Inc. (SS/L) for US$875 million. SS/L is the leading global provider of commercial communications satellites. The acquisition, subject to regulatory approvals, will transform MDA into a leading global communications and information company with a strong commercial focus. Post-acquisition, it is anticipated that more than two thirds of total revenues will come from the commercial market. The acquisition will also provide the Company with critical mass in the U.S., one of the world's largest markets for its capabilities.

The Company plans to finance the purchase with cash on hand, a three-year note payable for US$101 million, and approximately $500 million of borrowings under a new $1.1 billion fully committed and underwritten credit facility from one of the Company's banks. The transaction, when completed, will be accretive to the Company's earnings per share. As well, the structure of the transaction will enable MDA to secure the future tax benefits of a step-up in the tax basis of assets acquired, particularly for goodwill and other intangible assets. For U.S. income tax purposes, the incremental deductible amortization of goodwill and other intangible assets will markedly reduce the Company's taxable income and thereby its cash tax obligations.

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 for comparative purposes.

In the second quarter of 2012, the Company settled all remaining obligations with the buyer of the Property Information business by making cash payments of US$22.5 million for warranty and other post transaction obligations and US$10 million for remaining payments due under the license and reseller agreement (refer to section "Liquidity – Cash flow highlights"). The Company also waived its right to any contingent consideration related to the sale of the Property Information business.

Basis of management's discussion and analysis

The financial information and discussions presented in this MD&A refer to the Company's continuing operations, unless otherwise noted.

RESULTS OF CONTINUING OPERATIONS

The following table provides selected financial information for continuing operations, including a reconciliation of operating EBITDA and operating earnings to net earnings from continuing operations.

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
($ millions, except per common share amounts)				
Revenues from continuing operations	164.0	194.9	336.0	401.4
Operating EBITDA from continuing operations	47.8	49.2	95.8	94.9
Operating EBITDA as a percentage of revenues[1]	*29%*	*25%*	*29%*	*24%*
Corporate expense	(3.5)	(3.3)	(6.1)	(5.8)
Finance costs, net	0.0	(0.8)	(2.4)	(2.4)
Depreciation and amortization	(3.5)	(2.9)	(6.5)	(5.7)
Income tax expense, excluding tax on items affecting comparability	(11.9)	(13.4)	(22.7)	(25.4)
Operating earnings from continuing operations	28.9	28.8	58.1	55.6
Operating earnings per diluted share	*0.91*	*0.70*	*1.82*	*1.35*
Items affecting comparability:				
Share-based compensation	(31.9)	(1.5)	(28.7)	(5.3)
Fair value adjustments on equity forward contracts	6.0	1.8	5.1	6.4
Transaction costs related to proposed acquisition	(1.9)	-	(1.9)	-
Foreign exchange timing differences on certain project-related foreign exchange forward contracts not subject to hedge accounting	0.0	(0.8)	(0.3)	(1.3)
Foreign exchange gain (loss) on translation of intercompany balances	(4.1)	1.1	(0.7)	2.5
Foreign exchange gain (loss) on conversion and translation of foreign cash balances	0.0	1.8	(1.2)	1.8
Tax on items affecting comparability	2.0	0.4	2.0	0.2
Net earnings (loss) from continuing operations	(1.0)	31.6	32.4	59.9

[1] Operating EBITDA as a percentage of revenues (margins) will fluctuate from period to period with changes in the sales mix and contract life cycle of large dollar value contracts. The margin on a contract is impacted by the ratio of MDA value-added components to flowthrough costs. For contracts that include significant components of flowthrough costs with little added value, the main MDA components generally attract normal margins while the flowthrough costs attract lower margins. Additionally, the Company revises cost and revenue estimates on contracts in the ordinary course of business. The inception to date impact of changes in estimates of contract revenues or costs to complete is recognized in the period that the change is determined by management.

Revenues

Revenues this quarter were $164 million compared to $195 million for the second quarter of 2011. For the year to date, revenues were $336 million compared to $401 million for the six months ended June 30, 2011. The decrease reflected lower levels of pass-through items, particularly for the Express AM5/AM6 program which transitioned to the assembly and integration phase in early 2012. Revenues from geospatial services for the year to date increased compared to the first six months of 2011 on higher volume from U.S. government agencies.

Operational highlights

In June 2012, the Company was selected by Israel Aerospace Industries Ltd. to supply the communications payload solution for the AMOS-6 satellite expected to be launched in 2014. The contract, valued in excess of $90 million, is expected to be finalized in the coming months. The Company has started work under an authorization to proceed from the customer.

Subsequent to June 30, 2012, the Company was awarded a contract, valued at approximately $35 million, by Avanti Communications Group plc to supply a communications payload solution for the HYLAS 3 satellite expected to be launched in 2015.

Operating EBITDA

Operating EBITDA this quarter was $48 million compared to $49 million for the second quarter of 2011. Operating EBITDA was $96 million, with margins of 29%, for the year to date compared to $95 million and margins of 24% for the six months ended June 30, 2011. The increase in margin was primarily due to the lower volume of pass-through items in revenue.

Corporate expense

Corporate expense this quarter and for the year to date was $3.5 million and $6.1 million, respectively. These amounts are consistent with corporate expense for the comparative periods of 2011. Corporate expense includes corporate head office costs, regulatory costs, executive and director compensation, strategic business development expenditures, and fees for audit, legal and consulting services. Corporate expense is not considered in management’s evaluation of operating unit performance.

Net finance costs

Finance expense this quarter was $0.5 million compared to $2.0 million for the second quarter of 2011. For the year to date, finance expense was $3.5 million compared to $4.5 million for the first six months of 2011. Finance expense included interest on long-term debt, interest expense on foreign exchange forward contracts, and imputed interest on long-term financial liabilities.

Finance income this quarter was $0.5 million compared to $1.1 million for the second quarter of 2011. For the year to date, finance income was $1.1 million (six months ended June 30, 2011 - $2.1 million). Finance income consisted primarily of investment income earned on cash balances, which were lower at June 30, 2012 compared to a year earlier largely due to the substantial issuer bid completed in October 2011.

Depreciation and amortization

The following table shows the allocation of depreciation and amortization expense between property, plant and equipment and intangible assets for the periods indicated. Depreciation of the expanded satellite systems facilities in Montreal contributed to higher expense in the current year periods.

	Three months ended June 30,		**Six months ended June 30,**	
	2012	**2011**	**2012**	**2011**
($ millions)				
Property, plant and equipment	2.4	1.9	4.4	3.7
Intangible assets	1.1	1.0	2.1	2.0
Depreciation and amortization	3.5	2.9	6.5	5.7

Income tax expense

Income tax expense for the year to date was $21 million, representing an effective tax rate for accounting purposes of 39%, compared to 30% for the first six months of 2011. The effective tax rate for the current year was impacted by the amount of share-based compensation expense, a large portion of which was non-deductible for income tax purposes.

Operating earnings

Operating earnings, or net earnings adjusted for specified items affecting comparability, were $29 million ($0.91 per diluted share) this quarter compared to $29 million ($0.70 per diluted share) for the second quarter of 2011. For the year to date, operating earnings were $58 million ($1.82 per diluted share) compared to $56 million ($1.35 per diluted share) for the six months ended June 30, 2011. The increase on a per share basis reflected the accretive effect of the substantial issuer bid completed in October 2011.

Net earnings

Net loss for the second quarter of 2012 was $1.0 million compared to earnings of $32 million for the same period of last year. The comparison of financial results under IFRS to other periods is hindered by the variability of a number of items that are not indicative of performance. These items include:

Items affecting comparability	Explanation
Share-based compensation and related equity forward contracts	Although share-based compensation is an important aspect of compensation for management and key employees, the accounting expense or recovery based on fair valuation can result in significant variability in net earnings. Fair values of share-based compensation awards are estimated using complex option pricing models which incorporate factors, such as expected option lives and market volatility, that are beyond the Company's control. Further, share-based compensation expense in any particular period is not reflective of actual cash outlays by the Company. On average, the cash outlay on share-based compensation was approximately $16 million per year over the last three fiscal years. The Company believes that it is useful to exclude share-based compensation to facilitate the comparison of operating results across periods. Share-based compensation expense this quarter was $32 million. This amount consisted predominantly of unrealized fair value adjustments on share-based compensation awards, which were impacted by the sharp rise in the Company's share price at quarter-end. The Company uses equity forward contracts to hedge the economic risk of fluctuations in its share price on the share-based compensation plans. However, gains and losses on fair valuation of equity forward contracts can result in significant variability in net earnings and have no relationship to the Company's operating performance.
Transaction costs related to proposed acquisition	The Company incurred costs of $1.9 million related to the proposed acquisition of SS/L. The acquisition-related costs consisted primarily of legal, tax, consulting and other professional fees. The Company believes that excluding the acquisition-related costs allows for more meaningful period-to-period comparisons as these costs are not reflective of ongoing operating expenses.
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 the Express AM5/AM6 and Ukraine satellite solution programs did not qualify for hedge accounting at inception 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 with the recognition of revenues and costs, which were recognized on the percentage of completion basis using spot rates. 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 projects.

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 US 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 conversion and translation of foreign cash balances	The Company received a significant amount of US dollars from the sale of its Property Information business, the majority of which was converted to Canadian dollars in anticipation of the October 2011 substantial issuer bid. The foreign exchange gains and losses resulting from the conversion and translation of US dollars can result in significant variability in net earnings but have little bearing on operating performance.

Order backlog

Order backlog, representing the estimated dollar value of firm funded contracts for which work has not been performed, was $656 million at June 30, 2012 compared to $765 million at March 31, 2012. Order backlog at June 30, 2012 does not include the contracts to supply communications payload solutions for the AMOS-6 and HYLAS 3 satellites, which in aggregate are valued at over $125 million. These contracts were not finalized at June 30, 2012. Order backlog also does not include unexercised contract options and potential orders under indefinite delivery/indefinite quantity contracts.

Financial position

The Company had total assets of $715 million at June 30, 2012 (December 31, 2011 - $765 million), including cash balances and short-term investments of $235 million. The decrease in total assets reflected changes to working capital in the normal course of business.

The following table shows the changes to shareholders' equity for the six months ended June 30, 2012.

($ millions)	
Balance at January 1, 2012	237.4
Net earnings	32.4
Payment of dividends	(20.7)
Issuance of common shares pursuant to an employee share purchase plan	1.4
Settlement of share-based compensation	(0.2)
Other comprehensive income	0.0
Balance at June 30, 2012	250.3

QUARTERLY INFORMATION

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

	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010
($ millions, except per common share amounts)								
From continuing operations								
Revenues	164.0	172.0	178.2	181.5	194.9	206.5	208.4	166.5
Operating EBITDA[1]	47.8	48.0	52.6	46.8	49.2	45.7	50.8	43.8
Operating earnings[1]	28.9	29.1	31.3	30.3	28.8	26.8	31.7	22.7
Operating earnings per share, diluted	0.91	0.92	0.97	0.73	0.70	0.65	0.77	0.55
Net earnings (loss)	(1.0)	33.4	29.2	40.5	31.6	28.2	3.6	22.0
Net earnings (loss) per share, basic	(0.03)	1.05	0.91	0.98	0.77	0.69	0.09	0.54
Net earnings (loss) per share, diluted	(0.03)	1.05	0.91	0.98	0.77	0.69	0.09	0.54
Total								
Net earnings (loss)[2]	(1.0)	33.4	6.3	39.3	29.6	84.4	37.1	40.6
Net earnings (loss) per share, basic	(0.03)	1.05	0.20	0.95	0.72	2.05	0.90	0.99
Net earnings (loss) per share, diluted	(0.03)	1.05	0.20	0.95	0.72	2.05	0.90	0.99
Weighted average number of common shares outstanding: *(millions)*								
Basic	31.8	31.8	32.2	41.2	41.2	41.1	41.0	41.0
Diluted	31.8	31.8	32.2	41.2	41.2	41.2	41.1	41.1

[1] Refer to section “Reconciliations” for reconciliation to net earnings from continuing operations for the last eight quarters.
[2] Total net earnings for the periods up to December 31, 2011 include the results of discontinued operations and gain/loss on disposal of discontinued operations.

Continuing operations

Revenue 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.

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

Net earnings can fluctuate significantly from quarter to quarter due to the variability in share-based compensation, fair value adjustments on forward contracts not subject to hedge accounting, and other gains and losses. Results for the second quarter of 2012 included share-based compensation expense of $32 million, which consisted predominantly of unrealized fair value adjustments on share-based compensation awards due to the sharp rise in the Company’s share price at quarter-end.

Net earnings for the fourth quarter of 2010 included $17 million of income tax expense relating to foregone tax deductions following the enactment of Canadian income tax laws in December 2010 that changed the tax treatment of share-based compensation.

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

The Company completed the sale of the Property Information business on January 4, 2011. As a result, total net earnings for the first quarter of 2011 included an after-tax gain on sale of discontinued operations of $56 million. Total net earnings 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 advance payments from customers related to long-term construction contracts, and access to credit facilities and equity capital resources. As well, the Company received cash proceeds from the sale of its Property Information business in January 2011. Other sources of liquidity include the issuance of common shares pursuant to an employee share purchase plan and, if determined, as payment for acquisitions. The Company's primary short-term cash requirement is to fund working capital, including supplier payments on long-term construction contracts. During 2011, the Company used cash to repurchase its common shares for cancellation pursuant to a substantial issuer bid. 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 to finance acquisitions and other long-term strategic business initiatives. 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 sufficiently 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 June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
($ millions)				
Cash provided by (used in) operating activities	14.0	(29.6)	17.1	(73.1)
Cash provided by (used in) investing activities	1.2	(8.2)	(2.9)	743.6
Cash used in financing activities	(5.2)	(4.8)	(27.3)	(130.6)
Effect of foreign currency on cash and cash equivalents	0.3	(3.1)	0.1	(14.8)
Cash and cash equivalents used in discontinued operations	(32.3)	-	(35.0)	(7.0)
Cash and cash equivalents, beginning of period	228.8	793.3	254.8	229.5
Cash and cash equivalents, end of period	206.8	747.6	206.8	747.6

Operating activities

The variability in cash flow from operating activities compared to prior year periods was primarily due changes in operating assets and liabilities in the normal course of business. In 2011, the Company drew down on large advances received for the Express AM5/AM6 and Ukraine contracts to fund program expenditures and supplier payments. Net cash tax payments for the first six months of 2012 were also lower compared to the same period of last year.

Investing activities

Capital expenditures this quarter amounted to $6.9 million compared to $4.7 million for the second quarter of 2011. Also during the quarter, the Company received $7.2 million of government assistance under contribution agreements related to the expansion of the satellite systems facilities in Montreal. For the year to date, capital expenditures were $11 million compared to $10 million for the first six months of 2011.

The substantial cash inflow from investing activities for the first six months of 2011 included the proceeds on the sale of the Property Information business.

Financing activities
Cash used in financing activities this quarter consisted primarily of interest and financing fee payments on long-term debt. Cash used in financing activities for the year to date included dividend payments of $21 million.

For the first six months of 2011, cash used in financing activities included $101 million for repayment of long-term debt, $3.4 million in interest on long-term debt and $21 million for dividends.

Credit facilities
The following table provides details of the Company's long-term debt.

	June 30, 2012	December 31, 2011
($ millions)		
Term loan notes payable	101.9	101.7
Revolving credit facility	-	-
Finance lease obligations	3.6	4.0
Total long-term debt	105.5	105.7

The term loan notes bear interest at a fixed rate of 5.3% and are repayable at maturity in February 2017. The term loan notes are provided under an unsecured long-term debt agreement with a private lender. The debt agreement includes a shelf facility that allows the Company to issue an additional US$50 million in loan notes at any time prior to February 2013. Amounts borrowed under the shelf facility will have a maturity of up to ten years and bear interest at the rates reflecting the market at the time of issue. At June 30, 2012, there were no borrowings outstanding under the shelf facility.

The $100 million revolving credit facility is provided under a bilateral credit agreement with a major bank. In the first quarter of 2012, the Company amended the bilateral credit agreement to extend the maturity date to April 2013.

As of June 30, 2012, the Company was in compliance with all covenants under its various credit facilities.

During the second quarter of 2012, the Company received an underwritten commitment from one of its banks to make a $1.1 billion credit facility available in support of the Company's proposed acquisition of SS/L. The underwritten commitment consists of a $600 million revolving line of credit for four years and a $500 million four-year term credit. Both credits would be available on a floating rate basis.

The credits are expected to be syndicated to a group of ten to fifteen banks. Both the revolving line of credit and the term credit will be secured by the assets of the Company and be available under terms and conditions that reflect current commercial bank lending markets.

As an alternative to the bank loan market, the Company has retained the ability to place all, or a portion of, the term credit with the private lending market. The terms and conditions offered by the private lenders are expected to reflect the terms and conditions prevailing in current private lending markets. The Company will assess the terms and conditions available in the private loan market before deciding whether to obtain the loan in the bank market or the private market.

Should the Company proceed with implementing these credits, it anticipates keeping the term loan notes in place and terminating its bilateral credit agreement.

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") are used to reduce the cash exposure to settle obligations under certain long-term compensation plans. Interest rate swap contracts have been used to reduce the Company's exposure to floating interest rates on long-term debt. 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 June 30, 2012, the Company had foreign exchange forward purchase contracts for $160 million (December 31, 2011 - $249 million) and foreign exchange forward sale contracts for $326 million (December 31, 2011 - $381 million). In addition, the Company had equity forward contracts to fund the purchase of 315,800 of its common shares maturing in January 2014 and 134,800 of its common shares maturing in January 2013.

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 June 30, 2012, the Company's foreign exchange forward contracts had a cumulative unrealized gain on fair valuation of $1.7 million (December 31, 2011 - cumulative unrealized gain of $4.4 million). Derivative financial instruments that qualified for hedge accounting had a cumulative net gain on fair valuation of $5.2 million recorded in other comprehensive income at June 30, 2012 (December 31, 2011 - cumulative net gain of $6.0 million).

The Company enters into foreign exchange derivative contracts to hedge its exposure to non-Canadian 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 first six months of 2012, management's estimate of the foreign exchange timing differences on these derivative contracts not subject to hedge accounting was a loss of $0.3 million compared to a loss of $1.3 million for the same period of 2011.

At June 30, 2012, the Company's equity forward contracts had a cumulative loss on fair valuation of $0.7 million (December 31, 2011 - cumulative loss on fair valuation of $5.5 million). The equity forward contracts do not qualify for hedge accounting and all gains and losses on fair valuation have been recognized in earnings immediately. For the year to date, the Company recorded a fair value gain of $5.1 million relating to the equity forward contracts compared to a gain of $6.4 million for the same period in 2011. Fair valuation adjustments are affected by a number of factors, including the movement of the Company's share price during the period and the market credit risk of the Company, and will result in a gain or loss as the Company's share price changes.

ADDITIONAL INFORMATION

Internal Controls over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Dividend

The Company paid a semi-annual dividend of $0.65 per common share on March 30, 2012 to shareholders of record at the close of business on March 15, 2012.

Subsequent to June 30, 2012, the Company's Board of Directors declared a semi-annual dividend of $0.65 per common share payable on September 28, 2012 to shareholders of record at the close of business on September 14, 2012.

Outstanding share data

As at July 20, 2012, the Company had 31,833,948 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 the Canadian Securities Administrators' website at www.sedar.com.

RECONCILIATIONS

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

	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010
($ millions)								
Operating EBITDA from continuing operations	47.8	48.0	52.6	46.8	49.2	45.7	50.8	43.8
Corporate expense	(3.5)	(2.6)	(3.7)	(3.9)	(3.3)	(2.4)	(4.2)	(5.3)
Finance costs, net	0.0	(2.4)	0.6	0.0	(0.8)	(1.6)	(1.4)	(0.7)
Depreciation and amortization	(3.5)	(3.0)	(3.0)	(2.6)	(2.9)	(2.8)	(4.0)	(2.6)
Income tax expense, excluding tax on items affecting comparability	(11.9)	(10.9)	(15.2)	(10.0)	(13.4)	(12.1)	(9.5)	(12.5)
Operating earnings from continuing operations	28.9	29.1	31.3	30.3	28.8	26.8	31.7	22.7
Items affecting comparability:								
Share-based compensation	(31.9)	3.3	(4.5)	13.7	(1.5)	(3.8)	(14.6)	(6.9)
Fair value adjustments on equity forward contracts	6.0	(0.9)	(0.1)	(3.5)	1.8	4.5	6.0	2.7
Transaction costs related to proposed acquisition	(1.9)	-	-	-	-	-	-	-
Foreign exchange timing differences on certain project-related foreign exchange forward contracts not subject to hedge accounting	0.0	(0.2)	(1.2)	3.1	(0.8)	(0.6)	(6.4)	3.3
Foreign exchange gain (loss) on translation of intercompany balances	(4.1)	3.4	4.4	(6.2)	1.1	1.4	-	-
Foreign exchange gain (loss) on conversion and translation of foreign cash balances	0.0	(1.3)	(1.5)	3.7	1.8	-	-	-
Tax on items affecting comparability	2.0	-	0.8	(0.6)	0.4	(0.1)	4.3	0.2
Foregone tax deductions on share-based compensation	-	-	-	-	-	-	(17.4)	-
Net earnings (loss) from continuing operations	(1.0)	33.4	29.2	40.5	31.6	28.2	3.6	22.0

Condensed Consolidated Financial Statements of

MACDONALD, DETTWILER AND ASSOCIATES LTD.

Three and six months ended June 30, 2012 and 2011
(Unaudited)

MACDONALD, DETTWILER AND ASSOCIATES LTD.

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

	Note	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Revenue	3	$ 164,027	$ 194,935	$ 335,997	$ 401,421
Direct costs, selling, general and administration	4	121,250	149,178	247,802	310,614
		42,777	45,757	88,195	90,807
Depreciation and amortization		3,460	2,910	6,507	5,728
Foreign exchange loss (gain)		2,613	(2,278)	698	(1,356)
Share-based compensation expense	8	31,931	1,501	28,649	5,287
Fair value gain on equity forward contracts	8	(6,016)	(1,779)	(5,106)	(6,347)
Finance income		(488)	(1,138)	(1,098)	(2,105)
Finance expense		457	1,963	3,477	4,537
Business acquisition costs	11	1,958	-	1,958	-
Earnings from continuing operations, before income taxes		8,862	44,578	53,110	85,063
Income tax expense		9,889	12,953	20,701	25,202
Net earnings (loss) from continuing operations		(1,027)	31,625	32,409	59,861
Gain (loss) on sale of discontinued operations, net of income taxes	10	-	(2,020)	-	54,217
Net earnings (loss)		$ (1,027)	$ 29,605	$ 32,409	$ 114,078
Net earnings (loss) per common share:	7				
Basic:					
Continuing operations		$ (0.03)	$ 0.77	$ 1.02	$ 1.46
Discontinued operations		-	(0.05)	-	1.32
Net earnings (loss)		(0.03)	0.72	1.02	2.77
Diluted:					
Continuing operations		(0.03)	0.77	1.02	1.45
Discontinued operations		-	(0.05)	-	1.32
Net earnings (loss)		(0.03)	0.72	1.02	2.77

See accompanying notes to consolidated financial statements.

MACDONALD, DETTWILER AND ASSOCIATES LTD.

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

	Note	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net earnings (loss)		$ (1,027)	$ 29,605	$ 32,409	$ 114,078
Other comprehensive income (loss):					
Foreign currency translation adjustment		6,741	(4,895)	408	(21,944)
Foreign currency translation adjustment reclassified to earnings on disposition or liquidation of foreign operations (net of income tax expense of nil for all periods presented)		97	-	97	36,347
Net loss on hedge of net investment in foreign operations (net of income tax expense of nil for all periods presented)		(2,000)	-	(210)	-
Effective portion of changes in fair value of derivatives designated as cash flow hedges (net of income tax recovery of $388 and income tax expense of $705 for the three months ended June 30, 2012 and 2011, respectively; and net of income tax expense of $70 and $1,774 for the six months ended June 30, 2012 and 2011, respectively)		(1,061)	129	590	3,375
Net change in fair value of derivatives designated as cash flow hedges transferred to earnings (net of income tax recovery of $297 and $971 for the three months ended June 30, 2012 and 2011, respectively; and net of income tax recovery of $359 and $1,084 for the six months ended June 30, 2012 and 2011, respectively)		(814)	(2,764)	(1,037)	(3,097)
Net change in fair value of available-for-sale financial assets (net of income tax recovery of $16 and income tax expense of $351 for the three months ended June 30, 2012 and 2011, respectively; and net of income tax expense of $155 and $349 for the six months ended June 30, 2012 and 2011, respectively)		69	(19)	548	234
Actuarial losses on defined benefit pension plans (net of income tax expense of $22 and nil for the three months ended June 30, 2012 and 2011, respectively; and net of income tax expense of $376 and nil for the six months ended June 30, 2012 and 2011, respectively)		(22)	-	(376)	-
Other comprehensive income (loss), net of income taxes		3,010	(7,549)	20	14,915
Comprehensive income		$ 1,983	$ 22,056	$ 32,429	$ 128,993

See accompanying notes to consolidated financial statements.

MACDONALD, DETTWILER AND ASSOCIATES LTD.

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

	Note	June 30, 2012	December 31, 2011
Assets			
Current assets:			
Cash and cash equivalents		$ 206,796	$ 254,831
Trade and other receivables		87,344	98,415
Financial assets, other		34,336	39,359
Construction contract assets		69,681	63,778
Inventories		3,756	2,621
Non-financial assets		45,018	53,713
Current tax assets		8,760	3,235
		455,691	515,952
Non-current assets:			
Financial assets, other		3,872	4,441
Non-financial assets		180	203
Deferred tax assets		16,875	10,477
Property, plant and equipment		42,316	42,256
Intangible assets		17,663	13,390
Goodwill		178,624	178,472
		259,530	249,239
		$ 715,221	$ 765,191
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables		$ 62,737	$ 87,098
Current tax liabilities		30,242	17,044
Financial liabilities, other		8,257	16,497
Provisions		2,418	26,772
Employee benefits		79,859	59,263
Non-financial liabilities		7,751	11,263
Construction contract liabilities		112,353	133,262
Current portion of long-term debt	5	1,809	1,834
		305,426	353,033
Non-current liabilities:			
Financial liabilities, other		1,585	17,522
Provisions		2,043	2,025
Employee benefits		39,596	40,268
Non-financial liabilities		6,916	7,546
Deferred tax liabilities		5,701	3,549
Long-term debt	5	103,662	103,849
		464,929	527,792
Shareholders’ equity:			
Share capital	6	211,890	210,505
Contributed surplus		4,243	4,440
Retained earnings		46,052	34,367
Accumulated other comprehensive loss		(11,893)	(11,913)
		250,292	237,399
		$ 715,221	$ 765,191

See accompanying notes to consolidated financial statements.

MACDONALD, DETTWILER AND ASSOCIATES LTD.

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

Six months ended June 30, 2012

	Share capital	**Contributed surplus**	**Retained earnings**	Foreign currency translation adjustment	Net gain (loss) on hedge of net investment in foreign operations	Fair value gains (losses) on cash flow hedges	Fair value gains on available-for-sale financial assets	Actuarial losses on defined benefits pension plans	**Total accumulated other comprehensive income (loss)**	**Total Shareholders' equity**
Balance as at January 1, 2012	**$ 210,505**	$ **4,440**	$ **34,367**	$ (8,166)	$ 1,690	$ 4,276	$ 934	$ (10,647)	**$ (11,913)**	$ **237,399**
Common shares issued in conjunction with employee share purchase plan	**1,385**	-	-	-	-	-	-	-	**-**	**1,385**
Settlement of share-based compensation	**-**	**(197)**	**(40)**	-	-	-	-	-	**-**	**(237)**
Dividends	**-**	-	**(20,684)**	-	-	-	-	-	**-**	**(20,684)**
Comprehensive income	**-**	-	**32,409**	505	(210)	(447)	548	(376)	**20**	**32,429**
Balance as at June 30, 2012	**$ 211,890**	**$ 4,243**	**$ 46,052**	$ (7,661)	$ 1,480	$ 3,829	$ 1,482	$ (11,023)	**$ (11,893)**	**$ 250,292**

Six months ended June 30, 2011

	Share capital	**Contributed surplus**	**Retained earnings**	Foreign currency translation adjustment	Net gain (loss) on hedge of net investment in foreign operations	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 income (loss)**	**Total Shareholders' equity**
Balance as at January 1, 2011	**$ 266,811**	**$ 9,694**	**$ 361,569**	$ (42,360)	$ -	$ 9,857	$ 840	$ (3,863)	**$ (35,526)**	**$ 602,548**
Common shares issued on exercise of share options	**2,078**	**(35)**	**-**	-	-	-	-	-	**-**	**2,043**
Common shares issued in conjunction with employee share purchase plan	**1,456**	**-**	**-**	-	-	-	-	-	**-**	**1,456**
Settlement of share-based compensation	-	**(4,168)**	**(5,107)**	-	-	-	-	-	**-**	**(9,275)**
Dividends	-	**-**	**(20,556)**	-	-	-	-	-	**-**	**(20,556)**
Comprehensive income	**-**	**-**	**114,078**	14,403	-	278	234	-	**14,915**	**128,993**
Balance as at June 30, 2011	**$ 270,345**	**$ 5,491**	**$ 449,984**	$ (27,957)	$ -	$ 10,135	$ 1,074	$ (3,863)	**$ (20,611)**	**$ 705,209**

See accompanying notes to consolidated financial statements.

MACDONALD, DETTWILER AND ASSOCIATES LTD.

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

	Note	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Cash flows provided by (used in):					
Operating activities:					
Earnings from continuing operations, before income taxes		$ 8,862	$ 44,578	$ 53,110	$ 85,063
Adjustments to reconcile to net cash from operating activities:					
Depreciation of property, plant and equipment		2,320	1,952	4,380	3,785
Amortization of intangible assets		1,140	958	2,127	1,943
Share-based compensation expense	8	31,931	1,501	28,649	5,287
Fair value gain on equity forward contracts	8	(6,016)	(1,779)	(5,106)	(6,347)
Finance income		(488)	(1,138)	(1,098)	(2,105)
Finance expense		457	1,963	3,477	4,537
Foreign exchange		2,627	(2,396)	2,454	(1,474)
Income taxes paid		(4,978)	(2,450)	(8,358)	(19,477)
Income taxes recovered		1,544	570	2,133	699
Changes in operating assets and liabilities	9	(23,345)	(73,440)	(64,630)	(145,091)
Cash provided by (used in) operating activities of continuing operations		14,054	(29,681)	17,138	(73,180)
Investing activities:					
Purchase of property, plant and equipment		(798)	(4,396)	(4,563)	(9,089)
Proceeds from government assistance related to property, plant and equipment		7,200	-	7,200	-
Purchase/development of intangible assets		(6,082)	(327)	(6,392)	(865)
Disposal (purchase) of short-term investments		61	72	(381)	2,011
Interest received on short-term investments and other		788	907	1,223	1,825
Net proceeds from sale of Property Information business	10	-	(4,430)	-	749,758
Cash provided by (used in) investing activities of continuing operations		1,169	(8,174)	(2,913)	743,640
Financing activities:					
Repayment of long-term debt		(599)	(478)	(1,242)	(100,637)
Interest and financing fees paid on long-term debt		(4,937)	(1,362)	(6,325)	(3,372)
Proceeds from issuance of common shares relating to share-based compensation plans		485	1,174	1,177	3,282
Purchase of common shares for settlement of share-based compensation plans		(122)	(4,122)	(237)	(9,275)
Payment of dividends		-	-	(20,684)	(20,556)
Cash used in financing activities of continuing operations		(5,173)	(4,788)	(27,311)	(130,558)
Cash and cash equivalents provided by (used in) continuing operations		10,050	(42,643)	(13,086)	539,902
Cash and cash equivalents used in discontinued operations	10	(32,327)	-	(35,058)	(6,992)
Effect of foreign currency on cash and cash equivalents of continuing operations		291	(3,073)	109	(14,816)
Cash and cash equivalents, beginning of period		228,782	793,268	254,831	229,458
Cash and cash equivalents, end of period		$ 206,796	$ 747,552	$ 206,796	$ 747,552

Supplementary cash flow information (note 9)

See accompanying notes to consolidated financial statements.

(Tabular amounts in thousands of Canadian dollars)

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. The Company provides solutions that capture and process large amounts of data, produce essential information, and improve the decision making and operational performance of businesses and government organizations worldwide. MDA’s business is focused on information solutions for market sectors which offer strong repeat business potential, principally the surveillance and intelligence sector and the communications sector. In addition, the Company conducts a broad range of customer funded advanced technology development for various other market sectors.

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, 2011. 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 interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2011, which are included in the Company's 2011 annual report.

3. Revenue and segmented information:

The Company’s business of providing advanced information solutions to business and government organizations worldwide is reported as one operating segment.

The Company’s primary sources of revenue from continuing operations are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Construction contracts	$ 105,089	$ 133,206	$ 223,673	$ 276,941
Services	58,938	61,729	112,324	124,480
	$ 164,027	$ 194,935	$ 335,997	$ 401,421

(Tabular amounts in thousands of Canadian dollars)

3. Revenue and segmented information (continued):

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

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Revenue:				
Canada	$ 56,054	$ 63,141	$ 123,574	$ 135,185
United States	45,289	44,857	88,039	91,875
Europe	41,414	63,416	81,275	130,376
Other	21,270	23,521	43,109	43,985
	$ 164,027	$ 194,935	$ 335,997	$ 401,421

Revenue from significant customers is as follows:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Canadian Federal Government and agencies	$ 50,141	$ 57,844	$ 108,185	$ 122,291
U.S. Federal Government and agencies	33,656	26,637	63,831	54,377
Radio Research and Development Institute	12,706	36,109	29,044	74,753

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

	June 30, 2012	December 31, 2011
Canada	$ 149,912	$ 143,691
United States	88,097	89,893
Europe	774	737
	$ 238,783	$ 234,321

(Tabular amounts in thousands of Canadian dollars)

4. Operating costs:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Employee salaries and benefits	$ 55,861	$ 58,522	$ 113,321	$ 120,077
Costs (recovery) related to defined benefit plans	1,054	(282)	502	939
Subcontractor costs relating to construction and service contracts	40,228	58,760	78,688	122,282
Materials, equipment, professional fees, travel and other	24,107	32,178	55,291	67,316
Direct costs, selling, general and administration	121,250	149,178	247,802	310,614
Depreciation and amortization	3,460	2,910	6,507	5,728
Share-based compensation expense	31,931	1,501	28,649	5,287
	$ 156,641	$ 153,589	$ 282,958	$ 321,629

5. Long-term debt:

	June 30, 2012	December 31, 2011
Term loan note payable:		
Term loan payable in U.S. dollars (June 30, 2012 - U.S.$100,000,000; December 31, 2011 - U.S.$100,000,000), interest at fixed rate of 5.30%, repayable at maturity on February 22, 2017	$ 101,910	$ 101,700
Prepaid facility fees	(87)	(40)
Obligations under finance leases	3,648	4,023
Total long-term debt	105,471	105,683
Current portion	(1,809)	(1,834)
Non-current portion	$ 103,662	$ 103,849

(Tabular amounts in thousands of Canadian dollars)

6. 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, 2011	31,802,982	$ 210,505
Common shares issued in conjunction with employee share purchase plan	30,966	1,385
Balance as at June 30, 2012	31,833,948	$ 211,890

7. Earnings (loss) per common share:

	Three months ended June 30,					
	2012			2011		
	Net earnings (loss)	Weighted average number of common shares outstanding	Per share amount	Net earnings (loss)	Weighted average number of common shares outstanding	Per share amount
Continuing operations:						
Earnings (loss) per common share:						
Basic	$ (1,027)	31,829,791	$ (0.03)	$ 31,625	41,161,681	$ 0.77
Share options	-	-	-	-	25,890	-
Diluted	$ (1,027)	31,829,791	$ (0.03)	$ 31,625	41,187,571	$ 0.77
Discontinued operations:						
Earnings (loss) per common share:						
Basic	$ -	31,829,791	$ -	$ (2,020)	41,161,681	$ (0.05)
Share options	-	-	-	-	25,890	-
Diluted	$ -	31,829,791	$ -	$ (2,020)	41,187,571	$ (0.05)

(Tabular amounts in thousands of Canadian dollars)

7. Earnings (loss) per common share (continued):

	Three months ended June 30, 2012: Net earnings (loss)	2012: Weighted average number of common shares outstanding	2012: Per share amount	2011: Net earnings (loss)	2011: Weighted average number of common shares outstanding	2011: Per share amount
Net earnings (loss):						
Earnings (loss) per common share:						
Basic	$ (1,027)	31,829,791	$ (0.03)	$ 29,605	41,161,681	$ 0.72
Share options	-	-	-	-	25,890	-
Diluted	$ (1,027)	31,829,791	$ (0.03)	$ 29,605	41,187,571	$ 0.72

	Six months ended June 30, 2012: Net earnings	2012: Weighted average number of common shares outstanding	2012: Per share amount	2011: Net earnings	2011: Weighted average number of common shares outstanding	2011: Per share amount
Continuing operations:						
Earnings per common share:						
Basic	$ 32,409	31,822,795	$ 1.02	$ 59,861	41,135,646	$ 1.46
Share options	-	-	-	-	39,921	-
Diluted	$ 32,409	31,822,795	$ 1.02	$ 59,861	41,175,567	$ 1.45
Discontinued operations:						
Earnings per common share:						
Basic	$ -	31,822,795	$ -	$ 54,217	41,135,646	$ 1.32
Share options	-	-	-	-	39,921	-
Diluted	$ -	31,822,795	$ -	$ 54,217	41,175,567	$ 1.32
Net earnings:						
Earnings per common share:						
Basic	$ 32,409	31,822,795	$ 1.02	$ 114,078	41,135,646	$ 2.77
Share options	-	-	-	-	39,921	-
Diluted	$ 32,409	31,822,795	$ 1.02	$ 114,078	41,175,567	$ 2.77

(Tabular amounts in thousands of Canadian dollars)

8. 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 and six months ended June 30, 2012 was $31,931,000 and $28,649,000, respectively (2011 - $1,501,000 and $5,287,000, respectively). The details are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Employee share purchase plan	$ 86	$ 99	$ 208	$ 218
Share appreciation rights	30,878	1,407	27,422	4,614
Share matching program	85	5	111	98
Deferred share units	882	(10)	908	357
	$ 31,931	$ 1,501	$ 28,649	$ 5,287

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 June 30, 2012, the intrinsic value for vested share-based payment plans is $41,767,000 (December 31, 2011 - $8,477,000).

The Company has entered into equity forward purchase agreements for 450,600 common shares of the Company in order to manage the risk associated with fluctuations in the share price of the Company relating to share-based compensation plans. For the three and six months ended June 30, 2012, the Company has recorded a fair value gain of $6,016,000 and $5,106,000, respectively (2011 - $1,779,000 and $6,347,000, respectively) relating to the equity forward purchase agreements.

(Tabular amounts in thousands of Canadian dollars)

9. Supplemental cash flow information:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Change in operating assets and liabilities:				
Trade and other receivables	$ (2,191)	$ (8,895)	$ 4,499	$ (23,510)
Construction contract assets	7,669	1,470	(5,882)	(2,929)
Financial assets, other	(58)	(33)	(50)	(1,547)
Inventories	1,220	2,009	(1,137)	772
Current tax assets	(8,926)	(3,276)	(11,689)	(5,329)
Non-financial assets	6,225	(21,460)	12,133	(8,103)
Trade and other payables	(9,477)	(574)	(24,463)	(9,029)
Current tax liabilities	-	-	-	(966)
Financial liabilities, other	553	(9,712)	(2,362)	(7,777)
Provisions	(879)	(214)	(1,941)	(362)
Construction contract liabilities	(13,099)	(18,553)	(20,926)	(57,219)
Employee benefits	(2,741)	(11,118)	(8,506)	(23,302)
Non-financial liabilities	(1,641)	(3,084)	(4,306)	(5,790)
	$ (23,345)	$ (73,440)	$ (64,630)	$ (145,091)

10. Discontinued operations:

On January 4, 2011, the Company completed the sale of its Property Information business to a third party buyer for cash consideration of U.S.$814,995,000, after tax and working capital adjustments. The Property Information business, consisting of the Company's previously reported Information Products operating segment excluding the Geospatial Services business, provided property information to insurance companies, lenders and legal professionals and was principally located in the United States and Europe. In the six months ended June 30, 2011, the Company recorded a gain on sale of discontinued operations of $54,217,000 after income taxes. The gain on sale was adjusted in subsequent quarters in 2011 to record additional transaction costs and a provision of U.S.$22,500,000 for warranty and other post transaction obligations. The cumulative gain on sale of discontinued operations in 2011 amounted to $30,132,000 after income taxes.

In the second quarter of 2012, the Company settled all remaining obligations with the buyer of the Property Information business by making cash payments of $32,327,000 for warranty and other post transaction obligations (U.S.$22,500,000) and for remaining payments due under the license and reseller agreement (U.S.$10,000,000). The Company also waived its right to any contingent consideration related to the sale of the Property Information business.

(Tabular amounts in thousands of Canadian dollars)

10. Discontinued operations (continued):

Net earnings (loss) from discontinued operations is comprised of the following:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Gain (loss) on sale of discontinued operations	$ -	$ (2,020)	$ -	$ 52,920
Income tax recovery on gain on sale of discontinued operations	-	-	-	(1,297)
Net earnings (loss) from discontinued operations	$ -	$ (2,020)	$ -	$ 54,217

Effect of disposal on the financial position of the Company as of January 4, 2011:

Cash and cash equivalents	$ (39,718)
Trade and other receivables	(23,349)
Property, plant and equipment	(9,951)
Intangible assets	(176,406)
Goodwill	(515,174)
Other assets	(12,178)
Trade and other payables	37,464
Deferred revenue	29,999
Deferred tax liabilities	16,757
Other liabilities	4,894
Net assets disposed	$ (687,662)

(Tabular amounts in thousands of Canadian dollars)

10. Discontinued operations (continued):

Consideration received, satisfied in cash net of working capital adjustments	$	813,981
Cash and cash equivalents disposed of		(39,718)
Transaction costs		(24,505)
Net cash inflow	$	749,758

Net cash flows from discontinued operations is as follows:

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Cash and cash equivalents used in operating activities	$ (32,327)	$ -	$ (35,058)	$ (6,992)

11. Pending acquisition:

On June 26, 2012, the Company executed a definitive agreement to acquire 100% of Space Systems/Loral, Inc. ("SS/L") from Loral Space & Communications Inc. ("Loral") for U.S.$875,000,000. Headquartered in Palo Alto, California, SS/L is the global market leading provider of commercial communications satellites, serving a global customer base. The boards of directors of the Company and Loral have each unanimously approved the terms of the agreement. The agreement is subject to applicable regulatory approvals and customary closing conditions and the transaction is expected to close in the second half of 2012.

During the quarter, the Company recorded an expense of $1,958,000 for legal, tax, consulting and other professional fees incurred to date in relation to the pending acquisition. The Company expects to incur additional business acquisition costs, excluding financing fees, of approximately $8,000,000 that are contingent upon closing of the transaction.

12. Approval of financial statements:

These consolidated financial statements were approved for issuance by the Board of Directors on July 25, 2012.

13. Subsequent event:

Subsequent to June 30, 2012, the Company declared a semi-annual dividend of $0.65 per common share payable on September 28, 2012 to shareholders of record at the close of business on September 14, 2012.

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