MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2016

This management's discussion and analysis ("MD&A"), dated July 28, 2016, should be read in conjunction with the cautionary statement regarding forward-looking statements below and MacDonald, Dettwiler and Associates Ltd.'s ("MDA" or the "Company") condensed consolidated interim financial statements and accompanying notes for the three and six months ended June 30, 2016, as well as the Company's annual MD&A and consolidated financial statements for the year ended December 31, 2015. Unless otherwise noted, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and all dollar amounts are expressed 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, contingencies, and business risks and uncertainties, as described in its MD&A and consolidated financial statements for the year ended December 31, 2015, are substantially unchanged.

In this report, *MDA* and *the Company* refer to MacDonald, Dettwiler and Associates Ltd. and its subsidiaries. *This quarter* means the three-month period ended June 30, 2016. *Year to date* means the six-month period ended June 30, 2016.

CAUTION REGARDING 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 Company's goal to increase access to the U.S. market under section "Overview"; the scope and anticipated revenues of customer contracts under sections "Consolidated Results - Order backlog" and "Results By Segment"; the impact of the reclassification of certain share-based compensation awards on future cash outlays under section "Consolidated Results - Net earnings"; the scope and expected benefits of the Company's enterprise improvement initiatives under section "Consolidated Results - Net earnings"; the capabilities and expected benefits to the Company's customers of satellites built by the Company under section "Results By Segment"; and the sources of liquidity the Company expects to use to meet its anticipated cash requirements under section "Liquidity".

Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made and represent management's best judgment based on facts and assumptions that management considers reasonable. The material assumptions upon which such forward-looking statements are based include, among others, assumptions with respect to: market and general economic conditions; the operations of the operating businesses of the Company continuing on a basis consistent with prior years; growth in demand for the products and services of the Company's businesses; the ability of the Company to access financing from time to time on favourable terms; the ability of the Company to realize anticipated benefits of acquisitions; the continuation of executive and operating management or the non-disruptive replacement of them on competitive terms; and currency exchange and interest rates being reasonably stable at current rates. As contained in this MD&A, the Company has made the following assumptions with respect to the forward-looking statements: the Company's goal to increase access to the U.S. market was based on the Company's ability to execute its current plans to achieve that goal, including obtaining the required regulatory approval for facility security clearance for its operations in Palo Alto, California; the scope and anticipated revenues of customer contracts was based on the Company's continuing ability to effectively service customers and enter into more contracts for the sale of *satellites and products and there being no adverse changes to customer priorities and funding levels; the impact of the reclassification of certain share-based compensation awards on future cash outlays was based on the Company's continuing ability to settle share-based compensation awards with equity; the scope and expected benefits of the Company's enterprise improvement initiatives was based on current market conditions in the commercial communication satellite market and the Company's continuing ability to implement those initiatives; the capabilities and expected benefits to the Company's customers of satellites built by the Company was based on the Company building the satellites to reliable design specifications; and the sources of liquidity the Company expects to use to meet its anticipated cash requirements was based on stable market conditions and the Company's current plans and forecasts. The Company makes no representation that reasonable business people in possession of the same information would reach the same conclusions.*

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 materially from current expectations include, but are not limited to: changes in government policies, priorities, funding levels, contracts or regulations and the failure to obtain necessary regulatory approvals and licenses; growth in the commercial satellite market is dependent on the growth in the businesses of the Company's customers and the ability of its customers to develop new services; failure of third party subcontractors to complete contracts for which the Company is the prime contractor and the limited number of suppliers for some components; inherent risks of performance on firm fixed price construction contracts and termination of contracts by customers for convenience; changes in estimates of total revenues and costs on contracts and non-receipt of payments on failure of the Company's satellites and products to perform successfully; 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 or to be accepted by a customer; inclusion of construction performance incentives in many of the Company's customer contracts; potential for component failure or performance issues on the Company's on-orbit satellites and resulting loss of revenue and harm to MDA's reputation and failure of the Company to receive data for sales or of customers to purchase data; failure of the Company to manage its acquisitions and breaches of contract and indemnities and related risks on divestitures; certain customers are highly leveraged and may not fulfil their contractual payment obligations, including vendor financing; MDA's ability to obtain certain satellite construction contracts depends, in part, on its ability to provide the customer with partial financing of working capital and any financing provided by the Company may not be repaid or the Company may be called upon to make payments; many of the Company's costs are fixed and MDA 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 MDA's ability to perform its contracts as efficiently as planned; dependence on electronic systems may be subject to data and system security threats and malfunctions; 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 offer new products to retain customers and market position; significant competition with competitors that are larger or have greater resources and foreign currency fluctuations may increase competition from the Company's non-U.S. competitors; 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 economic and political conditions; inability of suppliers or subcontractors to effect technology transfer; failure to maintain business alliances; uncertainty in financing arrangements and failure to obtain required financing on acceptable terms; changes in regulations, telecommunication standards and laws due to political and economic instability in the countries in which MDA conducts business; changes in U.S. and foreign laws and regulations, *including U.S. export control and economic sanctions laws, governing MDA's business; wrongful call on letters of credit, guarantees and performance bonds; insufficient insurance against material claims or losses; exposure to fines and/or legal sanctions under anti-corruption laws; changes in customer security requirements and the resulting cancellation of contracts; reliance on information technology systems and threats of disruption from security breaches and cyber-attacks; and failure to comply with environmental regulations.*

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, 2015, 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, primarily 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.

MDA's established global customer base is served by more than 4,800 employees operating from 13 locations in the United States, Canada, and internationally.

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

Communications

In the Communications sector, MDA offers solutions for cost-efficient global delivery of a broad range of services, including television and radio distribution, broadband internet, and mobile communications. The Company is a leading supplier of communication satellites, satellite payloads, satellite antenna subsystems, and associated ground infrastructure and support services. MDA's principal customers in this sector are communication satellite operators, communication satellite manufacturers, and government agencies worldwide.

Surveillance and Intelligence

In the Surveillance and Intelligence sector, MDA offers end-to-end solutions to monitor changes and activities around the globe to support the operational needs of government agencies, both military and civilian, and commercial customers. The Company is a leading supplier of space-based and airborne surveillance solutions, imaging satellite ground systems, geospatial information services, and associated support services. The Company also supplies robotic systems for the space and terrestrial markets.

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 impact of specified items affecting comparability, including, where applicable, non-operational income and expenses, amortization of acquisition related intangible assets, share-based compensation, 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. Income tax expense on operating earnings is computed using an estimated annual tax rate, adjusted to account for the specified items affecting comparability. *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 interest, taxes, depreciation and amortization, and adjusted for certain corporate expenses 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. The Company also discloses segment operating EBITDA as a measure of each reporting segment's profitability and contribution to operating EBITDA.

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 June 30, 2016**	**2015**	**Six months ended June 30, 2016**	**2015**
($ millions, except per common share amounts)				
Consolidated revenues	502.5	523.7	1,064.9	1,057.6
Operating EBITDA[1]	96.4	94.6	193.6	188.1
Operating earnings[1]	57.2	56.6	113.1	111.7
Operating earnings per share[1]	1.57	1.56	3.10	3.09
Net earnings	25.3	43.6	66.0	81.7
Net earnings per share, basic	0.70	1.20	1.82	2.26
Net earnings per share, diluted	0.69	1.20	1.80	2.26
Weighted average number of common shares outstanding: *(millions)*				
Basic	36.4	36.2	36.3	36.2
Diluted	36.5	36.2	36.5	36.2

Financial Position	**June 30, 2016**	**December 31, 2015**
($ millions)		
Total assets	3,293.9	3,611.0
Total long-term debt	911.0	986.3
Shareholders' equity	1,069.8	1,107.7

[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.

Access to the U.S. Market

The Company continued to make substantive progress in its pursuit to obtain facility security clearance for its operations in Palo Alto, California, through which the Company can effectively pursue and execute the broad range of U.S. government contracts including defence and intelligence work. The Company has filed its application with appropriate U.S. government agencies and is currently making compliance and organizational changes in line with its long-term plans.

Low Earth Orbit Satellite Opportunities

The Company continued to demonstrate its low Earth orbit ("LEO") satellite capability. During the quarter, the Company signed a contract with OneWeb Satellites to develop and manufacture communication antenna subsystems for the OneWeb constellation. As well, the Company signed contracts with Telesat and an undisclosed customer to build LEO satellites. With these new contracts, the Company has 21 LEO satellites in production.

Board of Directors and Management Changes

The Board of Directors of the Company (the "Board") appointed Dennis Chookaszian as the Chair of the Audit Committee, effective May 4, 2016. Mr. Chookaszian succeeded Thomas Chambers, who retired from the Board after eleven years of service.

The Board appointed Howard Lance as Chief Executive Officer and President of the Company, effective May 16, 2016. Mr. Lance replaced Daniel Friedmann, who continues to serve on the Board. Mr. Lance was also appointed to the Board during the second quarter of 2016.

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 June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
($ millions, except per common share amounts)				
Consolidated revenues	502.5	523.7	1,064.9	1,057.6
Operating EBITDA	96.4	94.6	193.6	188.1
Operating EBITDA as a percentage of revenues	*19%*	*18%*	*18%*	*18%*
Corporate expense	(4.2)	(2.2)	(8.4)	(5.3)
Net finance expense	(11.7)	(11.4)	(24.6)	(23.0)
Depreciation and amortization[1]	(14.4)	(13.7)	(29.5)	(27.6)
Income tax expense on operating earnings	(8.9)	(10.7)	(18.0)	(20.5)
Operating earnings	57.2	56.6	113.1	111.7
Operating earnings per share	*1.57*	*1.56*	*3.10*	*3.09*
Items affecting comparability:				
Share-based compensation recovery (expense)	(23.6)	0.9	(27.5)	(9.6)
Amortization of acquisition related intangible assets	(10.3)	(9.6)	(21.3)	(19.4)
Executive compensation settlement	(3.0)	-	(3.0)	-
Enterprise improvement recovery (costs)	-	0.3	(4.8)	1.9
Foreign exchange differences	(2.2)	1.5	1.6	(0.1)
Income tax expense adjustment	7.2	(6.1)	7.9	(2.8)
Net earnings	25.3	43.6	66.0	81.7

[1] Excludes amortization of acquisition related intangible assets.

Consolidated revenues

Consolidated revenues for the second quarter of 2016 were $502.5 million compared to $523.7 million for the same period of last year. Although there were a similar number of active satellite programs during each period, there were fewer at the higher revenue generating stages of the program cycle, as compared to a year ago.

Consolidated revenues for the six months ended June 30, 2016 were $1,064.9 million, consistent with the corresponding period of last year. The Communications segment contributed revenues of $764.5 million (six months ended June 30, 2015 - $770.7 million) and the Surveillance and Intelligence segment contributed revenues of $300.4 million (six months ended June 30, 2015 - $286.9 million). Refer to section “Results By Segment” of this MD&A for further discussion of the Company’s revenues by segment.

Order backlog

Order backlog was $2.5 billion as at June 30, 2016, remaining consistent with the balance as at March 31, 2016. Order backlog represents the estimated dollar value of firm funded contracts for which work has not been performed. Order backlog as reported by the Company does not include unexercised contract options and potential orders under indefinite delivery/indefinite quantity contracts. Refer to section “Results By Segment” of this MD&A for further discussion of bookings activity by segment.

Subsequent to June 30, 2016, the Company signed a contract with SiriusXM to provide two high-power communication satellites. These next generation satellites, SXM-7 and SXM-8, will help ensure continuous and reliable delivery of SiriusXM’s audio entertainment and data services to its subscribers across North America.

Operating EBITDA

Operating EBITDA is a measure utilized by management to evaluate the operational performance of the Company's operating segments. Operating EBITDA for the second quarter of 2016 increased to $96.4 million compared with $94.6 million for the same period of 2015.

For the six months ended June 30, 2016, operating EBITDA was $193.6 million compared to $188.1 million for the same period of 2015. Operating EBITDA as a percentage of revenues ("operating EBITDA margin percentage") was 18%, consistent with the corresponding period of last year. The Communications segment contributed operating EBITDA of $115.6 million (six months ended June 30, 2015 - $107.7 million) and the Surveillance and Intelligence segment contributed operating EBITDA of $78.0 million (six months ended June 30, 2015 - $80.4 million). Refer to section "Results By Segment" of this MD&A for further discussion of operating EBITDA by segment.

Corporate expense

Corporate expense for the second quarter of 2016 was $4.2 million compared to $2.2 million for the same period of 2015. For the year to date, corporate expense was $8.4 million compared to $5.3 million for the six months ended June 30, 2015. The increase over the comparative prior year periods reflected legal fees associated with the implementation of the Company's U.S. access plan and costs related to the transition of its chief executive officer. 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

The following table shows the components of net finance expense for the periods indicated.

	Three months ended June 30,		Six months ended June 30,	
	2016	**2015**	**2016**	**2015**
($ millions)				
Finance expense:				
Interest on long-term debt	8.2	7.8	16.9	15.7
Interest expense on defined benefit pension and other post-retirement benefit obligations	3.2	2.8	6.5	5.6
Capitalization of borrowing costs	(0.8)	(0.5)	(1.4)	(0.9)
Imputed interest and other	1.3	1.3	2.8	2.7
Finance income	(0.2)	(0.0)	(0.2)	(0.1)
Net finance expense	11.7	11.4	24.6	23.0

The increase in net finance expense on a year to date basis reflected the impact of foreign currency translation on interest expense denominated in U.S. dollars.

Depreciation and amortization

The following table shows depreciation and amortization expense for the periods indicated.

	Three months ended June 30,		Six months ended June 30,	
	2016	**2015**	**2016**	**2015**
($ millions)				
Property, plant and equipment	11.0	11.2	22.7	22.2
Intangible assets[1]	3.4	2.5	6.8	5.4
Depreciation and amortization	14.4	13.7	29.5	27.6

[1] Excluding intangible assets arising from acquisitions.

The increase in depreciation and amortization expense reflected the impact of foreign currency translation on U.S. dollar denominated expenses.

Income tax expense on operating earnings

Income tax expense on operating earnings for the six months ended June 30, 2016 was $18.0 million, representing an effective income tax rate of 14% compared to 15% for fiscal year 2015. Income tax expense on operating earnings is computed using an estimated annual tax rate, adjusted to account for specific items affecting comparability such as certain non-deductible share-based compensation and amortization of acquisition related intangible assets. The estimated annual tax rate on operating earnings is determined annually and may be adjusted during the year to take into account events or trends that may materially impact the rate, including, but not limited to, significant changes resulting from tax legislation, material changes in the geographic mix of income and other significant events.

Operating earnings

Operating earnings, or net earnings excluding the impact of specified items affecting comparability, were $57.2 million ($1.57 per share) for the second quarter of 2016, consistent with $56.6 million ($1.56 per share) for the same period of 2015. For the year to date, operating earnings were $113.1 million ($3.10 per share) compared to $111.7 million ($3.09 per share) for the six months ended June 30, 2015.

Net earnings

The comparison of financial results under IFRS between periods is hindered by the inclusion and variability of specified items that may not be indicative of the operational and financial performance of the Company's ongoing business. Giving effect to the specified items affecting comparability, net earnings this quarter were $25.3 million compared to $43.6 million for the second quarter of 2015. For the six months ended June 30, 2016, net earnings were $66.0 million compared to $81.7 million for the corresponding period of 2015. Certain of these specified items affecting comparability are discussed below.

Share-based compensation

Share-based compensation is an important aspect of compensation for management and key employees. However, the accounting expense based on fair valuation, which is estimated using complex option pricing models incorporating factors such as the expected life of options and market volatility, is beyond the Company's control and can vary significantly from period to period.

Share-based compensation expense for the second quarter of 2016 was $23.6 million compared to a recovery of $0.9 million for the same period of 2015. For the year to date, share-based compensation expense was $27.5 million compared to $9.6 million for the first six months of 2015. Share-based compensation expense this quarter included a charge of $15.3 million related to the settlement of executive compensation (refer to section "Related Party Transactions").

With the reclassification of certain share-based awards as equity-settled awards, the volatility to net earnings has decreased as the accounting expense for equity-settled awards is based on fair value at the date of grant. Unlike cash-settled awards, the fair value of equity-settled awards is not re-measured at each period end. In the first six months of 2016, the Company issued 35,837 common shares from treasury to settle the exercise of equity-settled awards.

The accounting expense for share-based compensation is not reflective of actual cash outlays by the Company in any particular period. The average cash outlay on share-based compensation was approximately $31 million per year over the five-year period ended June 30, 2016. Over the twelve-month period ended June 30, 2016, cash outlay on share-based compensation was equivalent to 0.8% of total salaries and benefits. The reclassification of certain share-based awards as equity-settled awards is also expected to reduce the cash outlay on share-based compensation for future periods.

Amortization of acquisition related intangible assets
The Company's acquisitions of Space Systems/Loral, LLC in 2012 and Advanced Systems in 2014 have resulted in fair value adjustments to finite life intangible assets, which are being amortized over estimated lives of five to twenty years. Amortization expense on acquisition related intangible assets for the second quarter of 2016 was $10.3 million compared to $9.6 million for the same period of last year. For the six months ended June 30, 2016, amortization expense on acquisition related intangible assets was $21.3 million (six months ended June 30, 2015 - $19.4 million). The increase was mainly due to the impact of foreign currency translation on U.S. dollar denominated expenses.

The acquisition related 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 are capitalized post-acquisition are amortized in the normal course of business. All other research and development costs are expensed as incurred. The Company believes that the exclusion of amortization expense on acquisition related intangible assets provides a better representation of the results of the Company's ongoing operations.

Executive compensation settlement
In the second quarter of 2016, the Company incurred an expense related to the settlement of Mr. Friedmann's compensation (refer to section "Related Party Transactions"). The Company believes that the exclusion of this expense from net earnings provides a better representation of the results of the Company's ongoing operations.

Enterprise improvement costs
In 2014, the Company commenced a comprehensive review of its satellite manufacturing operations. With assistance from expert industry consultants, the Company has been identifying and implementing enterprise improvement initiatives that are aimed at reducing overhead costs, increasing supply chain value and improving overall production processes in particular via automation and standardization.

In the first quarter of 2016, the Company recognized enterprise improvement costs of $4.8 million. Working with industry consultants, the Company has identified a number of new efficiency optimization projects. The consultants are also assisting the Company with the implementation of these projects over the next several quarters. The costs that were recognized in the first quarter of 2016 relate to the expected consulting fees for the entire engagement, including applicable performance incentives.

Foreign exchange differences
As described below, certain foreign exchange gains and losses recognized by the Company can result in significant variability in net earnings but have little bearing on operating performance.

(a) *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 satellite solution programs did not qualify for hedge accounting at inception of the contracts as the timing of the anticipated cash flows 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.

(b) *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 the intercompany loans. These unrealized foreign exchange gains or losses can impact the comparability of net earnings and will only reverse upon disposal or liquidation of the associated foreign operation.

(c) *Unrealized foreign exchange gains and losses on translation of long-term foreign currency denominated financial assets and liabilities*

The Company recognizes unrealized foreign exchange gains and losses when translating certain long-term foreign currency denominated financial assets and liabilities at each period end. For example, the translation of a portion of the Company's U.S. dollar denominated long-term debt and Euro denominated orbital receivables, that have neither been hedged nor subject to hedge accounting, results in the recognition of unrealized foreign exchange gains and losses in the Company's consolidated financial statements. The Company excludes these amounts as they have little bearing on the current operating performance of the Company.

The Company conducts business internationally and is subject to fluctuations in foreign currencies, particularly the U.S. dollar and the Euro. The effect of foreign currency fluctuations impacts the Company's revenues, expenses, assets, liabilities and order backlog, as reported in Canadian dollars. Fluctuations of the U.S. dollar relative to the Canadian dollar would result in variability to revenues and expenses from the Company's operations based in the United States, as well as to interest expense on long-term debt. The strengthening of the U.S. dollar relative to the Euro impacts the Company's ability to compete against its European competitors, putting pricing pressure on bids primarily in the commercial communication satellite market.

Financial position

The Company had total assets of $3.3 billion as at June 30, 2016 (December 31, 2015 - $3.6 billion). Changes in the balances of major classes of assets and liabilities, including trade receivables and payables, construction contract assets and liabilities, inventories, and financial assets, occurred in the ordinary course of business. Changes in the balances, including those of intangible assets and goodwill, also reflected the impact of foreign currency translation as the Canadian dollar strengthened against the U.S. dollar as at June 30, 2016 compared to December 31, 2015.

Total long-term debt as at June 30, 2016 was $911.0 million (December 31, 2015 - $986.3 million). The following table shows the changes to long-term debt for the six months ended June 30, 2016.

($ millions)	
Balance as at December 31, 2015	986.3
Repayment of revolving loan facility and other long-term debt	(17.4)
Foreign currency translation and other	(57.9)
Balance as at June 30, 2016	911.0

The decrease in the balance of long-term debt was attributed to foreign currency translation and net repayment on the revolving loan facility.

Shareholders' equity as at June 30, 2016 was $1,069.8 million compared to $1,107.7 million as at December 31, 2015. The following table shows the changes to shareholders' equity for the six months ended June 30, 2016.

($ millions)	
Balance as at December 31, 2015	1,107.7
Net earnings	66.0
Other comprehensive loss	(86.4)
Dividends	(26.9)
Equity-settled share-based compensation expense	6.6
Common shares issued under employee share purchase plan	2.8
Balance as at June 30, 2016	1,069.8

Other comprehensive loss was mainly comprised of unrealized foreign exchange losses arising from the translation of the results of foreign operations. Such foreign currency translation adjustments are wholly dependent on fluctuations of the Canadian dollar relative to foreign currencies and could result in unrealized gains or losses that may vary significantly from period to period.

RESULTS BY SEGMENT

The Company analyzes financial performance by segments, which group related activities within the Company. The Company's two reportable operating segments are *Communications* and *Surveillance and Intelligence*. Inter-segment transactions have been eliminated from the segmented financial information discussed below.

Communications

MDA offers solutions for cost-efficient global delivery of a broad range of services, including television and radio distribution, broadband internet, and mobile communications. The Company is a leading supplier of communication satellites, satellite payloads, satellite antenna subsystems, and associated ground infrastructure and support services. MDA's principal customers in this sector are communication satellite operators, communication satellite manufacturers, and government agencies worldwide.

The following table provides selected financial information for the Communications segment.

	Three months ended June 30,		**Six months ended June 30,**	
	2016	**2015**	**2016**	**2015**
($ millions)				
Revenues	361.4	381.7	764.5	770.7
Operating EBITDA	56.2	55.3	115.6	107.7

Second quarter revenues from Communications decreased year over year. Although there were a similar number of active satellite programs during each period, there were fewer at the higher revenue generating stages of the program cycle, as compared to a year ago. On a year to date basis, revenues were consistent with last year.

Operating EBITDA margin percentage from Communications for the six months ended June 30, 2016 was 15%, which improved on the margin percentage of 14% for the first six months of 2015. The increase reflected the mix of construction contracts in progress and a recovery of bad debts on a construction contract.

Notable bookings in the Communications segment announced during the second quarter of 2016 included:

- contract with Intelsat S.A. to build Intelsat 39, a high-power communication satellite that will provide data networking and video distribution services in Africa, Europe, the Middle East, and Asia;
- contract with Telesat to build a prototype Ka-band satellite. Telesat plans to launch the satellite into low Earth orbit in 2017 as part of the test and demonstration phase for a global constellation;
- contract with an undisclosed customer to build a LEO satellite. The Company will also provide the launch and operate the satellite on orbit;
- contract with OneWeb Satellites to develop and manufacture 3,600 communication antenna subsystems for integration on 900 satellites for the OneWeb constellation. The Company will manufacture the antenna subsystems at its facilities in Montreal, Quebec;
- two contracts with Thales Alenia Space to provide four subsystems to be installed on the Sentinel environmental monitoring satellites, part of Europe's Copernicus program; and
- contract with The Boeing Company to provide a communication subsystem to be installed on the Boeing 702MP satellite platform.

In the second quarter of 2016, four satellites built by the Company were successfully launched.

- The JCSAT-14 satellite will help Sky Perfect JSAT Corporation, Asia's largest satellite operator, expand its satellite communication services in Asia and Pacific regions.
- The Intelsat 31 satellite, built for Intelsat S.A., is an advanced high-power satellite designed to reinforce DIRECTV's direct-to-home television service and increase distribution service reliability in Latin America, as well as enhance Intelsat's existing C-band service infrastructure in the same region.
- The EchoStar XVIII satellite, built for DISH Network LLC, is a high-power multi-spot beam satellite that will augment the customer's fleet of satellites.
- The BRIsat satellite will enable PT. Bank Rakyat Indonesia (Persero) Tbk., one of the largest state-owned banks in Indonesia, to provide expanded secure banking communications to its customers.

Surveillance and Intelligence

MDA offers end-to-end solutions to monitor changes and activities around the globe to support the operational needs of government agencies, both military and civilian, and commercial customers. The Company is a leading supplier of space-based and airborne surveillance solutions, imaging satellite ground systems, geospatial information services, and associated support services. The Company also supplies robotic systems for the space and terrestrial markets.

The following table provides selected financial information for the Surveillance and Intelligence segment.

	Three months ended June 30,		Six months ended June 30,	
	2016	**2015**	**2016**	**2015**
($ millions)				
Revenues	141.2	142.0	300.4	286.9
Operating EBITDA	40.3	39.3	78.0	80.4

Revenues from Surveillance and Intelligence for the three and six months ended June 30, 2016 were consistent with the prior year periods.

Operating EBITDA margin percentage from Surveillance and Intelligence for the six months ended June 30, 2016 was 26%, down from 28% for the same period of last year but within the range of management's expectation. The margin percentage can vary from period to period with changes in the mix of activities and the volume of flowthrough items.

Notable bookings in the Surveillance and Intelligence segment announced in the second quarter of 2016 included:

- contract with the Government of Canada to provide an advanced global maritime and Arctic surveillance solution for the Department of National Defence. Named Polar Epsilon 2, the solution will be capable of receiving and exploiting information from the RADARSAT Constellation Mission satellites to timely provide maritime information over vast areas;
- contract with Malin Space Science Systems to design and build the camera focus mechanisms for NASA's Mars 2020 Rover instrument. Named SHERLOC, the instrument will be used to study Mars' surface and support the selection of return samples; and
- follow-on contract with National Geospatial-Intelligence Agency to continue providing MDA's patented Persistent Change Monitoring solution, which allows for efficient monitoring of the effects of climate change, urban sprawl, deforestation, wetlands loss, and other concerns.

QUARTERLY INFORMATION

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

	Q2 2016	**Q1 2016**	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1 2015**	**Q4 2014**	**Q3 2014**
($ millions, except per common share amounts)								
Consolidated revenues	502.5	562.4	544.3	515.4	523.7	533.9	547.0	506.6
Operating EBITDA[1]	96.4	97.2	94.8	93.9	94.6	93.5	87.4	84.8
Operating earnings[1]	57.2	55.9	54.9	54.6	56.6	55.1	53.9	50.7
Operating earnings per share	1.57	1.53	1.51	1.50	1.56	1.53	1.49	1.41
Net earnings (loss)	25.3	40.7	5.8	55.3	43.6	38.2	(35.8)	21.5
Net earnings (loss) per share, basic	0.70	1.12	0.16	1.53	1.20	1.06	(0.99)	0.60
Net earnings (loss) per share, diluted	0.69	1.10	0.16	1.41	1.20	1.06	(0.99)	0.60
Weighted average number of common shares outstanding: *(millions)*								
Basic	36.4	36.3	36.3	36.3	36.2	36.1	36.1	36.1
Diluted	36.5	36.5	36.4	36.5	36.2	36.1	36.1	36.1

[1] Refer to section "Reconciliation" for reconciliation to net earnings for the last eight quarters.

Revenues and operating EBITDA may vary from quarter to quarter due to a number of factors. They include: the size and number of construction contracts in progress; changes in the revenue mix of service and construction contracts and the contract life cycle of large construction contracts; recognition of investment tax credits; fluctuations in foreign exchange rates; volume of flowthrough items; and the impact of revisions of total cost and revenue estimates on construction contracts, including recognition of expected contract losses.

The volatility in the Company's net earnings over the last eight quarters was primarily due to the variability in share-based compensation and foreign exchange gains and losses, as well as the recognition of costs related to settlement of the ViaSat litigation, enterprise improvement initiatives, and settlement of executive compensation. These and other factors affecting the comparability of net earnings over the last eight quarters are provided in section "Reconciliation" of this MD&A.

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.

LIQUIDITY

The Company's principal sources of liquidity are cash provided by operations 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 facilities, equipment, technologies, and research and development for growth initiatives. Cash is also used to pay dividends and finance other long-term strategic business initiatives.

The Company believes that its 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.

Summary of statement of cash flows

The following table provides selected cash flow information.

	Three months ended June 30,		Six months ended June 30,	
	2016	**2015**	**2016**	**2015**
($ millions)				
Cash provided by operations[1]	80.9	93.6	171.4	169.5
Changes in operating assets and liabilities	(1.0)	(187.7)	(91.7)	(177.0)
Cash provided by (used in) operating activities	79.9	(94.1)	79.7	(7.5)
Cash used in investing activities	(29.3)	(12.1)	(53.6)	(29.6)
Cash provided by (used in) financing activities	(66.9)	101.3	(61.0)	25.8
Effect of foreign exchange on cash and cash equivalents	0.1	0.0	(4.8)	1.9
Cash and cash equivalents, beginning of period	18.0	12.6	41.5	17.1
Cash and cash equivalents, end of period[2]	1.8	7.7	1.8	7.7

[1] Before changes in operating assets and liabilities.
[2] Cash and cash equivalents less bank overdraft.

Operating activities

For the second quarter of 2016, the Company generated $79.9 million from operating activities compared to having used $94.1 million in the same period of last year. For the six months ended June 30, 2016, the Company generated $79.7 million from operating activities compared to having used $7.5 million in the corresponding period of last year.

The timing and magnitude of working capital changes will always have an impact on the cash flows provided by operating activities, given the Company's portfolio of large construction programs. Investment in working capital is also necessary to build the Company's business and manage lead times in construction activities. The Company expects working capital account balances to remain uneven. The Company efficiently funds its working capital requirements with the revolving loan facility.

Investing activities

For the second quarter of 2016, the Company used $29.3 million in investing activities compared to $12.1 million for the same period of 2015. For the six months ended June 30, 2016, the Company used $53.6 million in investing activities compared to $29.6 million for the same period of last year. The major investing activities for the year to date were purchases of property, plant and equipment of $18.7 million (six months ended June 30, 2015 - $14.8 million) and investments in technologies and software of $35.5 million (six months ended 2015 - $13.3 million). Investments in technologies and software were greater this year as the Company capitalized higher levels of development costs on certain key satellite research programs, including the digital payload program, that have progressed to the development phase.

In May 2016, the Company was awarded a contribution agreement by the Government of Canada under the Technology Demonstration Program, which provides government assistance to support large-scale research and development projects. The agreement will provide non-repayable matching contribution of up to $31.4 million for eligible costs incurred by MDA on the digital payload program and other research and development projects.

Financing activities

The Company used $66.9 million for financing activities in the second quarter of 2016 compared to having received $101.3 million in the corresponding period of 2015. The variability in second quarter cash flows, year over year, reflected the timing of draws and repayments on the revolving loan facility. Other financing activities this quarter included a dividend payment of $13.4 million (second quarter of 2015 - $13.4 million), representing a quarterly dividend of $0.37 per common share.

For the six months ended June 30, 2016, the Company used $61.0 million for financing activities compared to having received $25.8 million over the same period of 2015. The variability in cash flows was primarily due to the timing of draws and repayments on the revolving loan facility.

Credit facilities

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

	June 30, 2016	**December 31, 2015**
($ millions)		
Syndicated credit facility	449.8	495.5
Senior term notes	455.3	484.4
Financing fees	(0.6)	(0.7)
Obligations under finance leases	6.5	7.1
Long-term debt	911.0	986.3

Syndicated credit facility

The Company has in place a 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$700 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 2018. The syndicated credit facility is guaranteed by certain of the Company's subsidiaries and the loans are secured by specific assets of the Company and its subsidiaries.

Loans under the syndicated credit facility bear interest at CDOR or Bankers' Acceptance plus an applicable margin for Canadian dollar advances, and at U.S. LIBOR plus an applicable margin for U.S. dollar advances. The margin will vary with the Company's consolidated debt to EBITDA ratio. As at June 30, 2016, the applicable margin was 1.7%.

The Company has significant unused borrowing capacity under its syndicated credit facility and ready access to capital markets on an as-required basis to finance growth initiatives.

The Company also has in place a total of US$100 million in letter of credit agreements with major banks.

Senior term notes
The Company has 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"). 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 (collectively, the "senior term notes") are guaranteed by certain of the Company's subsidiaries and secured by specific assets of the Company and its subsidiaries. The senior term notes can be repaid, at the Company's option, in whole or in part, together with accrued interest and a make-whole premium. The senior term notes rank equally with the obligations under the credit agreements.

Debt covenants
As at June 30, 2016, the Company was in compliance with all covenants under its various credit facilities and long-term debt agreements.

RELATED PARTY TRANSACTIONS

As at June 30, 2016, 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 arrangements.

In the second quarter of 2016, Mr. Friedmann received a total of $18.3 million as contemplated by his 1999 employment agreement, of which $15.3 million of this amount was recorded as settlement of share-based compensation.

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, net investments and loans denominated in a currency other than the functional currency of the Company and its subsidiaries. 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.

As at June 30, 2016, the Company had foreign exchange forward purchase contracts for $357 million (December 31, 2015 - $346 million) and foreign exchange forward sales contracts for $785 million (December 31, 2015 - $746 million).

Derivative financial instruments are measured at fair values, which 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.

When derivative financial instruments are designated in a qualifying hedging relationship and hedge accounting is applied, the effectiveness of the hedges is measured at the end of each reporting period and the effective portion of changes in fair value is recognized in other comprehensive income and any ineffective portion is recognized immediately in earnings. For foreign exchange forward contracts used to manage risk associated with foreign currency rates, amounts are transferred from accumulated other comprehensive income to revenue or direct costs, selling, general and administration when the underlying transaction affects earnings. For derivative financial instruments not in a qualifying hedging relationship, changes in fair value are recognized immediately in earnings as a foreign exchange gain or loss or other account, as appropriate.

As at June 30, 2016, the Company's foreign exchange forward contracts had a cumulative net unrealized loss on fair valuation of $10 million (December 31, 2015 - cumulative net unrealized gain of $14 million). Derivative financial instruments that qualified for hedge accounting had a cumulative net loss on fair valuation of $3 million recorded in other comprehensive income as at June 30, 2016 (December 31, 2015 - cumulative net gain of $17 million).

Certain foreign exchange derivative contracts entered into by the Company to hedge foreign currency exposures did not qualify for hedge accounting as the timing of the anticipated cash flows 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 six months ended June 30, 2016, management's estimate of the foreign exchange timing differences on these derivative contracts not subject to hedge accounting was a gain of $0.9 million compared to a loss of $0.7 million for the same period of 2015.

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, 2015. In the six months ended June 30, 2016, there was no material change to the nature of risks arising from or classification of financial instruments, or related risk management objectives.

ADDITIONAL INFORMATION

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with IFRS.

There were no changes in the Company's internal controls over financial reporting that occurred in the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Because of the inherent limitations in a cost-effective control system, any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will prevent or detect all misstatements, due to error or fraud, from occurring in the consolidated financial statements.

Dividends
Quarterly common share dividends paid in 2016:

Dividend per share, paid March 31, 2016	$0.37
Dividend per share, paid June 30, 2016	$0.37

On July 28, 2016, the Company declared a quarterly dividend of $0.37 per common share payable on September 30, 2016 to shareholders of record at the close of business on September 15, 2016.

Outstanding share data
The Company's articles of incorporation authorize the issuance of an unlimited number of common shares and an unlimited number of preferred shares issuable in series. As at June 30, 2016, the Company had 36,296,305 common shares with no par value outstanding.

As at July 22, 2016, the Company had 36,302,292 common shares with no par value outstanding.

Public securities filings
Additional information about MDA, including its most recent Annual Information Form, is available on the Company's website at www.mdacorporation.com, or on SEDAR at www.sedar.com.

RECONCILIATION

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

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
($ millions)								
Operating EBITDA	96.4	97.2	94.8	93.9	94.6	93.5	87.4	84.8
Corporate expense	(4.2)	(4.2)	(2.7)	(2.9)	(2.2)	(3.1)	(2.5)	(2.9)
Net finance expense	(11.7)	(12.9)	(11.8)	(11.6)	(11.4)	(11.6)	(8.8)	(8.5)
Depreciation and amortization[1]	(14.4)	(15.1)	(15.6)	(15.6)	(13.7)	(13.9)	(12.7)	(12.7)
Income tax expense on operating earnings	(8.9)	(9.1)	(9.8)	(9.2)	(10.7)	(9.8)	(9.5)	(10.0)
Operating earnings	57.2	55.9	54.9	54.6	56.6	55.1	53.9	50.7
Items affecting comparability:								
Share-based compensation recovery (expense)	(23.6)	(3.9)	(13.9)	9.3	0.9	(10.5)	(28.1)	0.0
Amortization of acquisition related intangible assets	(10.3)	(11.0)	(10.7)	(10.5)	(9.6)	(9.8)	(8.9)	(8.0)
Executive compensation settlement	(3.0)	-	-	-	-	-	-	-
Enterprise improvement recovery (costs)	-	(4.8)	(10.4)	(4.4)	0.3	1.6	-	(15.6)
Foreign exchange differences	(2.2)	3.8	(8.9)	2.4	1.5	(1.5)	(5.1)	(3.1)
ViaSat settlement and associated activities	-	-	-	-	-	-	(47.6)	(2.5)
Pension and other post-retirement plan amendments	-	-	-	-	-	-	(1.8)	(2.1)
Acquisition related expense	-	-	-	-	-	-	(0.2)	(0.7)
Income tax expense adjustment	7.2	0.7	(5.2)	3.9	(6.1)	3.3	2.0	2.8
Net earnings (loss)	25.3	40.7	5.8	55.3	43.6	38.2	(35.8)	21.5

[1] Excludes amortization of acquisition related intangible assets.

Condensed Consolidated Interim Financial Statements of

MACDONALD, DETTWILER AND ASSOCIATES LTD.

Three and six months ended June 30, 2016 and 2015
(Unaudited)

MACDONALD, DETTWILER AND ASSOCIATES LTD.

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

	Note	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenues	4	$ 502,541	$ 523,705	$1,064,936	$1,057,601
Direct costs, selling, general and administration	5	410,471	431,862	878,647	876,425
Depreciation and amortization		24,659	23,355	50,718	47,074
Foreign exchange loss (gain)		2,014	(2,117)	(487)	(1,627)
Share-based compensation expense (recovery)	10	23,606	(941)	27,536	9,575
Other expense (income)	6	3,047	(256)	7,818	(1,890)
Earnings before interest and income taxes		38,744	71,802	100,704	128,044
Finance income		(212)	(50)	(255)	(107)
Finance expense		11,953	11,449	24,887	23,091
Earnings before income taxes		27,003	60,403	76,072	105,060
Income tax expense		1,714	16,838	10,117	23,320
Net earnings		$ 25,289	$ 43,565	$ 65,955	$ 81,740
Net earnings per common share:					
Basic	9	$ 0.70	$ 1.20	$ 1.82	$ 2.26
Diluted	9	0.69	1.20	1.80	2.26

See accompanying notes to condensed consolidated interim financial statements.

MACDONALD, DETTWILER AND ASSOCIATES LTD.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net earnings	$ 25,289	$ 43,565	$ 65,955	$ 81,740
Other comprehensive income (loss):				
Items that may be subsequently reclassified to earnings:				
Foreign currency translation adjustment	3,377	(17,674)	(72,653)	72,838
Net gain (loss) on hedge of net investment in foreign operations (net of income tax recovery of $11 and nil for the three months ended June 30, 2016 and 2015, respectively; and net of income tax expense of $823 and nil for the six months ended June 30, 2016 and 2015, respectively)	(223)	3,135	9,233	(13,095)
Effective portion of changes in fair value of derivatives designated as cash flow hedges (net of income tax expense of $7 and income tax recovery of $105 for the three months ended June 30, 2016 and 2015, respectively; and net of income tax expense of $496 and $198 for the six months ended June 30, 2016 and 2015, respectively)	(691)	(8,193)	(17,552)	19,680
Net change in fair value of derivatives designated as cash flow hedges transferred to earnings (net of income tax recovery of $70 and income tax expense of $239 for the three months ended June 30, 2016 and 2015, respectively; and net of income tax recovery of $425 and income tax expense of $93 for the six months ended June 30, 2016 and 2015, respectively)	(5,108)	(6,330)	(5,440)	(9,550)
Net change in fair value of available-for-sale financial assets (net of income tax expense of $3 and income tax recovery of $4 for the three months ended June 30, 2016 and 2015, respectively; and net of income tax expense of $1 and $13 for the six months ended June 30, 2016 and 2015, respectively)	19	(23)	3	88
Other comprehensive income (loss), net of income taxes	(2,626)	(29,085)	(86,409)	69,961
Comprehensive income (loss)	$ 22,663	$ 14,480	$ (20,454)	$ 151,701

See accompanying notes to condensed consolidated interim financial statements.

MACDONALD, DETTWILER AND ASSOCIATES LTD.

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

	Note		June 30, 2016		December 31, 2015
Assets					
Current assets:					
Cash and cash equivalents		$	22,404	$	41,557
Trade and other receivables			262,786		379,033
Financial assets, other			44,321		65,542
Construction contract assets			139,106		198,316
Inventories			122,775		144,285
Non-financial assets			163,228		166,945
Current tax assets			74,858		69,368
			829,478		1,065,046
Non-current assets:					
Orbital receivables			540,866		566,995
Financial assets, other			111,293		76,283
Non-financial assets			6,667		4,808
Deferred tax assets			19,060		12,997
Property, plant and equipment			457,143		486,450
Intangible assets			416,032		433,757
Goodwill			913,353		964,695
			2,464,414		2,545,985
		$	3,293,892	$	3,611,031
Liabilities and Shareholders' Equity					
Current liabilities:					
Bank overdraft		$	20,557	$	-
Trade and other payables			201,243		231,634
Current tax liabilities			62,061		63,863
Financial liabilities, other			43,325		44,235
Provisions			6,971		12,690
Employee benefits			118,229		106,495
Non-financial liabilities			19,547		22,540
Construction contract liabilities			428,712		606,708
Current portion of long-term debt	7		132,721		2,719
			1,033,366		1,090,884
Non-current liabilities:					
Financial liabilities, other			24,370		29,672
Provisions			37,991		39,974
Employee benefits			312,590		320,131
Non-financial liabilities			22,692		25,884
Deferred tax liabilities			14,768		13,172
Long-term debt	7		778,296		983,608
			2,224,073		2,503,325
Shareholders' equity:					
Share capital	8		516,948		510,544
Contributed surplus			40,792		37,786
Retained earnings			263,672		224,560
Accumulated other comprehensive income			248,407		334,816
			1,069,819		1,107,706
		$	3,293,892	$	3,611,031

Subsequent event (note 13)

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)

Six months ended June 30, 2016

				Accumulated other comprehensive income						
	Share capital	Contributed surplus	Retained earnings	Net gain (loss) on hedge of net investment in foreign operations	Foreign currency translation adjustment	Fair value gains (losses) on cash flow hedges	Fair value gains on available-for-sale financial assets	Actuarial gains on defined benefit pension plans and other post-retirement benefit plans	Total accumulated other comprehensive income (loss)	Total shareholders' equity
Balance as at January 1, 2016	$ 510,544	$ 37,786	$ 224,560	$ (40,484)	$ 333,240	$ 18,190	$ 888	$ 22,982	$ 334,816	$ 1,107,706
Common shares issued under employee share purchase plan	2,804	-	-	-	-	-	-	-	-	2,804
Common shares issued upon exercise of share-based compensation awards	3,600	(3,600)	-	-	-	-	-	-	-	-
Equity-settled share-based compensation expense	-	6,606	-	-	-	-	-	-	-	6,606
Dividends	-	-	(26,843)	-	-	-	-	-	-	(26,843)
Comprehensive income (loss)	-	-	65,955	9,233	(72,653)	(22,992)	3	-	(86,409)	(20,454)
Balance as at June 30, 2016	$ 516,948	$ 40,792	$ 263,672	$ (31,251)	$ 260,587	$ (4,802)	$ 891	$ 22,982	$ 248,407	$ 1,069,819

Six months ended June 30, 2015

				Accumulated other comprehensive income						
	Share capital	Contributed surplus	Retained earnings	Net 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 on defined benefit pension plans and other post-retirement benefit plans	Total accumulated other comprehensive income	Total shareholders' equity
Balance as at January 1, 2015	$ 500,203	$ 2,656	$ 135,277	$ (11,625)	$ 137,528	$ 22,748	$ 744	$ 16,444	$ 165,839	$ 803,975
Common shares issued under employee share purchase plan	2,694	-	-	-	-	-	-	-	-	2,694
Common shares issued upon exercise of share-based compensation awards	4,792	(4,792)	-	-	-	-	-	-	-	-
Reclassification of equity-settled share-based compensation awards	-	32,533	-	-	-	-	-	-	-	32,533
Equity-settled share-based compensation expense	-	1,403	-	-	-	-	-	-	-	1,403
Dividends	-	-	(26,758)	-	-	-	-	-	-	(26,758)
Comprehensive income (loss)	-	-	81,740	(13,095)	72,838	10,130	88	-	69,961	151,701
Balance as at June 30, 2015	$ 507,689	$ 31,800	$ 190,259	$ (24,720)	$ 210,366	$ 32,878	$ 832	$ 16,444	$ 235,800	$ 965,548

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)

	Note	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Cash flows provided by (used in):					
Operating activities:					
Net earnings		$ 25,289	$ 43,565	$ 65,955	$ 81,740
Adjustments to reconcile to net cash from operating activities:					
Depreciation of property, plant and equipment		10,998	11,233	22,667	22,250
Amortization of intangible assets		13,661	12,122	28,051	24,824
Share-based compensation expense (recovery)	10	23,606	(941)	27,536	9,575
Finance income		(212)	(50)	(255)	(107)
Finance expense		8,794	8,642	18,378	17,452
Foreign exchange loss (gain)		(2,139)	(549)	4,849	(9,344)
Income tax expense		1,714	16,838	10,117	23,320
Income taxes paid		(2,809)	(2,726)	(8,036)	(5,677)
Income taxes recovered		1,993	5,471	2,141	5,495
Changes in operating assets and liabilities	12(a)	(995)	(187,747)	(91,738)	(177,027)
Cash provided by (used in) operating activities		79,900	(94,142)	79,665	(7,499)
Investing activities:					
Purchase of property, plant and equipment		(10,719)	(4,763)	(18,743)	(14,846)
Purchase/development of intangible assets		(19,295)	(6,882)	(35,515)	(13,295)
Disposal of short-term investments		64	27	97	78
Decrease (increase) in restricted cash		462	(583)	299	(1,849)
Interest received on short-term investments and other		212	63	255	120
Acquisition of Advanced Systems, net of cash acquired		-	-	-	121
Cash used in investing activities		(29,276)	(12,138)	(53,607)	(29,671)
Financing activities:					
Proceeds from (repayment of) revolving loan facility and other long-term debt		(41,296)	125,950	(17,381)	109,529
Repayment of promissory note payable		-	-	-	(42,699)
Interest paid on long-term debt		(13,099)	(12,371)	(18,581)	(16,603)
Repayment of interest free government assistance		(321)	-	(535)	-
Proceeds from issuance of common shares issued under employee share purchase plan		1,223	1,135	2,383	2,290
Payment of dividends	8	(13,430)	(13,391)	(26,843)	(26,758)
Cash provided by (used in) financing activities		(66,923)	101,323	(60,957)	25,759
Decrease in cash and cash equivalents		(16,299)	(4,957)	(34,899)	(11,411)
Effect of foreign exchange on cash and cash equivalents		124	(4)	(4,811)	1,938
Cash and cash equivalents, beginning of period	12(b)	18,022	12,618	41,557	17,130
Cash and cash equivalents, end of period	12(b)	$ 1,847	$ 7,657	$ 1,847	$ 7,657

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, 2015. 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 ("IFRS") 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, 2015, which are included in the Company's 2015 annual report.

These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on July 28, 2016.

3. New standards and interpretations not yet adopted:

Amendments to IFRS 2 - Share-based Payment

In June 2016, the International Accounting Standards Board ("IASB") issued amendments to IFRS 2 - *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification from cash-settled to equity-settled. The amendments to IFRS 2 are effective prospectively for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. Retrospective or earlier adoption permitted, if information is available without the use of hindsight. The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The Company is currently evaluating the impact of the amendments to IFRS 2 on its financial statements.

(Tabular amounts in thousands of Canadian dollars, except shares, share-based compensation awards, and per share amounts)

4. Revenue and segmented information:

The Company's business is organized into market sectors based on its products and services and has two reportable operating segments: (*i*) Communications; and (*ii*) Surveillance and Intelligence.

Segmented information is prepared using the accounting policies described in note 3 of the Company's consolidated financial statements for the year ended December 31, 2015, except for the application of hedge accounting on designated hedging relationships that use derivative financial instruments to hedge foreign currency risk in customer and supplier contracts. For segment reporting, hedge accounting is applied to all such hedging relationships even when not qualifying for hedge accounting under IFRS.

The Company measures the performance of each segment based on revenue, operating EBITDA and segment profit. Operating EBITDA is a non-IFRS measure and is defined as earnings before interest, taxes, depreciation and amortization adjusted for items that management does not consider when evaluating segment performance including certain corporate expenses, foreign exchange gains and losses, adjustments relating to hedge accounting as described above, share-based compensation expense or recovery, and other income or expense. Segment profit is defined as operating EBITDA less depreciation and amortization expense, excluding amortization of acquisition related intangible assets.

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

Three months ended June 30, 2016	Communications	Surveillance and Intelligence	Inter-segment eliminations	Total
Revenues:				
External revenue	$ 361,358	$ 141,183	$ -	$ 502,541
Internal revenue	1,304	914	(2,218)	-
	362,662	142,097	(2,218)	502,541
Segment earnings:				
Operating EBITDA	56,168	40,252	-	96,420
Depreciation and amortization	12,060	2,314	-	14,374
Segment profits	44,108	37,938	-	82,046
Capital expenditures:				
Property, plant and equipment	11,009	678	-	11,687
Intangible assets	18,817	478	-	19,295
	29,826	1,156	-	30,982

(Tabular amounts in thousands of Canadian dollars, except shares, share-based compensation awards, and per share amounts)

4. Revenue and segmented information (continued):

Three months ended June 30, 2015	Communications	Surveillance and Intelligence	Inter-segment eliminations	Total
Revenues:				
External revenue	$ 381,686	$ 142,019	$ -	$ 523,705
Internal revenue	1,712	186	(1,898)	-
	383,398	142,205	(1,898)	523,705
Segment earnings:				
Operating EBITDA	55,305	39,312	-	94,617
Depreciation and amortization	11,598	2,151	-	13,749
Segment profits	43,707	37,161	-	80,868
Capital expenditures:				
Property, plant and equipment	4,469	957	-	5,426
Intangible assets	5,964	735	-	6,699
	10,433	1,692	-	12,125

Six months ended June 30, 2016	Communications	Surveillance and Intelligence	Inter-segment eliminations	Total
Revenues:				
External revenue	$ 764,507	$ 300,429	$ -	$1,064,936
Internal revenue	2,421	1,267	(3,688)	-
	766,928	301,696	(3,688)	1,064,936
Segment earnings:				
Operating EBITDA	115,623	77,977	-	193,600
Depreciation and amortization	24,793	4,665	-	29,458
Segment profits	90,830	73,312	-	164,142
Capital expenditures:				
Property, plant and equipment	18,597	1,570	-	20,167
Intangible assets	33,714	1,801	-	35,515
	52,311	3,371	-	55,682

(Tabular amounts in thousands of Canadian dollars, except shares, share-based compensation awards, and per share amounts)

4. Revenue and segmented information (continued):

Six months ended June 30, 2015	Communications	Surveillance and Intelligence	Inter-segment eliminations	Total
Revenues:				
External revenue	$ 770,730	$ 286,871	$ -	$1,057,601
Internal revenue	3,033	337	(3,370)	-
	773,763	287,208	(3,370)	1,057,601
Segment earnings:				
Operating EBITDA	107,725	80,361	-	188,086
Depreciation and amortization	23,411	4,244	-	27,655
Segment profits	84,314	76,117	-	160,431
Capital expenditures:				
Property, plant and equipment	14,543	1,934	-	16,477
Intangible assets	12,082	1,030	-	13,112
	26,625	2,964	-	29,589

Reconciliation to earnings before income taxes:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Segment profit	$ 82,046	$ 80,868	$ 164,142	$ 160,431
Corporate expenses	(4,183)	(2,163)	(8,414)	(5,271)
Amortization of acquisition related intangible assets	(10,285)	(9,606)	(21,260)	(19,419)
Foreign exchange differences	(2,181)	1,506	1,590	(12)
Share-based compensation recovery (expense) (note 10)	(23,606)	941	(27,536)	(9,575)
Finance income	212	50	255	107
Finance expense	(11,953)	(11,449)	(24,887)	(23,091)
Other income (expense) (note 6)	(3,047)	256	(7,818)	1,890
Earnings before income taxes	$ 27,003	$ 60,403	$ 76,072	$ 105,060

(Tabular amounts in thousands of Canadian dollars, except shares, share-based compensation awards, and per share amounts)

4. Revenue and segmented information (continued):

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Construction contracts	$ 434,435	$ 454,003	$ 918,717	$ 912,094
Services	68,106	69,702	146,219	145,507
	$ 502,541	$ 523,705	$1,064,936	$1,057,601

Revenue from construction contracts includes orbital income of $8,759,000 for the three months ended June 30, 2016 (2015 - $8,002,000) and $17,701,000 for the six months ended June 30, 2016 (2015 - $16,375,000).

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenue:				
United States	$ 127,829	$ 137,625	$ 277,080	$ 301,470
Canada	136,557	76,276	276,600	148,106
Europe	108,047	120,368	225,415	222,861
Asia	95,325	138,825	228,819	266,495
South America	20,144	37,426	40,443	89,699
Australia	14,133	12,867	15,347	26,592
Other	506	318	1,232	2,378
	$ 502,541	$ 523,705	$1,064,936	$1,057,601

(Tabular amounts in thousands of Canadian dollars, except shares, share-based compensation awards, and per share amounts)

4. Revenue and segmented information (continued):

Revenue from significant customers is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Commercial:				
Customer 1	$ 70,465	$ 161	$ 128,266	$ 161
Customer 2	29,473	52,713	87,737	93,135
Government:				
Canadian Federal Government and agencies	$ 61,228	$ 69,426	$ 138,959	$ 135,127
U.S. Federal Government and agencies	33,964	25,291	66,035	60,429

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

	June 30, 2016	December 31, 2015
United States	$ 1,630,429	$ 1,728,960
Canada	162,693	160,656
Europe	73	94
	$ 1,793,195	$ 1,889,710

(Tabular amounts in thousands of Canadian dollars, except shares, share-based compensation awards, and per share amounts)

5. Expenses by nature:

The following table classifies the Company's operating expenses by nature:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Employee salaries and benefits	$ 181,917	$ 163,123	$ 369,777	$ 339,193
Costs related to defined benefit plans	4,678	2,907	7,016	5,519
Costs related to defined contribution plans	4,760	3,496	9,632	8,219
Inventories used	42,719	43,908	99,682	87,165
Subcontractor costs relating to construction and service contracts	110,575	125,740	257,751	286,576
Materials, equipment, professional fees, travel and other	65,822	92,688	134,789	149,753
Direct costs, selling, general and administration	410,471	431,862	878,647	876,425
Depreciation and amortization	24,659	23,355	50,718	47,074
Foreign exchange loss (gain)	2,014	(2,117)	(487)	(1,627)
Share-based compensation expense (recovery) (note 10)	23,606	(941)	27,536	9,575
Other expense (income) (note 6)	3,047	(256)	7,818	(1,890)
	$ 463,797	$ 451,903	$ 964,232	$ 929,557

(Tabular amounts in thousands of Canadian dollars, except shares, share-based compensation awards, and per share amounts)

6. Other expense (income):

The components of other expense (income) are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Executive compensation settlement	$ 3,047	$ -	$ 3,047	$ -
Enterprise improvement costs (recovery)	-	(256)	4,771	(1,890)
	$ 3,047	$ (256)	$ 7,818	$ (1,890)

The Company recognized enterprise improvement costs of nil and $4,771,000 for the three and six months ended June 30, 2016, respectively, for consulting fees in connection with its formal restructuring plan and comprehensive review of its satellite manufacturing operations. A provision of $3,286,000 has been recognized on the balance sheet for these costs as at June 30, 2016.

In 2015, the Company revised its estimates and recognized a recovery to reverse certain enterprise improvement costs recorded in the prior year of $256,000 and $1,890,000 for the three and six months ended June 30, 2015, respectively.

During the three month period ended June 30, 2016, the Company recognized an executive compensation settlement of $18,347,000 to a related party. Of that amount, $15,300,000 has been recorded as share-based compensation expense (note 10) and $3,047,000 has been recorded as other expense.

(Tabular amounts in thousands of Canadian dollars, except shares, share-based compensation awards, and per share amounts)

7. Long-term debt:

	June 30, 2016	December 31, 2015
Syndicated credit facility:		
Revolving loan payable in U.S. dollars (June 30, 2016 - U.S.$325,000; December 31, 2015 - U.S.$358,000)	$ 422,793	$ 495,472
Revolving loan payable in Canadian dollars	27,000	-
Senior term notes payable:		
2024 Term notes payable in U.S. dollars (June 30, 2016 - U.S.$250,000; December 31, 2015 - U.S.$250,000)	325,225	346,000
2017 Term notes payable in U.S. dollars (June 30, 2016 - U.S.$100,000; December 31, 2015 - U.S.$100,000)	130,090	138,400
Financing fees	(638)	(710)
Obligations under finance leases	6,547	7,165
Total long-term debt	911,017	986,327
Current portion	(132,721)	(2,719)
Non-current portion	$ 778,296	$ 983,608

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 January 1, 2016	36,227,952	$ 510,544
Common shares issued under employee share purchase plan	32,516	2,804
Common shares issued upon exercise of share-based compensation awards	35,837	3,600
Balance as at June 30, 2016	36,296,305	$ 516,948

For the three months ended June 30, 2016, the Company declared and paid a quarterly dividend of $0.37 per common share (2015 - $0.37). For the six months ended June 30, 2016, the Company declared and paid two quarterly dividends totalling $0.74 per common share (2015 - $0.74).

(Tabular amounts in thousands of Canadian dollars, except shares, share-based compensation awards, and per share amounts)

9. Earnings per common share:

Basic earnings per common share is computed by dividing net earnings by the sum of the weighted average number of common shares outstanding during the period plus outstanding deferred share units awards.

The following table outlines the calculation of basic earnings per common share:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net earnings	$ 25,289	$ 43,565	$ 65,955	$ 81,740
Weighted average number of common shares outstanding	36,279,124	36,157,128	36,262,392	36,140,505
Deferred share units outstanding	71,878	45,995	75,882	23,125
Weighted average number of common shares outstanding - basic	36,351,002	36,203,123	36,338,274	36,163,630
Earnings per common shares - basic	$ 0.70	$ 1.20	$ 1.82	$ 2.26

Diluted earnings per common share is computed by adjusting the basic earnings per common share calculation, as described above, for the effects of all potentially dilutive share appreciation rights.

The following table outlines the calculation of diluted earnings per common share:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net earnings - basic	$ 25,289	$ 43,565	$ 65,955	$ 81,740
Effect of potentially dilutive share appreciation rights	(35)	-	(125)	-
Net earnings - dilutive	$ 25,254	$ 43,565	$ 65,830	$ 81,740
Weighted average number of common shares outstanding - basic	36,351,002	36,203,123	36,338,274	36,163,630
Effect of potentially dilutive share appreciation rights	117,359	-	132,979	-
Weighted average number of common shares outstanding - diluted	36,468,361	36,203,123	36,471,253	36,163,630
Earnings per common share - diluted	$ 0.69	$ 1.20	$ 1.80	$ 2.26

(Tabular amounts in thousands of Canadian dollars, except shares, share-based compensation awards, and per share amounts)

9. Earnings per common share (continued):

For the three and six months ended June 30, 2016, 2,325,037 and 2,164,202 share-based compensation awards (2015 - 2,342,782 and 2,342,782) were excluded from the diluted weighted average number of ordinary shares outstanding calculation because their effect would have been anti-dilutive.

The average market value of the Company's common shares for the purpose of calculating the dilutive effect of share-based compensation awards was based on quoted market prices for the period during the year in which the share-based compensation awards were outstanding.

10. Share-based payment plans:

Total share-based compensation from all forms of share-based payment plans for the three and six months ended June 30, 2016 was an expense of $23,606,000 and $27,536,000, respectively (2015 - recovery of $941,000 and expense of $9,575,000). The details are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Share appreciation rights:				
Cash-settled	$ 4,255	$ (1,894)	$ 5,129	$ 8,056
Equity-settled	3,669	1,306	6,352	1,306
Deferred share units:				
Cash-settled	-	(675)	-	(339)
Equity-settled	127	97	254	97
Executive compensation settlement (note 6)	15,300	-	15,300	-
Share matching program	39	24	80	51
Employee share purchase plan	216	201	421	404
	$ 23,606	$ (941)	$ 27,536	$ 9,575

As at June 30, 2016 the intrinsic value for vested cash-settleable share-based payment plans, being the positive difference between the market price of the Company's share and the exercise price of the award, was $10,807,000 (December 31, 2015 - $9,996,000).

(Tabular amounts in thousands of Canadian dollars, except shares, share-based compensation awards, and per share amounts)

11. Financial instruments and fair value disclosures:

(a) Financial instruments by category:

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

As at June 30, 2016:

	Financial assets at fair value through earnings	Derivative instruments in a qualifying hedging relationship	Loans and receivables	Available-for-sale financial assets	Other	Total carrying amount
Financial assets:						
Current:						
Cash and cash equivalents	$ -	$ -	$ 22,404	$ -	$ -	$ 22,404
Trade and other receivables:						
Trade accounts receivable	-	-	196,274	-	-	196,274
Orbital receivables	-	-	31,974	-	-	31,974
Other	-	-	5,092	-	29,446	34,538
	-	-	233,340	-	29,446	262,786
Financial assets, other:						
Short-term investments	-	-	-	7,559	-	7,559
Notes receivable	-	-	461	-	-	461
Derivative financial instruments	9,798	8,635	-	-	-	18,433
Restricted cash			17,868	-	-	17,868
	9,798	8,635	18,329	7,559	-	44,321
Non-current:						
Orbital receivables	-	-	540,866	-	-	540,866
Financial assets, other:						
Notes receivable	-	-	53,747	-	-	53,747
Derivative financial instruments	6,291	2,790	-	-	-	9,081
Long-term investments	-	-	-	32,713	-	32,713
Restricted cash	-	-	15,752	-	-	15,752
	6,291	2,790	69,499	32,713	-	111,293

As at June 30, 2016, long-term investments is comprised of an investment of $32,713,000 (December 31, 2015 - $32,713,000) in unquoted equity securities in which the Company does not have significant influence. The fair value of these unquoted equity securities cannot be reliably determined due to the lack of an active market. The investment is carried at cost.

(Tabular amounts in thousands of Canadian dollars, except shares, share-based compensation awards, and per share amounts)

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

(a) Financial instruments by category (continued):

As at June 30, 2016 (continued):

	Financial liabilities at fair value through earnings	Derivative instruments in a qualifying hedging relationship	Other financial liabilities	Total carrying amount
Financial liabilities:				
Current:				
Bank overdraft	$ -	$ -	$ 20,557	$ 20,557
Trade and other payables	-	-	201,243	201,243
Financial liabilities, other:				
Non-trade payables	-	-	18,120	18,120
Derivative financial instruments	12,100	13,105	-	25,205
	12,100	13,105	18,120	43,325
Long-term debt:				
Current portion of long-term debt	-	-	129,965	129,965
Obligations under finance leases	-	-	2,756	2,756
	-	-	132,721	132,721
Non-current:				
Financial liabilities, other:				
Non-trade payables	-	-	17,279	17,279
Derivative financial instruments	2,654	4,437	-	7,091
	2,654	4,437	17,279	24,370
Long-term debt:				
Long-term debt	-	-	774,505	774,505
Obligations under finance leases	-	-	3,791	3,791
	-	-	778,296	778,296

As at June 30, 2016, the Company had designated $65,045,000 (U.S.$50,000,000) (December 31, 2015 - $138,400,000 (U.S.$100,000,000)) of its 2017 Term Notes and $38,246,000 (U.S.$29,400,000) (December 31, 2015 - $52,315,000 (U.S.$37,800,000)) of foreign exchange forward sell contracts as a hedge of its investment in certain U.S. subsidiaries.

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

(b) Fair value of financial instruments:

Financial instruments carried at amortized cost:

As at June 30, 2016 and December 31, 2015, the fair values of all financial instruments carried at amortized cost, other than long-term debt and orbital receivables, approximated their carrying value. The fair value of long-term debt is estimated based on a discounted cash flow approach, categorized as Level 2 as outlined in the descriptions below. The estimated fair value of long-term debt, excluding obligations under finance leases, at June 30, 2016, was $934,156,000 (December 31, 2015 - $996,529,000) as compared to the carrying value of $904,470,000 (December 31, 2015 - $979,162,000). As at June 30, 2016, included in long-term debt is the designated portion of the net investment hedge, which had a fair value of $66,246,000 (December 31, 2015 - $142,546,000) and a carrying value of $65,045,000 (December 31, 2015 - $138,400,000). The fair value of obligations under finance leases approximates their carrying value.

The fair value of orbital receivables is estimated based on a discounted cash flow approach using discount rates that reflect the credit risk of counterparties. The estimated fair value of orbital receivables at June 30, 2016 was $647,343,000 (December 31, 2015 - $657,573,000) as compared to the carrying value of $572,840,000 (December 31, 2015 - $598,859,000).

As at June 30, 2016 and December 31, 2015, the carrying amount of financial assets pledged as collateral amounted to $1,987,433,000 and $2,189,345,000, respectively.

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).

(Tabular amounts in thousands of Canadian dollars, except shares, share-based compensation awards, and per share amounts)

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

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

Financial instruments carried at fair value (continued):

June 30, 2016	Level 1	Level 2	Level 3	Total
Assets				
Short-term investments	$ 7,559	$ -	$ -	$ 7,559
Derivative financial instruments	-	27,514	-	27,514
Total assets	$ 7,559	$ 27,514	$ -	$ 35,073
Liabilities				
Derivative financial instruments	$ -	$ 32,296	$ -	$ 32,296

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

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.

(Tabular amounts in thousands of Canadian dollars, except shares, share-based compensation awards, and per share amounts)

12. Supplemental cash flow information:

(a) Changes in operating assets and liabilities:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Trade and other receivables	$ 99,238	$ (41,951)	$ 104,937	$ 20,616
Construction contract assets	34,793	(30,802)	50,700	19,282
Financial assets, other	(28,553)	(50)	(44,946)	67
Inventories	743	(4,098)	13,540	(22,280)
Current tax assets	(14,515)	(12,143)	(17,958)	(18,968)
Non-financial assets	9,447	(30,701)	(8,130)	(4,081)
Orbital receivables	(194)	(11,337)	(8,192)	(18,405)
Trade and other payables	(23,209)	(55,322)	(21,991)	(11,003)
Financial liabilities, other	2,108	(3,434)	(3,544)	(8,046)
Provisions	(3,774)	(2,078)	(4,975)	(9,046)
Construction contract liabilities	(82,869)	4,507	(152,137)	(78,053)
Employee benefits	9,224	262	6,075	(47,213)
Non-financial liabilities	(3,434)	(600)	(5,117)	103
	$ (995)	$ (187,747)	$ (91,738)	$ (177,027)

(b) Cash and cash equivalents on the consolidated statements of cash flows are comprised of the following:

	June 30, 2016	December 31, 2015	June 30, 2015
Cash and cash equivalents	$ 22,404	$ 41,557	$ 18,562
Bank overdraft	(20,557)	-	(10,905)
	$ 1,847	$ 41,557	$ 7,657

13. Subsequent event:

On July 28, 2016, the Company declared a quarterly dividend of $0.37 per common share payable on September 30, 2016 to shareholders of record at the close of business on September 15, 2016.