MacDonald, Dettwiler and Associates Ltd.

Third Quarter Report 2014

Three and Nine Months Ended September 30, 2014

Management's Discussion and Analysis and
Unaudited Consolidated Financial Statements

Q3

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2014

For purposes of this discussion, *MDA* and *the Company* refer to MacDonald, Dettwiler and Associates Ltd. and its subsidiaries. *This quarter* means the three months ended September 30, 2014. *Year to date* means the nine months ended September 30, 2014.

ADVISORY

This management's discussion and analysis ("MD&A"), dated October 30, 2014, should be read in conjunction with the cautionary statement regarding forward-looking statements below and the Company's condensed consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2014, as well with the Company's consolidated financial statements and MD&A for the year ended December 31, 2013. Unless otherwise noted, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars. An additional advisory with respect to the use of non-IFRS financial measures is set out in section "Non-IFRS Financial Measures" of this MD&A. All quarterly information disclosed in the MD&A is based on unaudited figures.

Unless otherwise indicated, the Company's significant accounting policies and estimates, contractual obligations, commitments, contingencies, and business risks and uncertainties, as described in its MD&A for the year ended December 31, 2013, are substantially unchanged.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements that reflect the Company's current view of future events and financial performance. Forward-looking statements in this MD&A include, but are not limited to, statements regarding: the settlement of legal proceedings involving the Company under sections "Overview" and "Liquidity - Legal proceedings"; the expected benefits from enterprise improvement initiatives and the costs and timeframe for implementing those initiatives under sections "Overview" and "Consolidated Results - Net earnings"; the expected benefits from the business acquisition under section "Overview"; anticipated revenues and customer contracts under sections "Consolidated Results - Order backlog" and "Results By Segment"; impact of amendments to pension and other post-retirement plans under section "Consolidated Results - Net earnings"; progress on certain long-term construction contracts under section "Results By Segment"; the business outlook of the Company's operating segments 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 settlement of legal proceedings involving the Company was based on the terms of the settlement agreement regarding the litigation brought by ViaSat, Inc. and uncertainty in the final allocation of the consideration payable to ViaSat, Inc.; the expected benefits

from enterprise improvement initiatives and the costs and timeframe for implementing those initiatives was based on current market conditions in the commercial communication satellite market and management's current plans; the expected benefits from the business acquisition was based on the Company's ability to integrate and manage acquisitions; anticipated revenues and 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; impact of amendments to pension and other post-retirement plans was based on management's best estimates and current operating plans; progress on certain long-term construction contracts was based on the Company's ability to meet technical specifications and complete the contracts with minimal cost overrun; the business outlook of the Company's operating segments was based on current market conditions and business plans; 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; 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; MDA's ability to obtain certain satellite construction contracts depends, in part, on its ability to provide the customer with financing and any financing provided by the Company may not be repaid or the Company may be called upon to make payments; the Company's final share of the settlement obligation may differ significantly from its estimate; 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; 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 larger or greater resources; 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; changes in customer security requirements and the

resulting cancellation of contracts; 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 sanction 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; 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, 2013, 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 11 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 space-based 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 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 and manage 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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
($ millions, except per common share amounts)				
Consolidated revenues	506.6	463.3	1,551.8	1,342.3
Operating EBITDA[1]	84.8	80.4	260.8	243.4
Operating earnings[1]	50.7	46.6	154.1	131.7
Operating earnings per share[1]	1.41	1.29	4.27	3.79
Net earnings	21.5	46.5	82.9	79.9
Net earnings per share, basic and diluted	0.60	1.29	2.30	2.30
Weighted average number of common shares outstanding: *(millions)*				
Basic and diluted[2]	36.1	36.0	36.1	34.7

Financial Position	September 30, 2014	December 31, 2013
($ millions)		
Total assets	2,688.0	2,584.2
Total long-term debt	736.8	596.3
Shareholders' equity	892.7	796.1

[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.
[2] On March 27, 2013, the Company completed a public offering of 4,145,750 common shares at a price of $69.40 per share for gross proceeds of $287.7 million.

Settlement of ViaSat litigation

In September 2014, the Company's subsidiary Space Systems/Loral, LLC ("SSL"), Loral Space & Communications Inc. ("Loral") and ViaSat, Inc. ("ViaSat") entered into an agreement to settle two breach of contract and patent infringement lawsuits brought by ViaSat. Under the terms of the settlement agreement, all claims and counterclaims between the parties were dismissed. In addition, ViaSat agreed to a covenant not to sue SSL or Loral, or their respective customers and suppliers to the extent of such customer's and supplier's project or transaction with SSL or Loral, at any time for infringement of any of the patents asserted in the lawsuits as well as certain patents related to the patents asserted in the lawsuit, or for breach of the contracts asserted in the lawsuits to the extent such breach relates to the claims asserted in the lawsuits (refer to sections "Consolidated Results - Net earnings" and "Liquidity - Legal proceedings" of this MD&A).

Enterprise improvement initiatives

During the third quarter of 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. Implementation of these initiatives began in the summer of 2014 and will continue through 2016 (refer to section "Consolidated Results – Net earnings" of this MD&A).

Strategic business acquisition

Subsequent to September 30, 2014, the Company closed the acquisition of the Advanced Systems business line from General Dynamics Advanced Information Systems, Inc. This business will become part of MDA Information Systems LLC.

Located near Detroit, Michigan, the Advanced Systems business has approximately 170 employees and over 50 years of in-depth experience in development and application of radar and other information sensors for the U.S. Government. This unique capability is expected to strengthen the Company's ability to pursue future surveillance and intelligence programs in the United States.

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 September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
($ millions, except per common share amounts)				
Consolidated revenues	506.6	463.3	1,551.8	1,342.3
Operating EBITDA	84.8	80.4	260.8	243.4
Operating EBITDA as a percentage of revenues	*17%*	*17%*	*17%*	*18%*
Corporate expense	(2.9)	(3.1)	(7.6)	(8.5)
Net finance expense	(8.5)	(10.5)	(25.3)	(35.4)
Depreciation and amortization	(12.7)	(11.8)	(36.5)	(34.0)
Income tax expense on operating earnings	(10.0)	(8.4)	(37.3)	(33.8)
Operating earnings	50.7	46.6	154.1	131.7
Operating earnings per share	*1.41*	*1.29*	*4.27*	*3.79*
Items affecting comparability:				
Share-based compensation	0.0	(29.1)	(21.3)	(65.9)
Amortization of acquisition related intangible assets	(8.0)	(7.9)	(24.2)	(22.6)
Enterprise improvement costs	(15.6)	-	(15.6)	-
Litigation fees	(2.5)	-	(5.0)	-
Acquisition related expense	(0.7)	(3.0)	(0.7)	(4.9)
Pension and other post-retirement plan amendments	(2.1)	40.1	(6.4)	40.1
Foreign exchange gain (loss)	(3.1)	2.0	(5.3)	(1.2)
Foreign currency translation adjustment reclassified to earnings on liquidation of foreign operation	-	(8.9)	-	(8.9)
Write-off of bank facility fees	-	-	-	(3.1)
Income tax expense adjustment	2.8	6.7	7.3	14.7
Net earnings	21.5	46.5	82.9	79.9

Consolidated revenues

Consolidated revenues this quarter were $506.6 million compared to $463.3 million for the third quarter of 2013. The increase reflected higher activity levels and the favourable impact of foreign currency translation arising from a stronger U.S. dollar relative to the Canadian dollar.

For the year to date, consolidated revenues increased to $1.6 billion compared to $1.3 billion for the nine months ended September 30, 2013. The Communications segment accounted for revenues of $1,108.4 million (nine months ended September 30, 2013 - $1,001.3 million) and the Surveillance and Intelligence segment accounted for revenues of $443.4 million (nine months ended September 30, 2013 - $340.9 million). Refer to section "Results By Segment" of this MD&A for further discussion of the Company's revenues by segment.

Order backlog

The Company had total order backlog of $3.0 billion as at September 30, 2014, consistent with the amount as at June 30, 2014. Order backlog represents the estimated dollar value of firm funded contracts for which work has not been performed. Order backlog does not include unexercised contract options and potential orders under indefinite delivery/indefinite quantity contracts. Refer to section "Results By Segment" of this MD&A for a discussion of booking activity by segment.

Operating EBITDA

Operating EBITDA, which is a measure used by management to evaluate the operational performance of the Company's businesses, increased to $84.8 million for the third quarter of 2014 compared to $80.4 million for the same period of last year primarily due to higher volume. For the year to date, operating EBITDA was $260.8 million and operating EBITDA as a percentage of revenues ("operating EBITDA margin percentage") was 17%. This is compared to operating EBITDA of $243.4 million and operating EBITDA margin percentage of 18% for the nine months ended September 30, 2013. Refer to section "Results By Segment" of this MD&A for further discussion.

Corporate expense

Corporate expense for the third quarter of 2014 was $2.9 million, consistent with $3.1 million for the same period of 2013. Corporate expense on a year to date basis was $7.6 million compared to $8.5 million for the nine months ended September 30, 2013. 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 September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
($ millions)				
Finance expense[1]	8.6	10.5	25.6	36.3
Finance income	(0.1)	(0.0)	(0.3)	(0.9)
Net finance expense	8.5	10.5	25.3	35.4

[1] As presented in the reconciliation of operating EBITDA and operating earnings to net earnings, finance expense for the nine months ended September 30, 2013 excludes a $3.1 million charge to write-off the unamortized portion of prepaid bank facility fees relating to the term loans under the syndicated credit facility, which were fully repaid with proceeds from the share offering.

Finance expense consists primarily of interest expense on long-term debt and net interest expense on net pension obligations. The decrease in finance expense compared to the prior year periods reflects lower levels of net pension obligations outstanding and lower interest rates applicable on the revolving loan facility, partially offset by higher levels of debt.

Depreciation and amortization

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
($ millions)				
Property, plant and equipment	11.1	9.6	31.6	27.9
Intangible assets[1]	1.6	2.2	4.9	6.1
Depreciation and amortization	12.7	11.8	36.5	34.0

[1] As presented in the reconciliation of operating EBITDA and operating earnings to net earnings, amortization of intangible assets excludes those intangible assets arising from the Company's acquisition of SSL. Refer to section "Consolidated Results - Net earnings" of this MD&A for a discussion of amortization of intangible assets arising from the acquisition of SSL.

The increase in depreciation and amortization expense was primarily due to higher capital expenditures to support the growth of the Company.

Income tax expense on operating earnings

Income tax expense on operating earnings for the nine months ended September 30, 2014 was $37.3 million, reflecting an effective income tax rate of 19%. 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, increased to $50.7 million ($1.41 per share) for the third quarter of 2014 compared to $46.6 million ($1.29 per share) for the same period of 2013. For the year to date, operating earnings increased to $154.1 million ($4.27 per share) compared to $131.7 million ($3.79 per share) for the nine months ended September 30, 2013. The increase over the comparative prior year periods reflects higher operating EBITDA and lower net finance expense. The share offering completed at the end of March 2013 has a dilutive effect on earnings per share for subsequent quarters.

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 $21.5 million compared to $46.5 million for the third quarter of 2013. For the nine months ended September 30, 2014, net earnings increased to $82.9 million compared to $79.9 million for the corresponding period of 2013. 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 or recovery 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. Further, the accounting fair value adjustments are not reflective of actual cash outlays by the Company in any particular period. The average cash outlay on share-based compensation was approximately $33 million per year over the five-year period ended September 30, 2014. The Company believes that the exclusion of share-based compensation reduces volatility in net earnings and facilitates the comparison of financial results across periods.

Amortization of acquisition related intangible assets

The Company's acquisition of SSL resulted in significant fair value adjustments to definite life identifiable intangible assets, which are being amortized over estimated lives of five to twenty years. As a result, net earnings included amortization expense on acquisition related intangible assets of $8.0 million and $24.2 million for the three and nine months ended September 30, 2014, respectively.

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 can be capitalized post-acquisition will be amortized in the normal course of business. All other research and development costs are expensed as incurred.

Enterprise improvement costs
The Company recognized enterprise improvement costs of $15.6 million in the third quarter of 2014 in connection with the comprehensive review of its satellite manufacturing operations. The costs recognized are mainly for severance costs for employee terminations taking place this year and consulting fees on the overall project. The Company believes that the exclusion of these costs relating to enterprise improvement initiatives from net earnings provides for better period-to-period comparisons of operating results for the Company's ongoing operations.

The Company plans to incur additional costs on this project over the next few quarters. The Company expects to become more competitive as a result of implementing the enterprise improvement initiatives.

Litigation fees
The Company incurred legal fees and costs of $2.5 million in the third quarter of 2014 (nine months ended September 30, 2014 - $5.0 million) related to its trial defense of the litigation brought by ViaSat. The Company believes that the exclusion of these litigation fees from net earnings provides a better representation of the results of the Company's ongoing operations.

Acquisition related expense
Acquisition related expense includes legal, tax, consulting and other professional fees incurred relating to acquisitions, whether completed or abandoned. In the third quarter of 2014, the Company incurred costs of $0.7 million relating to the acquisition of the Advanced Systems business line from General Dynamics Advanced Information Systems, Inc. Since acquisition related costs are transaction specific, the Company believes that the exclusion of such costs from net earnings allows for more meaningful period-to-period comparisons of operating results.

Pension and other post-retirement plan amendments
In 2013, the Company restructured the pension and post-retirement benefit plans at SSL. The restructuring plan included amendments to the pension plans, post-retirement plans, 401(k) plans, and other benefits. As a result of these plan amendments, the Company recognized past service credits of $21.1 million for the defined benefit pension plans and $18.9 million for the post-retirement medical plan immediately in earnings in 2013, with offsetting reductions to employee benefit liabilities. In addition to the one-time retroactive adjustments, the Company incurred incremental costs of $2.1 million in the third quarter of 2014 (nine months ended September 30, 2014 - $6.4 million) relating to 401(k) plans, which are expected to continue until the end of 2014. As a result of these plan amendments, the Company expects to achieve an ongoing reduction in both cash contributions and pension and post-retirement benefits expense. The Company believes that exclusion of the past service credits and incremental 401(k) costs facilitates the comparison of financial results across periods.

Foreign exchange gains and losses
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 large dollar satellite solution programs did not qualify for hedge accounting at inception of the contracts as the timing of the anticipated cash flows and/or the contract currency for certain subcontracts could not be predicted with sufficient certainty. Accordingly, the fair value adjustments on these derivative contracts were recognized in net earnings immediately, resulting in foreign exchange timing differences. The foreign exchange timing differences can result in

significant variability in net earnings but have little bearing, other than timing, on the performance of the related programs.

(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) *Foreign exchange gains and losses on translation of foreign currency long-term debt and cash balances*
A significant portion of the long-term debt issued to finance the acquisition of SSL was denominated in U.S. dollars and is neither hedged with foreign currency forward contracts nor designated as part of a net investment hedge. The Company recognizes unrealized foreign exchange gains and losses when translating U.S. dollar denominated debt and cash balances to Canadian dollars at each period end and realizes foreign exchange gains and losses when repaying U.S. dollar debt balances.

Financial position

The Company had total assets of $2.7 billion as at September 30, 2014 (December 31, 2013 - $2.6 billion). The following table explains the significant changes in assets and liabilities over the nine months ended September 30, 2014.

In $ millions	Increase (Decrease)	Explanation
Construction contract assets	16.3	Construction contract assets are revenues earned on construction contracts in excess of progress billings. The net increase was primarily due to the variability in the timing of billings on large dollar value construction contracts in the ordinary course of business.
Inventories	(18.9)	The decrease was primarily due to high manufacturing levels and the allocation of materials and parts to satellite construction programs.
Current non-financial assets	22.5	Current non-financial assets mainly consist of advances to suppliers and prepaid expenses. The net increase was primarily due to advances made to subcontractors on construction programs.
Goodwill	34.1	The increase was solely due to the impact of foreign currency translation.
Construction contract liabilities	(156.6)	Construction contract liabilities are advance payments received from customers in excess of revenue recognized. The net decrease represented the usage of customer advance payments to fund the construction of large dollar contracts, including the RADARSAT Constellation Mission and certain communication satellites.

Total long-term debt as at September 30, 2014 was $736.8 million, representing a net increase of $140.5 million from the balance as at December 31, 2013. The following table shows the changes to long-term debt for the nine months ended September 30, 2014.

($ millions)	
Balance at December 31, 2013	596.3
Repayment of promissory note	(74.4)
Proceeds from revolving loans and other long-term debt	176.1
Foreign exchange and other	38.8
Balance at September 30, 2014	736.8

In March 2014, the Company made principal repayments on the promissory note payable to Loral. The Company made draws on the revolving loan facility to fund the repayment on the promissory note as well as for general operations.

Shareholders' equity as at September 30, 2014 was $892.7 million compared to $796.1 million as at December 31, 2013. The following table shows the changes to shareholders' equity for the nine months ended September 30, 2014.

($ millions)	
Balance at December 31, 2013	796.1
Net earnings	82.9
Other comprehensive income	57.1
Dividends	(46.9)
Common shares issued in conjunction with employee share purchase plan	3.5
Balance at September 30, 2014	892.7

Other comprehensive income was mainly comprised of unrealized foreign exchange gains 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 space-based 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 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 September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
($ millions)				
Revenues	373.0	337.0	1,108.4	1,001.3
Operating EBITDA[1]	50.6	48.5	139.0	147.4

[1] Refer to section "Reconciliations" for a reconciliation of segment operating EBITDA to segment profit, as per the note to the consolidated financial statements on segmented information.

The increase in revenues from Communications over the comparative prior year periods reflected higher activity levels on satellite construction programs and favourable foreign currency translation on operations based in the United States.

For the nine months ended September 30, 2014, operating EBITDA and related margin percentage from Communications decreased compared to the same period of last year primarily due to the higher proportion of satellite construction programs in the segment revenue mix and increased competitiveness in the commercial communication satellite market. Satellite construction programs generally have a lower average margin percentage compared to contracts for satellite antenna subsystems.

Bidding activity in the Communications segment remains at a high level. Notable bookings during the third quarter of 2014 included:

- a contract with Intelsat S.A. to construct the Intelsat 36 communication satellite;
- a contract with Bulgaria Sat AD to construct the BulgariaSat-1 communication satellite;
- an authorization to proceed from the European Space Agency ("ESA") to develop and construct a Ka-band data relay terminal flight model for use on the ESA Columbus module of the International Space Station;
- a contract with Mitsubishi Electric Corporation to provide multiple Ku- and Ka-band antenna subsystems for a telecommunication satellite; and
- a contract with an undisclosed customer to provide two communication satellite subsystems.

The Company was also selected by the U.S. Defense Advanced Research Projects Agency (DARPA) to integrate the flight hardware for a new capability designed to carry small science and technology missions to space on its geostationary satellite platform.

Operations

During the third quarter of 2014, three SSL-built communication satellites were successfully launched and commenced post-launch maneuvers according to plan. They are the AsiaSat 6 and AsiaSat 8 satellites constructed for Asia Satellite Telecommunications Co. Ltd. and the Optus 10 satellite constructed for an Australian telecommunication services provider.

In March 2014, the Company declared force majeure with respect to the ground infrastructure of the Ukraine communication satellite program. The Company has completed work on the spacecraft, which is now in storage. With the force majeure in place and no new funding available at present to address the force majeure impact, any other further work on the program is uncertain.

Subsequent to September 30, 2014, the Company's U.S. government business unit at SSL ceased to operate under a Special Security Agreement. Much of the U.S. government work that this business unit had bid on, including those with NASA and DARPA, was not subject to U.S. Foreign Ownership, Control or Influence (FOCI) mitigation requirements. The Company maintains a proxy company established under its U.S. geospatial services operations, through which the Company continues to bid and perform on classified U.S. government contracts.

Surveillance and Intelligence

MDA offers end-to-end solutions to monitor and manage 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 September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
($ millions)				
Revenues	133.6	126.2	443.4	340.9
Operating EBITDA[1]	34.2	31.9	121.8	96.0

[1] Refer to section "Reconciliations" for a reconciliation of segment operating EBITDA to segment profit, as per the note to the consolidated financial statements on segmented information.

The increase in revenues from Surveillance and Intelligence over the comparative prior year periods reflected a higher volume of activity, particularly on the RADARSAT Constellation Mission and space robotics programs. Revenues from geospatial services were slightly lower compared to the prior year periods primarily due to lower revenues on U.S. government contracts.

The increase in operating EBITDA from Surveillance and Intelligence over the comparative prior year periods was consistent with higher revenues. Segment operating EBITDA margin percentage for the nine months ended September 30, 2014 was slightly lower compared with the first nine months of 2013 as a result of the mix of revenues from construction and service contracts.

Notable bookings in the Surveillance and Intelligence segment during the third quarter of 2014 included:

- a contract with DigitalGlobe, Inc. to provide a ground station solution to an international customer to receive and process imagery and data directly from DigitalGlobe's WorldView satellites;
- a contract with the National Geospatial-Intelligence Agency (NGA) to provide software systems and services to automate the production of NGA's aeronautical charting products associated with flight operations at airports and their immediate airspace; and
- a contract with the Land Title and Survey Authority of British Columbia to provide ParcelMap BC, which will be a complete visual representation of British Columbia's government and private land parcels.

QUARTERLY INFORMATION

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

	Q3 2014	Q2 2014[3]	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
($ millions, except per common share amounts)								
Consolidated revenues	506.6	552.7	492.6	476.7	463.3	450.4	428.6	372.6
Operating EBITDA[1]	84.8	90.7	85.3	81.9	80.4	81.5	81.6	72.6
Operating earnings[1]	50.7	53.9	49.4	48.3	46.6	43.3	41.8	39.0
Operating earnings per share	1.41	1.50	1.37	1.34	1.29	1.20	1.30	1.22
Net earnings	21.5	36.5	25.0	25.2	46.5	31.1	2.2	11.0
Net earnings per share, basic and diluted	0.60	1.01	0.69	0.70	1.29	0.86	0.07	0.35
Weighted average number of common shares outstanding *(millions)*								
Basic and diluted[2]	36.1	36.1	36.1	36.0	36.0	36.0	32.1	31.9

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

[2] On March 27, 2013, the Company completed a public offering of 4,145,750 common shares at a price of $69.40 per share for gross proceeds of $287.7 million.

[3] For comparative purposes, the Company reclassified $2.4 million of ViaSat litigation costs from *Corporate expense* to *Other items - Litigation fees* in the statement of earnings. The reclassification had the impact of increasing operating earnings for the second quarter of 2014.

The Company's consolidated results include the results of SSL from the acquisition date of November 2, 2012.

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

The public share offering completed in the first quarter of 2013 had a dilutive effect on earnings per share in subsequent periods.

Net earnings for the third quarter of 2014 included costs incurred related to the enterprise improvement initiatives at the Company's satellite manufacturing operations.

Quarterly net earnings were impacted by the volatility of share-based compensation expense. Share-based compensation includes realized and unrealized fair value adjustments on share-based compensation awards, which will vary with changes to the Company's share price and timing of award exercises.

Net earnings for the third quarter of 2013 included past service credits of $40.1 million on pension and other post-retirement plan amendments, as well as a non-cash foreign exchange loss of $8.9 million for cumulative translation adjustments reclassified to earnings on final liquidation of an inactive foreign operation.

The acquisition of SSL in the fourth quarter of 2012 resulted in significant fair value adjustments to depreciable assets, and a corresponding increase to depreciation and amortization expense. As well, the Company incurred significant business acquisition costs relating to SSL, particularly in the fourth quarter of 2012. Net earnings can also fluctuate significantly from quarter to quarter due to the variability of other non-operational income and expenses, adjustments relating to hedge accounting, and other gains and losses. For further information on the items affecting the comparability of quarterly net earnings, refer to section "Reconciliations" of this MD&A.

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, including collection of orbital receivables and advance payments from customers related to long-term construction contracts, and access to credit facilities and equity capital resources, including public common share offerings. The Company's primary short-term cash requirement is to fund working capital, including supplier payments on long-term construction contracts and fixed overhead costs. Working capital requirements can vary significantly from period to period. The Company's medium-term cash requirements are to service and repay debt and to invest in the construction or acquisition of facilities, equipment and intangible assets for growth initiatives. Cash is also used to pay dividends and finance other long-term strategic business initiatives.

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 flow

The following table provides selected cash flow information.

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
($ millions)				
Cash provided by operating activities[1]	58.4	70.6	214.3	210.2
Changes in operating assets and liabilities	(79.2)	66.7	(241.4)	(204.0)
Cash provided by (used in) operating activities	(20.8)	137.3	(27.1)	6.2
Cash used in investing activities	(11.0)	(13.3)	(52.6)	(31.5)
Cash provided by (used in) financing activities	17.6	(133.6)	41.4	6.2
Effect of foreign currency on cash and cash equivalents	1.0	(0.4)	1.8	0.5
Cash and cash equivalents used in discontinued operations	-	-	-	(2.7)
Cash and cash equivalents, beginning of period	27.0	13.5	50.3	24.8
Cash and cash equivalents, end of period	13.8	3.5	13.8	3.5

[1] Before changes in operating assets and liabilities.

Operating activities

The Company continued to generate significant cash flows from operations, which were reinvested in working capital. The change in working capital for the nine months ended September 30, 2014 was primarily due to a decrease in construction contract liabilities. The Company received large advance payments on certain construction programs at the end of last fiscal year, and the Company is drawing upon the advance payments to fund progress on those programs in 2014. There was also variability in the balances of construction contract assets, inventories, non-financial assets, orbital receivables, and employee benefits, all in the ordinary course of business.

Investment in working capital is integral to the Company's business given its portfolio of long-term construction programs and commitments to meet short-term obligations. As well, continued investment in working capital is necessary to build the Company's business and manage lead times

in construction activities. The Company efficiently funds its working capital requirements with the revolving loan facility.

Investing activities
For the third quarter of 2014, investing activities primarily consisted of capital expenditures of $16.9 million (third quarter 2013 - $13.6 million) and cash inflow of $5.8 million from changes in restricted cash (third quarter 2013 - cash outflow of $0.2 million).

The increase in cash used in investing activities on a year to date basis reflected higher levels of capital expenditures in 2014. Capital expenditures generally consisted of investments in infrastructure and technology, including construction of a second thermal vacuum test chamber to increase production capacity and support growth at SSL.

Financing activities
The variability in third quarter cash flows from financing activities in 2014 and 2013 was primarily due to the timing of repayments and draws on the revolving loan facility to fund operating activities. Other financing activities for the third quarter of 2014 included payments of a semi-annual dividend and interest on long-term debt, as in the third quarter of last year.

For the nine months ended September 30, 2014, financing activities included principal repayments of $74.4 million on the promissory note payable to Loral.

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

	September 30, 2014	December 31, 2013
($ millions)		
Syndicated credit facility	302.8	112.7
Senior secured notes	392.3	372.3
Promissory note	37.7	107.4
Prepaid facility fees	(0.9)	(0.8)
Obligations under finance leases	4.9	4.7
Long-term debt	736.8	596.3

Syndicated credit facility
As at September 30, 2014, the Company had available a four-year senior secured syndicated credit facility with several North American and international banks. The syndicated credit facility is comprised of a revolving loan facility of up to US$600 million, which can be drawn in Canadian and U.S. dollars. The revolving loan facility includes a US$125 million sub limit under which letters of credit can be issued.

In the second quarter of 2014, the Company amended its syndicated credit facility. The amendment reduced the interest rates applicable to the drawn and undrawn borrowings under the facility and extended the maturity by 12 months to November 2017. In addition, certain financial covenants under the syndicated credit facility and the senior secured notes were either amended or eliminated.

Loans under the syndicated credit facility bear interest at 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 ranges from 1.25% to 3% and will vary with the Company's consolidated debt to EBITDA ratio. As at September 30, 2014, the applicable margin was 1.75%.

The syndicated credit facility is guaranteed by designated subsidiaries of the Company and the loans are secured by specific assets of the Company and its designated subsidiaries.

As at September 30, 2014, the Company also had available a US$100 million letter of credit agreement with a major bank.

Senior secured notes
As at September 30, 2014, the Company had a twelve-year senior secured note purchase agreement for US$250 million with two major U.S. private lenders (the “2024 Term Notes”). The 2024 Term Notes bear interest at a fixed rate of 4.31% per annum and are repayable in five equal annual installments beginning in November 2020. The Company also had 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 secured notes”) are guaranteed by designated subsidiaries of the Company and secured by specific assets of the Company and the designated subsidiaries. The senior secured notes can be repaid, at the Company’s option, in whole or in part, at any time, together with accrued interest and any applicable make-whole amount. The senior secured notes rank equally with the obligations under the credit agreements.

Promissory note
As at September 30, 2014, the Company had a promissory note payable to Loral related to the acquisition of SSL. The remaining balance of $37.7 million (US$33.7 million) on the promissory note bears interest at 1% per annum and is due on March 31, 2015. The promissory note is secured by a bank letter of credit.

Debt covenants
As at September 30, 2014, the Company was in compliance with all covenants under its various credit facilities and long-term debt agreements.

Legal proceedings
In consideration for settling all outstanding litigation with ViaSat, the Company and Loral agreed to pay ViaSat US$40 million in September 2014 and additional installment payments every three months commencing October 2014 through to January 2017 totaling US$60 million plus interest at 11.5%.

Loral has indemnified SSL for certain costs and damages arising from the ViaSat litigation under the terms of the purchase agreement governing the Company’s purchase of SSL from Loral. As a result of differing interpretations of the scope of Loral’s indemnification obligations, the parties have agreed to arbitration to determine a final allocation of the settlement payments. Arbitration has been scheduled for December 2014. The minimum payment to be borne by either party will be US$15 million. Until the arbitration ruling is finalized, the payments due to ViaSat will be funded equally by the Company and Loral. In September 2014, the Company and Loral each made payments of US$20 million to ViaSat to settle the US$40 million payment.

In the third quarter of 2014, the Company estimated and recognized an expense for its share of the settlement obligation. In addition, the Company reversed certain purchase accounting provisions that were set up in relation to the lawsuit and associated activities and were no longer required after the settlement. The Company has not disclosed the amount recognized as such disclosure could prejudice its position in the upcoming arbitration. To the extent that the Company’s final share of the settlement obligation differs from the amount recognized in the third quarter of 2014, the difference will be recognized once the arbitration decision is finalized.

NEW ACCOUNTING STANDARDS

On January 1, 2014, the Company adopted the following amendments to accounting standards issued by the International Accounting Standards Board:

- *Offsetting Financial Assets and Liabilities*, an amendment to IAS 32 - *Financial Instruments: Presentation*; and
- Amendments to IAS 36 - *Recoverable Amount Disclosures for Non-Financial Assets*.

The adoption of these amendments to accounting standards did not have a significant impact on the Company's consolidated financial statements.

RELATED PARTY TRANSACTIONS

As at September 30, 2014, 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.

FINANCIAL INSTRUMENTS

The Company considers the management of financial risks to be an important part of its overall corporate risk management policy. Foreign exchange forward contracts are used to hedge the Company's exposure to currency risk on sales, purchases, cash and loans denominated in a currency other than the functional currency of the Company's domestic and foreign operations. 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 September 30, 2014, the Company had foreign exchange forward purchase contracts for $221 million (December 31, 2013 - $321 million) and foreign exchange forward sale contracts for $429 million (December 31, 2013 - $358 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 September 30, 2014, the Company's foreign exchange forward contracts had a cumulative unrealized gain on fair valuation of $6.9 million (December 31, 2013 - cumulative unrealized loss of $1.2 million). Derivative financial instruments that qualified for hedge accounting had a cumulative

net gain on fair valuation of $16.2 million recorded in other comprehensive income as at September 30, 2014 (December 31, 2013 - cumulative net gain of $5.9 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 and/or the contract currency for certain subcontracts could not be predicted with sufficient certainty. Accordingly, the fair value adjustments on these derivative contracts were recognized in net earnings immediately. This resulted in timing differences between the recognition of fair value adjustments in earnings versus revenues and costs, which were recognized on the percentage of completion basis using spot rates. Had these derivative contracts qualified for hedge accounting, the fair value adjustments would have been deferred and accumulated in other comprehensive income until the hedged revenues or costs were recognized, eliminating the timing differences. For the first nine months of 2014, management's estimate of the foreign exchange timing differences on these derivative contracts not subject to hedge accounting was a loss of $3.7 million compared to a gain of $2.6 million for the same period of 2013.

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, 2013. In the third quarter of 2014, 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

During the quarter ended September 30, 2014, the Company transitioned to the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The transition to the updated framework did not have a significant impact on the Company's internal control over financial reporting.

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Dividend

Semi-annual common share dividends paid in 2014:

Dividend per share, paid March 31, 2014	$0.65
Dividend per share, paid September 30, 2014	$0.65

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 and convertible to common shares. As at September 30, 2014, the Company had 36,098,456 common shares with no par value outstanding.

As at October 24, 2014, the Company had 36,102,967 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.

RECONCILIATIONS

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

	Q3 2014	Q2 2014[1]	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
($ millions)								
Operating EBITDA	84.8	90.7	85.3	81.9	80.4	81.5	81.6	72.6
Corporate expense	(2.9)	(2.8)	(1.9)	(2.8)	(3.1)	(2.9)	(2.5)	(4.0)
Net finance expense	(8.5)	(8.3)	(8.5)	(10.5)	(10.5)	(11.8)	(13.1)	(6.9)
Depreciation and amortization	(12.7)	(11.9)	(11.9)	(12.1)	(11.8)	(11.3)	(10.9)	(8.9)
Income tax expense on operating earnings	(10.0)	(13.8)	(13.6)	(8.2)	(8.4)	(12.2)	(13.3)	(13.8)
Operating earnings	50.7	53.9	49.4	48.3	46.6	43.3	41.8	39.0
Items affecting comparability:								
Share-based compensation	0.0	(6.1)	(15.2)	(14.3)	(29.1)	(6.3)	(30.5)	(11.6)
Amortization of acquisition related intangible assets	(8.0)	(8.0)	(8.1)	(8.2)	(7.9)	(7.4)	(7.3)	(4.8)
Enterprise improvement costs	(15.6)	-	-	-	-	-	-	-
Litigation fees	(2.5)	(2.4)	-	-	-	-	-	-
Acquisition related expense	(0.7)	-	-	0.3	(3.0)	-	(1.9)	(10.8)
Pension and other post-retirement plan amendments	(2.1)	(2.1)	(2.3)	-	40.1	-	-	-
Foreign exchange gain (loss)	(3.1)	0.1	(2.3)	(4.7)	2.0	0.3	(3.7)	0.3
Foreign currency translation adjustment reclassified to earnings on liquidation of foreign operation	-	-	-	-	(8.9)	-	-	-
Write-off of bank facility fees	-	-	-	-	-	-	(3.1)	-
Loss on disposal of assets	-	-	-	-	-	-	-	(1.7)
Income tax expense adjustment	2.8	1.1	3.5	3.8	6.7	1.2	6.9	0.6
Net earnings	21.5	36.5	25.0	25.2	46.5	31.1	2.2	11.0

[1] For comparative purposes, the Company reclassified $2.4 million of ViaSat litigation costs from *Corporate expense* to *Other items - Litigation fees* in the statement of earnings.

The following tables reconciles segment operating EBITDA to segment profit for the periods indicated.

Three months ended September 30	Communications	Surveillance & Intelligence	**2014 Total**	Communications	Surveillance & Intelligence	**2013 Total**
($ millions)						
Operating EBITDA	50.6	34.2	84.8	48.5	31.9	80.4
Depreciation and amortization[1]	(11.2)	(1.5)	(12.7)	(10.0)	(1.8)	(11.8)
Segment profit	39.4	32.7	72.1	38.5	30.1	68.6

Nine months ended September 30	Communications	Surveillance & Intelligence	**2014 Total**	Communications	Surveillance & Intelligence	**2013 Total**
($ millions)						
Operating EBITDA	139.0	121.8	260.8	147.4	96.0	243.4
Depreciation and amortization[1]	(32.2)	(4.3)	(36.5)	(28.5)	(5.5)	(34.0)
Segment profit	106.8	117.5	224.3	118.9	90.5	209.4

[1] Excludes amortization of acquisition related intangible assets.

Condensed Consolidated Interim Financial Statements of

MACDONALD, DETTWILER AND ASSOCIATES LTD.

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

MACDONALD, DETTWILER AND ASSOCIATES LTD.

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

	Note	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenues		$ 499,976	$ 457,036	$1,531,654	$1,324,249
Orbital income		6,631	6,229	20,195	18,012
Total revenues	5	506,607	463,265	1,551,849	1,342,261
Direct costs, selling, general and administration	6	422,353	386,301	1,297,445	1,105,437
		84,254	76,964	254,404	236,824
Depreciation and amortization		20,724	19,688	60,697	56,570
Foreign exchange loss		5,469	6,509	6,499	11,902
Share-based compensation expense (recovery)	11	(39)	29,114	21,305	65,942
Finance income		(123)	(37)	(306)	(877)
Finance expense		8,611	10,533	25,625	39,436
Other items	7	20,909	(37,051)	27,699	(35,120)
Earnings, before income taxes		28,703	48,208	112,885	98,971
Income tax expense		7,217	1,722	29,959	19,095
Net earnings		$ 21,486	$ 46,486	$ 82,926	$ 79,876
Net earnings per common share:					
Basic and diluted	10	$ 0.60	$ 1.29	$ 2.30	$ 2.30

See accompanying notes to condensed consolidated interim financial statements.

MACDONALD, DETTWILER AND ASSOCIATES LTD.

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net earnings	$ 21,486	$ 46,486	$ 82,926	$ 79,876
Other comprehensive income (loss):				
Items that may be subsequently reclassified to earnings:				
Foreign currency translation adjustment	48,909	(17,419)	52,489	24,034
Foreign currency translation adjustment reclassified to earnings on disposition or liquidation of foreign operations (net of income taxes of nil for all periods presented)	-	8,902	-	8,902
Net gain (loss) on hedge of net investment in foreign operations (net of income taxes of nil for all periods presented)	(5,255)	1,796	(5,429)	(2,664)
Effective portion of changes in fair value of derivatives designated as cash flow hedges (net of income tax expense of $392 and income tax recovery of $103 for the three months ended September 30, 2014 and 2013, respectively; and net of income tax expense of $389 and $337 for the nine months ended September 30, 2014 and 2013, respectively)	10,096	(272)	10,306	832
Net change in fair value of derivatives designated as cash flow hedges transferred to earnings (net of income tax recovery of $153 and $8 for the three months ended September 30, 2014 and 2013, respectively; and net of income tax recovery of $121 and income tax expense of $32 for the nine months ended September 30, 2014 and 2013, respectively)	(414)	(22)	(320)	18
Net change in fair value of available-for-sale financial assets (net of income tax expense of $2 and $8 for the three months ended September 30, 2014 and 2013, respectively; and net of income tax expense of $7 and $17 for the nine months ended September 30, 2014 and 2013, respectively)	14	55	44	94
	53,350	(6,960)	57,090	31,216
Items that will not be subsequently reclassified to earnings:				
Actuarial gains on defined benefit pension plans and other post-retirement benefit plans (net of income tax of nil and income tax recovery of $1,355 for the three months ended September 30, 2014 and 2013, respectively; and net of income tax of nil and income tax recovery of $1,513 for the nine months ended September 30, 2014 and 2013, respectively)	-	1,355	-	1,513
	-	1,355	-	1,513
Other comprehensive income (loss), net of income taxes	53,350	(5,605)	57,090	32,729
Comprehensive income	$ 74,836	$ 40,881	$ 140,016	$ 112,605

See accompanying notes to condensed consolidated interim financial statements.

MACDONALD, DETTWILER AND ASSOCIATES LTD.

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

	Note	September 30, 2014	December 31, 2013
Assets			
Current assets:			
Cash and cash equivalents		$ 13,761	$ 50,307
Trade and other receivables		297,317	294,940
Financial assets, other		34,617	35,661
Construction contract assets		108,745	92,421
Inventories		96,394	115,302
Non-financial assets		132,019	109,512
Current tax assets		29,604	26,075
		712,457	724,218
Non-current assets:			
Orbital receivables		426,498	382,280
Financial assets, other		13,564	3,264
Non-financial assets		7,183	5,904
Deferred tax assets		22,729	27,173
Property, plant and equipment		388,007	365,247
Intangible assets		340,834	333,516
Goodwill		776,696	742,605
		1,975,511	1,859,989
		$ 2,687,968	$ 2,584,207
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables		$ 215,047	$ 205,792
Current tax liabilities		52,537	49,170
Financial liabilities, other		18,205	26,731
Provisions		15,221	3,720
Employee benefits		141,987	126,516
Non-financial liabilities		16,193	15,355
Construction contract liabilities		367,552	524,111
Current portion of long-term debt	8	39,788	73,429
		866,530	1,024,824
Non-current liabilities:			
Financial liabilities, other		12,809	9,238
Provisions		26,180	24,966
Employee benefits		170,469	186,318
Non-financial liabilities		8,002	8,296
Deferred tax liabilities		14,202	11,530
Long-term debt	8	697,028	522,885
		1,795,220	1,788,057
Shareholders' equity:			
Share capital	9	498,870	495,376
Contributed surplus		2,656	2,656
Retained earnings		171,085	135,071
Accumulated other comprehensive income		220,137	163,047
		892,748	796,150
		$ 2,687,968	$ 2,584,207

Contingencies (note 14)
Subsequent event (note 15)
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)

Nine months ended September 30, 2014

				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, 2014	**$ 495,376**	**$ 2,656**	**$ 135,071**	$ (1,266)	$ 47,264	$ 4,353	$ 631	$ 112,065	**$ 163,047**	**$ 796,150**
Common shares issued in conjunction with employee share purchase plan	**3,494**	**-**	**-**	-	-	-	-	-	**-**	**3,494**
Dividends	**-**	**-**	**(46,912)**	-	-	-	-	-	**-**	**(46,912)**
Comprehensive income (loss)	**-**	**-**	**82,926**	(5,429)	52,489	9,986	44	-	**57,090**	**140,016**
Balance as at September 30, 2014	**$ 498,870**	**$ 2,656**	**$ 171,085**	$ (6,695)	$ 99,753	$ 14,339	$ 675	$ 112,065	**$ 220,137**	**$ 892,748**

Nine months ended September 30, 2013

				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 on cash flow hedges	Fair value gains on available-for-sale financial assets	Actuarial gains (losses) 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, 2013	**$ 213,222**	**$ 2,698**	**$ 74,221**	$ 3,900	$ (17,055)	$ 1,958	$ 448	$ (12,583)	**$ (23,332)**	**$ 266,809**
Common shares issued in conjunction with employee share purchase plan	**2,316**	**-**	**-**	-	-	-	-	-	**-**	**2,316**
Settlement of share-based compensation	**-**	**(42)**	**(56)**	**-**	-	-	-	-	**-**	**(98)**
Issuance of common shares	**278,319**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**278,319**
Dividends	**-**	**-**	**(44,139)**	-	-	-	-	-	**-**	**(44,139)**
Comprehensive income (loss)	**-**	**-**	**79,876**	(2,664)	32,936	850	94	1,513	**32,729**	**112,605**
Balance as at September 30, 2013	**$ 493,857**	**$ 2,656**	**$ 109,902**	$ 1,236	$ 15,881	$ 2,808	$ 542	$ (11,070)	**$ 9,397**	**$ 615,812**

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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Cash flows provided by (used in):					
Operating activities:					
Net earnings from continuing operations		$ 21,486	$ 46,486	$ 82,926	$ 79,876
Adjustments to reconcile to net cash from operating activities:					
Depreciation of property, plant and equipment		11,052	9,585	31,645	27,867
Amortization of intangible assets		9,672	10,103	29,052	28,703
Share-based compensation expense (recovery)	11	(39)	29,114	21,305	65,942
Past service credits on pension and other post-retirement plan amendments		-	(40,051)	-	(40,051)
Finance income		(123)	(37)	(306)	(877)
Finance expense		6,505	7,483	19,593	30,286
Foreign exchange loss		963	5,430	4,315	11,254
Income tax expense		7,217	1,722	29,959	19,095
Income taxes paid		(1,886)	(3,673)	(13,285)	(17,742)
Income taxes recovered		3,613	4,385	9,063	5,926
Changes in operating assets and liabilities	13	(79,230)	66,728	(241,392)	(204,033)
Cash provided by (used in) operating activities of continuing operations		(20,770)	137,275	(27,125)	6,246
Investing activities:					
Purchase of property, plant and equipment		(10,968)	(7,796)	(34,763)	(23,773)
Proceeds from government assistance related to property, plant and equipment		-	-	-	1,800
Purchase / development of intangible assets		(5,930)	(5,755)	(19,036)	(16,286)
Disposal (purchase) of short-term investments		(9)	(34)	53	32
Decrease (increase) in restricted cash		5,768	(152)	773	3,013
Interest received on short-term investments and others		128	444	328	3,671
Cash used in investing activities of continuing operations		(11,011)	(13,293)	(52,645)	(31,543)
Financing activities:					
Repayment of promissory note payable	8	-	-	(74,423)	-
Repayment of term loans under Syndicated Credit Facility		-	-	-	(252,125)
Proceeds from (repayment of) revolving loan facility and other long-term debt		43,747	(106,785)	176,145	42,061
Interest paid on long-term debt		(3,530)	(3,870)	(18,840)	(21,651)
Proceeds from interest free government assistance		-	-	2,505	5,042
Proceeds from issuance of common shares relating to public offering		-	-	-	287,715
Share issuance costs of public share offering		-	(256)	-	(12,528)
Proceeds from issuance of common shares relating to share-based compensation plans		870	768	2,970	1,969
Purchase of common shares for settlement of share-based compensation plans		-	-	-	(98)
Payment of dividends	9	(23,464)	(23,424)	(46,912)	(44,139)
Cash provided by (used in) financing activities of continuing operations		17,623	(133,567)	41,445	6,246
Cash and cash equivalents used in continuing operations		(14,158)	(9,585)	(38,325)	(19,051)
Cash and cash equivalents used in discontinued operations		-	-	-	(2,752)
Effect of foreign currency on cash and cash equivalents of continuing operations		973	(385)	1,779	502
Cash and cash equivalents, beginning of period		26,946	13,505	50,307	24,836
Cash and cash equivalents, end of period		$ 13,761	$ 3,535	$ 13,761	$ 3,535

Supplementary cash flow information (note 13)

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, 2013, except as described in note 3. These condensed consolidated interim financial statements have been prepared in compliance with IAS 34 - *Interim Financial Reporting*. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("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, 2013, which are included in the Company's 2013 annual report.

Certain immaterial amounts of the prior year related to finance expense and direct costs, selling, general and administration have been reclassified to conform with the presentation adopted in the current year.

These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on October 30, 2014.

3. Changes in accounting policies:

On January 1, 2014, the Company adopted the following amendments to accounting standards issued by the International Accounting Standards Board ("IASB"):

- *Offsetting Financial Assets and Liabilities*, an amendment to IAS 32 - *Financial Instruments: Presentation*
- Amendments to IAS 36 - *Recoverable Amount Disclosures For Non-Financial Assets*

The adoption of these amendments to accounting standards resulted in changes to presentation and disclosure in the Company's notes to consolidated financial statements, but otherwise did not have a significant impact on the Company's consolidated financial statements.

4. New standards and interpretations not yet adopted:

IFRS 9 - Financial Instruments

In July 2014, the IASB issued IFRS 9 - *Financial Instruments*, which replaces the earlier versions of IFRS 9 (2009, 2010, and 2013) and completes the IASB's project to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 includes a logical model for classification and measurement of financial assets; a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Earlier adoption is permitted. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers*, which supersedes IAS 18 - *Revenue*, IAS 11 - *Construction Contracts* and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers to determine how and when an entity should recognize revenue. The standard also provides guidance on whether revenue should be recognized at a point in time or over time as well as requirements for more informative, relevant disclosures. IFRS 15 is effective for annual periods beginning on or after January 1, 2017 with earlier adoption permitted. The Company is currently evaluating the impact of IFRS 15 on its financial statements.

5. Revenue and segmented information:

The Company 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, 2013, 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 items. Segment profit is defined as operating EBITDA less depreciation and amortization expense, excluding amortization of acquisition related intangible assets.

5. Revenue and segmented information (continued):

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

Three months ended September 30, 2014	Communications	Surveillance and Intelligence	Inter-segment eliminations	Total
Revenues:				
External revenue	$ 372,972	$ 133,635	$ -	$ 506,607
Internal revenue	850	402	(1,252)	-
	373,822	134,037	(1,252)	506,607
Segment earnings:				
Operating EBITDA	50,622	34,165	-	84,787
Depreciation and amortization	11,238	1,448	-	12,686
Segment profit	39,384	32,717	-	72,101
Capital expenditures:				
Property, plant and equipment	10,129	1,687	-	11,816
Intangible assets	5,399	574	-	5,973
	15,528	2,261	-	17,789

Three months ended September 30, 2013	Communications	Surveillance and Intelligence	Inter-segment eliminations	Total
Revenues:				
External revenue	$ 337,030	$ 126,235	$ -	$ 463,265
Internal revenue	431	412	(843)	-
	337,461	126,647	(843)	463,265
Segment earnings:				
Operating EBITDA	48,461	31,905	-	80,366
Depreciation and amortization	9,999	1,812	-	11,811
Segment profit	38,462	30,093	-	68,555
Capital expenditures:				
Property, plant and equipment	7,907	630	-	8,537
Intangible assets	5,699	47	-	5,746
	13,606	677	-	14,283

5. Revenue and segmented information (continued):

Nine months ended September 30, 2014	Communications	Surveillance and Intelligence	Inter-segment eliminations	Total
Revenues:				
External revenue	$1,108,427	$ 443,422	$ -	$ 1,551,849
Internal revenue	3,065	3,096	(6,161)	-
	1,111,492	446,518	(6,161)	1,551,849
Segment earnings:				
Operating EBITDA	139,003	121,763	-	260,766
Depreciation and amortization	32,169	4,297	-	36,466
Segment profit	106,834	117,466	-	224,300
Capital expenditures:				
Property, plant and equipment	34,250	3,545	-	37,795
Intangible assets	17,846	1,203	-	19,049
	52,096	4,748	-	56,844

Nine months ended September 30, 2013	Communications	Surveillance and Intelligence	Inter-segment eliminations	Total
Revenues:				
External revenue	$1,001,345	$ 340,916	$ -	$ 1,342,261
Internal revenue	1,525	1,587	(3,112)	-
	1,002,870	342,503	(3,112)	1,342,261
Segment earnings:				
Operating EBITDA	147,438	96,014	-	243,452
Depreciation and amortization	28,560	5,457	-	34,017
Segment profit	118,878	90,557	-	209,435
Capital expenditures:				
Property, plant and equipment	24,519	1,885	-	26,404
Intangible assets	16,554	268	-	16,822
	41,073	2,153	-	43,226

5. Revenue and segmented information (continued):

Reconciliation to earnings before income taxes:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Segment profit	$ 72,101	$ 68,555	$ 224,300	$ 209,435
Corporate expenses	(2,935)	(3,071)	(7,614)	(8,465)
Amortization of acquisition related intangible assets	(8,038)	(7,877)	(24,231)	(22,553)
Difference in hedge accounting policy	2,402	(331)	1,252	1,837
Foreign exchange loss	(5,469)	(6,509)	(6,499)	(11,902)
Share-based compensation recovery (expense)	39	(29,114)	(21,305)	(65,942)
Finance income	123	37	306	877
Finance expense	(8,611)	(10,533)	(25,625)	(39,436)
Other items	(20,909)	37,051	(27,699)	35,120
Earnings before income taxes	$ 28,703	$ 48,208	$ 112,885	$ 98,971

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Construction contracts	$ 441,776	$ 399,155	$1,354,457	$ 1,159,427
Services	64,831	64,110	197,392	182,834
	$ 506,607	$ 463,265	$1,551,849	$ 1,342,261

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenue:				
United States	$ 168,992	$ 153,438	$ 508,817	$ 425,250
Asia	88,269	45,865	235,501	153,320
Canada	72,608	64,664	250,969	168,864
Europe	65,810	57,294	201,378	195,716
South America	59,249	53,270	163,154	127,275
Australia	51,213	87,671	189,904	257,743
Other	466	1,063	2,126	14,093
	$ 506,607	$ 463,265	$1,551,849	$ 1,342,261

5. Revenue and segmented information (continued):

Revenue from significant customers is as follows:

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Commercial:				
Customer 1	$ 85,941	$ 62,042	$ 254,798	$ 133,417
Customer 2	58,408	54,784	160,434	130,859
Customer 3	33,770	69,232	137,936	201,608
Customer 4	33,586	33,556	118,788	123,232
Government:				
Canadian Federal Government and agencies	$ 66,545	$ 54,440	$ 233,813	$ 131,413
U.S. Federal Government and agencies	24,191	26,866	71,503	88,181

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

	September 30, 2014	December 31, 2013
United States	$ 1,361,178	$ 1,294,539
Canada	151,494	151,984
Europe	48	749
	$ 1,512,720	$ 1,447,272

6. Operating costs:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Employee salaries and benefits	$ 172,448	$ 148,274	$ 496,497	$ 464,863
Costs related to defined benefit plans	1,696	3,948	4,944	12,538
Subcontractor costs relating to construction and service contracts	148,675	147,879	449,967	408,047
Materials, equipment, professional fees, travel and other	99,534	86,200	346,037	219,989
Direct costs, selling, general and administration	422,353	386,301	1,297,445	1,105,437
Depreciation and amortization	20,724	19,688	60,697	56,570
Share-based compensation expense (recovery)	(39)	29,114	21,305	65,942
Other items (note 7)	20,909	(37,051)	27,699	(35,120)
	$ 463,947	$ 398,052	$1,407,146	$1,192,829

7. Other items:

The components of other items are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Enterprise improvement costs	$ 15,591	$ -	$ 15,591	$ -
Litigation fees	2,525	-	4,953	-
Acquisition related expense	722	3,000	722	4,931
Past service credits on pension and other post-retirement plan amendments	-	(40,051)	-	(40,051)
Employee benefit expense	2,071	-	6,433	-
	$ 20,909	$ (37,051)	$ 27,699	$ (35,120)

In the third quarter of 2014, the Company commenced implementation of a formal restructuring plan as part of 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 operating costs. Enterprise improvement costs for the third quarter include severance for employee terminations taking place in 2014 and consulting fees for the overall project. A provision of $12,300,000 has been recognized as of September 30, 2014.

7. Other items (continued):

Litigation fees includes legal fees and costs related to the Company's trial defense against ViaSat, Inc. and ViaSat Communications, Inc. (see note 14). The Company incurred litigation fees of $2,525,000 and $4,953,000 for the three and nine months ended September 30, 2014, respectively.

Acquisition related expense includes legal, tax, consulting and other professional fees incurred relating to acquisitions, whether completed or abandoned. In the third quarter of 2014, the Company incurred costs relating to the acquisition of the Advanced Systems business line from General Dynamics Advanced Information Systems, Inc. (see note 15).

In the third quarter of 2013, the Company restructured the pension and post-retirement benefit plans at one of its operating divisions. The restructuring plan included amendments to the defined benefit pension plans, post-retirement plans, 401(k) plans, and other benefits. As a result of these plan amendments, the Company recognised past service credits of $21,134,000 for the defined benefit pension plans and $18,917,000 for the post-retirement medical plan immediately in earnings in 2013, with offsetting reductions to employee benefit liabilities. In addition to the one-time retroactive adjustments, the Company incurred incremental costs relating to 401(k) plans of $2,071,000 and $6,433,000 for the three and nine months ended September 30, 2014, respectively.

8. Long-term debt:

	September 30, 2014	December 31, 2013
Syndicated credit facility:		
Revolving loan payable in U.S. dollars (September 30, 2014 - U.S.$238,000; December 31, 2013 - U.S.$106,000)	$ 266,750	$ 112,742
Revolving loan payable in Canadian dollars	36,000	-
Senior term notes payable:		
2024 Term notes payable in U.S. dollars (September 30, 2014 - U.S.$250,000; December 31, 2013 - U.S.$250,000)	280,200	265,900
2017 Term notes payable in U.S. dollars (September 30, 2014 - U.S.$100,000; December 31, 2013 - U.S.$100,000)	112,080	106,360
Promissory note payable:		
Promissory note payable in U.S. dollars (September 30, 2014 - U.S.$33,667; December 31, 2013 - U.S.$101,000)	37,734	107,424
Financing fees	(877)	(827)
Obligations under finance leases	4,929	4,715
Total long-term debt	736,816	596,314
Current portion	(39,788)	(73,429)
Non-current portion	$ 697,028	$ 522,885

On March 31, 2014, the Company made principal repayments of $74,423,000 (U.S.$67,333,000) on its $113,201,000 (U.S.$101,000,000) promissory note payable to Loral. The final installment of $37,734,000 (U.S.$33,667,000) is due on March 31, 2015.

In the second quarter of 2014, the Company amended its syndicated credit facility. The amendment reduced the interest rates applicable to the drawn and undrawn borrowings under the facility and extended the maturity by 12 months to November 2017. In addition, certain financial covenants under the syndicated credit facility and the senior secured notes were either amended or eliminated.

9. Share capital:

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

Common shares issued and fully paid:

	Number of shares	Amount
Balance as at December 31, 2013	36,056,381	$ 495,376
Common shares issued in conjunction with employee share purchase plan	42,075	3,494
Balance as at September 30, 2014	36,098,456	$ 498,870

For the three months ended September 30, 2014, the Company declared and paid a semi-annual dividend of $0.65 per common share (2013 - $0.65). During the nine months ended September 30, 2014, the Company declared and paid dividends of $1.30 per common share (2013 - $1.30).

10. Earnings per common share:

	Three months ended September 30,					
	2014			2013		
	Net earnings	Weighted average number of common shares outstanding	Per share amount	Net earnings	Weighted average number of common shares outstanding	Per share amount
Earnings per common share:						
Basic and diluted	$ 21,486	36,094,227	$ 0.60	$ 46,486	36,033,964	$ 1.29

	Nine months ended September 30,					
	2014			2013		
	Net earnings	Weighted average number of common shares outstanding	Per share amount	Net earnings	Weighted average number of common shares outstanding	Per share amount
Earnings per common share:						
Basic and diluted	$ 82,926	36,081,265	$ 2.30	$ 79,876	34,741,904	$ 2.30

11. Share-based payment plans:

Total share-based compensation from all forms of share-based payment plans for the three and nine months ended September 30, 2014 was a recovery of $39,000 and expense of $21,305,000, respectively (2013 – expense of $29,114,000 and $65,942,000, respectively). The details are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Share appreciation rights	$ (122)	$ 27,984	$ 20,142	$ 63,304
Deferred share units	(85)	789	552	1,899
Share matching program	14	206	87	392
Employee share purchase plan	154	135	524	347
	$ (39)	$ 29,114	$ 21,305	$ 65,942

At September 30, 2014, the intrinsic value for vested 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 $16,593,000 (December 31, 2013 - $32,629,000).

12. Financial instruments and fair value disclosures:

(a) Financial instruments by category:

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

At September 30, 2014:

	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	$ -	$ -	$ 13,761	$ -	$ -	$ 13,761
Trade and other receivables:						
Trade accounts receivable	-	-	254,304	-	-	254,304
Orbital receivables	-	-	18,404	-	-	18,404
Other receivables	-	-	2,638	-	21,971	24,609
	-	-	275,346	-	21,971	297,317
Financial assets, other:						
Short-term investments	-	-	-	6,529	-	6,529
Notes receivable	-	-	405	-	-	405
Derivative financial instruments	7,943	7,870	-	-	-	15,813
Restricted cash	-	-	11,870	-	-	11,870
	7,943	7,870	12,275	6,529	-	34,617
Non-current:						
Orbital receivables	-	-	426,498	-	-	426,498
Financial assets, other:						
Notes receivable	-	-	1,082	-	-	1,082
Derivative financial instruments	1,940	4,271	-	-	-	6,211
Restricted cash	-	-	6,271	-	-	6,271
	1,940	4,271	7,353	-	-	13,564

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

(a) Financial instruments by category (continued):

At September 30, 2014 (continued):

	Financial liabilities at fair value through earnings	Derivative instruments in a qualifying hedging relationship	Other financial liabilities	Total carrying amount
Financial liabilities:				
Current:				
Trade and other payables	$ -	$ -	$ 215,047	$ 215,047
Financial liabilities, other:				
Non-trade payables	-	-	9,337	9,337
Derivative financial instruments	8,245	623	-	8,868
	8,245	623	9,337	18,205
Long-term debt:				
Long-term debt	-	-	37,584	37,584
Obligations under finance leases	-	-	2,204	2,204
	-	-	39,788	39,788
Non-current:				
Financial liabilities, other:				
Non-trade payables	-	-	10,629	10,629
Derivative financial instruments	2,138	42	-	2,180
	2,138	42	10,629	12,809
Long-term debt:				
Long-term debt	-	-	694,303	694,303
Obligations under finance leases	-	-	2,725	2,725
	-	-	697,028	697,028

As at September 30, 2014, the Company had designated $84,060,000 (U.S.$75,000,000) (December 31, 2013 - $75,591,000 (U.S.$71,071,000)) of its $112,080,000 (U.S.$100,000,000) 2017 Term Notes Payable and $56,040,000 (U.S.$50,000,000) (December 31, 2013 - nil) of its $280,200,000 (U.S.$250,000,000) 2024 Term Notes Payable as a hedge of its investment in certain U.S. subsidiaries.

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

(b) Fair value of financial instruments:

Financial instruments carried at amortized cost:

As at September 30, 2014 and December 31, 2013, the fair values of all financial instruments carried at amortized cost, other than long-term debt, approximate their carrying value. The fair value of long-term debt is estimated based on a discounted cash flow approach. The estimated fair value of long-term debt, excluding obligations under finance leases, at September 30, 2014, was $740,575,000 (December 31, 2013 - $588,779,000) as compared to the carrying value of $731,887,000 (December 31, 2013 - $591,599,000). The fair value of obligations under finance leases approximates their carrying value. As at September 30, 2014, included in long-term debt is the designated portion of the net investment hedge, which had a fair value of $145,389,000 (December 31, 2013 - $80,910,000) and a carrying value of $140,100,000 (December 31, 2013 - $75,591,000).

Financial instruments carried at fair value:

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

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

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

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

September 30, 2014	Level 1	Level 2	Level 3	Total
Assets				
Short-term investments	$ 6,529	$ -	$ -	$ 6,529
Derivative financial instruments	-	22,024	-	22,024
Total assets	$ 6,529	$ 22,024	$ -	$ 28,553
Liabilities				
Derivative financial instruments	$ -	$ 11,048	$ -	$ 11,048

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

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

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

Financial instruments carried at fair value (continued):

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

13. Supplemental cash flow information:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Change in operating assets and liabilities:				
Trade and other receivables	$ (76,368)	$ 49,138	$ 7,800	$ (43,406)
Financial assets, other	(92)	134	(136)	101
Construction contract assets	(10,430)	(2,930)	(13,613)	(12,923)
Inventories	3,498	(2,775)	24,328	(19,549)
Non-financial assets	21,380	6,572	(18,768)	29,491
Current tax assets	(4,822)	(7,022)	(18,720)	(20,980)
Orbital receivables	(4,830)	(6,951)	(23,103)	(20,082)
Trade and other payables	17,540	13,815	2,133	(22,344)
Financial liabilities, other	(174)	173	(7,898)	896
Provisions	12,095	(917)	11,033	(757)
Employee benefits	(12,354)	(22,508)	(31,883)	(53,234)
Non-financial liabilities	1,012	2,779	207	(1,320)
Construction contract liabilities	(25,685)	37,220	(172,772)	(39,926)
	$ (79,230)	$ 66,728	$ (241,392)	$ (204,033)

14. Contingencies:

On September 5, 2014, the Company’s subsidiary Space Systems/Loral, LLC (“SSL”), SSL’s former parent company Loral Space & Communications Inc. (“Loral”) and ViaSat, Inc. (“ViaSat”) entered into an agreement to settle two breach of contract and patent infringement lawsuits brought by ViaSat.

Under the terms of the settlement agreement, all claims and counterclaims between the parties have been dismissed. In addition, ViaSat agreed to a covenant not to sue SSL or Loral, or their respective customers and suppliers to the extent of such customer’s and supplier’s project or

14. Contingencies (continued):

transaction with SSL or Loral, at any time for infringement of any of the patents asserted in the lawsuits as well as certain patents related to the patents asserted in the lawsuits, or for breach of the contracts asserted in the lawsuits to the extent such breach relates to the claims asserted in the lawsuits. In consideration, the Company and Loral have agreed to pay ViaSat U.S.$40,000,000 in September 2014 and additional installment payments every three months commencing October 2014 through to January 2017 totaling U.S.$60,000,000 plus interest at 11.5%.

Loral has indemnified SSL for certain costs and damages arising from the ViaSat litigation under the terms of the purchase agreement governing MDA's purchase of SSL from Loral. As a result of differing interpretations of the scope of Loral's indemnification obligations, the parties have agreed to arbitration to determine a final allocation of the settlement payments. Arbitration has been scheduled for December 2014. The minimum payment to be borne by either party will be U.S.$15,000,000. Until the arbitration ruling has been finalized, the payments due to ViaSat will be funded equally by the Company and Loral. On September 9, 2014, the Company and Loral each made payments of U.S.$20,000,000 to ViaSat to settle the U.S.$40,000,000 payment.

In the third quarter of 2014, the Company estimated and recognized an expense for its share of the settlement obligation. In addition, the Company reversed certain purchase accounting provisions that were set up in relation to the lawsuit and associated activities and were no longer required after the settlement. The Company has not disclosed the amount recognized as such disclosure could prejudice its position in the upcoming arbitration. To the extent that the Company's final share of the settlement obligation differs from the amount recognized in the third quarter of 2014, the difference will be recognized once the arbitration decision is finalized.

15. Subsequent event:

On October 3, 2014, the Company completed the previously announced acquisition to acquire the assets of Advanced Systems, a line of business from General Dynamics Advanced Information Systems, Inc. This business will become part of MDA Information Systems LLC., a subsidiary of the Company.

Located near Detroit, Michigan, the Advanced Systems business has approximately 170 employees and over 50 years of in-depth experience in development and application of radar and other information sensors for the U.S. Government.

For the three and nine month period ended September 30, 2014, the Company recorded expenses of $722,000 for legal, tax, consulting and other business acquisition costs incurred. Further business acquisition costs that were subsequent to September 30, 2014 will be expensed in the fourth quarter of 2014.

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