MDA LTD.

Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023 and 2022

(In millions of Canadian dollars)

MDA Ltd.
Unaudited Interim Condensed Consolidated Statement of Comprehensive Income
For the three and nine months ended September 30, 2023 and 2022
(In millions of Canadian dollars except per share figures)

	Note	**Three months ended September 30, 2023**	**Three months ended September 30, 2022**	**Nine months ended September 30, 2023**	**Nine months ended September 30, 2022**
Revenue	4	$ 204.7	$ 172.0	$ 602.6	$ 455.1
Cost of revenue					
Materials, labour and subcontractors	6	(138.2)	(109.8)	(394.0)	(268.2)
Depreciation and amortization of assets	8,9,10	(8.8)	(5.8)	(22.4)	(17.4)
Gross profit		**57.7**	**56.4**	**186.2**	**169.5**
Operating expenses					
Selling, general and administration	6	(17.8)	(15.5)	(52.2)	(43.6)
Research and development, net	6	(10.4)	(7.8)	(30.8)	(25.0)
Amortization of intangible assets	10	(11.0)	(12.8)	(34.8)	(39.7)
Share-based compensation	12	(2.8)	(2.5)	(6.9)	(5.5)
Operating income		**15.7**	**17.8**	**61.5**	**55.7**
Other income (expenses)					
Unrealized gain (loss) on financial instruments		1.0	0.3	(0.1)	(9.1)
Foreign exchange gain (loss)		0.6	5.6	(0.8)	5.5
Finance costs, net		(2.4)	(2.4)	(6.7)	(31.4)
Income before taxes		**14.9**	**21.3**	**53.9**	**20.7**
Income tax expense		(5.6)	(3.4)	(18.6)	(3.2)
Net income		**9.3**	**17.9**	**35.3**	**17.5**
Other comprehensive income					
Gain on translation of foreign operations		0.3	0.5	—	1.0
Gain on cash flow hedges		2.2	—	4.1	—
Remeasurement gain (loss) on defined benefit plans	16	4.7	(1.2)	6.4	16.6
Total comprehensive income		**$ 16.5**	**$ 17.2**	**$ 45.8**	**$ 35.1**
Earnings per share:					
Basic	14	$ 0.08	$ 0.15	$ 0.30	$ 0.15
Diluted	14	0.08	0.15	0.29	0.14
Weighted-average common shares outstanding:					
Basic	14	119,329,839	118,942,451	119,191,837	118,776,154
Diluted	14	121,912,873	122,528,404	120,546,321	122,085,504

The accompanying notes are an integral part of these interim condensed consolidated financial statements

MDA Ltd.
Unaudited Interim Condensed Consolidated Statement of Financial Position
September 30, 2023
(In millions of Canadian dollars)

As at	Note	September 30, 2023	December 31, 2022
Assets			
Current assets:			
Cash		$ 13.4	$ 39.3
Trade and other receivables		75.2	155.5
Unbilled receivables		221.1	121.0
Inventories		10.7	7.5
Income taxes receivable		29.3	35.1
Other current assets	7	22.6	19.8
		372.3	**378.2**
Non-current assets:			
Property, plant and equipment	8	325.6	235.1
Right-of-use assets	9	5.0	7.1
Intangible assets	10	540.5	552.4
Goodwill		419.9	419.9
Deferred income tax assets		12.3	19.1
Other non-current assets	7	196.3	139.0
Total assets		**$ 1,871.9**	**$ 1,750.8**
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 186.2	$ 124.3
Income taxes payable		15.8	11.9
Contract liabilities		65.9	110.8
Current portion of net employee benefit payable		48.2	54.1
Current portion of lease liabilities	9	6.3	6.7
Other current liabilities		9.9	10.8
		332.3	**318.6**
Non-current liabilities:			
Net employee defined benefit payable		21.8	21.5
Lease liabilities	9	1.1	1.6
Long-term debt	11	303.8	243.6
Deferred income tax liabilities		158.1	163.8
Other non-current liabilities		0.9	1.1
Total liabilities		**818.0**	**750.2**
Shareholders' equity			
Common shares		955.1	951.6
Contributed surplus		29.0	25.0
Accumulated other comprehensive income		24.6	14.1
Retained earnings		45.2	9.9
Total equity		**1,053.9**	**1,000.6**
Total liabilities and equity		**$ 1,871.9**	**$ 1,750.8**
Subsequent event (note 18)			

The accompanying notes are an integral part of these interim condensed consolidated financial statements

MDA Ltd.
Unaudited Interim Condensed Consolidated Statement of Changes in Shareholders' Equity
For the nine months ended September 30, 2023 and 2022
(In millions of Canadian dollars)

	Note	Common Shares Number	Common Shares Amount	Contributed Surplus	Accumulated other comprehensive income	Retained earnings (deficit)	Total shareholders' equity
As at January 1, 2023		119,014,233	$ 951.6	$ 25.0	$ 14.1	$ 9.9	$ 1,000.6
Share-based awards exercised	12	414,238	3.5	(2.9)	—	—	0.6
Net income		—	—	—	—	35.3	35.3
Other comprehensive income		—	—	—	10.5	—	10.5
Share-based compensation	12	—	—	6.9	—	—	6.9
As at September 30, 2023		119,428,471	**$ 955.1**	**$ 29.0**	**$ 24.6**	**$ 45.2**	**$ 1,053.9**
As at January 1, 2022		118,691,628	$ 950.7	$ 16.9	$ 8.5	$ (14.4)	$ 961.7
Impact of change in accounting policy		—	—	—	—	(2.0)	(2.0)
Share-based awards exercised	12	309,908	0.8	(0.4)	—	—	0.4
Net income		—	—	—	—	17.5	17.5
Other comprehensive income		—	—	—	17.6	—	17.6
Share-based compensation	12	—	—	5.5	—	—	5.5
As at September 30, 2022		119,001,536	**$ 951.5**	**$ 22.0**	**$ 26.1**	**$ 1.1**	**$ 1,000.7**

The accompanying notes are an integral part of these interim condensed consolidated financial statements

MDA Ltd.
Unaudited Interim Condensed Consolidated Statement of Cash Flows
For the three and nine months ended September 30, 2023 and 2022
(In millions of Canadian dollars)

	Note	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Cash flows from operating activities					
Net income		$ 9.3	$ 17.9	$ 35.3	$ 17.5
Items not affecting cash:					
Income tax expense		5.6	3.4	18.6	3.2
Depreciation of property, plant, and equipment	8	3.5	2.3	9.4	7.2
Depreciation of right-of-use assets	9	2.5	2.1	6.8	6.2
Amortization of intangible assets	10	13.8	14.2	41.0	43.7
Write-down of assets		4.8	—	4.8	—
Share-based compensation expense	12	2.8	2.5	6.9	5.5
Investment tax credits accrued	15	(6.0)	(10.7)	(18.7)	(42.3)
Finance costs		2.4	2.4	6.7	31.4
Unrealized loss (gain) on financial instruments		(1.0)	(0.3)	0.1	9.1
Changes in operating assets and liabilities	17	(59.9)	(21.9)	(38.8)	(47.9)
		(22.2)	**11.9**	**72.1**	**33.6**
Interest paid		(4.9)	(2.9)	(12.9)	(13.9)
Income tax paid		(2.9)	(2.0)	(4.5)	(3.0)
Net cash generated (used) in operating activities		**(30.0)**	**7.0**	**54.7**	**16.7**
Cash flows from investing activities					
Purchases of property and equipment	8	(37.1)	(32.9)	(100.7)	(100.6)
Purchases/development of intangible assets	10	(12.3)	(8.0)	(34.9)	(32.4)
Net cash used in investing activities		**(49.4)**	**(40.9)**	**(135.6)**	**(133.0)**
Cash flows from financing activities					
Repayments of second lien notes	11	—	—	—	(150.0)
Borrowings from senior credit facility	11	55.0	25.0	60.0	195.0
Transaction costs incurred on debt refinancing	11	—	—	—	(8.9)
Payment of lease liability (principal portion)		(1.7)	(1.9)	(5.6)	(5.9)
Proceeds from stock options exercised		0.2	0.4	0.6	0.4
Net cash provided by financing activities		**53.5**	**23.5**	**55.0**	**30.6**
Net decrease in cash		**(25.9)**	**(10.4)**	**(25.9)**	**(85.7)**
Net foreign exchange difference on cash		0.3	0.5	—	1.0
Cash, beginning of period		39.0	8.8	39.3	83.6
Cash (bank indebtedness), end of period		**$ 13.4**	**$ (1.1)**	**$ 13.4**	**$ (1.1)**

The accompanying notes are an integral part of these interim condensed consolidated financial statements

1. Nature of operations

MDA Ltd. and its subsidiaries (collectively “MDA” or the “Company”) design, manufacture, and service space robotics, satellite systems and components, and intelligence systems. MDA also provides geointelligence and earth observation solutions that incorporate data from the Company’s owned and operated satellite, RADARSAT-2, as well as third party satellite missions. MDA operates across three business areas: Geointelligence, Robotics & Space Operations, and Satellite Systems, with facilities and sites in Canada, United Kingdom, and United States. The Company collaborates and partners with government agencies, prime contractors and emerging space companies. Notable MDA programs include the Canadarm family of space robotics for the U.S. Space Shuttle program and the International Space Station and three generations of RADARSAT Earth observation satellites for the Canadian Government.

MDA Ltd. is incorporated and domiciled in Canada, with its head office located at 9445 Airport Road, Brampton, Ontario L6S4J3, Canada. MDA’s common shares are traded on the Toronto Stock Exchange under the symbol “MDA”.

2. Basis of preparation

(a) Statement of compliance

These accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with IAS 34, Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The same accounting policies and methods of computation as those used in the preparation of the consolidated financial statements for the year ended December 31, 2022 were followed in the preparation of these interim condensed consolidated financial statements, except as described in note 3. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2022.

These interim condensed consolidated financial statements were approved by the Board of Directors of MDA on November 7, 2023.

(b) Basis of measurement

The interim condensed consolidated financial statements are presented in Canadian dollars, which is also the Company’s functional currency.

The interim condensed consolidated financial statements of the Company have been prepared on the historical cost basis except for pension plan assets and liabilities and the following assets and liabilities which are measured at fair value: financial instruments at fair value through profit or loss (“FVTPL”) or fair value through other comprehensive income (“FVOCI”), derivative financial instruments, and initial recognition of assets acquired and liabilities assumed in a business combination. Pension plan assets and liabilities are recognized as the present value of the defined benefit obligation net of the fair value of the plan assets.

(c) Seasonality and cyclicality

The Company’s operations historically have not experienced seasonality. However, the Company’s results period over period are affected by its stage in the work in progress in each of its long-term contracts. Therefore, the results of operations over a given interim period may not be indicative of full fiscal year results.

(d) Critical accounting estimates and judgments

The preparation of the Company’s interim condensed financial statements requires management to make estimates, assumptions and judgments that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Significant estimates and judgements used in preparation of the interim condensed consolidated financial statements are described in the Company’s consolidated financial statements for the year ended December 31, 2022.

(Amounts in millions of Canadian dollars, except share-based compensation awards and per share amounts)

3. Changes in accounting policies and accounting pronouncements:

(a) Adoption of Amendment to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The IASB issued amendments to IAS 12, Income taxes, to narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, a deferred tax asset and a deferred tax liability need to be recognized for temporary differences arising on initial recognition of a lease and a decommissioning provision. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company has determined the impact of this amendment to be immaterial as at January 1, 2023.

(b) Forthcoming Amendment to IAS 1 *Classification of Liabilities as Current or Non-current*

The amendments to IAS 1, Presentation of Financial Statements, which are intended to clarify requirements for the classification of liabilities as non-current, become effective for the Company on January 1, 2024. The Company does not expect the amendments to have material impacts to its consolidated financial statements.

4. Revenue from contracts with customers

All of the Company's revenue represents revenue from contracts with customers. Disaggregation of revenue by types of contracts and by service lines are presented in the tables below:

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Service Lines				
Geointelligence	$ 48.4	$ 45.5	$ 147.6	$ 141.4
Robotics and space operations	61.9	54.6	183.5	145.8
Satellite systems	94.4	71.9	271.5	167.9
	$ 204.7	$ 172.0	$ 602.6	$ 455.1

5. Geographic information

Segmented information is reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"), and reflects the way the CODM evaluates performance of, and allocates resources within, the business. The Company operates substantially all of its activities in one reportable segment, which includes the Geointelligence, Robotics & Space Operations and Satellite Systems operating segments. The reportable segment earns revenue by providing space solutions to customers in a similar market and is managed by the CODM.

Revenues are attributed to geographical regions based on the location of customers as follows:

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Revenue				
Canada	$ 116.8	$ 77.9	$ 299.6	$ 221.0
United States	79.0	67.7	252.6	145.9
Europe	0.5	18.1	30.2	62.9
Asia and Middle East	4.8	7.8	12.1	23.7
Other	3.6	0.5	8.1	1.6
	$ 204.7	$ 172.0	$ 602.6	$ 455.1

(Amounts in millions of Canadian dollars, except share-based compensation awards and per share amounts)

The Company's property, plant and equipment, right-of-use assets, intangible assets and goodwill are attributed to geographical regions based on the location of the assets as follows:

	September 30, 2023	December 31, 2022
Canada	$ 1,288.7	$ 1,213.1
Other	2.3	1.4
	$ 1,291.0	$ 1,214.5

6. Cost of revenue and operating expenses

The following table shows the breakdown of materials, labour and subcontractors costs included in cost of revenue:

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Labour, materials and other	$ 95.2	$ 87.1	$ 270.3	$ 237.9
Subcontractors	48.7	33.4	141.7	72.6
Investment tax credits recognized	(5.7)	(10.7)	(18.0)	(42.3)
	$ 138.2	$ 109.8	$ 394.0	$ 268.2

The following tables show the breakdowns of selling, general and administration expenses and research and development, net included in operating expenses:

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Selling, general and administration				
General and administration	$ 9.7	$ 9.3	$ 26.6	$ 25.1
Selling and marketing	8.1	6.2	25.6	18.5
	$ 17.8	$ 15.5	$ 52.2	$ 43.6
Research and development, net				
Research and development expense	$ 11.7	$ 8.3	$ 34.1	$ 27.8
Research and development expense recovery	(1.3)	(0.5)	(3.3)	(2.8)
	$ 10.4	$ 7.8	$ 30.8	$ 25.0

7. Other assets

	Note	September 30, 2023	December 31, 2022
Prepaid expenses		$ 67.7	$ 35.7
Advances to suppliers		1.6	3.9
Investment tax credits receivable	15	126.2	109.1
Investment in equity securities		2.6	2.7
Derivative financial assets		10.2	4.8
Pension plan assets		10.6	2.6
		$ 218.9	$ 158.8
Current portion		$ 22.6	$ 19.8
Non-current portion		$ 196.3	$ 139.0

(Amounts in millions of Canadian dollars, except share-based compensation awards and per share amounts)

8. Property, plant and equipment

	Land, buildings and leasehold improvements	Equipment	Furniture, fixtures and computer hardware	Capital in progress	Total
Cost					
As at December 31, 2022	$ 71.5	$ 16.1	$ 14.6	$ 156.4	$ 258.6
Additions	8.4	1.3	3.3	87.9	100.9
Write-downs	—	—	—	(1.0)	(1.0)
Transfers	2.9	8.8	2.7	(14.4)	—
As at September 30, 2023	$ 82.8	$ 26.2	$ 20.6	$ 228.9	$ 358.5
Accumulated depreciation					
As at December 31, 2022	$ (8.4)	$ (8.1)	$ (7.0)	$ —	$ (23.5)
Depreciation expense	(3.3)	(2.5)	(3.6)	—	(9.4)
As at September 30, 2023	$ (11.7)	$ (10.6)	$ (10.6)	$ —	$ (32.9)
Net book value					
As at December 31, 2022	$ 63.1	$ 8.0	$ 7.6	$ 156.4	$ 235.1
As at September 30, 2023	$ 71.1	$ 15.6	$ 10.0	$ 228.9	$ 325.6

Depreciation expense included in cost of revenue for the three and nine months ended September 30, 2023 is $3.5 and $9.4, respectively (three and nine months ended September 30, 2022 – $2.3 and $7.2, respectively).

As at September 30, 2023, the Company is committed under legally enforceable agreements for purchases relating to property, plant and equipment of $20.6 in 2023, $5.5 in 2024 and onward.

9. Leases

The Company has lease contracts for buildings, equipment, furniture and fixtures and computer hardware used in its operations. Leases of buildings generally have lease terms between 5 and 10 years, while equipment, furniture and fixtures and computer hardware generally have lease terms between 1 and 5 years.

(a) Right-of-use assets

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Buildings	Equipment	Furniture, fixtures and computer hardware	Total
As at December 31, 2022	$ 6.7	$ —	$ 0.4	$ 7.1
Additions	4.3	0.4	—	4.7
Depreciation expense	(6.4)	—	(0.4)	(6.8)
As at September 30, 2023	$ 4.6	$ 0.4	$ —	$ 5.0

Depreciation expense included in cost of revenue for the three and nine months ended September 30, 2023 is $2.5 and $6.8, respectively (three and nine months ended September 30, 2022– $2.1 and $6.2, respectively).

(Amounts in millions of Canadian dollars, except share-based compensation awards and per share amounts)

(b) Lease Liabilities

Set out below are the carrying amounts of lease liabilities and the movements:

	Lease liabilities
As at December 31, 2022	$ 8.3
Additions	4.7
Accretion of interest	0.4
Payments	(6.0)
As at September 30, 2023	$ 7.4

Accretion of interest is included in finance costs in the consolidated statement of comprehensive income.

As at September 30, 2023, the company also had commitments of $125.5 over 16 years relation to leases not yet commenced.

10. Intangible assets

	Proprietary technologies	Contractual backlog	Customer relationships	MDA trademark	Software	Total
Cost						
As at December 31, 2022	$ 154.1	$ 41.2	$ 459.9	$ 25.6	$ 35.5	$ 716.3
Additions	24.6	—	—	—	8.3	32.9
Write-downs	(3.8)	—	—	—	—	(3.8)
As at September 30, 2023	$ 174.9	$ 41.2	$ 459.9	$ 25.6	$ 43.8	$ 745.4
Accumulated amortization						
As at December 31, 2022	$ (23.3)	$ (35.5)	$ (89.1)	$ (3.5)	$ (12.5)	$ (163.9)
Amortization expense	(6.9)	(4.0)	(24.5)	(0.9)	(4.7)	(41.0)
As at September 30, 2023	$ (30.2)	$ (39.5)	$ (113.6)	$ (4.4)	$ (17.2)	$ (204.9)
Net book value						
As at December 31, 2022	$ 130.8	$ 5.7	$ 370.8	$ 22.1	$ 23.0	$ 552.4
As at September 30, 2023	$ 144.7	$ 1.7	$ 346.3	$ 21.2	$ 26.6	$ 540.5

For the three and nine months ended September 30, 2023, the amortization expense related to proprietary technologies and software of $2.8 and $6.2, respectively (three and nine months ended September 30, 2022 – $1.4 and $4.0, respectively) are included in cost of revenue. For the three and nine months ended September 30, 2023, the amortization expense related to all other intangible assets of $11.0 and $34.8, respectively (three and nine months ended September 30, 2022 – $12.8 and $39.7, respectively) are included in operating expenses.

As at September 30, 2023, the Company is committed under legally enforceable agreements for purchasing relating to intangible assets of $3.2 in 2023, $2.0 in 2024 and onward.

11. Long-term debt

The Company, through its wholly owned subsidiary Neptune Operations Ltd. (“NOL”), has long-term debt arrangements comprising a senior credit facility. As at September 30, 2023 and December 31, 2022, $303.8 and $243.6 were outstanding under the senior credit facility, respectively, classified as non-current in its entirety.

(a) Senior revolving credit facility

As at September 30, 2023, the Company had borrowings of $305.0 (December 31, 2022 - $245.0) under the senior revolving credit facility in the form of Bankers’ Acceptances, which is recorded at a carrying amount of $303.8 (December 31, 2022 - $243.6) on the consolidated statement of financial position. This facility bears interest at the bank’s prime rate or alternate base rate Canada plus an applicable margin of 45 to 175 basis points (“bps”) or CDOR or SOFR plus an applicable margin of 145 to 275 bps, based on the Company’s total debt to EBITDA ratio. At September 30, 2023, the weighted average interest rate on the outstanding Bankers’ Acceptances was 6.93%

(December 31, 2022 – 6.26%). The Company also had $20.0 letters of credit outstanding at September 30, 2023 (December 31, 2022 - $24.0), bearing an applicable margin of 97 bps plus a fronting fee of 25 bps.

(b) Security and guarantees

The senior revolving credit facility is guaranteed by all subsidiaries of NOL (other than certain excluded subsidiaries, including immaterial subsidiaries and non-wholly owned subsidiaries) and secured by all of the present and future assets, property and undertakings of NOL and its subsidiary guarantors, as well as a limited recourse guarantee and pledge of NOL from the Company.

(c) Covenants

The Company must satisfy certain financial covenants as defined by the credit agreement, including the following:

- The Company is required to maintain an interest coverage ratio of at least 3.0 to 1 at all times; and
- The Company is required to maintain a specified total debt to EBITDA ratio of less than or equal to 4.0 to 1 at all times

As at September 30, 2023 the Company was in compliance with these covenants.

(d) Interest expense on long-term debt

Interest expense on the Company's long-term debt for the three and nine months ended September 30, 2023 is $4.0 and $10.7, respectively (three and nine months ended September 30, 2022 – $2.1 and $8.5, respectively). This amount is included in finance costs in the consolidated statement of comprehensive income.

Interest expense is net of the expense capitalized on certain qualifying assets that take a substantial period of time to prepare for their intended use. Capitalized interest is a component of both property, plant and equipment and intangible assets. The capitalization amount for the three and nine months ended September 30, 2023 is $2.2 and $5.3, respectively (three and nine months ended September 30, 2022 - $0.9 and $0.9, respectively) and the capitalization rate used to capitalize interest was 5.45% (September 30, 2022 – 4.40%).

12. Share-based compensation

In 2021, the Company established an Omnibus Long-term Incentive Plan ("Omnibus Plan"). The Omnibus Plan is a share-based plan, under which the Company receives services from directors and employees as consideration for equity instruments of the Company. The Company can issue stock options, deferred share units ("DSUs"), restricted share units ("RSUs"), and performance share units ("PSUs") pursuant to the terms and conditions of the Omnibus Plan and the related award agreements entered into thereunder.

The Company also has in place an Employee Share Trust Agreement arrangement, where eligible employees are issued shares held in a company trust ("Trustee Shares") and released upon meeting prescribed conditions.

(a) Stock Options

For the nine months ended September 30, 2023, the Company has granted stock options with an exercise price of $6.80 to $15.00. The stock options have graded vesting schedules over 4 years from the grant date. Vesting is conditional on continuous employment from the grant date to the vesting date. The stock options have a maximum term of 10 years.

The stock options are measured at fair value using the Black-Scholes option pricing model on the grant date and subsequently expensed on a graded basis over the vesting period. The amount expensed for the three and nine months ended September 30, 2023 was $1.1 and $2.2 (three and nine months ended September 30, 2022 – $1.0 and $2.7, respectively).

(Amounts in millions of Canadian dollars, except share-based compensation awards and per share amounts)

The weighted average fair value of options granted during the nine months ended September 30, 2023 was between $2.89 and $5.44. The fair value of these options granted were estimated on the date of grant using the following assumptions:

	Nine months ended September 30, 2023
Dividend yield	0.0%
Expected volatility	40.23% to 42.31%
Risk-free interest rate	2.95% to 4.17%
Expected life of share options	5.0 to 6.7 years
Weighted average share price	$9.81

The expected life of the stock options is based on current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility is based on the share price volatility observed for comparable publicly traded companies over a period similar to the life of the options.

(b) Trustee Shares

Trustee Shares have grading vesting schedules ranging from 1 to 4 years from the grant date. Vesting is conditional on continuous employment from the grant date to the vesting date and the meeting of specified price targets. The amount expensed for the three months ended September 30, 2023 was $nil. The amount expensed for the nine months ended September 30, 2023 was $0.3, which was more than offset by $0.4 of forfeitures, resulting in net recovery of $0.1 (three and nine months ended September 30, 2022 – $0.2 and $0.9 of expenses, respectively).

(c) DSUs

The Company offers DSUs to the Company's independent directors, where they are entitled to receive all or a portion of their annual compensation in the form of DSUs in place of cash commencing in 2022. The DSUs vest immediately upon grant and are equity-settled, entitling participants to receive one common share for each DSU. The amount expensed for the three and nine months ended September 30, 2023 is $0.3 and $0.8, respectively (for the three and nine months ended September 30, 2022 - $0.3 and $0.9, respectively).

(d) RSUs and PSUs

The Company grants RSUs and PSUs to eligible employees. The RSUs vest over 1 to 3 years in annual instalments from the grant date. Vesting is conditional on continuous employment from the grant date to the vesting date. The PSUs vest over 3 years from the grant date and is conditional on continuous employment as well as performance targets. The amount expensed for the three and nine months ended September 30, 2023 is $1.4 and $4.0, respectively (three and nine months ended September 30, 2022 – $1.0 and $1.0, respectively).

(e) Award units continuity – Stock Options, Trustee Shares, DSUs, RSUs and PSUs

The table below shows the movement in the award units outstanding over the nine months ended September 30, 2023

	Stock Options	Trustee Shares	DSUs	RSUs	PSUs
As at January 1, 2023	8,881,616	306,554	128,828	623,408	219,786
Granted	621,269	—	90,200	734,098	279,747
Forfeited/Cancelled	(305,638)	(56,049)	—	(40,157)	(27,912)
Exercised/Converted	(83,982)	(111,268)	(24,832)	(194,156)	—
As at September 30, 2023	9,113,265	139,237	194,196	1,123,193	471,621

(Amounts in millions of Canadian dollars, except share-based compensation awards and per share amounts)

13. Financial instruments and fair value disclosures

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

	September 30, 2023	December 31, 2022
Financial assets (liabilities) measured at FVTPL		
Derivative financial assets	$ 2.6	$ 2.8
Derivative financial liabilities	(0.2)	(0.3)
Investment in equity securities	2.6	2.7
Financial assets measured at FVOCI		
Derivative financial assets	$ 7.6	$ 2.0
Financial assets (liabilities) measured at amortized cost		
Cash	$ 13.4	$ 39.3
Trade and other receivables	75.2	155.5
Unbilled receivables	221.1	121.0
Accounts payable and accrued liabilities	(186.2)	(124.3)
Long-term debt	(303.8)	(243.6)

Derivative assets and investment in equity securities are included in other assets on the consolidated statement of financial position, as presented in note 7. Derivative liabilities are included in other liabilities.

The fair values of cash, trade and other receivables, and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term nature. For the other financial instruments presented, the table below shows their respective fair values with their levels in the fair value hierarchy:

	September 30, 2023				December 31, 2022			
	Level 1	*Level 2*	*Level 3*	*Total*	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets								
Derivative financial instruments	$ —	$ 10.2	$ —	$ 10.2	$ —	$ 4.8	$ —	$ 4.8
Investment in equity securities	2.6	—	—	2.6	2.7	—	—	2.7
Liabilities								
Derivative financial instruments	$ —	$ 0.2	$ —	$ 0.2	$ —	$ 0.3	$ —	$ 0.3

Over the nine months ended September 30, 2023, no transfers occurred between levels of the fair value hierarchy.

Level 2 derivative financial instruments comprise foreign exchange embedded derivatives within revenue and purchase contracts. The Company determines fair value of its derivative financial instruments based on management estimates and observable market-based inputs. Management estimates include assumptions concerning the amount and timing of estimated future cash flows. Observable market-based inputs are sourced from third parties and include currency spot and forward rates.

At September 30, 2023, the Company has interest rate swap contracts with third-party banks to mitigate exposure to interest rate fluctuations on $150.0 of borrowing under its senior revolving credit facility. These contracts expire December 15, 2027. The aggregate notional amount of the swap contracts is $150.0. Under the swap contracts, the Company pays interest at a fixed rate of 3.46% and receives interest at a variable rate equal to the 3-month CDOR for each 90 day period. The terms of the interest rate swap contracts with respect to the floating rate, maturity, and interest payment dates match that of the underlying borrowings, such that any hedge ineffectiveness is not expected to be significant. The fair value changes in these swap contracts resulted in unrealized gains of $3.0 and $5.6, respectively, before tax effects, for the three and nine months ended September 30, 2023, respectively (three and nine months ended September 30, 2022 – n/a) and are recorded in other comprehensive income.

(Amounts in millions of Canadian dollars, except share-based compensation awards and per share amounts)

14. Earnings per share

The following table reflects the net income and share data used in the basic and diluted earnings per share calculations:

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Net earnings	$ 9.3	$ 17.9	$ 35.3	$ 17.5
Weighted average shares outstanding – basic	119,329,839	118,942,451	119,191,837	118,776,154
Adjustments for				
Employee stock options	1,453,561	2,613,973	776,575	2,731,153
Trustee shares	98,726	138,710	88,849	266,702
DSUs	173,215	48,603	103,051	24,767
RSUs and PSUs	857,533	784,667	386,009	286,728
Weighted average shares outstanding – diluted	121,912,873	122,528,404	120,546,321	122,085,504
Basic earnings per share	$ 0.08	$ 0.15	$ 0.30	$ 0.15
Diluted earnings per share	0.08	0.15	0.29	0.14

15. Government assistance

(a) Investment tax credits

During the three and nine months ended September 30, 2023, the Company recognized investment tax credits of $6.0 and $18.7, respectively (three and nine months ended September 30, 2022 – $10.7 and $42.3, respectively) as a reduction in cost of materials, labour and subcontractors, and research and development, net, on the consolidated statement of comprehensive income.

As at September 30, 2023, the Company has investment tax credits of approximately $132.7 million available to offset future Canadian Federal and Provincial income taxes payable which expire between 2030 and 2043. Investment tax credits are only recognized in the consolidated financial statements when the recognition criteria have been met as described in note 3(q) of the Company's consolidated financial statements for the year ended December 31, 2022. Investment tax credits that are expected to be realized within 12 months are classified as current; investment tax credits that are expected to be realized beyond 12 months are classified as non-current.

(b) Long Term Economic Benefits to Province of Ontario Grant (the "Ontario Grant"):

The Ontario Grant was awarded to the Company in March 2022 by the Minister of Economic Development, Job Creation and Trade to encourage investment in Ontario, which will benefit Ontario's economic growth. Under this grant agreement, the Ontario Government will fund 24.74% of eligible spending to a maximum of $25.0, conditional on the Company investing a minimum of $101.0 in eligible project expenditures. The Company uses the funding received under the grant towards the building of its centre of control and excellence in Brampton, Ontario, as well as development of proprietary technology. For the three and nine months ended September 30, 2023, the Company has recorded a recovery of $0.4 and $1.1, respectively, against cost of revenues and $2.1 and $5.0, respectively, against long-term assets (three and nine months ended September 30, 2022 – nil and nil, and nil and nil, respectively) and has received $4.5 in proceeds in respect of its claim for eligible expenditures.

16. Remeasurement gain (loss) on defined benefit plans

A remeasurement of the assets and obligations in the Company's defined benefit pension plans and other post-retirement benefit plans was performed and an actuarial gain of $4.7 and $6.4 were recorded for the three and nine months ended September 30, 2023, respectively (three and nine months ended September 30, 2022 – loss of $1.2 and gain of $16.6, respectively) in other comprehensive income.

(Amounts in millions of Canadian dollars, except share-based compensation awards and per share amounts)

17. Supplementary cash flow information

The below table provides changes in operating assets and liabilities:

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Trade and other receivables	$ 12.6	$ (42.6)	$ 80.3	(58.8)
Unbilled receivables	(55.8)	(20.3)	(100.1)	(37.1)
Inventories	0.6	(0.1)	(3.2)	0.4
Prepaid and advances to suppliers	(8.1)	(0.7)	(29.7)	(18.9)
Other assets	—	(1.8)	0.5	(1.6)
Trade and other payables	37.2	24.8	64.9	43.1
Contract liabilities	(46.0)	16.0	(44.9)	26.8
Employee benefits	(0.4)	3.9	(5.6)	2.8
Other liabilities	0.0	(1.1)	(1.0)	(4.6)
	$ (59.9)	$ (21.9)	$ (38.8)	$ (47.9)

18. Subsequent Event

On August 31, 2023, the Company signed a definitive agreement to acquire SatixFy Space Systems UK Ltd. (“SSS”), the digital payload division of SatixFy Communications Ltd. (NYSE AMERICAN: SATX), and other strategic considerations. The transaction, valued at US$40 million, will help further strengthen MDA’s global leadership position in the growing market for digital satellite communications solutions.

On October 31, 2023, the Company completed the acquisition of SSS. The newly acquired division, based in the United Kingdom, will be integrated into MDA UK, the company’s existing UK subsidiary.