

Unaudited Interim Condensed Consolidated Financial Statements

MDA Ltd.

For the three months ended March 31, 2021
(In millions of Canadian dollars)

MDA Ltd.

Unaudited Interim Condensed Consolidated Statement of Operations and Comprehensive Loss

For the three months ended March 31, 2021

(In millions of Canadian dollars except per share figures)

	Note	
Revenue	4	\$ 123.4
Cost of revenue		
Materials, labour and subcontractors	6	(79.1)
Depreciation and amortization of assets	8, 9, 10	(5.9)
Gross profit		38.4
Operating expenses		
Selling, general and administration	6	(14.1)
Research and development, net	6	(2.3)
Amortization of intangible assets	10	(13.6)
Share-based compensation	13	(3.6)
Operating income		4.8
Other income (expenses)		
Government grant income	17	10.1
Unrealized loss on embedded derivative asset		(2.0)
Foreign exchange loss		(2.9)
Interest expense		(10.4)
Loss before income taxes		(0.4)
Income tax expense		(1.2)
Net loss		(1.6)
Other comprehensive loss		
Exchange differences on translation of foreign operations		(3.3)
Total comprehensive loss		\$ (4.9)
Loss per share:		
Basic and Diluted	16	\$ (0.00)
Weighted-average common shares outstanding:		
Basic and Diluted	16	498,809,667

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

MDA Ltd.

Unaudited Interim Condensed Consolidated Statement of Financial Position

(In millions of Canadian dollars)

As at	Note	March 31, 2021	December 31, 2020
Assets			
Current assets:			
Cash and equivalents		\$ 90.9	\$ 78.6
Trade and other receivables		184.1	158.0
Inventories		6.3	6.5
Income taxes receivable		60.5	72.4
Other current assets	7	13.3	12.2
		355.1	327.7
Non-current assets:			
Property, plant and equipment	8	68.5	69.3
Right-of-use assets	9	20.0	22.0
Intangible assets	10	583.0	589.0
Goodwill		419.9	419.9
Deferred income tax assets		10.6	11.2
Other non-current assets	7	16.2	16.1
Total assets		\$ 1,473.3	\$ 1,455.2
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 68.6	\$ 65.7
Income taxes payable		22.8	22.7
Contract liabilities		84.1	73.3
Provisions		9.0	17.8
Current portion of net employee benefit payable	12	36.5	32.0
Current portion of lease liabilities	9	7.9	7.8
Current portion of long-term debt	11	21.8	22.0
Other current liabilities		0.7	1.1
		251.4	242.4
Non-current liabilities:			
Provisions		1.4	1.4
Net employee defined benefit payable	12	44.6	43.6
Lease liabilities	9	11.4	12.7
Long-term debt	11	529.4	537.7
Deferred income tax liabilities		147.0	158.7
Other non-current liabilities		1.4	1.3
Total liabilities		986.6	997.8
Shareholders' equity			
Common shares	15	511.0	480.4
Contributed surplus		8.5	4.9
Accumulated other comprehensive loss		(13.9)	(10.6)
Deficit		(18.9)	(17.3)
Total equity		486.7	457.4
Total liabilities and equity		\$ 1,473.3	\$ 1,455.2

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

MDA Ltd.

Unaudited Interim Condensed Consolidated Statement of Changes in Shareholders' Equity

For the three months ended March 31, 2021

(In millions of Canadian dollars)

		Common shares		Contributed surplus	Accumulated other comprehensive loss	Deficit	Total shareholders' equity
	Note	Number	Amount				
As at January 1, 2021		484,415,948	\$ 480.4	\$ 4.9	\$ (10.6)	\$ (17.3)	\$ 457.4
Share capital issued	15	30,590,500	30.6	-	-	-	30.6
Net loss		-	-	-	-	(1.6)	(1.6)
Other comprehensive loss		-	-	-	(3.3)	-	(3.3)
Share-based compensation	13	-	-	3.6	-	-	3.6
As at March 31, 2021		515,006,448	\$ 511.0	\$ 8.5	\$ (13.9)	\$ (18.9)	\$ 486.7

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

MDA Ltd.

Unaudited Interim Condensed Consolidated Statement of Cash Flows

For the three months ended March 31, 2021

(In millions of Canadian dollars)

Cash flows from operating activities	Note	
Loss before income taxes		\$ (0.4)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation of property, plant and equipment	8	2.3
Depreciation of right-of-use assets	9	2.6
Amortization of intangible assets	10	14.6
Share-based compensation expense	13	3.6
Investment tax credits accrued during the period	17	(2.4)
Interest expense		10.4
Unrealized loss on embedded derivative asset		2.0
Changes in operating assets and liabilities		
Trade and other receivables		(29.2)
Inventories		0.2
Other assets		(3.2)
Trade and other payables		2.9
Contract liabilities		10.8
Employee benefits	12	5.5
Provisions		(8.8)
Other liabilities		(0.3)
		<u>10.6</u>
Interest paid		(12.4)
Income tax received		1.9
Net cash used in operating activities		<u>0.1</u>
Cash flows from investing activities		
Purchases of property and equipment	8	(1.5)
Purchase/development of intangible assets	10	(8.6)
Net cash used in investing activities		<u>(10.1)</u>
Cash flows from financing activities		
Repayments of long-term debt	11	(5.4)
Payment of lease liability (principal portion of lease liability)		(1.8)
Proceeds from issuance of share capital, net of issuance costs	15	30.0
Net cash provided by financing activities		<u>22.8</u>
Net increase in cash and cash equivalents		12.8
Net foreign exchange difference		(0.5)
Cash and cash equivalents, beginning of period		78.6
Cash and cash equivalents, end of period		<u>\$ 90.9</u>

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

MDA LTD.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2021

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

1. General business description

MDA Ltd. (formerly Neptune Acquisition Holdings Inc.) ("MDA" or the "Company") is Canada's largest space technology developer and manufacturer. Through a strong collaboration and partnership with the Government of Canada that spans several decades, the Company has delivered world-leading, iconic technologies such as 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. Additionally, the Company is one of the largest independent suppliers of space components and systems in the world, enabling it to be a merchant supplier to international prime contractors and a partner to governments around the globe who are investing in and growing their space programs. These services are provided through wholly owned subsidiaries of the Company.

On April 8, 2020, Neptune Acquisition Inc. ("NAI"), an affiliate of Northern Private Capital Ltd purchased 100% of the equity interest in the MDA GP Holdings Ltd., MDA Systems Inc, and Maxar Technologies ULC from Maxar Technologies Inc.

The consideration for this transaction was \$1 billion. Immediately after closing, NAI amalgamated with Maxar Technologies ULC, and changed its name to Neptune Operations Ltd. ("NOL").

On June 2, 2020, Neptune Acquisition Holdings Inc. ("NAHI") was formed under the laws of the Province of Ontario and became the parent of its wholly owned subsidiary NOL. In March 2021, NAHI changed its name to MDA Ltd.

References to the Company include MDA and its subsidiaries.

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 period ended December 31, 2020 were followed in the preparation of these interim condensed consolidated financial statements. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's consolidated financial statements for the period ended December 31, 2020.

The interim condensed consolidated financial statements (other than the condensed consolidated statement of financial position) for the three months ended March 31, 2021 do not provide comparative information as the Company commenced active operations on April 8, 2020.

These interim condensed consolidated financial statements were approved by the Board of Directors of MDA, and authorized for issue on May 12, 2021.

(b) Basis of measurement

The interim condensed consolidated financial statements of the Company are presented in Canadian dollars.

The interim condensed consolidated financial statements been prepared on the historical cost basis except those items measured at fair value where specifically indicated.

These condensed interim consolidated financial statements comprise the accounts of MDA Ltd., the parent company, and its subsidiaries. The financial accounts and results of subsidiaries are included in the consolidated financial statements of the Company from the date that control commences until the date that control ceases. Upon consolidation, management eliminated all intercompany transactions and balances.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2021

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

(c) Impact of COVID-19 pandemic

For the three months ended March 31, 2021, the Company's financial performance continues to be impacted by COVID-19. The Company continues to operate in an environment where majority of the Company's work force is working remotely and the uncertainties around COVID-19 have also affected the Company's customers and contributed to delayed business awards.

For the three months ended March 2021, the Company recognized \$10.1 of government grant income related to Canada Emergency Wage Subsidy ("CEWS") from the Canadian government, of which \$4.3 is receivable as at March 31, 2021.

(d) Seasonality and cyclicalities

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 for the three months ended March 31, 2020 may not be indicative of the results of future periods.

(e) Use of estimates, assumptions 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 Company's consolidated financial statements for the period ended December 31, 2020.

3. Changes in accounting policies and new accounting pronouncements

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with the significant accounting policies as outlined in note 3 of the consolidated financial statements for the period ended December 31, 2020. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2021

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

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:

	For the three months ended March 31, 2021	
<i>Types of Contracts</i>		
Construction contracts	\$	84.9
Service contracts		38.5
	\$	123.4
<i>Service Lines</i>		
Geointelligence	\$	49.0
Robotics and space operations		34.3
Satellite systems		40.1
	\$	123.4

5. Geographic information

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

	For the three months ended March 31, 2021	
<i>Revenue</i>		
United States	\$	53.2
Canada		43.2
Europe		22.2
Asia		1.3
Other		3.5
	\$	123.4

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:

	March 31, 2021	December 31, 2020
<i>Property, plant and equipment, right-of-use assets, intangible assets and goodwill</i>		
Canada	\$ 1,090.6	\$ 1,093.1
Other	0.9	7.1
	\$ 1,091.5	\$ 1,100.2

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2021

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

6. Cost of revenue and operating expenses

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

	For the three months ended March 31, 2021
<i>Materials, labour and subcontractors</i>	
Wages, salaries and other cost of revenues	\$ 68.5
Subcontractor costs	8.6
Investment tax credits	(2.4)
Costs related to defined contribution plans	1.9
Costs related to defined benefit plans	1.6
Inventories used	0.9
	\$ 79.1

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

	For the three months ended March 31, 2021
<i>Selling, general and administration</i>	
General and administration	\$ 8.1
Selling and marketing	6.0
	\$ 14.1
<i>Research and development, net</i>	
Research and development expense	\$ 8.7
Research and development expense recovery	6.4
	\$ 2.3

7. Other assets

	March 31, 2021	December 31, 2020
Advances to suppliers	\$ 0.3	\$ 1.5
Prepaid expenses	12.8	9.9
Deferred contract costs	8.8	7.0
Derivative financial assets	7.6	9.9
	\$ 29.5	\$ 28.3
Current portion	\$ 13.3	\$ 12.2
Non-current portion	\$ 16.2	\$ 16.1

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(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 and fixtures and computer hardware	Capital work- in progress	Total
<i>Cost</i>					
As at December 31, 2020	\$ 57.4	\$ 9.1	\$ 5.3	\$ 2.8	\$ 74.6
Additions	0.1	0.1	0.1	1.2	1.5
Disposals	(0.2)	-	-	-	(0.2)
As at March 31, 2021	\$ 57.3	\$ 9.2	\$ 5.4	\$ 4.0	\$ 75.9
<i>Accumulated depreciation</i>					
As at December 31, 2020	\$ (1.9)	\$ (2.2)	\$ (1.2)	\$ -	\$ (5.3)
Depreciation expense	(0.9)	(0.9)	(0.5)	-	(2.3)
Disposals	0.2	-	-	-	0.2
As at March 31, 2021	\$ (2.6)	\$ (3.1)	\$ (1.7)	\$ -	\$ (7.4)
<i>Net book value</i>					
December 31, 2020	\$ 55.5	\$ 6.9	\$ 4.1	\$ 2.8	\$ 69.3
March 31, 2021	\$ 54.7	\$ 6.1	\$ 3.7	\$ 4.0	\$ 68.5

Depreciation expense of \$2.3 is included in cost of revenue.

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 3 and 5 years, while equipment, furniture and fixtures and computer hardware generally have lease terms between 1 and 5 years. Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Buildings	Equipment	Furniture and fixtures and computer hardware	Total
As at December 31, 2020	\$ 19.2	\$ 0.1	\$ 2.7	\$ 22.0
Additions	0.6	-	-	0.6
Depreciation expense	(2.2)	-	(0.4)	(2.6)
As at March 31, 2021	\$ 17.6	\$ 0.1	\$ 2.3	\$ 20.0

Depreciation expense of \$2.6 is included in cost of revenue.

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

	Lease liabilities
As at December 31, 2020	\$ 20.5
Additions	0.6
Accretion of interest	0.3
Payments	(2.1)
As at March 31, 2021	\$ 19.3

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As of March 31, 2021, the current portion of lease liability is \$7.9 (December 31, 2020: \$7.8) and non-current portion is \$11.4 (December 31, 2020: \$12.7).

10. Intangible assets

	Proprietary technologies	Contractual backlog	Customer relationships	MDA trademark	Software	Total
<i>Cost</i>						
As at December 31, 2020	\$ 73.0	\$ 41.2	\$ 463.1	\$ 25.6	\$ 32.2	\$ 635.1
Additions	-	-	-	-	8.6	8.6
As at March 31, 2021	\$ 73.0	\$ 41.2	\$ 463.1	\$ 25.6	\$ 40.8	\$ 643.7
<i>Accumulated amortization</i>						
As at December 31, 2020	\$ (6.0)	\$ (10.8)	\$ (24.5)	\$ (1.1)	\$ (3.7)	\$ (46.1)
Amortization expense	(1.9)	(3.5)	(7.9)	(0.3)	(1.0)	(14.6)
As at March 31, 2021	\$ (7.9)	\$ (14.3)	\$ (32.4)	\$ (1.4)	\$ (4.7)	\$ (60.7)
<i>Net book value</i>						
December 31, 2020	\$ 67.0	\$ 30.4	\$ 438.6	\$ 24.5	\$ 28.5	\$ 589.0
March 31, 2021	\$ 65.1	\$ 26.9	\$ 430.7	\$ 24.2	\$ 36.1	\$ 583.0

The amortization expense related to software of \$1.0 is included in cost of revenue. The amortization expense related to all other intangible assets in an amount of \$13.6 is included in operating expenses.

During the three months ended March 31, 2021, the Company did not identify any indicators of impairment.

11. Long-term debt

The Company's long-term debt is comprised of the following:

	March 31, 2021	December 31, 2020	Maturity date
Term loan, interest rate of CDOR plus 3.5%, principal and interest payable quarterly	\$ 407.0	\$ 411.9	April 8, 2025
Second lien notes, semi-annual interest commencing October 8, 2020, 10% paid in cash or 12% paid in-kind (6% cash, 6% in-kind)	\$ 144.2	\$ 147.8	April 8, 2027
	\$ 551.2	\$ 559.7	
Current	\$ 21.8	\$ 22.0	
Non-current	\$ 529.4	\$ 537.7	

Revolving credit facility – financial guarantee

The Company, through its wholly owned subsidiary NOL, has a revolving credit facility totaling \$80.0 of which \$13.5 was drawn as of March 31, 2021, (December 31, 2020: \$15.5), all in respect of letters of credit. The revolving credit facility matures on April 8, 2025. This facility bears interest at either the bank's prime rate or alternate base rate Canada plus an applicable margin of 150 to 300 bps or CDOR or LIBOR plus an applicable margin of 250 to 400 bps, based on the Company's total debt to EBITDA ratio. The outstanding letters of credit at March 31, 2021 had an applicable margin of 350 bps plus a fronting fee of 25 bps. As at March 31, 2021, the aggregate gross potential liability related to the Company's letters of credit was approximately \$13.5 (December 31, 2020: \$15.5).

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

Term loan facility

The Company has a term loan facility totaling \$435 of which the full amount was drawn at inception. The Company made principal repayments in the amount of \$5.4 (December 31, 2020: \$10.9) during the period. The term loan facility matures on April 8, 2025. The facility bears interest at either the bank's prime rate or alternate base rate Canada plus an applicable margin of 150 to 300 bps or CDOR or LIBOR plus an applicable margin of 250 to 400 bps, based on the Company's total debt to EBITDA ratio.

Second lien notes

The Company has unsecured second lien notes outstanding which bear interest at 10% per annum in cash, or 12% paid in-kind ("PIK") (6% cash, 6% in-kind) if the election is made by the Company. Interest is due semi-annually. If the PIK interest election is made by the Company, interest on the second lien notes for each interest period is payable by increasing the principal amount of the outstanding notes by the amount of interest then due and owing for such interest period. As at March 31, 2021, the PIK election was not made.

Security and guarantees

The revolving credit facility and the term loan facility are 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.

The second lien notes are guaranteed by the same guarantors as the revolving credit facility and the term loan facility and secured by a second lien on the same collateral.

Covenants

Under the revolving credit facility and the term loan facility, the Company must satisfy certain financial covenants as defined by the credit agreement, including the following:

- The Company is required to maintain a fixed charge coverage ratio of at least 1.25 to 1 at all times
- The Company is required to maintain a specified total debt to EBITDA ratio and senior debt to EBITDA ratio based on certain time bands.

As at March 31, 2021, the Company was in compliance with these covenants.

Interest expense on the Company's long-term debt is \$9.2 for the three months ended March 31, 2021.

The second lien notes include an embedded optional redemption feature, which allows the company to redeem all or part of the notes at rates that do not approximately equal the amortized cost. The fair value of this embedded derivative redemption feature as at March 31, 2021 is \$6.9 (December 31, 2020: \$8.9).

12. Employee benefits

Employee benefit liabilities	March 31, 2021	December 31, 2020
Salary and benefits payable	\$ 33.5	\$ 27.1
Pension and other post-retirement benefits	47.6	48.5
	\$ 81.1	\$ 75.6
Current	\$ 36.5	\$ 32.0
Non-current	\$ 44.6	\$ 43.6

The Company maintains a defined benefit pension plan, a defined contribution pension plan and other post-retirement benefits comprised of extended health benefits, dental care and life insurance. The Company's contributions during the period for the defined benefit plan, defined contribution plan, and other post-retirement benefits were \$0.7, \$3.4, and \$0.5 respectively.

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

13. Share-based compensation

Under the stock option plan, the Company, at its discretion, may grant stock options to any director, officer or employee of the Company. For the three months ended March 31, 2021, the Company has granted stock options with an exercise price of \$1.00 to \$5.00. All stock options are equity-settled, with 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 straight-line basis over the vesting period. The amount expensed for three months ended March 31, 2021 was \$3.6.

The weighted average fair value of options granted during the three months ended March 31, 2021 was \$0.47. The fair value of options granted during the three months ended March 31, 2021 was estimated on the date of grant using the following assumptions:

Dividend yield	0.00%
Expected volatility	40.00%
Risk-free interest rate	0.45% - 1.25%
Expected life of share options	6 to 7.4 years
Weighted average share price	\$1.51
Number of options granted	14,499,988

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.

Subsequent to March 31, 2021, the outstanding stock options were amended to reflect the six-to-one share consolidation described in note 20.

14. Financial instruments and fair value disclosures

(a) Financial instruments by category:

The classification of financial instruments and their carrying amounts are as follows as at March 31, 2021:

Financial assets	Financial assets at fair value through profit or loss	Amortized cost
<i>Current</i>		
Cash and cash equivalents	\$ -	\$ 90.9
Trade receivables	-	78.8
Other receivables	-	23.3
Derivative financial instruments	0.2	-
	\$ 0.2	\$ 193.0
<i>Non-current</i>		
Derivative financial instruments	\$ 7.4	\$ -
	\$ 7.4	\$ -

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Financial liabilities	Financial liabilities at fair value through profit or loss	Amortized cost
<i>Current</i>		
Accounts payable and accrued liabilities	\$ -	\$ 68.6
Non-trades payables	-	0.5
Lease liabilities	-	7.9
Term loan	-	21.8
Derivative financial instruments	0.2	-
	\$ 0.2	\$ 98.8
<i>Non-current</i>		
Non-trades payables	\$ -	\$ 1.0
Lease liabilities	0	11.4
Term loan	-	378.4
Second lien notes	-	151.0
Derivative financial instruments	0.4	-
	\$ 0.4	\$ 541.8

The classification of financial instruments and their carrying amounts are as follows as at December 31, 2020:

Financial assets	Financial assets at fair value through profit or loss	Amortized cost
<i>Current</i>		
Cash and cash equivalents	\$ -	\$ 78.6
Trade receivables	-	48.7
Other receivables	-	26.2
Derivative financial instruments	0.8	-
	\$ 0.8	\$ 153.5
<i>Non-current</i>		
Derivative financial instruments	\$ 9.1	\$ -
	\$ 9.1	\$ -
Financial liabilities	Financial liabilities at fair value through profit or loss	Amortized cost
<i>Current</i>		
Accounts payable and accrued liabilities	\$ -	\$ 65.7
Non-trades payables	-	0.8
Lease liabilities	-	7.8
Term loan	-	22.0
Derivative financial instruments	0.3	-
	\$ 0.3	\$ 96.3
<i>Non-current:</i>		
Non-trades payables	\$ -	\$ 1.0
Lease liabilities	-	12.7
Term loan	-	390.0
Second lien notes	-	147.8
Derivative financial instruments	0.3	-
	\$ 0.3	\$ 551.5

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(b) Fair value of financial instruments:

The table below shows the fair values of financial instruments, including their levels in the fair value hierarchy. It does not include fair value information for financial instruments measured at amortized cost if the carrying amount is a reasonable approximation of fair value.

	As at March 31, 2021				As at December 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Derivative financial instruments	\$ -	\$ 0.7	\$ 6.9	\$ 7.6	\$ -	\$ 1.0	\$ 8.9	\$ 9.9
Liabilities								
Derivative financial instruments	\$ -	\$ 0.6	\$ -	\$ 0.6	\$ -	\$ 0.6	\$ -	\$ 0.6
Term loan	-	407.0	-	407.0	-	411.9	-	411.9
Second lien notes	-	144.2	-	144.2	-	147.8	-	147.8

During the period, no transfers occurred between the different levels.

Level 2 derivative financial instruments comprise of short-term investments. 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 credits spreads, as applicable.

The embedded derivative redemption feature as part of the second lien notes is classified as a Level 3 security. The fair value decrease on financial instruments categorized within Level 3 of \$2 (December 31, 2020: \$8.9), was recorded in the statement of operations and comprehensive loss. Below is the reconciliation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy:

	Embedded derivative asset (Level 3)
As at April 8, 2020	\$ -
Additions	1.9
Unrealized gain recognized in the statement of operations and comprehensive loss	7.0
As at December 31, 2020	\$ 8.9
Unrealized loss recognized in the statement of operations and comprehensive loss	(2.0)
As at March 31, 2021	\$ 6.9

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The significant unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at March 31, 2021 and December 31, 2020 are shown below:

Security	Valuation technique	Significant unobservable inputs	Input	Sensitivity analysis
Embedded derivative asset	Interest rate option pricing model	Credit spread	March 31, 2021: 5.77% (December 31, 2020: 6.17%)	March 31, 2021: 0.5% increase (decrease) in the credit spread would result in an decrease in the fair value by: \$2.2 and increase in the fair value by \$2.7 (December 31, 2020: 0.5% increase (decrease) in the credit spread would result in an decrease in the fair value by 2.6 and increase in the fair value by \$3.0)

(c) Foreign exchange risk:

The Company is exposed to foreign exchange risk on sales contracts and purchase contracts. For Canadian operations, this is typically the United States dollar and Pounds Sterling. The Company is also exposed to foreign currency risk on the net assets of its foreign operations.

As at March 31, 2021, the Company had Canadian dollar foreign exchange forward purchase contracts for \$4.2 (December 31, 2020: \$10). The Company also had Canadian dollar foreign exchange forward sales contracts for \$0.2 (December 31, 2020: \$0.4).

15. Share Capital

During the three months ended March 31, 2021, the Company has issued 30,000,000 common shares for a subscription price of \$30 to a private investor and 590,500 shares with a value of \$0.6 to employees.

16. Loss per share

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

	For the three months ended March 31, 2021
Net loss	\$ (1.6)
Weighted average shares outstanding	498,809,667
Basic and diluted net loss per share attributable to common stockholders	\$ (0.00)

The Company's stock options were anti-dilutive as the Company reported a loss for the three months ended March 31, 2021, and therefore were not included in the diluted loss per share calculation.

17. Government assistance

(a) Investment tax credits

During the period, the Company recognized investment tax credits of \$2.4 as a reduction of cost of materials, labour, and subcontractors on the consolidated statement of operations and comprehensive loss. The Company has investment tax credits of approximately \$46.3 available to offset future Canadian Federal and Provincial income

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taxes payable which expire between 2025 and 2039. Investment tax credits are only recognized in the financial statements when the recognition criteria have been met as described in note 3 of Company's annual consolidated financial statements as at December 31, 2020.

(b) Government grants

(i) Technology Demonstration Program:

On May 5, 2016, the Company was awarded a contribution agreement valued at \$54.0 by Innovation, Science and Economic Development under the Technology Demonstration Program ("TDP"). The TDP program contributes funding towards large-scale research and development projects that typically require the integration of several different technologies and the coordination of activities of many partners. The Company will coordinate with a team of Canadian partners, both in industry and academia, to develop innovative technology for space communications and space surveillance. Under the agreement, the Company and its partners can claim 50% of eligible costs up to \$108.0 for the period August 12, 2014 through to March 31, 2021. Of this total, the Company is eligible to receive a maximum contribution of \$31.5 based on 50% of eligible costs up to \$63.0. During the three months ended March 31, 2021, the Company recorded a recovery against direct costs, selling, general and administration of \$0.1 for its portion of 50% of eligible costs incurred. For the three months ended March 31, 2021, the Company received proceeds of \$0.2 in respect of its claim for 50% of eligible expenditures.

(ii) CEWS:

In response to the Covid-19 pandemic, the Government of Canada offered employers a wage subsidy to assist in retaining employees throughout the pandemic. The Company recognized \$10.1 of government grant income related to CEWS from the Canadian government, of which \$4.3 is receivable as at March 31, 2021.

(iii) Next Generation Manufacturing Canada ("NGen"):

In December 2020, the Company entered into a contribution agreement for a maximum of \$5.0. NGen is dedicated to building up next generation manufacturing capabilities and promoting collaboration in advanced manufacturing and innovation by strengthening linkages across industry, academia and research institutes in Canada. The Company will coordinate with a team of Canadian partners to develop advanced manufacturing for highly adaptive manufacturing environments. Under the agreement, the Company and its partners can claim 44.4% of eligible costs up to \$11.3 for the period January 1, 2021 through to March 21, 2023. Out of this total, the Company is eligible to receive a maximum contribution of \$3.4 based on 44.4% of eligible costs up to \$7.7 and so far, has received proceeds of \$0.2. For the three months ended March 31, 2021, the Company received proceeds of \$nil in respect of its claim for 44.4% of eligible expenditures.

18. Related party transactions

The below table provides the total amount of transactions that have been entered into with related parties along with their relationship.

Compensation of key management personnel

The remuneration of key management personnel consisted of salaries, short-term benefits and share-based compensation expense. During the three months ended March 31, 2021, the compensation for key management personnel are summarized below:

	For the three months ended March 31, 2021
Short-term and post-employment benefits	\$ 1.7
Share-based compensation expense	2.6
Total key management personnel compensation	\$ 4.3

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19. Contingencies and commitments

- (a) As of March 31, 2021, the Company had commitments of \$6.6 (December 31, 2020: \$4.7) relating to purchase of property, plant and equipment, and intangible assets.
- (b) The Company enters into agreements in the ordinary course of business with resellers and others. Most of these agreements require the Company to indemnify the other party against third-party claims alleging that one of its products infringes or misappropriates a patent, copyright, trademark, trade secret or other intellectual property right. Certain of these agreements require the Company to indemnify the other party against claims relating to property damage, personal injury or acts or omissions by the Company, its employees, agents or representatives.
- (c) From time to time, the Company has made guarantees regarding the performance of its systems to its customers. Some of these agreements do not limit the maximum potential future payments the Company could be obligated to make. The Company evaluates and estimates potential losses from such indemnification based on the likelihood that the future event will occur. To date, the Company has not incurred any material costs as a result of such obligations and has not accrued any liabilities related to such indemnification and guarantees in the combined financial statements.
- (d) The Company has entered into industrial cooperation agreements, sometimes referred to as offset agreements, as a condition to entering into contracts for its products and services from certain customers in foreign countries. These agreements are designed to return economic value to the foreign country and may be satisfied through activities that do not require a direct cash payment, including transferring technology, providing manufacturing, training and other consulting support to in-country projects. These agreements may provide for penalties in the event the Company fails to perform in accordance with offset requirements. The Company has historically not been required to pay any such penalties.
- (e) The Company is a party to various other legal proceedings and claims that arise in the ordinary course of business as either a plaintiff or defendant. The Company analyzes all legal proceedings and the allegations therein. The outcome of any of these other proceedings, either individually or in the aggregate, is not expected to have a material adverse effect on the Company's financial position, results of operations or liquidity.

20. Subsequent Events

- (a) Initial Public Offering (IPO)

On April 1, 2021, after the end of the quarter ended March 31, 2021 but prior to issuance of the first quarter 2021 interim condensed consolidated financial statements, MDA filed an initial public offering of 28,571,500 common shares at \$14 per share for total gross proceeds of \$400. The transaction closed on April 7, 2021.

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

- (b) Exercise of over-allotment option

Following the close of the offering, on April 14, 2021 the over-allotment option granted to the underwriters to purchase up to an additional 4,285,725 common shares at a price of \$14.00 per common share was exercised in full, generating additional gross proceeds to the Company of \$60.

- (c) Share consolidation

Prior to the closing of the IPO but after the end of the quarter ended March 31, 2021, all of the issued and outstanding common shares were consolidated on a six-to-one basis. The resulting outstanding common shares was 86,830,156 immediately prior to the completion of the IPO.

21. Changes to presentation and classification

Select items and notes have been presented differently for the three months ended March 31, 2021 pursuant to a review of the consolidated financial statements to provide information that is reliable and more relevant to users.

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Certain comparative amounts for the prior period have been reclassified to conform to current period presentation on the condensed statement of financial position. Such reclassifications had no effect on shareholders' equity.