

MDA LTD.

Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

(In millions of Canadian dollars)

MDA Ltd.
Consolidated Statement of Comprehensive Income (Loss)
For the three months ended March 31, 2022 and 2021
(In millions of Canadian dollars except per share figures)

	Note	Three months ended March 31, 2022	Three months ended March 31, 2021
Revenue	4	\$ 128.4	\$ 123.4
Cost of revenue			
Materials, labour and subcontractors	6	(60.9)	(79.1)
Depreciation and amortization of assets	8, 9, 10	(5.8)	(5.9)
Gross profit		61.7	38.4
Operating expenses			
Selling, general and administration	6	(14.3)	(14.1)
Research and development, net	6	(8.5)	(2.3)
Amortization of intangible assets	10	(14.0)	(13.6)
Share-based compensation	13	(1.6)	(3.6)
Operating income (loss)		23.3	4.8
Other income (expenses)			
Government grant income	16	—	10.1
Unrealized loss on financial instruments	14	(5.3)	(2.0)
Foreign exchange loss		(2.2)	(2.9)
Finance costs	9, 11	(4.3)	(10.4)
Income (loss) before taxes		11.5	(0.4)
Income tax expense		(3.1)	(1.2)
Net income (loss)		8.4	(1.6)
Other comprehensive income (loss)			
Gain (loss) on translation of foreign operations		0.4	(3.3)
Total comprehensive income (loss)		\$ 8.8	\$ (4.9)
Earnings (loss) per share:			
Basic	15	\$ 0.07	\$ (0.02)
Diluted	15	0.07	(0.02)
Weighted-average common shares outstanding:			
Basic	15	118,691,628	83,134,927
Diluted	15	124,153,386	91,242,276

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

MDA Ltd.
Consolidated Statement of Financial Position
March 31, 2022
(In millions of Canadian dollars)

As at	Note	March 31, 2022	December 31, 2021
Assets			
Current assets:			
Cash		\$ 59.5	\$ 83.6
Trade and other receivables		83.7	92.6
Unbilled receivables		90.1	83.7
Inventories		8.0	8.0
Income taxes receivable		14.3	13.1
Other current assets	7	12.6	12.8
		268.2	293.8
Non-current assets:			
Property, plant and equipment	8	131.2	109.9
Right-of-use assets	9	12.7	14.8
Intangible assets	10	567.3	571.2
Goodwill		419.9	419.9
Deferred income tax assets		17.7	19.3
Other non-current assets	7	130.6	105.7
Total assets		\$ 1,547.6	\$ 1,534.6
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 72.4	\$ 71.3
Income taxes payable		12.5	11.8
Contract liabilities		102.6	91.5
Current portion of net employee benefit payable	12	34.5	38.8
Current portion of lease liabilities	9	7.8	7.9
Other current liabilities		5.8	4.6
		235.6	225.9
Non-current liabilities:			
Net employee defined benefit payable	12	34.3	33.8
Lease liabilities	9	5.9	7.8
Long-term debt	11	144.9	144.7
Deferred income tax liabilities		154.4	158.4
Other non-current liabilities		2.4	2.3
Total liabilities		577.5	572.9
Shareholders' equity			
Common shares		950.7	950.7
Contributed surplus		18.5	16.9
Accumulated other comprehensive income		8.9	8.5
Deficit		(8.0)	(14.4)
Total equity		970.1	961.7
Total liabilities and equity		\$ 1,547.6	\$ 1,534.6
Subsequent event (Note 18)			

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

MDA Ltd.

Consolidated Statement of Changes in Shareholders' Equity

For the three months ended March 31, 2022 and 2021

(In millions of Canadian dollars)

	Note	Common shares		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
		Number	Amount				
As at January 1, 2022		118,691,628	\$ 950.7	\$ 16.9	\$ 8.5	\$ (14.4)	\$ 961.7
Impact of change in accounting policy	3					(2.0)	(2.0)
Net income		—	—	—	—	8.4	8.4
Other comprehensive income		—	—	—	0.4	—	0.4
Share-based compensation	13	—	—	1.6	—	—	1.6
As at March 31, 2022		118,691,628	\$ 950.7	\$ 18.5	\$ 8.9	\$ (8.0)	\$ 970.1
As at January 1, 2021 ⁽¹⁾		80,735,983	\$ 480.4	\$ 4.9	\$ (10.6)	\$ (17.3)	\$ 457.4
Share capital issued ⁽¹⁾		5,098,420	30.6	—	—	—	30.6
Net loss		—	—	—	—	(1.6)	(1.6)
Other comprehensive loss		—	—	—	(3.3)	—	(3.3)
Share-based compensation		—	—	3.6	—	—	3.6
As at March 31, 2021		85,834,403	\$ 511.0	\$ 8.5	\$ (13.9)	\$ (18.9)	\$ 486.7

⁽¹⁾ Number of common shares reflect the six-to-one share consolidation effected upon the Company's initial public offering on April 7, 2021.

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

MDA Ltd.

Consolidated Statement of Cash Flows

For the three months ended March 31, 2022 and 2021

(In millions of Canadian dollars)

	Note	Three months ended March 31, 2022	Three months ended March 31, 2021
Cash flows from operating activities			
Net income (loss)		\$ 8.4	\$ (1.6)
Items not affecting cash:			
Income tax expense		3.1	1.2
Depreciation of property, plant and equipment	8	2.5	2.3
Depreciation of right-of-use assets	9	2.1	2.6
Amortization of intangible assets	10	15.2	14.6
Share-based compensation expense	13	1.6	3.6
Investment tax credits accrued during the period	16	(22.7)	(2.4)
Finance costs		4.3	10.4
Unrealized loss on financial instruments		5.3	2.0
Changes in operating assets and liabilities			
Trade and other receivables		8.9	(29.9)
Unbilled receivables		(6.4)	0.7
Inventories		—	0.2
Prepaid and advances to suppliers		(11.7)	(1.7)
Other assets		0.7	(1.5)
Trade and other payables		(2.4)	2.9
Contract liabilities		11.1	10.8
Employee benefits		(3.9)	5.5
Other liabilities		(1.4)	(9.1)
		14.7	10.6
Interest paid		(0.6)	(12.4)
Income tax recovered		0.6	1.9
Net cash from operating activities		14.7	0.1
Cash flows from investing activities			
Purchases/construction of property and equipment	8	(24.9)	(1.5)
Purchases/development of intangible assets	10	(12.2)	(8.6)
Net cash used in investing activities		(37.1)	(10.1)
Cash flows from financing activities			
Repayments of long-term debt	11	—	(5.4)
Payment of lease liability (principal portion)		(2.1)	(1.8)
Proceeds from issuance of shares, net of costs		—	30.0
Net cash (used) provided by financing activities		(2.1)	22.8
Net (decrease) increase in cash		(24.5)	12.8
Net foreign exchange differences on cash		0.4	(0.5)
Cash, beginning of period		83.6	78.6
Cash, end of period		\$ 59.5	\$ 90.9

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

MDA LTD.

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

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

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, the 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 in Ontario 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, 2021 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, 2021.

These interim condensed consolidated financial statements were approved by the Board of Directors of MDA on May 10, 2022.

(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”), 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) Impact of COVID-19 pandemic

COVID-19 was declared a global pandemic by the World Health Organization on March 11, 2020 and has created disruptions and uncertainties in the global economy. In 2021, the roll-out of vaccines helped alleviate some of the social distancing restrictions and measures implemented by various governments and health authorities, allowing the Company’s workforce to return to work under a hybrid model. The Company continues to prioritize the health and safety of employees, adhering to government officials’ guidelines in devising and implementing its hybrid workforce model. As part of its commitment to keeping everyone safe, the Company provided on-site rapid COVID-19 testing to its employees and implemented a vaccination mandate in December 2021 applicable to all employees and visitors entering the Company’s premises.

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While the Company experienced higher activity levels across its business areas for the three months ended March 31, 2022, disruptions to supply chains continued to impact the timing and costs of some of the Company's programs.

The Canada Emergency Wage Subsidy ("CEWS") program ended in October 2021 and therefore no government grant income related to CEWS was recognized for the three months ended March 31, 2022. For the three months ended March 31, 2021, the Company recognized \$10.1 of government grant income related to CEWS.

(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 over a given interim period may not be indicative of full fiscal year results.

(e) 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, 2021.

3. Changes in accounting policies and accounting pronouncements:

(a) Adoption of Amendment to IAS 37 *Onerous Contracts – Costs of Fulfilling a Contract*

The Company adopted the amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, effective January 1, 2022. The amendment clarifies that when measuring an onerous contract provision, the costs relating directly to the contract include both incremental costs and an allocation of costs directly related to contract activities. The Company recognized a cumulative effect of \$2.0 upon applying this amendment in the opening retained deficit as at January 1, 2022, which did not represent a material impact on the consolidated financial statements.

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

In January 2020, the IASB issued a narrow-scope amendment to IAS 1 *Presentation of Financial Statements*, which clarifies that the classification of liabilities as current or non-current are based on rights that are in existence at the end of the reporting period. The amendment aligns wording in all relevant paragraphs to refer to the right to defer settlement by at least twelve months and make explicit that only rights in place at the end of the reporting period should affect the classification of a liability. The amendment is effective for the Company on January 1, 2023. The Company is assessing the potential impact of this amendment.

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4. Revenue from contracts with customers

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

	Three months ended March 31, 2022	Three months ended March 31, 2021
Geointelligence	\$ 48.9	\$ 49.0
Robotics and Space Operations	42.4	34.3
Satellite Systems	37.1	40.1
	\$ 128.4	\$ 123.4

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 March 31, 2022	Three months ended March 31, 2021 ⁽¹⁾
Canada	\$ 68.3	\$ 60.0
United States	27.1	36.4
Europe	26.3	22.2
Asia and Middle East	6.4	4.0
Other	0.3	0.8
	\$ 128.4	\$ 123.4

⁽¹⁾ Certain comparative amounts for the prior period have been reclassified to conform to current period presentation.

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, 2022	December 31, 2021
Canada	\$ 1,130.1	\$ 1,115.0
Other	1.0	0.8
	\$ 1,131.1	\$ 1,115.8

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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 March 31, 2022	Three months ended March 31, 2021
Wages, salaries and other cost of revenues	\$ 69.6	\$ 72.0
Subcontractor costs	13.4	8.6
Inventories used	0.6	0.9
Investment tax credits recognized	(22.7)	(2.4)
	\$ 60.9	\$ 79.1

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

	Three months ended March 31, 2022	Three months ended March 31, 2021
<i>Selling, general and administration</i>		
General and administration	\$ 8.4	\$ 8.1
Selling and marketing	5.9	6.0
	\$ 14.3	\$ 14.1
<i>Research and development, net</i>		
Research and development expense	\$ 10.2	\$ 8.7
Research and development expense recovery	(1.7)	(6.4)
	\$ 8.5	\$ 2.3

7. Other assets

	Note	March 31, 2022	December 31, 2021
Prepaid expenses		\$ 25.7	\$ 13.2
Advances to suppliers		1.0	1.8
Investment tax credits receivable	16(a)	86.8	67.8
Deferred financing fees on long-term debt		6.0	6.0
Investment in equity securities		6.2	7.7
Derivative financial assets		5.0	9.5
Pension plan asset		12.5	12.5
		\$ 143.2	\$ 118.5
Current portion		\$ 12.6	\$ 12.8
Non-current portion		\$ 130.6	\$ 105.7

MDA LTD.

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

(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
<i>Cost</i>					
As at December 31, 2021	\$ 58.1	\$ 13.4	\$ 9.4	\$ 42.6	\$ 123.5
Additions	0.3	0.3	0.6	22.5	23.7
Transfers	0.4	0.7	1.3	(2.3)	0.1
As at March 31, 2022	\$ 58.8	\$ 14.4	\$ 11.3	\$ 62.8	\$ 147.3
<i>Accumulated depreciation</i>					
As at December 31, 2021	\$ (4.8)	\$ (5.4)	\$ (3.4)	\$ —	\$ (13.6)
Depreciation expense	(0.9)	(0.8)	(0.8)	—	(2.5)
As at March 31, 2022	\$ (5.7)	\$ (6.2)	\$ (4.2)	\$ —	\$ (16.1)
<i>Net book value</i>					
As at December 31, 2021	\$ 53.3	\$ 8.0	\$ 6.0	\$ 42.6	\$ 109.9
As at March 31, 2022	\$ 53.1	\$ 8.2	\$ 7.1	\$ 62.8	\$ 131.2

Depreciation expense included in cost of revenue for the three months ended March 31, 2022 is \$2.5 (three months ended March 31, 2021 – \$2.3).

9. Leases

The Company has lease contracts for buildings and furniture and fixtures and computer hardware used in its operations. Leases of buildings generally have lease terms between 5 and 10 years, while 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	Furniture, fixtures and computer hardware	Total
As at December 31, 2021	\$ 13.5	\$ 1.3	\$ 14.8
Depreciation expense	(1.8)	(0.3)	(2.1)
As at March 31, 2022	\$ 11.7	\$ 1.0	\$ 12.7

Depreciation expense included in cost of revenue for the three months ended March 31, 2022 is \$2.1 (three months ended March 31, 2021 – \$2.6).

(b) Lease liabilities

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

	Lease liabilities
As at December 31, 2021	\$ 15.7
Accretion of interest	0.1
Payments	(2.1)
As at March 31, 2022	\$ 13.7

MDA LTD.

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

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

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

10. Intangible assets

	Proprietary technologies	Contractual backlog	Customer relationships	MDA trademark	Software	Total
<i>Cost</i>						
As at December 31, 2021	\$ 111.6	\$ 41.2	\$ 459.9	\$ 25.6	\$ 38.6	\$ 676.9
Additions	8.2	—	—	—	3.2	11.4
Transfers	—	—	—	—	(0.1)	(0.1)
As at March 31, 2022	\$ 119.8	\$ 41.2	\$ 459.9	\$ 25.6	\$ 41.7	\$ 688.2
<i>Accumulated amortization</i>						
As at December 31, 2021	\$ (13.6)	\$ (24.9)	\$ (56.4)	\$ (2.4)	\$ (8.4)	\$ (105.7)
Amortization expense	(2.0)	(3.5)	(8.2)	(0.3)	(1.2)	(15.2)
As at March 31, 2022	\$ (15.6)	\$ (28.4)	\$ (64.6)	\$ (2.7)	\$ (9.6)	\$ (120.9)
<i>Net book value</i>						
As at December 31, 2021	\$ 98.0	\$ 16.3	\$ 403.5	\$ 23.2	\$ 30.2	\$ 571.2
As at March 31, 2022	\$ 104.2	\$ 12.8	\$ 395.3	\$ 22.9	\$ 32.1	\$ 567.3

For the three months ended March 31, 2022, the amortization expense related to software of \$1.2 (three months ended March 31, 2021 – \$1.0) are included in cost of revenue. For the three months ended March 31, 2022, the amortization expense related to all other intangible assets of \$14.0 (three months ended March 31, 2021 – \$13.6) are included in operating expenses.

As at March 31, 2022, the Company did not identify any indicators of impairment. Accordingly, no impairment was recognized during this period.

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 and second lien notes. As at March 31, 2022 and December 31, 2021, no amounts were outstanding under the senior credit facility. The amount outstanding under the second lien notes has a carrying amount of \$144.9 at March 31, 2022 (December 31, 2021 - \$144.7) classified as non-current in its entirety.

(a) Senior credit facility

Under the senior credit facility, the Company has available credit in a reducing revolving credit facility in the amount of \$428.3, of which \$14.7 was used as of March 31, 2022, (December 31, 2021 – \$15.6), all in respect of the Company's gross potential liability related to letters of credit. The outstanding letters of credit at March 31, 2022 had an applicable margin of 97 basis points ("bps") plus a fronting fee of 25 bps.

The available credit under the revolving credit facility will reduce on a quarterly basis at a rate of \$5.4 on June 30, 2022, \$8.2 from September 30, 2022 to June 30, 2024 and \$10.9 from September 30, 2024 to March 31, 2025. 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 45 to 175 bps or CDOR or LIBOR plus an applicable margin of 145 to 275 bps, based on the Company's total debt to EBITDA ratio.

Subsequent to March 31, 2022, the Company amended its senior credit facility as outlined in note 18.

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Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

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

(b) Second lien notes

The Company has 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, 2022, the PIK election was not made.

The second lien notes include an embedded redemption feature, which provides the Company the option to redeem all or part of the notes at rates that do not approximately equal the amortized cost. The redemption feature is recognized separately from the second lien notes and measured at fair value through profit or loss. The fair value of the redemption feature is disclosed in note 14.

Subsequent to March 31, 2022, the Company exercised its option and redeemed all of the second lien notes as outlined in note 18.

(c) Security and guarantees

The reducing 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.

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.

(d) Covenants

Under the reducing revolving credit facility, 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 March 31, 2022, the Company was in compliance with these covenants.

(e) Interest expense on long-term debt

Interest expense on the Company's long-term debt for the three months ended March 31, 2022 is \$3.9 (three months ended March 31, 2021 – \$9.2). This amount is included in finance costs in the consolidated statement of comprehensive income (loss).

12. Employee benefits

(a) Employee benefits liabilities

Employee benefit liabilities	March 31, 2022	December 31, 2021
Salary and benefits payable	\$ 31.3	\$ 33.3
Pension plan liabilities	35.3	34.8
Other post-retirement benefits	2.2	4.5
	\$ 68.8	\$ 72.6
Current	\$ 34.5	\$ 38.8
Non-current	\$ 34.3	\$ 33.8

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

Excluded from the pension plan liabilities as at March 31, 2022 and December 31, 2021 are pension plan assets totalling \$12.5. Pension plan assets are recorded in other non-current asset as presented in note 7.

(b) Contribution costs

The Company maintains defined benefit pension plans, defined contribution pension plans and other post-retirement benefit plans. The Company's contributions are set out below:

	Three months ended March 31, 2022	Three months ended March 31, 2021
Defined contribution pension plans	\$ 1.4	\$ 3.4
Defined benefit pension plans	1.5	0.7
Other post-retirement benefit plans	0.1	0.5
	\$ 3.0	\$ 4.6

13. Share-based compensation

The Company's share-based compensation arrangements comprises an employee stock option plan, an Employee Share Trust Agreement arrangement ("Trustee Shares") and deferred share units ("DSUs") granted to members of the Board of Directors ("Board"). All of the arrangements are equity-settled.

Employee Stock Option Plan

For the three months ended March 31, 2022, the Company has granted stock options with an exercise price of \$9.33 to \$9.43. The stock options vest over 1 to 4 years in annual instalments 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 straight-line basis over the vesting period. The amount expensed for the three months ended March 31, 2022 was \$0.9 (three months ended March 31, 2021 – \$3.6).

The weighted average fair value of options granted during the three months ended March 31, 2022 was \$3.81. The fair value of these options granted were estimated on the date of grant using the following assumptions:

	Three months ended March 31, 2022
Dividend yield	0.00%
Expected volatility	40.00%
Risk-free interest rate	1.39% - 1.62%
Expected life of share options	5.5 to 7.0 years
Weighted average share price	\$9.49

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.

The table below shows the movement in the number of stock options outstanding over the three months ended March 31, 2022:

	Number of stock options
Balance at January 1, 2022	9,066,978
Granted	160,000
Forfeited	(201,547)
Stock options outstanding at March 31, 2022	9,025,431

MDA LTD.

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

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

Trustee Shares

The amount expensed for the three months ended March 31, 2022 was \$0.4 (three months ended March 31, 2021 – \$nil). The number of Trustee Shares outstanding and vested as at March 31, 2022 is 547,292 and 253,905 respectively.

DSUs

The Company offers DSUs to the independent members of the Board, 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 months ended March 31, 2022 was \$0.3 (three months ended March 31, 2021 - \$nil). The number of DSUs outstanding and vested as at March 31, 2022 is 32,127.

14. Financial instruments and fair value disclosures

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

	March 31, 2022	December 31, 2021
<i>Financial assets (liabilities) measured at FVTPL</i>		
Derivative financial assets	\$ 5.0	\$ 9.5
Derivative financial liabilities	(0.8)	(0.9)
Investment in equity securities	6.2	7.7
<i>Financial assets (liabilities) measured at amortized cost</i>		
Cash	\$ 59.5	\$ 83.6
Trade and other receivables	83.7	92.6
Accounts payable and accrued liabilities	(72.4)	(71.3)
Long-term debt	(144.9)	(144.7)

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

	March 31, 2022				December 31, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<i>Assets</i>								
Derivative financial instruments	\$ —	\$ 1.1	\$ 3.9	\$ 5.0	\$ —	\$ 1.4	\$ 8.1	\$ 9.5
Investment in equity securities	6.2	—	—	6.2	7.7	—	—	7.7

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	March 31, 2022				December 31, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<i>Liabilities</i>								
Derivative financial instruments	\$ —	\$ 0.8	\$ —	\$ 0.8	\$ —	\$ 0.9	\$ —	\$ 0.9
Long-term debt	—	156.2	—	156.2	—	169.6	—	169.6

During the three months period ended March 31, 2022, 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.

The fair value of the second lien notes is determined using a present value of future cash flows model. A key estimate used in this calculation is the market yield, which is derived from inputs such as corporate bond credit spread and risk free rate.

The redemption feature embedded in the second lien notes is classified as a Level 3 security. The fair value of the redemption feature as at March 31, 2022 is \$3.9 (December 31, 2021 – \$8.1). This decrease in fair value of \$4.2 was recognized as an unrealized loss in the consolidated statement of comprehensive income (loss) for the three months ended March 31, 2022 (three months ended March 31, 2021 – \$2.0). The significant unobservable input used in measuring the fair value of the redemption feature, together with a quantitative sensitivity analysis as at March 31, 2022 and December 31, 2021 are shown below:

Valuation technique	Valuation date	Significant unobservable input	Sensitivity analysis
Interest rate option pricing model	March 31, 2022	Credit spread: 5.97%	0.5% increase would decrease the fair value by \$1.0 0.5% decrease would increase the fair value by \$1.2
Interest rate option pricing model	December 31, 2021	Credit spread: 5.57%	0.5% increase would decrease the fair value by \$2.2 0.5% decrease would increase the fair value by \$2.8

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15. Earnings (loss) per share

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

	Three months ended March 31, 2022	Three months ended March 31, 2021 ⁽¹⁾
Net income (loss)	\$ 8.4	\$ (1.6)
Weighted average shares outstanding – basic	118,691,628	83,134,927
<i>Adjustments for</i>		
Employee stock options	5,461,401	8,107,349
Trustee shares	—	—
DSUs	357	—
Weighted average shares outstanding – diluted	124,153,386	91,242,276
Basic earnings (loss) per share	\$ 0.07	\$ (0.02)
Diluted earnings (loss) per share	0.07	(0.02)

⁽¹⁾ Number of common shares reflect the six-to-one share consolidation effected upon the Company's initial public offering on April 7, 2021.

16. Government assistance

(a) Investment tax credits

During the three months ended March 31, 2022, the Company recognized investment tax credits of \$22.7 (three months ended March 31, 2021 – \$2.4) as a reduction in cost of materials, labour and subcontractors on the consolidated statement of comprehensive income (loss) of which \$16.8 relate to expenses incurred in prior years.

As at March 31, 2022, the Company has investment tax credits of approximately \$90.6 available to offset future Canadian Federal and Provincial income taxes payable which expire between 2032 and 2042.

Investment tax credits are only recognized in the financial statements when the recognition criteria have been met as described in note 3(p) of the Company's consolidated financial statements for the year ended December 31, 2021. 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) Canada Emergency Wage Subsidy ("CEWS")

The CEWS program ended in October 2021 and therefore no government grant income related to CEWS was recognized for the three months ended March 31, 2022. As at March 31, 2022, the Company received all of its amounts claimed under CEWS. For the three months ended March 31, 2021, the Company recognized \$10.1 of government grant income related to CEWS.

17. Contingencies and commitments

(a) As at March 31, 2022, the Company is committed under legally enforceable agreements for purchases relating to property, plant and equipment and intangible assets of \$8.5 in 2022, \$1.7 in 2023 and onward.

(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

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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 consolidated 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.

18. Subsequent event

Subsequent to the quarter, on May 5, 2022, the Company signed an amendment to its senior credit facility. The senior credit facility was increased from \$428.3 to \$600.0 and the reducing feature of the available credit was eliminated. The maturity date of the senior credit facility was extended from April 8, 2025 to May 4, 2027.

Concurrent with the amendment of the senior credit facility, on May 5, 2022, the Company exercised its option to redeem all amounts outstanding under the second lien notes. On redemption, the Company paid in cash the principal amount of \$150.0, accrued interest of \$1.2, and a redemption premium of \$7.5 due on exercise of its early redemption rights. The redemption premium was recorded in finance costs in the consolidated statement of comprehensive income (loss) in the second quarter of 2022.

Available excess cash and drawings under the senior revolving credit facility were used to redeem the second lien notes. The redemption of the second lien notes also resulted in the derecognition of the redemption option derivative as described in note 14 and deferred financing costs, both of which were recorded in finance costs in the consolidated statement of comprehensive income (loss) in the second quarter of 2022.