MDA

Providing Essential Information Solutions


ANNUAL REPORT 2004


## ABOUT MDA

MDA provides advanced information solutions that capture and process vast amounts of data, produce essential information, and improve the decision making and operational performance of business and government organizations worldwide.

Focused on markets and customers with strong repeat business potential, MDA delivers a broad spectrum of earth and space based information solutions, ranging from complex operational systems, to tailored information services, to electronic information products.

MDA employs more than 2,500 people in locations across the United States, Europe, and Canada. The Company trades on the Toronto Stock Exchange under the symbol TSX:MDA.


BACKLOG
[$millions]

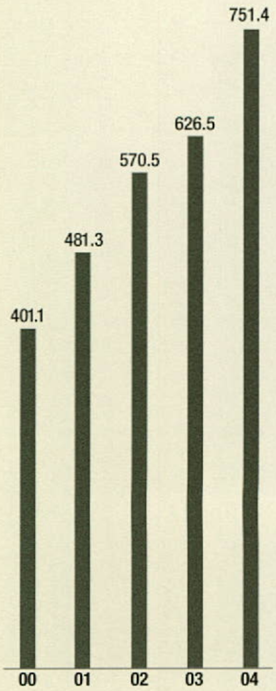
## FINANCIAL HIGHLIGHTS

MDA has maintained a consistent record of growth and profitability. Recurring business from a large customer base is a material component of the Company's growth.

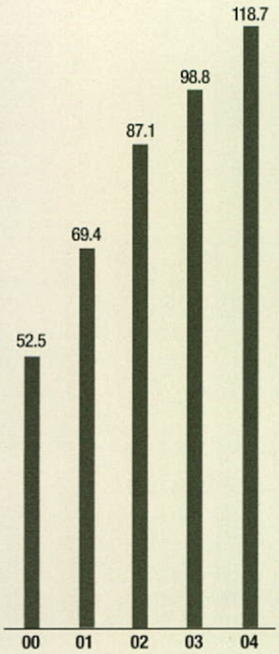
| YEARS ENDED DECEMBER 31, | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| | | | (IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS) | | |
| Revenues - Information Systems | 316,044 | 295,156 | 315,688 | 307,823 | 286,217 |
| Revenues - Information Products | 435,342 | 331,320 | 254,797 | 173,452 | 114,908 |
| **Total revenues** | **751,386** | **626,476** | **570,485** | **481,275** | **401,125** |
| EBITDA | 118,708 | 98,768 | 87,137 | 69,384 | 52,525 |
| Net earnings | 52,495 | 42,223 | 36,670 | 27,913[1] | 20,934[1] |
| Diluted net earnings per share | 1.33 | 1.09 | 0.96 | 0.75 | 0.63 |
| Net cash earnings | 62,811 | 50,237 | 42,059 | 29,469 | 23,423 |
| Diluted net cash earnings per share | 1.59 | 1.30 | 1.10 | 0.79 | 0.71 |

[1] Earnings before amortization of goodwill

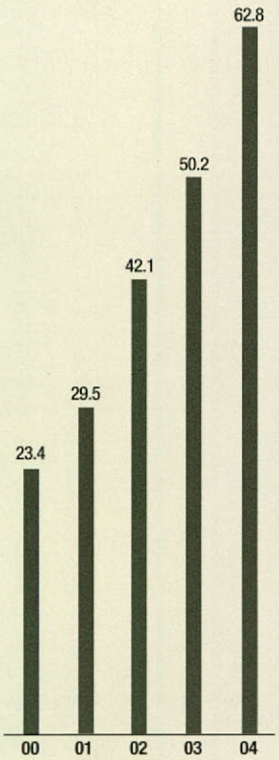
| AS AT DECEMBER 31, | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| | | | | (IN THOUSANDS OF DOLLARS) | |
| Cash and cash equivalents | 32,250 | 34,221 | 23,983 | 17,071 | 43,464 |
| Total assets | 934,422 | 516,021 | 542,875 | 428,594 | 413,308 |
| Long-term debt | 381,375 | 115,886 | 109,704 | 67,412 | 89,796 |
| Shareholders' equity | 280,417 | 226,963 | 215,867 | 163,663 | 125,160 |
| **Total Backlog** | **902,586** | **755,580** | **734,435** | **465,043** | **559,319** |



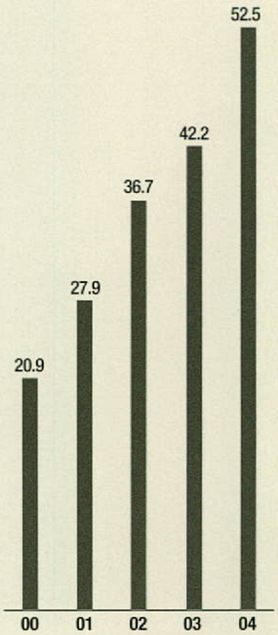
**REVENUES**
[$millions]



**EBITDA**
[$millions]



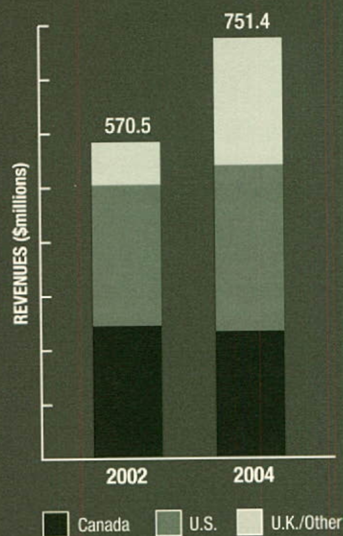
**NET CASH EARNINGS**
[$millions]



**NET EARNINGS**
[$millions]

## PRESIDENT'S MESSAGE

**THE YEAR IN REVIEW.** MDA continued its long-term profitable growth path in 2004. We posted 20% growth in revenues and 24% growth in net earnings despite significant external events such as the softening of the U.K. real estate market and the strengthening of the Canadian dollar relative to the U.S. dollar.




***TOTAL REVENUES.*** *MDA is progressing with its expansion, growing its revenues in the U.S. and U.K.*

Strategically, we took a significant step forward in realizing our vision to become a leading force in the U.S. property information market by acquiring Marshall & Swift/Boeckh ("Marshall & Swift"). Marshall & Swift is a leading supplier of property information and valuation solutions to the U.S. property insurance market.

Progress was made in the U.K. with an increase in our customer base and increased revenue per search set. New offerings were introduced to expand our online 'one-stop shop', and to position us for the future.

2004 brought marked improvements in the adoption of our solutions ranging from small satellite missions to defence intelligence to space solutions, especially in the U.S. market. This area of our business is back on a growth path and is more robust than ever.

**PERFORMANCE.** MDA's financial performance for the year was solid. We completed the year with a strong backlog of work and significant financial resources that will support our growth objectives.

Consolidated revenues totalled $751 million in 2004, an increase of 20% over 2003:

- Information Systems contributed revenues of $316 million compared to $295 million for the year ended December 31, 2003.
- Information Products contributed revenues of $435 million compared to $331 million for the year ended December 31, 2003.

Net earnings increased 24% to $52.5 million for the year from $42.2 million in 2003, resulting in diluted net earnings per common share increasing to $1.33 from $1.09 the year before.

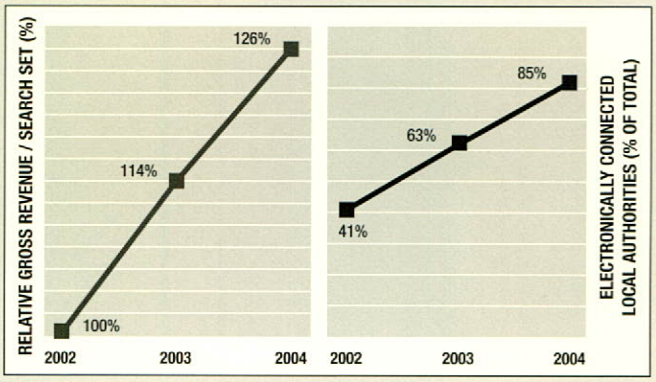
Our U.S. operations achieved good results, but when translating them to Canadian financial statements, they appeared weaker due to the significant rise of the Canadian dollar. However, there was no negative cash impact to our operating activities. It is worthwhile noting that the strengthening of the Canadian dollar benefits our international expansion initiatives.

Our balance sheet remained strong at the end of the year as we applied a disciplined approach to investment and risk. MDA has a substantial credit facility and our liquidity ratios continue to be significantly better than the limits permitted by our banks, allowing us flexibility to pursue strategic growth initiatives.

At December 31, 2004, MDA's backlog was $903 million (2003 - $756 million).

**STRATEGIC PROGRESS.** In the U.S. property information market, we acquired Marshall & Swift, a leading supplier of property information and valuation solutions to property insurance carriers. This acquisition greatly enhanced our leadership position in the expanding market for automated property valuations. Through this acquisition, we have diversified into the insurance market, an area with business cycles independent of our other businesses. We are broadening our product line and customer base in this market: a new underwriting analytics solution allows underwriters to identify trends to better price and sell products; and Web-hosted solutions linking different stakeholders are now being offered to customers that support the property insurance industry, such as ratings services and catastrophe modelers. Our strategic focus on solutions for the claims segment of this market has been a success.

In the U.K. property information market, our business related to the National Land Information Service (NLIS) increased average search set revenue and expanded its customer base. New offerings were launched, including the online ordering of property valuation and home inspection reports. Some of these offerings are critical steps in positioning us to meet the upcoming demand for Home Information Packs (HIPs). Recent legislation calls for a HIP for every property listing by 2007, following a 2006 dry-run. In addition, the overall modernization continued at a brisk pace: over 84% of Local Authorities in England and Wales are electronically receiving information requests from NLIS, and we are providing comprehensive solutions to several Local Authorities to expedite the processing of these land information requests.

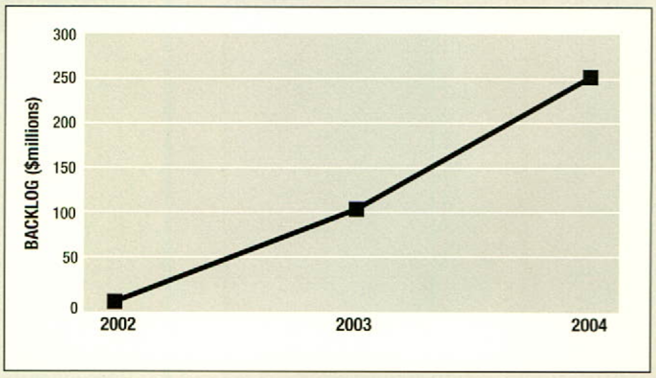



***NLIS.*** *Average revenue per search set is increasing, and most Local Authorities are now electronically connected.*

In British Columbia, information transactions increased and revenue growth from electronic filing services underscored the enthusiastic adoption of this solution.

We also achieved major progress in the market for small satellite missions. These programs deploy lower cost solutions which make them more affordable, leading to the economic viability of new applications. MDA is both the mission prime, and co-product developer and marketer, for the RapidEye small satellite information mission. The RapidEye mission will deliver agricultural land information solutions for crop monitoring and mapping, yield predictions, and natural disaster assessments.

In addition, we are carrying out the lead role in the CASSIOPE mission, and are involved in the preliminary stages of three other small satellite information missions targeted at applications ranging from defence to agriculture.

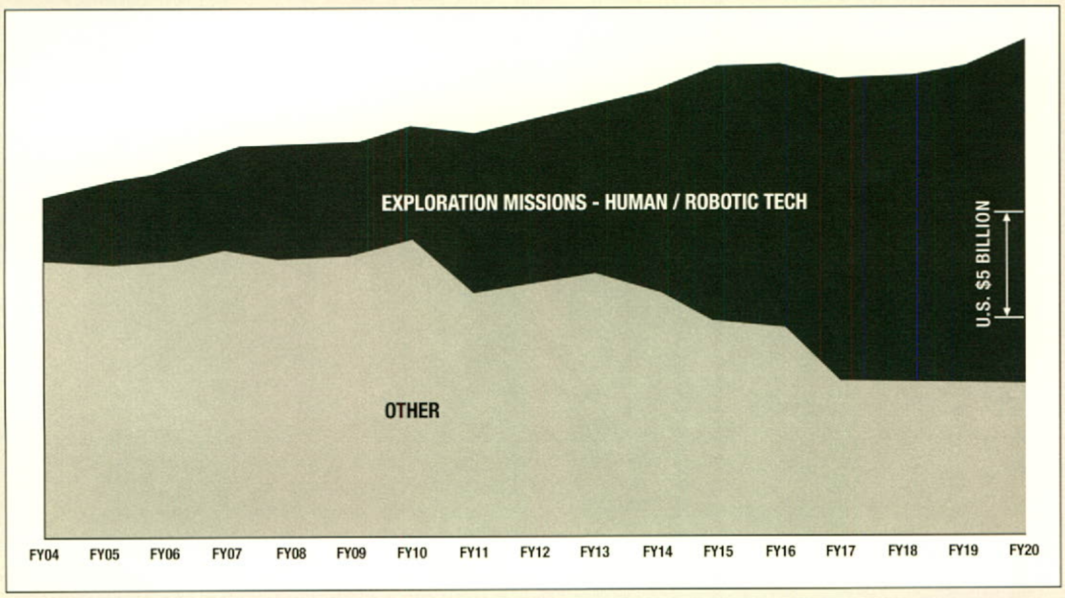



***SMALL SATELLITE INFORMATION MISSIONS BACKLOG.*** *Small satellite missions are one of MDA's growth engines.*

Other solutions, in particular those related to U.S. defence markets, continued to show excellent progress. MDA is helping to plan U.S. Air Force aircraft approaches around the world, and is providing solutions to prepare Canadian soldiers for naval operations and combat. We are building processing solutions to meet the U.S. Department of Defense's requirements for commercial high-resolution satellite imagery and are working on many other strategic and significant solutions.

Our progress in robotic solutions was clearly demonstrated with the delivery of an Inspection Boom for in-orbit Space Shuttle inspections (a critical component in returning the Space Shuttles to flight), the booking of several key Mars mission-related contracts, and the award of the Hubble de-orbit and potential rescue mission work. Furthermore, work on two important unmanned U.S. military satellite demonstration missions incorporating MDA solutions continued, with the demonstration phase of one of these missions expected to begin this year. These solutions are positioning us to access new, large ongoing revenue streams.

Overall, 2004 was the year that we greatly expanded our business and presence in U.S. markets. We also solidified our reputation as a supplier of essential information solutions in the U.K. by increasing our customer base and adding more value to each transaction.




***NASA BUDGET.*** *The chart above reflects the expected shift in funding that will occur over time as the new vision for human and robotic exploration of the solar system and beyond is implemented.*

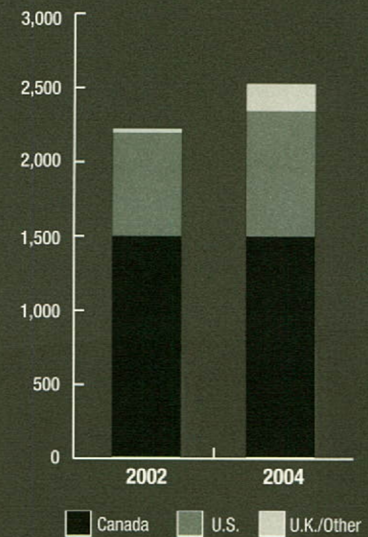
*Source: NASA, The Vision for Space Exploration.*

**LOOKING AHEAD.** We have sown the seeds for the next wave of expansion in the U.S. by positioning MDA to offer a complete suite of property valuation solutions to both the mortgage services market and the residential and commercial property insurance market.

In the U.K., our business has reached a critical mass. We are positioned for an upturn in the housing market, where the results of our hard work during the market slowdown should yield rewards. We are entering strategic partnerships, introducing further online offerings, and developing solutions to meet customer demand expected for the 2006 HIPs dry-run and its early 2007 implementation date.

In the U.S. intelligence and space markets, we have cornerstone programs in place and more opportunities are being pursued.

We have substantial backlog and expansion plans for our solutions.




***MDA EMPLOYEE DISTRIBUTION***

I would like to thank our committed, world-class employees who are continually leveraging our strengths into new opportunities. Their efforts are creating steady growth, year-over-year, increasing MDA's value to our shareholders, partners and customers.

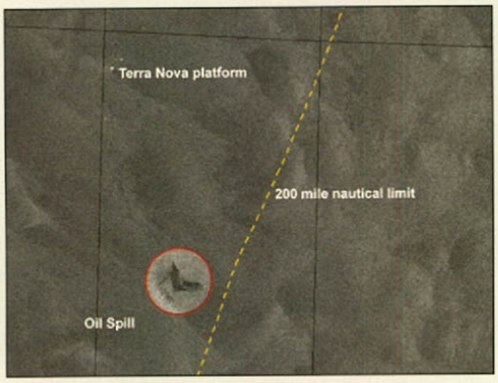
Our Board of Directors deserves recognition for supporting MDA's efforts to adhere to the highest standards of corporate governance. I would also like to recognize the service of our departing Chairman, James Shepard, who is retiring this year. On behalf of the Board of Directors, shareholders and employees, I thank James for his years of leadership as Chairman and wish him the very best in his pursuit of new challenges and endeavours.

***DAN FRIEDMANN****, President and Chief Executive Officer*

**HELPING TO QUICKLY AND ACCURATELY ASSESS PROPERTY REPAIR COSTS.** Thousands of homes in Florida were damaged or destroyed by hurricanes in 2004. Many property insurance adjusters on the scene used our IntegriClaim Field Estimator™ to estimate the cost of repairing or rebuilding damaged homes. IntegriClaim allows adjusters to enter those contractor activities needed to repair the structure, then instantly assigns localized material costs and labour rates that are researched from 2,700 areas in North America. The resulting damage estimates provide the basis for accurate and fair settlements that are truly representative of local market costs and conditions.

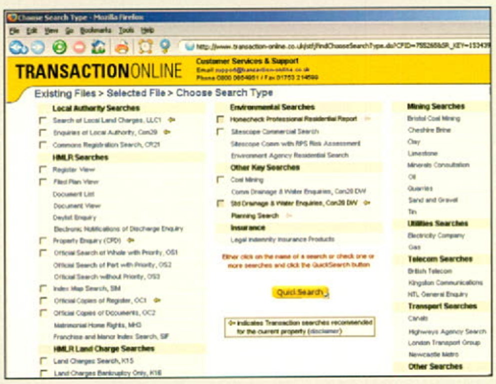
***IntegriClaim** allows insurance adjusters to select contractor activities needed to repair a structure and instantly see the associated costs.*

*IntegriClaim is a trademark of Marshall & Swift/Boeckh, an MDA Company*



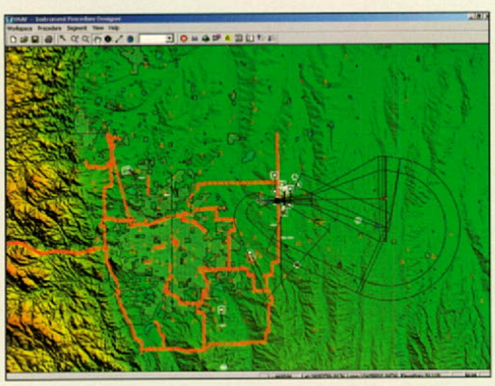

**PROTECTING THE MARINE ENVIRONMENT.** As part of Canada's Integrated Satellite Tracking of Polluters (ISTOP) program, MDA was executing routine procedures when it programmed the RADARSAT-1 satellite to image the Atlantic coast in search of deliberate oil dumping by ships at sea. The Terra Nova oil platform is located within the surveillance area and as a result, the November 2004 oil spill was quickly detected. RADARSAT-1 has repeatedly proven itself as an effective solution to detect oil spills.

*Routine pollution monitoring by Canada's RADARSAT-1 satellite captured the Terra Nova oil platform spill.*




**AIMING TO PROVIDE CONVEYANCING SOLICITORS WITH A 'ONE-STOP SHOP'.** MDA's NLIS retail Channel provides solicitors with a simple online menu to select and submit property information requests, rather than contacting each separate authority or agency. In 2004, conveyancing solicitors in England and Wales had access to a larger menu of online offerings from MDA. These new offerings include property inspections and new searches that provide, for a given property and its surrounding area, current planning applications, proposed highway changes, environmentally hazardous activities, designated heritage and conservation sites, and even cellular phone towers.

*MDA's NLIS Channel now provides solicitors in England and Wales with the ability to order home inspection reports online, along with other conveyancing information needs.*

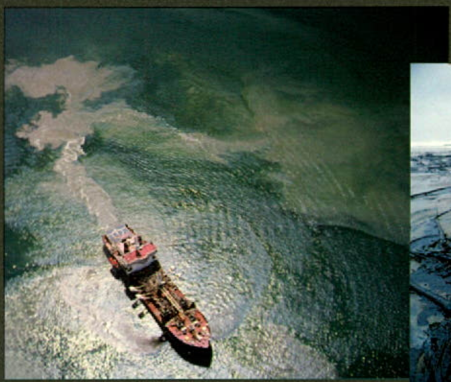


**MAKING FLIGHT PATHS SAFER AROUND THE WORLD.** In 2004, the U.S. Air Force decided to deploy MDA's flight path safety solution into operational field service at all of its Major Commands worldwide. Other installations of MDA's solution are being investigated for civilian use.

MDA's solution ingests digital terrain, and obstruction and aeronautical data to build and display a virtual model of the physical environment surrounding an airport. It is then used to develop a safe flight path corridor reflected in pilot procedures for take-off and landing.

*MDA's solution shows the designed aircraft approaches into Denver Airport (black lines), obstacles (red lines), and terrain.*









## MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis of MacDonald, Dettwiler and Associates Ltd. (the "Company" or "MDA") should be read in conjunction with the audited consolidated financial statements and the related notes for the fiscal year 2004. Unless otherwise noted, the results reported herein have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars.

This management's discussion and analysis is dated as of February 21, 2005. Additional information related to MDA, including its Annual Information Form, is available online at the Company's website at www.mdacorporation.com and on SEDAR at www.sedar.com.

This management's discussion and analysis contains forward-looking statements and information that reflect the current view of MDA with respect to future events and financial performance. Any such forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from current expectations. MDA assumes no obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein do not materialize.

### COMPANY PROFILE

MDA provides advanced information solutions that capture and process vast amounts of data, produce essential information, and improve the decision making and operational performance in business and government organizations worldwide.

Focused on markets and customers with strong repeat business potential, MDA delivers a broad spectrum of Earth and space based information solutions, ranging from complex operational systems, to tailored information services, to electronic information products.

The Company operates through two reporting units: Information Products group and Information Systems group. MDA employs more than 2,500 people in locations across the United States, Europe and Canada. The Company trades on the Toronto Stock Exchange under the symbol TSX:MDA.

### OVERALL PERFORMANCE

The following table displays summary financial data for the periods indicated.

| FISCAL YEAR | 2004 | 2003 | CHANGE |
|---|---|---|---|
| *($ thousands, except per common share amounts)* | | | |
| **RESULTS OF OPERATIONS** | | | |
| Consolidated revenues | $ 751,386 | 626,476 | 20% |
| Operating earnings | 92,218 | 75,953 | 21% |
| Interest expense | 14,336 | 7,465 | 92% |
| Earnings before income taxes | 78,351 | 69,321 | 13% |
| Net earnings | 52,495 | 42,223 | 24% |
| Diluted net earnings per common share | 1.33 | 1.09 | 22% |
| Backlog | $ 902,586 | 755,580 | 19% |
| **FINANCIAL CONDITION** | | | |
| Total assets | $ 934,422 | 516,021 | |
| Long-term debt less cash and cash equivalents | 349,125 | 81,665 | |
| Shareholders' equity | 280,417 | 226,963 | |

#### Consolidated revenues

Consolidated revenues increased by $124.9 million, or 20%, to $751.4 million compared to the prior year. The increase was partially attributable to the acquisition of Marshall & Swift/Boeckh, LLC ("Marshall & Swift") in the second quarter of 2004 and to overall growth of existing business in both reporting units. Excluding the acquisition, consolidated revenues would have increased by 12%.

The Company's business is geographically diversified and conducted in multiple currencies, the most significant of which are the Canadian dollar, the U.S. dollar and the pound sterling. A significant foreign exchange impact is the translation of financial results for the Company's self-sustaining foreign operations, which are translated into Canadian dollars using average exchange rates for the year. In particular, the extraordinary and rapid appreciation of the Canadian dollar in 2004 relative to the U.S. dollar had the effect of reducing reported revenues for the Company's self-sustaining operations based in the United States. Using the average 2003 exchange rate to translate results for the Company's self-sustaining operations based in the United States, consolidated revenues in 2004 would have been $766.2 million, a 22% increase compared to the prior year.

### Operating earnings

Operating earnings increased by 21% to $92.2 million, compared to $76.0 million from a year ago. The increase was attributable to higher revenues pertaining to the acquisition of Marshall & Swift and to organic growth. Operating earnings as a percentage of consolidated revenues was consistent with the prior year. An increasing proportion of consolidated revenues is being derived from the Information Products group, particularly with the acquisition of Marshall & Swift and the growth of the property information solutions business in England and Wales, which became profitable commencing in the fourth quarter of 2003.

### Interest expense

Interest expense increased to $14.3 million, compared to $7.5 million in 2003, due to higher levels of outstanding debt. The Company drew upon its syndicated credit facility to finance the acquisition of Marshall & Swift. In order to minimize the potential impact of future changes to interest rates, MDA entered into a series of interest rate swaps on its core debt in 2004. The Company has adopted hedge accounting for these interest rate swaps.

### Provision for income taxes

The annual income tax rate decreased to 33% in 2004, compared to 39% for the prior year. The decrease reflects a lower statutory Canadian income tax rate in 2004, the changing mix of the Company's operations in different tax jurisdictions, changes in valuation allowances and prudent organization of the Company's business affairs.

### Net earnings

Net earnings increased by 24% to $52.5 million in 2004, resulting in diluted net earnings per common share of $1.33 (2003 - $1.09). Net earnings were unfavourably impacted by the substantial appreciation of the Canadian dollar relative to the U.S. dollar. Using the average 2003 exchange rate to translate results for the Company's self-sustaining operations based in the United States, net earnings in 2004 would have increased by an additional $2.4 million after tax, or $0.06 per diluted common share.

### Backlog

As at December 31, 2004, backlog was $903 million (2003 - $756 million), with both reporting units having higher backlog. Due to the reported uncertainties associated with funding for the Hubble Space Telescope rescue mission, the Company has prudently decided to include only the funded portion (up to the next major milestone) of this contract in backlog.

### Total assets

Total assets increased by $418.4 million to $934.4 million, compared to $516.0 million from a year ago. The increase was primarily due to the assets acquired on acquisition of Marshall & Swift and higher levels of accounts receivable, partly offset by the effects of translating assets of self-sustaining operations based in the United States at the current exchange rate. Refer to the section "Liquidity and Capital Resources" for discussion regarding changes to operating assets and liabilities.

### Goodwill

Goodwill increased by $257.3 million in 2004 to $500.7 million. Goodwill related to the acquisition of Marshall & Swift ($292.1 million) and to contingent considerations paid on prior acquisitions ($1.9 million), less foreign exchange adjustments ($36.7 million), accounted for the change to goodwill. Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. In accordance with GAAP, goodwill, like other intangible assets with indefinite lives, is not amortized and is tested for impairment annually, or more frequently if necessary. In the fourth quarter of 2004, the Company completed its annual impairment test for goodwill and determined that goodwill has not been impaired.

### Long-term debt less cash and cash equivalents

Long-term debt less cash and cash equivalents increased by $267.5 million to $349.1 million at December 31, 2004, compared to the balance at December 31, 2003. The increase was largely due to borrowing to finance the acquisition of Marshall & Swift, less repayments made during the year. Concurrent with the acquisition, the Company significantly increased its syndicated credit facility, which will provide adequate capital and credit reserve for future acquisitions.

### Shareholders' equity

The following table displays changes to shareholders' equity for the year ended December 31, 2004.

| *($ thousands)* | |
|---|---|
| Shareholders' equity at December 31, 2003 | $ 226,963 |
| Net earnings | 52,495 |
| Issue of capital stock | 19,996 |
| Contributed surplus | 6,214 |
| Change in cumulative translation adjustment | (25,251) |
| Shareholders' equity at December 31, 2004 | $ 280,417 |

Compensation expense that will be settled in common shares is recorded as an expense in the year incurred and the offset is credited to contributed surplus.

Foreign operations that are considered self-sustaining are translated to Canadian dollars using the current rates of exchange for assets and liabilities and using average rates for the year for revenues and expenses. Gains or losses resulting from these translation adjustments are deferred in the cumulative translation adjustment component of shareholders' equity until there is a realized reduction in the Company's net investment in the foreign operation.

## SELECTED ANNUAL INFORMATION

The following table displays selected financial data derived from the Company's audited consolidated financial statements for each of the three most recently completed financial years. This selected financial data should be read together with the consolidated financial statements and the related notes for the years ended December 31, 2004, 2003 and 2002.

| FISCAL YEAR | 2004 | 2003 | 2002 |
|---|---|---|---|
| *($ thousands, except per common share amounts)* | | | |
| **RESULTS OF OPERATIONS** | | | |
| Information Products revenues | $ 435,342 | 331,320 | 254,797 |
| Information Systems revenues | 316,044 | 295,156 | 315,688 |
| Consolidated revenues | $ 751,386 | 626,476 | 570,485 |
| Earnings before income taxes | $ 78,351 | 69,321 | 61,748 |
| Provision for income taxes | 25,856 | 27,098 | 25,078 |
| Net earnings | $ 52,495 | 42,223 | 36,670 |
| Net earnings per common share: | | | |
| Basic | 1.35 | 1.12 | 1.01 |
| Diluted | 1.33 | 1.09 | 0.96 |
| **FINANCIAL CONDITION** | | | |
| Total assets | $ 934,422 | 516,021 | 542,875 |
| Long-term debt | 381,375 | 115,886 | 109,704 |
| Other long-term financial liabilities | 9,983 | 3,918 | 2,638 |

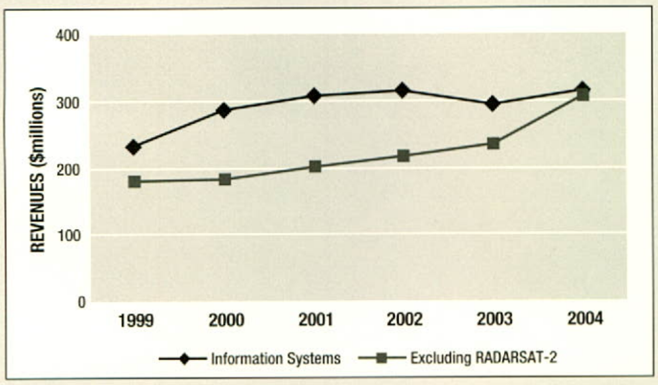
In fiscal 2002, the Company acquired Earth Satellite Corporation ("EarthSat") and Dynacs Inc. ("Dynacs"). The EarthSat acquisition expanded the Company's offering of products and services derived from satellite imagery. The Dynacs acquisition augmented the Company's robotics and aerospace engineering capabilities and established the Company in the space and defence markets in the United States.

In fiscal 2003, the Company acquired Millar & Bryce Limited, which extended the Company's geographic coverage into Scotland and provided access to new value-added property information solutions for the legal conveyancing services market.

In fiscal 2004, the Company acquired Marshall & Swift, which enabled the Company to expand into the property insurance market in the United States.

# FINANCIALS

The Information Products group reported sequential growth in revenues of 30% and 31% in 2003 and 2004, respectively. Excluding the impact of acquisitions, sequential growth would have been 23% and 16%.




*The chart compares Information Systems revenues from fiscal 1999 to 2004.*

Information Systems revenues decreased by 7% in 2003 compared to 2002 and increased by 7% in 2004 compared to 2003. Revenues from the Information Systems group can vary significantly year-over-year with the change in mix of contracts, the contract life cycle and the level of subcontractor effort. Excluding the RADARSAT-2 program, sequential growth in Information Systems revenues would have been 9% and 30% in 2003 and 2004, respectively. The RADARSAT-2 program is a large multi-year contract with the majority of its revenues recognized in fiscal years 2000 to 2003.

The fluctuation of the U.S. dollar relative to the Canadian dollar impacted the reported results. The average exchange rate used by the Company to translate one U.S. dollar to Canadian dollar was 1.30, 1.40 and 1.57 for fiscal years 2004, 2003 and 2002, respectively.

## NON-GAAP FINANCIAL MEASURE

From time to time, the Company discloses certain non-GAAP financial measures as supplemental indicators of operating performance. These non-GAAP financial measures include "EBITDA" and "net cash earnings".

MDA defines EBITDA as earnings before interest, taxes and amortization. EBITDA is used internally by the Company to consistently compare cash operating results from one period to another and is the basis for assessing a primary measurement covenant for the Company's bankers. The Company also believes that EBITDA is used by certain investors and analysts in measuring a company's ability to service debt and to meet other payment obligations or as a valuation measurement. EBITDA for segmented operations excludes corporate expenses and other income. EBITDA is discussed in this management's discussion and analysis in the sections "Results of Operations" and "Quarterly Results".

MDA defines net cash earnings as net earnings adjusted for stock option expense, notional imputed interest expense, amortization of intangible assets and reduction in cash taxes arising from acquisitions. Expenses relating to stock options and notional imputed interest are added back to net earnings because they are not settled by the transfer of cash. Net cash earnings exclude the effects of amortization of intangible assets, which is a non-cash charge arising from acquisitions under GAAP. Furthermore, net cash earnings recognize the reduction in cash taxes resulting from incremental deduction available for tax purposes only on the underlying assets of the acquisitions which, under GAAP, does not result in a decrease in tax expense unless an operation is disposed of or written down. Net cash earnings provide the reader with an alternative method to consistently compare cash operating results from one period to another. Net cash earnings are discussed in this management's discussion and analysis in the sections "Results of Operations" and "Quarterly Results".

EBITDA and net cash earnings do not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies. Readers are cautioned not to view these non-GAAP financial measures as alternatives to financial measures calculated in accordance with GAAP.

## RESULTS OF OPERATIONS

Consolidated revenues increased by 20% from $626.5 million in 2003 to $751.4 million in 2004. The Company derived 58% of consolidated revenues from the Information Products group, compared to 53% for the prior year.

Information Products revenues rose by 31% to $435.3 million, compared to $331.3 million in 2003. Excluding the acquisition of Marshall & Swift, Information Products revenues would have risen by 16%. The increase in revenues from existing business mainly came from higher sales of property information solutions in British Columbia and in England, Wales and Scotland. Sales of property information solutions in British Columbia benefited from a housing market that remained strong throughout 2004 and from enthusiastic customer response to the Company's electronic filing services. The housing market in England and Wales slowed considerably in the second half of 2004, which impacted the sales of property information solutions in those regions commencing in the third quarter of 2004. To offset this market slowdown and to boost transaction levels, the Company focused on increasing the gross revenue per search set and gaining a larger share of the market. The Company introduced new products and services, stepped up efforts to sign up new customers, and increased electronic delivery of search requests through its infrastructure modernization services to Local Authorities. The Company is well positioned for the upturn in the housing market in England and Wales. Sales of property information solutions in Scotland benefited from a stable housing market during the year and to increasing market penetration of the Company's Property Enquiry Certificate offering.

Revenues derived from the sales of property information solutions in the United States increased by 65%. The increase was attributed to the acquisition of Marshall & Swift. Marshall & Swift is a leading supplier of residential and commercial property valuation solutions to the property insurance market in the United States. Through this strategic acquisition, the Company diversified into the property insurance market, gained access to an extensive database of public records and appraisal information, and significantly expanded its product offerings, geographic presence and customer base in the United States. Excluding the effects of foreign exchange fluctuation, revenues derived from the sales of property information solutions for the mortgage origination and refinancing market in the United States would have been on par with the prior year. This was despite a softening of the mortgage financing market in the United States, which the Company countered by introducing new property information solutions.

Revenues derived from the provision of geospatial information services, which accounted for 10% of consolidated revenues in fiscal 2004, declined compared to the prior year. Revenues derived from satellite-based information solutions improved over the prior year. However, this gain was more than offset by declining revenues derived from the provision of aerial mapping services. Demand for aerial mapping services, particularly from city and county government entities, has been weak since 2002. As a result, the Company has decided to consolidate its marketing function, production capacity, product development activity, intellectual property and technology related to geospatial information services into a single entity in each of Canada and the United States. The current strategy will enable the Company to continuously pursue federally funded long-term contracts for aerial mapping services and provide customers with value-added geospatial information services, while improving efficiency.

Backlog related to the Information Products group increased by $14.2 million to $111.1 million as at December 31, 2004. The increase over the prior year was primarily attributed to the addition of Marshall & Swift, but was partly offset by a decline in backlog for geospatial information services and for property information solutions for the mortgage origination and refinancing market in the United States.

#### Operational highlights – Information Products group

- Certain of the products offered by the Company in its Information Products group rely on data supplied by third parties. During the year, the Company successfully negotiated a new data supply contract for a U.S. operation.
- The Company has long been a reseller of automated valuation models, but during the year, the Company introduced its proprietary automated valuation model. Called Valuator, this product enables users to instantly generate accurate valuations on residential properties across the United States.
- The Company introduced electronic filing services in British Columbia, which enable customers to electronically file forms directly into government databases. The electronic filing technology was developed by the Information Systems group.
- For the legal conveyancing services market in England and Wales, the Company introduced a number of online information solutions, including Planning searches, Commercial Environment Reports, Highways Agency searches and Agricultural Credit Act searches.
- Recent legislation introduced in England and Wales, and taking effect in 2007, will require sellers of residential properties, or their agents, to make a home information pack ("HIP") available before marketing homes for sale, and to make a copy of the pack available to prospective buyers on request. A HIP will contain all key information about a property, such as property boundaries as per the Land Registry's record. The Company is working diligently to improve its current position and to participate in the new opportunities made available by the legislation.

Information Systems revenues increased by 7% to $316.0 million, from $295.2 million in 2003. Excluding revenues derived from the RADARSAT-2 program, Information Systems revenues would have increased by 30% over the prior year. The RADARSAT-2 program is a large multi-year contract with the majority of its revenues recognized in 2000 to 2003. Information Systems revenues, excluding revenues derived from the RADARSAT-2 program, have increased in each fiscal year since 1999.

Backlog relating to the Information Systems group as at December 31, 2004 was $791.5 million, compared to $658.7 million from a year ago.

### Operational highlights – Information Systems group

- The Company is fast developing a small satellite-based information mission capability that can provide a source of long-term revenues. MDA is the prime contractor to develop and operate Canada's first multi-purpose information delivery and scientific research small satellite mission (CASSIOPE). MDA also entered into a commercial agreement to supply an information solution to RapidEye AG of Germany. The solution consists of a constellation of 5 small satellites operating in unison and when launched in 2007, it will enable global monitoring of the Earth's surface. The RapidEye mission, in conjunction with CASSIOPE, establishes MDA as a credible turn-key small satellite mission provider. In addition, MDA signed agreements with the Canadian government to carry out the definition of a third small satellite mission and to develop concepts for a follow-on to the RADARSAT-2 program using small satellite technology.
- The Company signed a contract with NASA to provide a robotics-based solution to rescue the Hubble Space Telescope. Full funding for this contract is subject to NASA choosing a robotics-based solution, as opposed to a manned Space Shuttle rescue of the Hubble Space Telescope. The contract can be completely or partially terminated at any time.
- The Company booked and executed further work on the 2007 Mars information mission called Phoenix, as well as several other early stage contracts for Canadian and European exploration missions. The Company was also selected for the provision of a major information gathering solution for the Mars Science Lab mission in 2009.
- The Company delivered to NASA the first of two inspection booms designed to enable in-orbit inspection of the Space Shuttle when it returns to flight.
- MDA was awarded a contract to provide a RADARSAT-2 ground station to a Venezuelan government agency.
- MDA signed and commenced work on a contract to deliver a multi-sensor ground station.
- The U.S. National Geospatial-Intelligence Agency awarded its second NextView information mission to Orbital Imaging Corporation. MDA is a key ground segment partner with Orbital Imaging Corporation on this award.
- The Company was awarded a multi-million dollar contract for a satellite image product generation system for DigitalGlobe's next-generation WorldView imaging system.
- The U.S. Air Force placed an order for the development of significant enhancements to MDA's flight path safety system.
- The Company signed several contracts to provide infrastructure modernization services to Local Authorities in England.
- The Company was awarded a contract by the Canadian Department of National Defence to upgrade a Naval Operator information solution used for operational and combat preparation.

### Segmented Operations

Information Products EBITDA improved by 49% to $74.4 million, compared to $49.9 million for the prior year. The increase was primarily attributed to contribution from the acquisition of Marshall & Swift and to higher sales of property information solutions in British Columbia and in England, Wales and Scotland. This was partly offset by lower contributions from the provision of geospatial information services. As a percentage of segmented revenues, Information Products EBITDA was 17.1% (2003 – 15.1%). The improvement to EBITDA as a percentage of segmented revenues was partially attributed to the addition of Marshall & Swift into the Information Products sales mix. As well, the Company's Information Products operations in England and Wales have gone from a loss in 2003 to a profit in 2004.

Information Systems EBITDA was $49.2 million (15.6% of segmented revenues) in 2004. This is compared to $53.6 million (18.1% of segmented revenues) for the prior year. Information Systems EBITDA as a percentage of segmented revenues can vary from year to year with the change in mix of contracts and the stage of the contract life cycle. Also, the Company invested considerably in business development activity related to the Information Systems group, including several one-time costs for recruiting, training, insurance and bids and proposals, which were expensed in the period.

Corporate expenses were $5.4 million, consistent with the prior year. Corporate expenses are expenditures that cannot be readily allocated to either Information Systems or Information Products, and include such items as corporate head office costs, costs of being a public company, insurance, legal, audit and tax consulting fees.

The following table shows the reconciliation between EBITDA and net earnings. Note 17 of the notes to the consolidated financial statements provides a reconciliation of segmented EBITDA (shown as "Earnings before undernoted") to earnings before income taxes.

| FISCAL YEAR | 2004 | 2003 |
|---|---|---|
| *($ thousands)* | | |
| Segmented EBITDA (non-GAAP financial measure): | | |
| Information Products EBITDA | $ 74,398 | 49,936 |
| Information Systems EBITDA | 49,228 | 53,553 |
| Corporate expenses | (5,387) | (5,554) |
| Other income | 469 | 833 |
| EBITDA (non-GAAP financial measure) | $ 118,708 | 98,768 |
| Less: | | |
| Interest expense | 14,336 | 7,465 |
| Provision for income taxes | 25,856 | 27,098 |
| Amortization expense | 26,021 | 21,982 |
| Net earnings | $ 52,495 | 42,223 |

### Net Cash Earnings

Net cash earnings were $62.8 million, or $1.59 per diluted common share, in 2004. This compares to $50.2 million, or $1.30 per diluted common share, for the prior year. The increase reflects higher cash flow from ongoing operations resulting from strategic acquisition and overall growth from existing business. The increase also reflects, among other items, the reduction in cash taxes arising from the acquisition of Marshall & Swift.

Reconciliation between net cash earnings and net earnings:

| FISCAL YEAR | 2004 | | 2003 | | 2002 | |
|---|---|---|---|---|---|---|
| | $ | Per Share | $ | Per Share | $ | Per Share |
| *($ thousands, except per diluted common share amounts)* | | | | | | |
| **NET CASH EARNINGS** (non-GAAP financial measure) | 62,811 | 1.59 | 50,237 | 1.30 | 42,059 | 1.10 |
| Less: | | | | | | |
| Amortization of intangible assets from acquisitions | 4,101 | 0.10 | 2,259 | 0.06 | 2,082 | 0.05 |
| Stock option expense | 1,098 | 0.03 | 1,431 | 0.04 | 333 | 0.01 |
| Imputed interest expense | 720 | 0.02 | 525 | 0.01 | 544 | 0.02 |
| Reduction in cash taxes related to acquisitions | 4,397 | 0.11 | 3,799 | 0.10 | 2,430 | 0.06 |
| **NET EARNINGS** | 52,495 | 1.33 | 42,223 | 1.09 | 36,670 | 0.96 |

## SUMMARY OF QUARTERLY RESULTS

The table below sets forth selected financial data for each of the eight most recently completed quarters. This information is unaudited, but reflects all adjustments of a normal, recurring nature which are, in the opinion of management, necessary to present a fair statement of the Company's results of operations for the periods presented. Quarter-to-quarter comparisons of the Company's financial results may not be necessarily meaningful and should not be relied upon as an indication of future performance.

## FINANCIALS

| | | Q-1 2003 | Q-2 2003 | Q-3 2003 | Q-4 2003 | Q-1 2004 | Q-2 2004 | Q-3 2004 | Q-4 2004 |
|---|---|---|---|---|---|---|---|---|---|
| *($ millions, except per common share amounts)* | | | | | | | | | |
| Information Products revenues | $ | 72.9 | 81.1 | 88.1 | 89.2 | 91.7 | 114.0 | 120.2 | 109.5 |
| Information Systems revenues | | 80.1 | 66.3 | 78.8 | 70.0 | 69.0 | 78.0 | 78.4 | 90.6 |
| Consolidated revenues | $ | 153.0 | 147.4 | 166.9 | 159.2 | 160.7 | 192.0 | 198.6 | 200.1 |
| Earnings before income taxes | $ | 16.6 | 17.3 | 17.5 | 17.9 | 17.4 | 19.8 | 20.2 | 20.9 |
| Provision for income taxes | | 6.6 | 6.9 | 7.0 | 6.6 | 6.3 | 6.4 | 6.3 | 6.9 |
| Net earnings | $ | 10.0 | 10.4 | 10.5 | 11.3 | 11.1 | 13.4 | 13.9 | 14.0 |
| Net earnings per common share | | | | | | | | | |
| Basic | $ | 0.27 | 0.28 | 0.28 | 0.29 | 0.29 | 0.35 | 0.36 | 0.36 |
| Diluted | | 0.26 | 0.27 | 0.27 | 0.29 | 0.28 | 0.34 | 0.35 | 0.35 |
| Average exchange rate: | | | | | | | | | |
| 1 U.S. dollar to CAD dollar | | 1.510 | 1.398 | 1.380 | 1.316 | 1.318 | 1.360 | 1.308 | 1.221 |
| 1 pound sterling to CAD dollar | | 2.420 | 2.263 | 2.222 | 2.246 | 2.424 | 2.456 | 2.379 | 2.277 |

The quarterly results have been restated for the retroactive application of CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". Refer to section "Change In Accounting Policies".

The results of operations for the Company's self-sustaining operations based in the United States were negatively impacted by the extraordinary and rapid appreciation of the Canadian dollar relative to the U.S. dollar. The average annual exchange rate of one U.S. dollar to Canadian dollar was 1.57 in 2002, 1.40 in 2003 and 1.30 in 2004. The fluctuations of the pound sterling relative to the Canadian dollar were not unusual and did not significantly impact the translation of financial results for the Company's self-sustaining operations based in the United Kingdom from one period to another.

Information Products revenues were increased by the acquisition of Millar & Bryce Limited in the first quarter of 2003, the acquisition of Marshall & Swift in the second quarter of 2004 and the addition of new products and services throughout 2003 and 2004.

Information Systems revenues can vary significantly from quarter to quarter with the change in mix of contracts, the contract life cycle and the level of subcontractor effort.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flow

The Company's principal sources of liquidity are cash provided by operations, borrowing under its syndicated credit facility, proceeds from the issue of common stock, and cash tax benefits arising from prudent tax planning and acquisition strategies. The Company's principal uses of cash have been to fund operating assets and liabilities, service debt, repay debt, purchase capital assets, purchase short-term investments, and finance acquisitions and long-term investments. MDA believes that its principal sources of liquidity are sufficient to maintain the Company's capacity and to meet planned growth and development activities for the foreseeable future.

### Operating activities

Cash provided by operations increased by $14.4 million to $59.1 million in 2004. The increase was primarily due to higher net earnings on increased business activity, contribution from Marshall & Swift and a lower income tax rate. The increase was partly offset by cash used to fund operating assets and liabilities. Higher levels of accounts receivable and prepaid expenses, partly compensated by higher accounts payable on receipt of subcontractor invoices related to certain Information Systems contracts, generally explains the change in operating assets and liabilities. The incremental effect of an acquisition on assets and liabilities is excluded in the determination of changes in operating assets and liabilities.

Accounts receivable consist of, among other items, trade receivables and unbilled receivables. Trade receivables and unbilled receivables can fluctuate in the ordinary course of business with the timing of milestone billings and the stage of completion of large firm fixed price contracts in the Information Systems group. The majority of the Company's receivables are with governments and government agencies. As at December 31, 2004, the average collection period for trade receivables was under 40 days and 83% of trade receivables were less than 30 days old.

During 2004, the Company entered into a transaction with RapidEye AG to construct a constellation of small satellites and related systems. In addition, MDA secured the right to acquire agricultural land information data from RapidEye through an interest-bearing deposit agreement which, after launch of the satellites, would entitle MDA to draw upon the deposit to acquire land information data that will then be re-sold through the Company's existing distribution network. During the year, the Company made installment payments to RapidEye related to the deposit agreement. Consistent with revenue recognition principles, and as a result of valuation and marketing uncertainties of pre-launch payments for data rights, any amounts paid under the deposit agreement are offset with an equivalent amount of deferred revenue on the construction contract. Consistent with the Company's risk mitigation strategy, any undrawn deposit will be fully insured against RapidEye's inability to provide readily marketable data.

The Company's cash tax payable was reduced by $5.4 million related to the deductibility of assets for tax purposes arising on the acquisition of Marshall & Swift. MDA will realize lower cash tax payable of approximately $9 million annually for the next 14 years as a result of the tax benefits of the underlying assets related to this acquisition.

The Company makes ongoing investment in research and development. Research and development costs are expensed as period costs. In 2004, the Company incurred $43.3 million (2003 - $45.1 million) in research and development.

### Investing activities

Cash used for investing activities in 2004 was $367.6 million, compared to $49.5 million for the prior year. The higher use of cash in 2004 was attributable to the acquisition of Marshall & Swift, for which the Company paid cash consideration of $337.8 million. Contingent consideration of up to U.S. $90 million may be payable in 2006 based on Marshall & Swift achieving certain income targets in 2005. As well, the Company purchased short-term investments of $3.9 million (2003 – nil) consisting of highly liquid financial instruments.

Purchases of capital assets were $20.0 million (2003 - $12.5 million) and purchases of intangible assets were $5.3 million (2003 - $11.6 million). Purchases of intangible assets consisted primarily of land information data for the Information Products group. As a percentage of consolidated revenues, expenditures on capital and intangible assets were 3.4% (2003 – 3.8%).

### Financing activities

Cash provided by financing activities was $308.4 million in 2004, compared to $20.7 million in 2003. The increase was primarily due to acquisition-related borrowing, less repayments in the year, and higher proceeds from the issue of capital stock. Proceeds from the issue of capital stock were $4.9 million (2003 - $13.1 million) on conversion of employee and shareholder stock options, $1.6 million (2003 - $1.3 million) under the employee share purchase plan and $13.3 million (2003 - nil) related to a private placement to certain former shareholders of Marshall & Swift.

### Contractual Obligations

The table below provides a summary of the contractual obligations and payments due for each of the next five years and thereafter:

| | | PAYMENT DUE BY PERIOD | | | |
|---|---|---|---|---|---|
| Contractual obligations | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
| *($ millions)* | | | | | |
| Long-term debt | $ 381.4 | 0.3 | 286.0 | 95.1 | 0 |
| Operating leases | 88.2 | 13.5 | 26.0 | 22.8 | 25.9 |
| Service agreement obligations | 56.5 | 10.9 | 20.5 | 20.5 | 4.6 |
| Other | 14.9 | 5.3 | 0.8 | 0.8 | 8.0 |
| Total contractual obligations | $ 541.0 | 30.0 | 333.3 | 139.2 | 38.5 |

The Company has entered into operating leases in the ordinary course of business, primarily related to rental of office space. Service agreement obligations consist of quarterly payments pursuant to an agreement with a third party to provide public record data and pursuant to the NLIS Hub Service Agreement with the Local Government Information House in the United Kingdom (refer to "Other Matters"). MDA expects to be able to meet its contractual obligations maturing in 2005 and future years through cash on hand, cash provided by operations, borrowing under its syndicated credit facility or by renewing its syndicated credit facility.

The Company's banks have issued letters of credit on behalf of the Company related to the performance of certain long-term contracts in the Information Systems group. Refer to note 15(c) of the notes to the consolidated financial statements for further information.

**Credit Facility**

The Company amended its syndicated credit facility in May 2004. The new credit facility includes a combination of term and revolving facilities in U.S. and Canadian dollars that provided credit of approximately $690 million at December 31, 2004. Further, the credit facility permits the Company to borrow an additional $100 million which would rank pari passu with the existing facility. As at December 31, 2004, unused credit facilities amounted to $300 million. MDA was in full compliance with all bank covenants as at December 31, 2004.

## FOURTH QUARTER RESULTS

Consolidated revenues in the fourth quarter of 2004 increased by 26% to $200.1 million, compared to $159.2 million for the same period of last year. Net earnings increased by 24% to $14.0 million, or $0.35 per diluted common share, compared to net earnings of $11.3 million, or $0.29 per diluted common share, for the same period in 2003.

Net earnings were impacted by the fluctuation of the U.S. dollar relative to the Canadian dollar. The Canadian dollar strengthened considerably against the U.S. dollar in the fourth quarter of 2004 when compared with the fourth quarter of 2003. This had the effect of reducing the reported results for the Company's self-sustaining operations based in the United States. Excluding the impact of foreign exchange fluctuation, net earnings in the fourth quarter of 2004 would have increased by 31% to $14.7 million, or $0.37 per diluted common share.

Information Products revenues increased by 23% to $109.5 million for the fourth quarter of 2004 compared to $89.2 million for the same period in the prior year. Excluding the acquisition of Marshall & Swift, Information Products revenues would have been on par with the same period in the prior year. Revenues derived from the sale of property information solutions in British Columbia increased, benefiting from an active local housing market and strong customer response to the Company's electronic filing services introduced earlier in 2004. Revenues derived from the sale of property information solutions in England, Wales and Scotland were slightly higher. In the United States, revenues derived from the sale of property information solutions nearly doubled on account of the acquisition of Marshall & Swift. Revenues derived from the provision of geospatial information services, in aggregate, decreased as a result of a significant decline in activity related to aerial mapping services.

Information Products EBITDA increased by 60% to $22.8 million (20.8% of segmented revenues) compared to $14.3 million (16.0% of segmented revenues) for the same period in the prior year. The improvement to EBITDA as a percentage of segmented revenues was primarily due to the change in sales mix within the Information Products group and to continuing efforts to improve efficiency in the delivery of products and services.

Information Systems revenues increased by 29% to $90.6 million. Information Systems EBITDA was $12.8 million (14.1% of segmented revenues), compared to $13.7 million (19.6% of segmented revenues) for the same period in the prior year. Information Systems EBITDA as a percentage of segmented revenues can vary from quarter to quarter with the change in mix of contracts and the stage of the contract life cycle.

Net cash earnings increased by $3.2 million to $17.3 million, resulting in diluted net cash earnings per common share of $0.44. This is compared to net cash earnings of $14.2 million, or $0.37 per diluted common share, for the fourth quarter from a year ago. The increase is primarily due to higher net earnings and the cash tax benefit attributable to the acquisition of Marshall & Swift.

Reconciliation between net cash earnings and net earnings:

| | Q4-2004 | | Q4-2003 | |
|---|---|---|---|---|
| | **$** | **Per Share** | **$** | **Per Share** |
| *($ thousands, except per diluted common share amounts)* | | | | |
| **NET CASH EARNINGS** (non-GAAP financial measure) | 17,349 | 0.44 | 14,195 | 0.37 |
| Less: | | | | |
| Amortization of intangible assets from acquisitions | 943 | 0.02 | 619 | 0.02 |
| Stock option expense | 275 | 0.01 | 365 | 0.01 |
| Imputed interest expense | 227 | 0.01 | 122 | 0.00 |
| Reduction in cash taxes related to acquisitions | 1,900 | 0.05 | 1,824 | 0.05 |
| **NET EARNINGS** | 14,004 | 0.35 | 11,265 | 0.29 |

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

MDA prepares its consolidated financial statements in accordance with GAAP. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are based upon historical experience and various other assumptions that are believed to be reasonable under the circumstances. These estimates are evaluated on an ongoing basis and form the basis for making judgements regarding the carrying values of assets and liabilities and the reported amount of revenues and expenses. Actual results may differ from these estimates under different assumptions. Critical estimates include, but are not limited to, the determination of percentage of completion and estimated project costs and revenues for contract revenue recognition, estimated amount of income tax balances, impairment of assets and rates of amortization and estimated balances of pension obligations. The Company's significant accounting policies are set out in note 2 of the notes to the consolidated financial statements.

#### Revenue recognition

MDA generates a significant portion of Information Systems revenues from long-term construction contracts. Revenues from long-term construction contracts, including amounts attributed to customer supplied materials, are recognized using the percentage of completion method based on costs incurred relative to total estimated costs. Revenues from certain long-term construction contracts are recognized using the percentage of completion method based on the units delivered relative to total units. The inception to date effect of any changes in estimates of contract price or costs to complete is recognized in the period when the change is determined by management. The long-term nature of contracts involves considerable use of judgement and estimates in determining total revenues, total costs and percentage of completion. There are numerous factors to consider, including potential uncertainties on the amount of revenues related to change orders and other revenue adjustments, variances in the contract deliverables, scheduling, labour costs, material costs and productivity. The Company has developed methods and systems to provide dependable expenditure estimates for its long-term contracts.

#### Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. The resulting changes in the net future income tax asset or liability are included in income. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income when a change in tax rates is substantively enacted. Future income tax assets are evaluated periodically and if realization is not considered "more likely than not" a valuation allowance is provided.

The Company has assessed the realization of net future tax assets as more likely than not. The valuation of income tax assets involves considerable use of judgement and requires management to make estimates and assumptions, including projected taxable income and tax planning strategies. Changes in estimates and assumptions can affect the reported value of net future tax assets.

#### Intangible assets and goodwill

Intangible assets acquired either individually or with a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values. Intangible assets with finite useful lives are amortized over their estimated useful lives. The amortization methods and estimated useful lives of intangible assets are reviewed annually. Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in income for the excess, if any.

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill of the reporting unit is considered to be impaired when the carrying amount of the reporting unit exceeds its fair value. An impairment loss, if any, is recognized as a separate line item in the earnings statement before extraordinary items and discontinued operations.

The allocation of cost to the individual assets acquired requires MDA, with the assistance of independent valuation specialists as required, to identify and attribute values and estimated useful lives to the intangible assets acquired. This process calls for considerable use of judgement, and requires management to make estimates and assumptions, including the discount rate, future cash flows and estimated useful lives. These determinations impact the amount of amortization expense to be recognized in future periods over the estimated useful lives of the intangible assets.

In the fourth quarter of 2004, MDA completed its annual impairment test for goodwill and intangible assets with indefinite useful lives, as required by GAAP, and determined that these assets are not impaired. The impairment test involves considerable use of judgement, and requires management to make estimates and assumptions. The fair values of the reporting units are derived from certain valuation models, which considers various factors such as discount rates, future earnings and earnings multiples. The fair values of individual intangible assets are derived from future cash flows and market data. Changes in estimates and assumptions can affect the reported value of goodwill and intangible assets with indefinite useful lives.

### Pension obligations

The Company's obligations and expenses relating to pension benefits are determined using actuarial valuations, and are dependent on significant assumptions such as the long-term rate of return on plan assets, the discount rate for pension benefits obligations and the rate of compensation increase. While management believes these assumptions are reasonable, differences in actual results or changes in assumptions could have an impact on the obligations and expenses recorded by the Company.

## CHANGE IN ACCOUNTING POLICIES

### Stock-based compensation

During 2004, the Company adopted, on a retroactive basis, the transitional provisions of CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". In accordance with the provisions of this section, the Company has accounted retroactively for all employee stock options granted, settled, or modified since January 1, 2002 using the fair value based method. The fair value based method requires the Company to expense the fair value of the employee options granted or modified during a period.

Prior to the adoption of the new standard, no compensation expense was recognized when stock options were issued to employees as options were issued at the market value of the shares at the date of the grant. Consideration paid by employees on the purchase of shares under the employee share purchase plan and exercise of stock options was recorded as share capital. The Company had previously disclosed the pro-forma effect of accounting for these awards under the fair value based method.

In accordance with the requirements of Section 3870, this change in accounting policy has been applied retroactively and the amounts presented for prior periods have been restated for this change. The effect of this change on the Company's financial statements is disclosed in note 3 of the notes to the consolidated financial statements.

### Hedging instruments

The CICA amended Accounting Guideline "Hedging Relationships" in 2003. This guideline specifies the conditions for which hedge accounting is appropriate. The guideline includes requirements for the identification, documentation and designation of hedging relationships, sets standards for determining hedge effectiveness and establishes criteria for the discontinuance of hedge accounting.

The guideline came into effect in fiscal 2004. The effect of the adoption of this guideline is disclosed in notes 2(r) and 11 of the notes to the consolidated financial statements.

### Impairment of long-lived assets

The CICA issued a new Handbook Section 3063, "Impairment of Long-Lived Assets", which establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets. Impairment of long-lived assets held for use is determined in a two-step process, with the first step determining when an impairment is recognized and the second step measuring the amount of the impairment. An impairment loss is recognized when the carrying amount of the long-lived asset exceeds the sum of the undiscounted cash flows that is expected to result from its use and eventual disposition. An impairment loss is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value. To test for and measure impairment, long-lived assets are grouped at the lowest level for which identifiable cash flows are largely independent.

The new standard came into effect in fiscal 2004. Adoption of this standard did not have a significant impact on the consolidated financial statements.

### EIC-141 Revenue recognition

In December 2003, the Emerging Issues Committee (EIC) of the CICA issued EIC Abstract 141 which incorporates the principles and summarizes the guidance in the U.S. Securities and Exchange Commission Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements". The abstract also provides interpretive guidance on the application of CICA Handbook

Section 3400, "Revenue". The Abstract may be applied prospectively to sales transactions recognized in 2004, or may be applied retroactively, with prior period financial statements being restated.

Adoption of this abstract did not have a significant impact on the consolidated financial statements as the Company has previously applied the provisions of SAB 101.

**EIC-142 Revenue arrangements with multiple deliverables**
Issued in December 2003, this Abstract addresses the accounting by vendors for arrangements in which the vendor will perform multiple revenue-generating activities. The Abstract conforms Canadian GAAP to U.S. GAAP set forth in Emerging Issues Task Force, or EITF, Issue 00-21, also entitled "Revenue Arrangements with Multiple Deliverables".

Adoption of this abstract did not have a significant impact on the consolidated financial statements as the Company has previously applied the provisions of EITF Issue 00-21.

## FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments such as forward foreign exchange contracts to reduce its exposure to fluctuations in foreign exchange on certain committed and anticipated transactions. The Company also uses derivative financial instruments such as interest rate swap contracts, interest rate cap contracts and other forward rate agreements to reduce its exposure to fluctuations in interest rates on floating rate debt and changes in the price of its common shares that impact the long-term incentive plan. The Company uses derivative financial instruments only to manage existing risk exposures whether or not it formally documents such relationships as hedges. The Company assesses, on an ongoing basis, whether the derivative financial instruments continue to be effective in meeting the Company's risk management objectives and strategies.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments, but does not expect any counterparties to fail to meet their obligations. The Company deals with only highly rated counterparties, normally major financial institutions.

The Company uses forward foreign exchange contracts to manage exposures that are created when significant sales are made, or significant expenses are incurred, in foreign currencies. The Company has a variety of forward foreign exchange contracts to purchase and sell foreign currencies. As at December 31, 2004, the Company had forward foreign exchange purchase contracts for $106 million (2003 - $49 million) and forward foreign exchange sale contracts for $138 million (2003 - $15 million). Most of these contracts outstanding at December 31, 2004 are subject to hedge accounting.

The Company uses interest rate derivatives to manage the mix of fixed and floating rate debt and reduce its exposure to changes in interest rates. The Company entered into a series of interest rate swap contracts to fix the interest rate on a portion of its U.S. dollar denominated variable rate debt. The rates ranged from 1.9% to 5.0% and covered a debt amount ranging from U.S. $125 million to U.S. $220 million until December 31, 2008. The Company adopted hedge accounting for those contracts extending beyond 2004. Subsequent to the year-end, since the U.S. dollar denominated debt was converted to Canadian dollar denominated debt, the U.S. interest rate swap contracts were unwound and replaced with a series of Canadian interest rate swap contracts. The new rates range from 2.8% to 4.3% and cover a Canadian dollar denominated debt amount that ranges from $35 million to $150 million until December 31, 2008.

In April 2004, the Company entered into a three-year forward purchase agreement for 1,000,000 common shares of the Company for purposes of managing economic risks associated with a long-term incentive plan. The imputed interest of the instrument is approximately 5% per annum. This agreement is not subject to hedge accounting.

The Company records the fair values of all derivatives on the balance sheet. As at December 31, 2004 the Company's financial instruments had a net negative fair value of $6.2 million.

Gains and losses on derivatives that are subject to hedge accounting are recorded in accounts payable and accounts receivable respectively until the hedged transaction is recorded. The gains and losses are recognized as an adjustment to the related operating costs, revenue or capital expenditures when the hedged transaction is recorded. As at December 31, 2004, an unrealized net loss of $3.2 million was recorded in accounts receivable with a corresponding amount in accounts payable.

Gains and losses on derivatives that are not subject to hedge accounting and timing differences of hedged transactions that have not settled are recorded in direct costs, selling, general and administration expenses in the statement of earnings.

A loss of $2.5 million was recorded in direct costs, selling, general and administration expenses in the statement of earnings to reflect the fair value of the forward purchase agreement hedging the cash cost of the Company's stock-based long-term incentive plan.

The fair values of the Company's forward foreign exchange contracts and interest rate cap contracts are determined based on quoted market prices received from counterparties. Until settled, the fair value of the derivative financial instruments will fluctuate based on changes in foreign exchange rates and interest rates.

The Company also uses debt denominated in U.S. dollars to hedge its exposure to the net investment in certain self-sustaining operations based in the United States and to hedge anticipated U.S. dollar receipts on certain construction contracts. Gains and losses on the translation of the portion of the U.S. dollar denominated debt that has been designated as a hedge of net investments are credited or charged to the cumulative translation adjustment component of shareholders' equity. In this regard, the Company recorded $33.3 million of foreign exchange gains in cumulative translation adjustment at December 31, 2004. Gains and losses on the translation of the portion of the U.S. dollar denominated debt that has been designated as a hedge of anticipated U.S. dollar receipts are deferred and recognized as an adjustment to revenue when the hedged transaction is recorded. As at December 31, 2004, the Company deferred $16.7 million of foreign exchange gains, which were recorded in accounts payable.

## OUTSTANDING SHARE DATA

As at January 31, 2005, the Company had 39,307,743 common shares with no par value and 2,851,437 options outstanding.

## OTHER MATTERS

The RADARSAT-2 satellite is accounted for as a construction contract and revenue is recognized using the percentage of completion method. Although the Company has the legal obligation to manage and operate the satellite on behalf of the Canadian government when launched, the risks and benefits of ownership of the satellite are resident with the Company's customers, the Canadian Space Agency and other parties with ownership rights to the related data. Prior to construction of RADARSAT-2 and in conjunction with the Company's agreement with the Canadian Space Agency to construct the RADARSAT-2 satellite, the Company entered into a license agreement with Orbital Imaging Corporation ("Orbimage"). This agreement, at market value, provided that Orbimage would have beneficial ownership to all data or capacity of the satellite that was not used by the Canadian Space Agency. As is consistent with construction type contracts, the Company is being paid to construct the satellite during the course of construction. During 2001, the Company terminated the original license agreement with Orbimage and entered into a second agreement. The second agreement, at market value, provided that the Company would license certain rights to data from the RADARSAT-2 satellite. As at December 31, 2002, U.S. $30 million had been received under the agreement. In conjunction with the second agreement, Orbimage agreed to relinquish certain data rights that had been licensed under the original agreement. During 2003, the Company and Orbimage entered into a new agreement, subsequently ratified by the bankruptcy court in Virginia, whereby the Company refunded consideration of U.S. $12 million to Orbimage. In turn, Orbimage agreed to return all rights to data for the RADARSAT-2 satellite. The collateralized rights that were returned to the Company as part of the settlement with Orbimage are being resold to other parties.

The Company's exclusive NLIS Hub Services Agreement with Local Government Information House ("LGIH") in the United Kingdom extends to April 2009. Under this agreement, the Company is required to make quarterly payments of 250,000 pound sterling. LGIH has the option to renew the agreement for an additional three years thereafter. Upon termination, MDA retains all rights to the NLIS specific software and systems, including data provider agreements that the Company has entered into with various Local Authorities and government agencies.

The Company also has a Channel Services Agreement with LGIH that is coterminous with the NLIS Hub Services Agreement and provides for the distribution of data and products from the NLIS Hub to end users. On termination of the agreement, the Company retains all rights to its intellectual property and assets and the distribution and data provider agreements that it has entered into.

The Company's operating agreement for BC OnLine extends to May 2009. At the end of the term, the Province of British Columbia may renew the agreement or submit the agreement for reprocurement after a 2-year notice to the Company. The Company retains perpetual rights to the BC OnLine software including enhancements and improvements, the data or service provider agreements that it has separately entered into and control of any value-added products or external products that it has introduced during the term of the operating agreement.

## BUSINESS RISKS AND UNCERTAINTIES

The Company is subject to a number of risks and uncertainties that can significantly affect its financial condition and future financial performance. The Company has a comprehensive planning process to identify and mitigate risk, wherever possible. Key risks include:

### Government Contracts

Changes in government policies, priorities or funding levels through agency or program budget reductions, the imposition of budgetary constraints or the lack of government appropriations could materially adversely affect the Company's financial condition or results of operations. Furthermore, contracts with any government, including the Canadian government, may be terminated or suspended by the government at any time, with or without cause, and impose significant liability obligations. There can be no assurance that any contract with the government of any country will not be terminated or suspended in the future. Although the Company attempts to ensure that government contracts have, as standard provisions, termination for convenience language which reimburses the contractor for reasonable costs incurred, subcontractor and employee termination and wind-down costs plus a reasonable amount of profit thereon, the payments may not be sufficient to fully compensate the Company which may impact the results of operations and financial condition of the Company.

The operating agreement between the Company and BC OnLine can be terminated by the BC Province for convenience. However, in that event the BC Province would be obliged to pay the Company 100% of its investment if terminated prior to May 1, 2002, reducing by 10% per year thereafter, plus in any case additional amounts for the Company's transition requirements. The termination of this contract may impact the operations or financial condition of the Company.

### Information Products Markets and Competition

There are inherent risks in the property information solutions market. The industry is undergoing a change in the core methods used to collect, process and deliver information to its customers. The changes required to modernize the market are not trivial, although they are similar in many respects to any business transitioning to E-commerce and the use of the Internet to deliver products, and require resolution of complex technical, business and geographic coverage issues.

The Company believes that its continued growth in this sector will require additional expansion in the United States and the United Kingdom. To the extent that the Company is unable to expand in the United States or the United Kingdom or penetrate those markets in a timely and cost effective manner, or achieve cost-effective pricing for its products, the Company's business growth could be adversely affected.

The Company faces competition from traditional and new suppliers of information solutions. As well, many of the Company's products and systems are subject to regulatory restrictions, which may limit the Company's ability to expand its customer and product base.

To the extent the Company is unable to anticipate market shifts, is impeded by regulatory restrictions, or is unable to expand or penetrate new markets in a timely and cost effective manner, the Company's business growth could be adversely affected.

### Reliance on Third Parties/Subcontractors

The Company's business is often dependent upon performance by third parties and subcontractors for completion of contracts for which it is the prime contractor. Subcontractors for large system programs or critical support requirements are selected in concurrence with the customer's requirements, either as directed by the customer or as evaluated by the Company during the contract qualification process. Subcontractors are also selected through a competitive bid or negotiated process. Most major development subcontracts are established as firm fixed price contracts, generally with supporting performance bonds or other security, liquidated damages or other penalties for non-performance. However, some subcontractors have limitations or exclusions from certain liabilities. The Company believes that these subcontractors would have an economic incentive to perform such subcontracts for the Company although no company can protect itself against all potential breaches, particularly those related to financial insolvency of the subcontractors or to cost overruns by subcontractors. In addition, a significant price increase in those few subcontracts which are not firm fixed price, delays in performance, a subcontractor's failure to perform or the inability to obtain replacement subcontractors at a reasonable price, when and if needed could have a material adverse effect on the Company's business, results of operation and financial condition.

### Dependence on Key Personnel

The success of the Company is largely dependent on the abilities and experience of its executive officers and other key employees. Competition for highly skilled management, technical, research and development and other employees is intense in the technology industry, particularly in the United States. There can be no assurance that the Company can retain its current key employees or attract and retain additional key employees as needed. The loss of certain key employees could have an adverse impact upon the Company's growth, business and profitability.

### Dependence on Data Providers

Certain of the products offered by the Company in its Information Products group rely on data supplied by third parties. Contracts for data supply normally have provisions which permit either party to terminate the agreement in the event of a breach by the other party. There may, however, be costs to the Company associated with its breach of such contracts and the acquisition of software and/or data to be provided in its products. In the event that any of such contracts are terminated, the Company may experience delays in obtaining data from alternative sources which may affect the Company's operations or financial condition. The Company also sources data from various third parties without formal contracts applying to such transactions. In the United Kingdom, there can be no assurance that the Company will be able to continually acquire such data from all government sources at a cost that permits the Company to realize a profit, or be able to sell its electronic products at prices regulated by contract, or in competition to current paper-based systems, that permits the Company to realize a profit.

### Potential for Liability

There is a risk that the Company's products or systems may contain errors or defects or fail to perform. While the Company strives to contractually limit its liability for damages arising from its provision of products and systems, such limitations of liability, although existing in the vast majority of the Company's contracts, may not have been included in all of the Company's past contractual arrangements. Additionally, where such limitations have been included, there can be no assurance that they will be enforceable in all circumstances or in all jurisdictions or forms, such as electronic delivery, or that they otherwise will protect the Company from liability for damages except as any insurance coverage applies. Furthermore, litigation, regardless of contractual terms could result in substantial cost to the Company, divert management's attention and resources from the Company's operations and result in negative publicity that may impair the Company's ongoing marketing efforts. Although the Company purchases product liability (covering risk of property damage and personal injury) and computer software and service errors and omissions insurance, there is no assurance that such insurance will cover any or all of, or the extent of, the claims.

### Firm Fixed Price Contracts

A large percentage of the Company's contracts are firm fixed price contracts. These firm fixed price contracts at times involve the completion of large-scale system engineering, software and hardware development projects. There is a risk in every firm fixed price contract that the Company will be unable to deliver under the contract within the time specified and at a cost to the Company which is less than the contract price. The technical nature and sophistication of the systems deliverable under these contracts may require amendments to be negotiated from time to time, subject to agreed contract change processes. In the absence of any agreement to such amendments which increase the price payable or extend delivery times where deliveries are late, customers may be in a position to terminate the contract, or to demand repayments or penalties. The Company has processes and systems in place to measure and monitor the technical and financial performance of contracts and the Company, together with the customer, constantly monitor these projects to determine early warnings related to these risks. Notwithstanding, a contract may end up in a default or in a cost overrun. A significant cost overrun that is caused by actions or inactions by the Company could affect the Company's results of operations and financial condition.

### Technological Change

The markets in which the Company operates are characterized by changing technology and evolving industry standards. The Company's systems embody complex technology and may not always be compatible with current and evolving technical standards and systems developed by others. Failure or delays by the Company to meet or comply with the requisite and evolving industry or user standards could have a material adverse effect on the Company's business, results of operations and financial condition. The Company's ability to anticipate changes in technology, technical standards and product offerings will be a significant factor in the Company's ability to compete or expand into new markets. Despite years of experience in meeting customer systems requirements with the latest in technological solutions, there can be no assurance that the Company will be successful in identifying, developing and marketing products that will respond to rapid technological change, evolving standards or individual customer standards or requirements.

### Risks Related to Acquisitions

The Company has in the past and may continue to expand its operations and business by acquiring additional businesses, products or technologies. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses or successfully integrate any acquired businesses, products or technologies into the Company without substantial expenses, delays or other operational, regulatory, or financial problems. Furthermore, acquisitions may involve a number of special risks, including diversion of management's attention, failure to retain key personnel, unanticipated events or circumstances and legal liabilities, some or all of which could have an adverse effect on the Company's business, results of operations and financial condition. In addition, there can be no assurance that acquired businesses, products or technologies, if any, will achieve anticipated revenues and income growth. Acquisitions could also result in potentially dilutive issuances of equity securities. The failure of the Company to manage its acquisitions strategy successfully could have a material adverse effect on the Company's businesses, results of operations and financial condition.

### Financing Arrangements

The Company requires capital to finance its future growth and pay its outstanding debt obligations as they come due for payment. If the cash generated from the Company's business, together with the credit available under existing bank facilities, is not sufficient to fund future capital requirements, the Company will require additional debt or equity financing. The Company's ability to access capital markets on terms that are acceptable will be dependent on prevailing market conditions, as well as the Company's future financial condition. Further, the Company's ability to increase its debt financing and/or renew existing facilities may be limited by its financial covenants. Although the Company does not anticipate any difficulties in raising funds in the future, there can be no assurance that capital will be available on suitable terms and conditions, or that borrowing costs will not be adversely affected. In addition, the Company's current financing arrangements contain certain restrictive covenants that may impact the Company's future operating and financial flexibility.

#### Currency Exchange Rate Risk

The Company's results are reported in Canadian dollars. A substantial portion of the Company's revenues and a material portion of its expenses are denominated in U.S. dollars and in United Kingdom pounds sterling. Any fluctuations in the value of the Canadian dollar relative to the U.S. dollar or the pound sterling may result in variations in the revenues and earnings of the Company expressed in Canadian dollars as a result of the geographic mix of the Company's customers, and may have an impact on the Company's business, results of operations and financial condition.

#### Risk of Contract Performance

Most of the systems developed by the Company are technologically advanced and sometimes must function under demanding operating conditions. The Company employs sophisticated design and testing processes and practices which include a range of stringent factory and on-site acceptance tests with criteria and requirements jointly developed with the customers. However, there can be no assurance that the Company's systems will be successfully implemented, will pass required acceptance criteria, or will operate or give the desired output.

#### Economic Conditions

Customer demand for the Company's systems and products may be affected by economic conditions, both on a country or local level. Changes in interest rates, foreign exchange and the level of government spending may influence the Company's sales. The Company has mitigated some of its exposure to variable business cycles by diversifying its business across a range of business activities and geographic locations. Notwithstanding the Company's diversification, changing economic conditions may adversely affect the Company's results of operations and financial condition.

#### Dependence on Data and Systems

The Company maintains, at various locations, large databases of information and systems infrastructure which support the Company's Information Products group. Such systems are required to be available without interruption on a continuous basis to meet contractual service level obligations and to ensure the Company's communications, data and operational needs are met. System security network threats are frequent and mechanical or software errors may cause system corruption or failure. In addition, the databases are subject to similar security threats and data corruption or loss may occur as a result of such security threats or malfunction of software or hardware. Errors in data could lead to significant liability to the Company if the Company's customers relied on such incorrect data. Although the Company provides for redundancy, disaster recovery, tested systems and network security, it cannot prevent all possible errors or threats.

#### Inability to Effect Technology Transfer

Certain businesses of the Company and products, systems, services or technologies developed by the Company require the implementation or acquisition of products or technologies from corporations in other jurisdictions. In certain cases and only where the technology is re-exported to certain countries, if the use of the technologies can be viewed by the jurisdiction in which that supplier or subcontractor resides as being subject to export constraints or restrictions relating to national security, the Company may not be able to obtain the technologies and products that it requires from subcontractors who would otherwise be its optimal choice. To the extent that it is able, the Company obtains pre-authorization for re-export prior to signing contracts which oblige the Company to export subject technologies including specific foreign government approval as needed. In addition, the Company maintains an open competitive bidding system, on an international basis, which provides for qualified suppliers. In the event of export restrictions, the Company may have the ability through contract force majeure provisions to be excused from its obligations. Notwithstanding these provisions, export restrictions or changes during contract execution could have an adverse effect on the revenues and margins of the Company.

#### Satellite Failure

In the Company's Information Products group, the Company relies on data collected from a number of sources including data obtained from satellites. Satellites can cease to function for reasons beyond the Company's control. In certain instances governments may discontinue for periods of time the access to or operation of a satellite in total for any particular area on the Earth and for various reasons may not permit transmission of certain data, whether from a satellite owned by the government or not. Although such data may be available from other sources at different prices there is no assurance that the data will be available at the quality or at the times required. Also, the launch or operation of new satellites to replace old satellites may be delayed or may fail. Any of these factors could affect the Company's ability to obtain data or alternate sources of data for its products. Any such delay or failure could affect the Company's results of operations and financial condition. Radarsat International Inc.'s sales are dependent primarily on data received from RADARSAT-1. The failure of RADARSAT-1 prior to RADARSAT-2 being operational could affect the Company's results of operations and financial condition.

The operations of some devices which are or will be operated by the Company requires regulatory approvals such as licenses and communication frequencies. There can be no assurance the approvals will be obtained on a timely basis or retained for continuous operations. A failure to obtain approvals could affect the Company's results of operations and financial condition.

#### Legislation Relating to Consumer Privacy in the United States

There could be a material adverse impact in the Company's direct marketing and data sales business due to the enactment of legislation or industry regulations in the United States arising from public concern over consumer privacy issues. Restrictions have been established and additional restrictions could be placed upon the collection and use of information that is currently legally available, in which case the Company's cost of collecting replacement data in the future might be increased materially. Although the Company's business uses public data, it is also possible that the Company could be prohibited from collecting or disseminating certain types of personal data, as specifically identified to the Company, by a person or persons.

#### Dependence on Business Alliances

A key element of the Company's business strategy is the formation of corporate alliances with leading companies. The Company is currently investing, and plans to continue to invest, significant resources to develop these relationships. The Company believes that its success in penetrating new markets for its products will depend in part on its ability to maintain these relationships and to cultivate additional or alternative relationships. Although significant effort has been dedicated to establishing and maintaining relationships, there can be no assurance that the Company will be able to develop additional corporate alliances with such companies, that existing relationships will continue or be successful in achieving their purposes or that such companies will not form competing arrangements.

#### Intellectual Property

To protect the Company's proprietary rights, the Company relies on a combination of patent protections (in limited cases), copyrights, trade secrets, trademark laws, confidentiality agreements with employees and third parties and protective contractual provisions such as those contained in license agreements with consultants, vendors and customers. Despite these efforts, the Company's intellectual property rights may be invalidated, circumvented, challenged, infringed or required to be licensed to others. Furthermore, others may develop technologies that are similar or superior to the Company's technology, duplicate or reverse engineer the Company's technology or design around the Company's products. Although the Company applies rigorous standards, documents and processes to protect its intellectual property, there is no absolute assurance that the steps taken to protect the Company's technology will prevent misappropriation or infringement.

If any of the Company's technology violates proprietary rights, including copyrights and patents, the Company may be required to redesign its products or obtain licenses from third parties to continue offering the Company's products without substantially re-engineering such products or defending itself against infringement claims. This may affect the Company's operations and, in addition, the Company could suffer substantial costs in defending itself against infringement claims.

#### Letters of Credit and Performance Bonds

In the case of a number of the contracts of the Company, letters of credit or performance bonds are required to be posted by the Company to cover advance payments or progress payments received by the Company and to cover the Company's performance obligations. If these letters of credit or performance bonds are called in accordance with the terms and conditions included therein, the effect of such calls could have an adverse effect on the results of operations and financial condition of the Company. In some cases, the Company obtains wrongful call insurance from the Export Development Corporation of Canada in order to insure against any wrongful call of letters of credit or performance bonds.

#### Insurance

The Company maintains an extensive program of insurance coverage in the normal course of business, consistent with similar businesses. In addition, the insurance program covers some of the unique risks encountered by the Company. Although the limits and deductibles of such insurance have been established through risk analysis and the recommendation of professional advisors, there can be no assurance that such insurance will remain available to the Company at commercially reasonable rates or that the amount of such coverage will be adequate to cover all liability incurred by the Company. If the Company is held liable for amounts exceeding the limits of its insurance coverage or for claims outside the scope of that coverage, its business, results of operations and financial condition could be adversely affected.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of MacDonald, Dettwiler and Associates Ltd. and all information in this annual report are the responsibility of management and have been approved by the board of directors.

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements include certain amounts that are based on best estimates and judgements. Financial information presented in accordance with GAAP used elsewhere in the annual report is consistent with these consolidated financial statements. This annual report also contains certain other supplemental non-GAAP financial information which is not derived from or contained in the consolidated financial statements.

Management of the Company, in discharging its responsibility for the integrity and objectivity of the consolidated financial statements, has developed and maintained a system of internal controls. Management believes the internal controls provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of the consolidated financial statements, and that assets are properly accounted for and safeguarded.

The board of directors carries out its responsibility for the consolidated financial statements in this annual report principally through its audit committee and governance committee. The audit committee, consisting solely of outside directors that are independent of any significant shareholders, reviews the Company's annual consolidated financial statements and recommends them to the board of directors for approval. The shareholders' auditors have full access to the audit committee, with and without management being present. The governance committee consists solely of outside directors, all of whom are independent.

The shareholders' auditors, KPMG LLP, Chartered Accountants, have performed an independent audit of the consolidated financial statements and their report follows.

**DANIEL E. FRIEDMANN,** *President and Chief Executive Officer*

**ANIL WIRASEKARA,** *Executive Vice President and Chief Financial Officer*

Vancouver, Canada

February 21, 2005

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of MacDonald, Dettwiler and Associates Ltd. as at December 31, 2004 and 2003 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

*Chartered Accountants*

Vancouver, Canada

February 21, 2005

# FINANCIALS

MACDONALD, DETTWILER AND ASSOCIATES LTD.

**CONSOLIDATED BALANCE SHEETS**

*(In thousands of dollars)*
*December 31, 2004 and 2003*

| | | 2004 | 2003 |
|---|---|---|---|
| | | | *(Restated due to change in accounting policy - note 3)* |
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ | 32,250 | 34,221 |
| Short-term investments | | 3,946 | - |
| Accounts receivable | | 151,432 | 106,140 |
| Future income taxes (note 13(c)) | | 8,761 | 215 |
| Prepaid expenses | | 13,061 | 8,207 |
| | | 209,450 | 148,783 |
| Other long-term assets (note 5) | | 11,878 | 2,356 |
| Capital assets (note 6) | | 56,048 | 46,587 |
| Future income taxes (note 13(c)) | | 51 | 11,716 |
| Intangible assets (note 7(b)) | | 156,308 | 63,174 |
| Goodwill (note 7(a)) | | 500,687 | 243,405 |
| | $ | 934,422 | 516,021 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | $ | 177,574 | 115,836 |
| Deferred revenues | | 47,134 | 20,723 |
| Current portion of long-term debt (note 8) | | 258 | 622 |
| | | 224,966 | 137,181 |
| Deferred revenues | | 12,434 | 16,550 |
| Long-term debt (note 8) | | 381,117 | 115,264 |
| Future income taxes (note 13(c)) | | 11,798 | 4,362 |
| Other long-term liabilities (note 9) | | 23,690 | 15,701 |
| | | 654,005 | 289,058 |
| Shareholders' equity: | | | |
| Capital stock (note 10) | | 176,606 | 156,610 |
| Contributed surplus | | 11,748 | 5,534 |
| Retained earnings | | 163,242 | 110,747 |
| Cumulative translation adjustment | | (71,179) | (45,928) |
| | | 280,417 | 226,963 |
| | $ | 934,422 | 516,021 |

**Contingencies and commitments** *(notes 4 and 15)*

**Subsequent events** *(notes 8 and 11)*

*See accompanying notes to consolidated financial statements.*

Approved on behalf of the Board:

**DANIEL E. FRIEDMANN,** *Director*

**BRIAN G. KENNING,** *Director*

MACDONALD, DETTWILER AND ASSOCIATES LTD.

## CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

*(In thousands of dollars except per share amounts)*
*Years ended December 31, 2004 and 2003*

| | | 2004 | 2003 |
|---|---|---|---|
| | | | *(Restated due to change in accounting policy - note 3)* |
| **Revenues** | $ | 751,386 | 626,476 |
| Direct costs, selling, general and administration | | 633,147 | 528,541 |
| Amortization of capital and intangible assets | | 26,021 | 21,982 |
| | | 659,168 | 550,523 |
| Earnings before other items | | 92,218 | 75,953 |
| Interest expense | | (14,336) | (7,465) |
| Other income | | 469 | 833 |
| | | (13,867) | (6,632) |
| Earnings before income taxes | | 78,351 | 69,321 |
| Provision for income taxes (notes 13(a) and (b)) | | 25,856 | 27,098 |
| Net earnings | | 52,495 | 42,223 |
| Retained earnings, beginning of year | | 110,747 | 68,524 |
| Retained earnings, end of year | $ | 163,242 | 110,747 |
| Net earnings per common share (note 19): | | | |
| Basic | $ | 1.35 | 1.12 |
| Diluted | | 1.33 | 1.09 |

*See accompanying notes to consolidated financial statements.*

## FINANCIALS

MACDONALD, DETTWILER AND ASSOCIATES LTD.

**CONSOLIDATED STATMENTS OF CASH FLOWS**

*(In thousands of dollars)*
*Years ended December 31, 2004 and 2003*

| | 2004 | 2003 |
|---|---|---|
| | | *(Restated due to change in accounting policy - note 3)* |
| **Cash flows provided by (used in):** | | |
| **Operating activities:** | | |
| Net earnings | $ 52,495 | 42,223 |
| Items not affecting cash: | | |
| Amortization of capital and intangible assets | 26,021 | 21,982 |
| Future income taxes | 8,930 | 3,308 |
| Stock-based compensation | 6,434 | 3,151 |
| Imputed interest | 720 | 525 |
| | 94,600 | 71,189 |
| Changes in operating assets and liabilities, net of businesses acquired | (35,488) | (26,440) |
| | 59,112 | 44,749 |
| **Investing activities:** | | |
| Proceeds from settlement of note receivable | 1,271 | - |
| Purchase of capital assets | (19,979) | (12,471) |
| Purchase of short-term investments | (3,946) | - |
| Acquisition of land information database and other intangibles | (5,259) | (11,597) |
| Acquisitions, net of cash acquired (note 4) | (339,713) | (25,412) |
| | (367,626) | (49,480) |
| **Financing activities:** | | |
| Proceeds from borrowing | 4,408 | 16,000 |
| Long-term debt related to acquisitions | 342,719 | 22,708 |
| Repayment of long-term debt | (58,460) | (32,406) |
| Proceeds from issue of capital stock (note 10) | 19,776 | 14,383 |
| | 308,443 | 20,685 |
| **Translation adjustment** | (1,900) | (5,716) |
| **Increase (decrease) in cash** | (1,971) | 10,238 |
| **Cash and cash equivalents, beginning of year** | 34,221 | 23,983 |
| **Cash and cash equivalents, end of year** | $ 32,250 | 34,221 |

Supplementary cash flow information *(note 18).*

*See accompanying notes to consolidated financial statements.*

MACDONALD, DETTWILER AND ASSOCIATES LTD.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Tabular amounts in thousands of dollars)*
*Years ended December 31, 2004 and 2003*

1. **NATURE OF OPERATIONS:**

MacDonald, Dettwiler and Associates Ltd. was incorporated on February 3, 1969 under the Canada Business Corporations Act. MacDonald, Dettwiler and Associates Ltd. (together with its subsidiaries, the "Company"), based in Richmond, British Columbia, is an information company that provides business and governments around the world with essential information solutions used for decision making. The Company operates through two principal reporting units, Information Systems and Information Products.

2. **SIGNIFICANT ACCOUNTING POLICIES:**

(a) **Generally accepted accounting principles:**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) **Principles of consolidation:**

The consolidated financial statements include the accounts of the Company and all entities which are controlled by the Company, referred to as subsidiaries. The Company owns 100% of the outstanding equity in each of its subsidiaries. The Company does not own any other operations where they have the ability to exercise significant influence.

Investments over which the Company does not have the ability to exercise significant influence are accounted for under the cost method of accounting. The carrying value of investments is recorded at cost and written down if there is a decline in value of the investment that is other than temporary.

All significant intercompany balances and transactions are eliminated on consolidation.

The Company's significant operating subsidiaries include the following:

*Access BC Information Services Ltd.*
*DataQuick Information Systems, Inc.*
*Dynacs Inc.*
*Earth Satellite Corporation*
*MacDonald Dettwiler (Channel) Limited*
*MacDonald Dettwiler (Hub) Limited*
*MacDonald Dettwiler Limited*
*MacDonald Dettwiler Space and Advanced Robotics Ltd.*
*Marshall & Swift/Boeckh, LLC*
*Millar & Bryce Limited*
*MD Atlantic Technologies, Inc.*
*Radarsat International Inc.*
*Triathlon Ltd.*
*MacDonald, Dettwiler Information Technology Services Limited Liability Company*
*MDA Insurance Services Inc.*

(c) **Revenue recognition:**

Revenues from long-term construction contracts, including amounts attributed to customer supplied materials are recognized using the percentage of completion method based on costs incurred relative to total estimated costs. Revenues from certain long-term construction contracts are recognized using the percentage of completion method based on the units delivered relative to total units. The inception to date effect of any changes in estimates of contract price or costs to complete is recognized in the period when the change is determined by management.

Consideration from sales of information products, including those with multiple deliverables, that include a commitment for the Company to provide updates, is allocated to the various elements of the arrangements based upon the relative fair value of each component. Revenues related to sales of information products are recognized when shipped. Revenues related to updating customer information are recognized ratably over the contract period. Revenues from subscription products are recognized ratably over the term of the contract. All other revenues are recorded and related costs are transferred to cost of sales at the time the product is delivered or the service is provided.

The Company recognizes the full sales amount as revenue for product sales where the Company acts as principal obligor

MACDONALD, DETTWILER AND ASSOCIATES LTD.

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2. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

to the customer and is responsible for compiling and formatting the source data, processing the order and delivering the product, collecting the proceeds for the sale and assuming the credit risk with respect to the customer.

Deferred revenues represent amounts billed or cash received in excess of revenues recognized on long-term contracts and subscription based services. Similarly, accounts receivable include unbilled amounts where revenues recognized on long-term contracts based on percentage of completion exceed the amount billed to date.

(d) **Earnings per share:**
Basic earnings per common share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period.

Diluted earnings per common share is calculated using the treasury stock method and reflects the potential dilution of securities by including stock options and contingently issuable shares in the weighted average number of common shares outstanding for a period, if dilutive.

(e) **Use of estimates:**
The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates relate to the determination of percentage of completion and estimated project costs and revenues for contract revenue recognition, impairment of assets and rates for amortization, estimated amount of income tax balances and the estimated balances of accrued liabilities and pension obligations. Actual results could differ from those estimates.

(f) **Cash equivalents:**
Cash equivalents include short-term investments, which are all highly liquid marketable securities having a term to maturity of three months or less when acquired, and certain customer deposits which are held in a separate trust account to be used to fund customer transactions (2004 - $4,118,000; 2003 - $3,422,000).

(g) **Short-term investments:**
Short-term investments consist of highly liquid financial instruments purchased with an original maturity greater than three months. Short-term investments are recorded at the lower of cost plus accrued interest and market value.

(h) **Capital assets:**
Capital assets are initially recorded at cost. Amortization is subsequently provided on a straight-line basis at the following rates:

| ASSET | RATE |
|---|---|
| Computers and software | 14% - 40% |
| Equipment | 17% - 33% |
| Furniture and fixtures | 10% - 25% |
| Leasehold improvements | Lesser of useful life or term of lease |

The recoverability of capital assets is based on factors such as future asset utilization and the future undiscounted cash flows expected to result from the use of the related assets. An impairment loss is recorded in the period when it is determined that the carrying amount of the asset is not recoverable. At that time the carrying amount is written down to the undiscounted future cash flows.

(i) **Internally-developed software:**
The Company develops software internally for use in providing information products to its customers. Costs that relate to the conceptual formulation and design of internally-developed software are expensed in the period incurred. The Company capitalizes direct costs that are incurred to produce the finished product after technological feasibility is established. The Company performs periodic reviews to ensure the unamortized costs remain recoverable from future revenue. Costs to support or service internally-developed software are expensed in the period incurred.

(j) **Pensions:**
The Company maintains defined benefit and defined contribution pension plans that provide retirement benefits for approximately 174 salaried employees of MacDonald Dettwiler Space and Advanced Robotics Ltd. The Company also

provides certain health care, dental care and life insurance benefits to eligible retired employees and their dependants. The cost of pensions and other retirement benefits earned by these employees is determined based on independent annual actuarial valuations, performed using the projected benefit method pro-rated on services and management's estimate of expected plan investment performance, salary escalation, and various other factors, including mortality rates, terminations, and retirement ages. Defined benefit pension plan assets are reported at market values.

The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized using the corridor method for the pension plan.

The Company also maintains a defined contribution 401(K) plan for all full-time employees of its U.S. subsidiaries.

(k) **Research and development:**
Research costs are expensed in the period incurred. Development costs are expensed in the period incurred unless the Company believes a development project meets generally accepted criteria for deferral and amortization. No such costs have been deferred as at December 31, 2004 and 2003.

(l) **Government assistance and investment tax credits:**
Research and development costs are reduced by related government assistance. Investment tax credits are accounted for using the cost reduction method, whereby the benefit is recognized as a reduction in the cost of the related asset or expenditure when there is reasonable assurance the tax credits will be received and if it is more likely than not that they will be utilized to reduce taxes payable.

(m) **Translation of foreign currencies:**
The Company's foreign operations which are considered self-sustaining (financially and operationally independent of the parent) are translated to Canadian dollars using the current rates of exchange for assets and liabilities and using average rates for the year for revenues and expenses. Gains or losses resulting from these translation adjustments are deferred in a separate component of shareholders' equity ("Cumulative translation adjustment") until there is a realized reduction in the parent's net investment in the foreign operation.

Trade transactions completed in foreign currencies are reflected in Canadian dollars at the rates prevailing at the time of the transactions, except where the transaction is hedged, in which case the hedge rate is used. Amounts payable and receivable in foreign currencies are reflected in the consolidated financial statements in equivalent Canadian dollars at the rate of exchange prevailing at the balance sheet date.

(n) **Income taxes:**
The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. The resulting changes in the net future income tax asset or liability are included in income. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income when a change in tax rates is substantively enacted. Future income tax assets are evaluated periodically and if realization is not considered "more likely than not" a valuation allowance is provided.

(o) **Intangible assets:**
Intangible assets acquired either individually or with a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

Intangible assets with finite useful lives are amortized over their estimated useful lives. The amortization methods and estimated useful lives of intangible assets are reviewed annually.

Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in income for the excess, if any.

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2. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

(p) **Goodwill:**

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step has not been required but would be carried out if the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss. The implied fair value of the reporting unit's goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the earnings statement before extraordinary items and discontinued operations.

(q) **Stock-based compensation:**

The Company has a stock-based compensation plan for executives and other key employees. The Company recognizes stock-based compensation expense in accordance with CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments". Beginning January 1, 2004, the Company changed its accounting policy related to employee stock options, and began to recognize compensation expense for stock or stock option grants to employees, based on the fair value of the stock or stock options issued. Consideration paid by employees on the purchase of shares under the employee share purchase plan and exercise of stock options is recorded as share capital.

Compensation expense is recorded for awards of restricted, performance-based common shares. The amount of compensation expense recorded is the fair value of the award at the measurement date, being the grant date, amortized over the performance-based vesting period. For awards that call for settlement in cash, including stock appreciation rights, the Company measures compensation cost as the amount by which the quoted market value of the shares of the Company's stock covered by the grant exceeds the value specified. Changes in the quoted market value of those shares between the date of grant and the measurement date result in a change in the measure of compensation for the award. Compensation cost accrued during the service period is not adjusted below zero.

(r) **Financial instruments:**

The Company uses derivative financial instruments to reduce its exposure to fluctuations in foreign exchange on certain committed and anticipated transactions. The Company may also use derivative financial instruments to reduce its exposure to fluctuations in interest rates on floating rate debt and changes in the price of its common shares that impact the long-term incentive plan.

The Company uses derivative financial instruments only to manage existing risk exposures, whether or not it formally documents such relationships as hedges. For certain instruments, the Company applies hedge accounting when appropriate documentation and effectiveness criteria are met.

The Company formally documents the relationships between derivative financial instruments and hedged items, as well as the risk management objective and strategy. The Company assesses, on an ongoing basis, whether the derivative financial instruments continue to be effective in offsetting changes in fair values or cash flows of the hedged transactions.

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated or committed foreign currency or interest rate exposures are recognized as an adjustment to the related operating costs, revenue or capital expenditures when the hedged transaction is recorded. The Company records all derivatives on the balance sheet in accounts receivable and accounts payable. Gains and losses on derivatives that are subject to hedge accounting are recorded in accounts payable and accounts receivable as appropriate. Gains and losses on derivatives that are not subject to hedge accounting are recorded in direct costs.

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The Company also uses debt denominated in U.S. dollars to hedge its exposure to the net investment in certain self-sustaining operations based in the U.S. and to hedge anticipated U.S. dollar receipts on certain construction contracts. Foreign exchange fluctuations in the U.S. dollar debt that has been designated as a hedge of net investments are charged or credited to cumulative translation adjustment, net of applicable income taxes. Foreign exchange fluctuations in the U.S. dollar debt that has been designated as a hedge of anticipated U.S. dollar receipts are deferred and recognized as an adjustment to revenue when the hedged transaction is recorded.

3. **CHANGE IN ACCOUNTING POLICY:**

During 2004, the Company adopted, on a retroactive basis, the transitional provisions of CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". In accordance with the provisions of this section, the Company has accounted retroactively for all employee stock options granted, settled, or modified since January 1, 2002 using the fair value based method. The fair value based method requires the Company to expense the fair value of the employee options granted or modified during a period.

Prior to the adoption of the new standard, no compensation expense was recognized when stock options were issued to employees as options were issued at the market value of the shares at the date of the grant. Consideration paid by employees on the purchase of shares under the employee share purchase plan and exercise of stock options was recorded as share capital. The Company had previously disclosed the pro-forma effect of accounting for these awards under the fair value based method.

In accordance with the requirements of Section 3870, this change in accounting policy is applied retroactively and the amounts presented for prior periods have been restated for this change. The effect of this change is to reduce net earnings for the twelve month period ended December 31, 2004 by $1,098,000 (2003 - $1,431,000). Opening retained earnings for 2004 was reduced by $1,764,000 reflecting the cumulative effect of the change in accounting policy. The impact of this restatement on the December 31, 2004 consolidated financial statements is as follows:

| | | AS PREVIOUSLY REPORTED | ADJUSTMENT | RESTATED |
|---|---|---|---|---|
| As at December 31, 2003: | | | | |
| Retained earnings | $ | 112,511 | (1,764) | 110,747 |
| Contributed surplus | | 3,770 | 1,764 | 5,534 |
| Year ended December 31, 2003: | | | | |
| Direct costs, selling, general and administration | $ | 527,110 | 1,431 | 528,541 |
| Net earnings | $ | 43,654 | (1,431) | 42,223 |
| Net earnings per common share: | | | | |
| Basic | | 1.16 | (0.04) | 1.12 |
| Diluted | | 1.13 | (0.04) | 1.09 |

4. **ACQUISITIONS:**

(a) On June 2, 2004, the Company acquired all of the outstanding shares of Marshall & Swift/Boeckh, LLC ("Marshall & Swift"). Marshall & Swift is a supplier of property information and valuation solutions to the property insurance sector in the U.S. Cash consideration of $337,833,000 has been paid relating to the acquisition. Contingent consideration of up to U.S. $90,000,000 may be payable based on Marshall & Swift achieving certain income targets in 2005.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Tabular amounts in thousands of dollars)*
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4. **ACQUISITIONS (CONTINUED):**

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. As Marshall & Swift is in the process of obtaining a third-party review of the valuation, the allocation of the purchase price is subject to refinement.

| | JUNE 2, 2004 |
|---|---|
| Current assets | $ 22,018 |
| Equipment | 12,717 |
| Intangibles | 111,369 |
| Goodwill | 292,110 |
| Total assets acquired | 438,214 |
| Current liabilities | (60,933) |
| Long-term liabilities | (39,448) |
| | 337,833 |
| Cash consideration | 342,719 |
| Cash of acquired operations | (4,886) |
| | $ 337,833 |

(b) On February 10, 2003, the Company acquired all of the outstanding common shares of Millar & Bryce Limited ("M&B"). M&B is a commercial provider of land information in Scotland. Cash consideration of $21,320,000 has been paid relating to the acquisition. In addition, contingent consideration of $1,763,000 is payable based on M&B achieving certain income targets in 2004, and has been accrued at December 31, 2004.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

| | FEBRUARY 10, 2003 | CONTINGENT CONSIDERATION | TOTAL |
|---|---|---|---|
| Current assets | $ 3,487 | - | 3,487 |
| Equipment | 714 | - | 714 |
| Goodwill and intangibles | 22,871 | 3,493 | 26,364 |
| Total assets acquired | 27,072 | 3,493 | 30,565 |
| Current liabilities | 7,482 | - | 7,482 |
| | 19,590 | 3,493 | 23,083 |
| Cash consideration | 22,998 | 3,493 | 26,491 |
| Cash of acquired operations | (3,408) | - | (3,408) |
| | $ 19,590 | 3,493 | 23,083 |

(c) Pursuant to the acquisition of Triathlon Mapping Corp., additional consideration of $725,000 was paid to the former shareholder during 2003.

(d) On June 28, 2002, the Company entered into an agreement to acquire all of the outstanding shares of Dynacs Inc. ("Dynacs"). During 2003, consideration of $3,118,000 was paid to the vendors as a result of Dynacs having met certain income targets in 2002. Additional contingent consideration of up to U.S. $6,825,000 may be payable based on Dynacs achieving certain income targets over the period to 2006.

(e) Pursuant to the acquisition agreement relating to the purchase of Atlantic Technologies LLC on November 3, 2000, the

*(Tabular amounts in thousands of dollars)*

Company issued 170,307 common shares to the vendor on each of November 3, 2001, 2002 and 2003. This additional consideration was allocated to goodwill, and, accordingly, goodwill related to the acquisition increased by $2,994,000 in each of 2001, 2002 and 2003.

(f) Pursuant to the acquisition of FDI Forest Dimensions Inc. ("FDI") in 1999, additional consideration of $117,000 (2003-$249,000) was paid to the former shareholder.

## 5. OTHER LONG-TERM ASSETS:

| | 2004 | 2003 |
|---|---|---|
| Recoverable income taxes | $ 7,691 | - |
| Non-interest bearing note receivable discounted at a rate of 4% | 892 | 2,127 |
| Prepaid fees | 2,290 | 651 |
| Investments | 1,005 | 849 |
| | 11,878 | 3,627 |
| Less: current portion of note receivable | - | (1,271) |
| | $ 11,878 | 2,356 |

Future payments due under the note receivable are as follows:

| | | |
|---|---|---|
| 2004 | $ - | 1,271 |
| 2009 | 1,090 | 1,090 |
| | 1,090 | 2,361 |
| Imputed interest | (198) | (234) |
| | $ 892 | 2,127 |

## 6. CAPITAL ASSETS:

| 2004 | COST | ACCUMULATED AMORTIZATION | NET BOOK VALUE |
|---|---|---|---|
| Computers and software | $ 127,918 | 84,593 | 43,325 |
| Equipment | 26,268 | 23,140 | 3,128 |
| Furniture and fixtures | 10,272 | 8,018 | 2,254 |
| Leasehold improvements | 23,583 | 16,242 | 7,341 |
| | $ 188,041 | 131,993 | 56,048 |

| 2003 | COST | ACCUMULATED AMORTIZATION | NET BOOK VALUE |
|---|---|---|---|
| Computers and software | $ 112,257 | 76,588 | 35,669 |
| Equipment | 24,921 | 20,847 | 4,074 |
| Furniture and fixtures | 8,938 | 7,410 | 1,528 |
| Leasehold improvements | 20,259 | 14,943 | 5,316 |
| | $ 166,375 | 119,788 | 46,587 |

As at December 31, 2004 total assets under capital leases included above have a cost of $5,882,000 (2003 - $5,984,000) and a net book value of nil (2003 - $56,000).

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7. **GOODWILL AND OTHER INTANGIBLE ASSETS:**

(a) The changes in the carrying amount of goodwill for the year ended December 31 is as follows:

| 2004 | INFORMATION SYSTEMS | INFORMATION PRODUCTS | TOTAL |
|---|---|---|---|
| Balance as at January 1 | $ 74,651 | 168,754 | 243,405 |
| Goodwill acquired during period or on refinements of purchase price allocation (note 4(a)) | - | 292,110 | 292,110 |
| Goodwill related to contingent consideration (notes 4(b) and 4(f)) | - | 1,880 | 1,880 |
| Foreign exchange | (1,056) | (35,652) | (36,708) |
| Balance as at December 31 | $ 73,595 | 427,092 | 500,687 |

| 2003 | INFORMATION SYSTEMS | INFORMATION PRODUCTS | TOTAL |
|---|---|---|---|
| Balance as at January 1 | $ 72,433 | 166,437 | 238,870 |
| Goodwill acquired during period or on refinements of purchase price allocation (notes 4(b) and 4(d)) | 2,206 | 21,271 | 23,477 |
| Goodwill related to contingent consideration (notes 4(b), 4(c), 4(d), 4(e) and 4(f)) | 3,118 | 5,698 | 8,816 |
| Foreign exchange | (3,106) | (24,652) | (27,758) |
| Balance as at December 31 | $ 74,651 | 168,754 | 243,405 |

(b) Intangible assets as at December 31 are as follows:

| 2004 | GROSS CARRYING AMOUNT | ACCUMULATED AMORTIZATION | TOTAL |
|---|---|---|---|
| Definite life intangible assets: | | | |
| Licenses, customer relationships and other | $ 84,868 | 15,017 | 69,851 |
| Indefinite life intangible assets: | | | |
| Perpetual licenses | 52,046 | 6,528 | 45,518 |
| Intellectual property, trademarks and tradenames | 41,621 | 682 | 40,939 |
| | 93,667 | 7,210 | 86,457 |
| | $ 178,535 | 22,227 | 156,308 |

| 2003 | GROSS CARRYING AMOUNT | ACCUMULATED AMORTIZATION | TOTAL |
|---|---|---|---|
| Definite life intangible assets: | | | |
| Licenses, customer relationships and other | $ 31,156 | 13,429 | 17,727 |
| Indefinite life intangible assets: | | | |
| Perpetual licenses | 39,819 | 2,428 | 37,391 |
| Intellectual property, trademarks and tradenames | 8,788 | 732 | 8,056 |
| | 48,607 | 3,160 | 45,447 |
| | $ 79,763 | 16,589 | 63,174 |

The aggregate amortization expense for the year ended December 31, 2004 was $6,121,000 (2003 - $3,661,000).

*(Tabular amounts in thousands of dollars)*

(c) In the fourth quarter of 2004 and 2003, the Company completed its annual impairment test for goodwill and other intangible assets with an indefinite life, and determined that these assets are not impaired.

## 8. LONG-TERM DEBT:

| | 2004 | 2003 |
|---|---|---|
| Loan payable in U.S. dollars (U.S. $210,000,000), interest at LIBOR plus 0.70% - 1.75% repayable on May 24, 2007. The revolving period can be extended, subject to bank approval, on an annual basis. | $ 252,757 | - |
| Term loan payable in U.S. dollars (U.S. $100,000,000), interest at LIBOR plus 0.70% - 1.75% with quarterly repayments beginning June 30, 2007. | 120,360 | - |
| Loan payable in Canadian dollars, interest at bankers acceptance rates plus 0.70% - 1.75%, repayable on May 24, 2007. The revolving period can be extended, subject to bank approval, on an annual basis. | 8,000 | 115,000 |
| Equipment loan, interest at LIBOR plus 2.25% - 4.33%, principal and interest repayable at U.S. $31,500 monthly, maturing June 1, 2005. | 90 | 585 |
| Western Economic Diversification loan, non-interest bearing, repayable in annual instalments, maturing March 31, 2005. | 168 | 301 |
| | 381,375 | 115,886 |
| Current portion | 258 | 622 |
| | $ 381,117 | 115,264 |

In May 2004, the Company amended its syndicated credit agreement. The new facility incorporates a revolving facility of $450,000,000, a letter of credit facility of $60,000,000, a term facility of U.S. $100,000,000, and an additional facility of U.S. $50,000,000. In addition, the credit agreement permits the Company to borrow an additional $100,000,000 which would rank pari passu with the existing facility.

Both the term facility and the additional facility mature on June 30, 2009 and are non-amortizing until June 30, 2007 at which time quarterly payments equal to 7% of the June 30, 2007 balance are due. The revolving facility is due on May 24, 2007 unless renewed.

The bank facility is secured by general security agreements and guarantees of the Company and certain of its subsidiaries. Equipment loans are secured by specific assets.

Subsequent to December 31, 2004, the Company converted its U.S. dollar loan payable and term loan into Canadian dollar debt and terminated the associated hedges.

Principal repayments on long-term debt as at December 31, 2004 are as follows:

| | TOTAL |
|---|---|
| 2005 | $ 258 |
| 2006 | - |
| 2007 | 286,033 |
| 2008 | 33,701 |
| 2009 | 61,383 |
| | $ 381,375 |

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## 9. OTHER LONG-TERM LIABILITIES:

| | 2004 | 2003 |
|---|---|---|
| Accrued acquisition and integration costs | $ 9,457 | 11,115 |
| Pension (note 16) | 3,359 | 2,654 |
| Other long-term liabilities | 10,874 | 1,932 |
| | $ 23,690 | 15,701 |

## 10. CAPITAL STOCK:

Authorized:

Unlimited number of common shares with no par value

Unlimited number of preferred shares, issuable in series, convertible to common shares

Common shares issued and fully paid:

| | NUMBER OF SHARES | AMOUNT |
|---|---|---|
| Balance at December 31, 2002 | 36,884,400 | $ 139,233 |
| Common shares issued upon excercise of employee options (note 12(a)) | 1,085,753 | 11,744 |
| Common shares issued related to acquisition (note 4(e)) | 170,308 | 2,994 |
| Common shares issued in conjunction with employee share purchase plan (note 12(c)) | 65,483 | 1,281 |
| Common shares issued upon exercise of shareholder options (note 12(a)) | 127,500 | 1,358 |
| Balance at December 31, 2003 | 38,333,444 | 156,610 |
| Common shares issued upon exercise of employee options (note 12(a)) | 330,242 | 4,862 |
| Common shares issued related to private placement | 509,071 | 13,312 |
| Common shares issued in conjunction with employee share purchase plan (note 12(c)) | 73,638 | 1,822 |
| Balance at December 31, 2004 | 39,246,395 | $ 176,606 |

Concurrent with the acquisition of Marshall & Swift/Boeckh, LLC, the Company issued 509,071 common shares through a private placement for proceeds of $13,312,000. The common shares issued under the private placement are subject to restrictions that limit the number of shares that the subscribers may sell, transfer or dispose to June 2007.

MACDONALD, DETTWILER AND ASSOCIATES LTD.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Tabular amounts in thousands of dollars)*
*Years ended December 31, 2004 and 2003*

11. **DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES:**

The following tables summarize the carrying value and fair value of the Company's financial instruments.

| 2004 | NOTIONAL AMOUNT | AVERAGE EXCHANGE RATE | MATURITY DATES | CARRYING VALUE | FAIR VALUE |
|---|---|---|---|---|---|
| Forward foreign exchange contracts: | | | | | |
| **Purchase contracts:** | | | | | |
| U.S. dollar | 46,450 | 1.2739 | January 2005 to December 2007 | $ (147) | $ (3,383) |
| Euro | 348 | 1.6409 | February 2005 | (4) | (4) |
| British pound | 19,819 | 2.3485 | January 2005 to June 2011 | 6 | (1,783) |
| **Sales contracts:** | | | | | |
| U.S. dollar | 24,285 | 1.2440 | January 2005 to September 2009 | 220 | 1,021 |
| Euro | 59,999 | 1.6677 | January 2005 to September 2008 | (374) | 1,627 |
| British pound | 3,221 | 2.2386 | January 2005 to June 2011 | (218) | (218) |
| Australian dollar | 52 | 0.8672 | April 2005 | (3) | (3) |
| Norwegian kroner | 1,283 | 0.1979 | March 2005 | - | - |
| Forward purchase agreement on Company common shares for stock based long-term incentive plan: | | | | | |
| Canadian dollar | - | - | January 2007 | (2,472) | (2,472) |
| Interest rate swap contracts: | | | | | |
| U.S. dollar | - | - | December 2008 | - | (966) |

| 2003 | NOTIONAL AMOUNT | AVERAGE EXCHANGE RATE | MATURITY DATES | CARRYING VALUE | FAIR VALUE |
|---|---|---|---|---|---|
| Forward foreign exchange contracts: | | | | | |
| **Purchase contracts:** | | | | | |
| U.S. dollar | 34,700 | 1.3198 | January 2004 to October 2005 | $ (263) | $ (263) |
| Euro | 93 | 1.6014 | March 2004 to October 2005 | 2 | 2 |
| British pound | 1,204 | 2.2824 | January 2004 to July 2005 | 10 | 10 |
| Australian dollar | 577 | 0.9102 | January 2004 | 26 | 26 |
| **Sales contracts:** | | | | | |
| U.S. dollar | 2,771 | 1.4813 | January 2004 to April 2004 | 359 | 359 |
| Euro | 1,288 | 1.5565 | January 2004 to November 2004 | (73) | (73) |
| British pound | 3,658 | 2.2412 | January 2004 to June 2011 | (81) | (81) |
| Australian dollar | 172 | 0.8764 | March 2004 to April 2005 | (10) | (10) |
| Norwegian kroner | 4,714 | 0.1937 | February 2004 to December 2004 | (1) | (1) |

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11. **DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES: (CONTINUED):**

(a) The Company has a variety of forward foreign exchange contracts to purchase and sell foreign currencies. Most of the contracts outstanding at December 31, 2004 are subject to hedge accounting.

In April 2004, the Company entered into a three year forward purchase agreement for 1,000,000 common shares of the Company at a price of $31.39 per share for purposes of managing economic risks associated with a long-term incentive plan. This agreement is not subject to hedge accounting.

The Company entered into a series of interest rate swap contracts to fix the interest rate on a portion of its U.S. dollar denominated variable rate debt. The Company has adopted hedge accounting for those contracts extending beyond 2004. Details of the interest rate swap contracts in U.S. dollars are as follows:

| EFFECTIVE PERIOD | | NOTIONAL PRINCIPAL | FIXED INTEREST RATE |
|---|---|---|---|
| August 27, 2004 to December 31, 2004 | $ | 200,000 | 1.90% |
| January 1, 2005 to December 31, 2005 | | 200,000 | 2.75% |
| January 1, 2006 to December 31, 2006 | | 220,000 | 3.83% |
| January 1, 2007 to December 31, 2007 | | 175,000 | 4.47% |
| January 1, 2008 to December 31, 2008 | | 125,000 | 4.98% |

The Company has designated the majority of its U.S. dollar debt as hedges of foreign currency movements associated with anticipated future revenues and net investments in subsidiaries. During the year, the Company deferred $33,336,000 related to net investments and $16,683,000 related to anticipated future revenues of foreign exchange gains on the debt, which will remain deferred until the hedged items are recorded to income.

Subsequent to December 31, 2004, the Company cancelled its U.S. dollar debt and the related interest rate swap contracts. As a result, the Company will report a loss of $491,493 on the interest rate swap in the quarter ending March 31, 2005. The gain on the debt will remain deferred until the hedged items affect earnings.

(b) The fair values of the Company's forward foreign exchange contracts are determined based on quoted market prices received from counterparties. Until settled, the fair value of the derivative financial instruments will fluctuate based on changes in foreign exchange rates and interest rates. The unrealized gains and losses on derivative financial instruments subject to hedge accounting will be included in the measurement of the related hedged transaction when realized. Unrealized gains and losses on other derivative financial instruments are recorded in the statement of earnings each period.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments but does not expect any counterparties to fail to meet their obligations. The Company deals with only highly rated counterparties, normally major financial institutions.

The carrying values of cash and cash equivalents, receivables, other assets, accounts payable and accrued liabilities and other long-term liabilities meeting the definition of a financial instrument approximate their fair values.

12. **STOCK-BASED COMPENSATION PLANS:**

(a) During the year ended December 31, 1999, the Company implemented a fixed stock option plan for employees. In addition certain shareholders were granted options to acquire 127,500 common shares.The exercise price of each option granted will not be less than the fair market value at the time of granting and an option's maximum term is 10 years. Options vest and become exercisable as determined by the Board of Directors in each individual award agreement. As at December 31, 2004, 193,436 options were available for grant to employees. In 2003, the Company revised its fixed stock option plan to also issue performance-based stock options where the number of options that ultimately vest is based on the financial performance of the Company compared with certain performance targets. Of the options outstanding at December 31, 2004, 2,144,054 vested over a period of 3 years, to the extent of one-third per year on each anniversary date of the grant, 347,527 vested on December 22, 2004, and the remaining 408,160 vest on December 31, 2005. As at December 31, 2004, 2,388,401 (2003 - 1,845,292) options were exercisable.

*(Tabular amounts in thousands of dollars)*

A summary of the status of the fixed stock option plan as of December 31, 2004 and changes during 2004 and 2003 is presented below:

| | SHARES | WEIGHTED AVERAGE EXERCISE PRICE PER SHARE |
|---|---|---|
| Options outstanding, December 31, 2002 | 3,688,603 | $ 16.07 |
| Options granted during 2003 | 907,740 | 23.08 |
| Options forfeited during 2003 | (75,663) | 25.00 |
| Options exercised during 2003 | (1,213,253) | 10.79 |
| Options outstanding, December 31, 2003 | 3,307,427 | 19.73 |
| Options granted during 2004 | 2,374 | 24.89 |
| Options forfeited during 2004 | (79,818) | 23.05 |
| Options exercised during 2004 | (330,242) | 14.72 |
| Options outstanding, December 31, 2004 | 2,899,741 | $ 20.16 |

The following table summarizes information about fixed stock options outstanding at December 31, 2004:

| | OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE | |
|---|---|---|---|---|---|
| RANGE OF EXERCISE PRICES PER SHARE | NUMBER OF OPTIONS | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE | WEIGHTED AVERAGE EXERCISE PRICE PER SHARE | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE PER SHARE |
| $ 10.65 | 667,883 | 5.1 | $ 10.65 | 667,883 | $ 10.65 |
| $ 17.75 to 23.00 | 1,059,637 | 4.9 | 22.12 | 574,289 | 21.72 |
| $ 23.01 to 27.00 | 1,172,221 | 6.1 | 23.80 | 1,146,229 | 23.75 |
| | 2,899,741 | 5.5 | $ 20.16 | 2,388,401 | $ 19.60 |

(b) The fair value of each option grant and deferred restricted share unit was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

| | |
|---|---|
| Risk-free interest rate | 3.1 – 4.2% |
| Dividend yield | 0% |
| Expected option lives | 1.1 – 5 years |
| Volatility | 23 – 29% |

(c) On October 1, 2001, the Company implemented an employee share purchase plan. Under this plan, the Company may issue 1,500,000 common shares to its employees. The maximum number of common shares that may be issued under the plan in any one year is 300,000. Under the terms of the plan, employees can purchase shares of the Company at 85% of the market value of the shares. Employees can allocate a maximum of 10% of their salary to the plan. During the year ended December 31, 2004, 73,638 (2003 – 65,483) common shares were issued at an average price of $24.74.

(d) During 2003, the Company awarded a maximum of 401,667 restricted, performance-based common shares. The amount of shares that ultimately vest is based on the actual financial performance of the Company over a three-year period. Compensation expense for the year ended December 31, 2004 includes $4,305,000 (2003 – $1,720,000) related to awards of restricted, performance-based shares and awards of stock appreciation rights that are convertible into restricted stock.

(e) Deferred restricted share units:
In December 2004, the Company issued 1,665,000 deferred restricted share units plus an additional 1,478,000 units that are revocable at the sole discretion of the Company's Board of Directors. The units were issued with a market exercise price of $24.10. After three years from issue, the units can be exercised by the unit holder through remitting the strike price to the Company in return for restricted common shares of the Company or, at the Company's option, through payment, in

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Tabular amounts in thousands of dollars)*
*Years ended December 31, 2004 and 2003*

12. **STOCK-BASED COMPENSATION PLANS (CONTINUED):**

restricted common shares, or by a promissory note, of the difference in value of the current market price and the strike price. The restrictions do not allow the common shares or promissory note to be traded or redeemed for a period of five years from the date of issuance. All awards are vested three years from the date of issuance. The Company used the fair value method for the awards and amortizes the value of the award over the three-year vesting period. Compensation expense for the year ended December 31, 2004 was $810,000 and has been recorded in contributed surplus.

13. **INCOME TAXES:**

(a) The provision for income taxes is comprised of the following:

| | | 2004 | 2003 |
|---|---|---|---|
| Current | $ | 16,926 | 23,765 |
| Future | | 8,930 | 3,333 |
| Provision for income taxes | $ | 25,856 | 27,098 |

(b) A reconciliation of income taxes at statutory rates to actual income taxes is:

| | 2004 | 2003 |
|---|---|---|
| Combined basic income tax rate | 35.6% | 37.6% |
| Income tax expense at the basic income tax rate | $ 27,909 | 26,603 |
| Large corporation tax | 593 | 1,219 |
| Foreign earnings subject to different rates | (1,577) | (2,540) |
| Manufacturing and processing rate reduction | (27) | (795) |
| Change in statutory rates | (209) | 272 |
| Change in valuation allowance | (2,687) | 2,146 |
| Permanent differences | 1,854 | - |
| Other | - | 193 |
| | $ 25,856 | 27,098 |

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(c) The tax effects of temporary differences that give rise to significant portions of future income tax assets and future income tax liabilities as at December 31, 2004 and 2003 are presented below:

| | 2004 | 2003 |
|---|---|---|
| Warranty provisions and other liabilities | $ 15,519 | 6,515 |
| Losses carried forward | 4,515 | 4,402 |
| Share issue costs | - | 317 |
| Unbilled accounts receivable/deferred revenues | (7,075) | (7,673) |
| Investment tax credits | (4,198) | (3,346) |
| Current future income tax assets | $ 8,761 | 215 |
| Accrued acquisition and integration costs | $ - | 4,586 |
| Capital assets | 2 | 11,077 |
| Goodwill and other intangibles | 49 | (3,947) |
| Non-current future income tax assets | $ 51 | 11,716 |
| Accrued acquisition and integration costs | $ 4,849 | 658 |
| Capital assets | 8,251 | (794) |
| Goodwill and other intangibles | (12,619) | (4,226) |
| Unrealized foreign exchange gain | (9,052) | - |
| Investment tax credits | (3,720) | - |
| Loss carried forward | 493 | - |
| Non-current future income tax liabilities | $ (11,798) | (4,362) |

The Company has assessed the realization of net future tax assets as more likely than not. In assessing the realizability of future tax assets, the Company considered whether it is more likely than not that some portion or all future tax assets would not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during periods in which temporary differences become deductible. The Company considered projected future taxable income and tax planning strategies in making the assessment.

(d) At December 31, 2004, the Company has non-capital losses carried forward for Canadian and United Kingdom tax purposes totaling approximately $34,392,000 that are available to reduce taxable income of future years. These non-capital loss carryforwards expire as follows:

| | |
|---|---|
| 2006 | $ 485 |
| 2007 | 1,369 |
| 2008 | 1,136 |
| 2009 | 2,210 |
| 2010 | 736 |
| 2011 | 8,370 |
| No expiry date | 20,086 |
| | $ 34,392 |

The Company also has investment tax credits of approximately $28,082,000 available to offset future Canadian federal income taxes payable. The investment tax credits expire between 2009 and 2014.

14. **RESEARCH AND DEVELOPMENT:**

During the year ended December 31, 2004, the Company incurred $43,274,000 (2003 - $45,124,000) of research and development.

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15. **CONTINGENCIES AND COMMITMENTS:**

(a) At December 31, 2004, the Company was committed under operating leases, primarily relating to office space, for the following minimum annual rentals:

| | |
|---|---|
| 2005 | $ 13,485 |
| 2006 | 13,195 |
| 2007 | 12,782 |
| 2008 | 11,844 |
| 2009 | 11,007 |
| Subsequent years to December 2013 | 25,868 |
| | $ 88,181 |

(b) During 1998, the Company entered into a license agreement with Orbital Imaging Corporation ("Orbimage"), at market value for a ten-year exclusive license for certain specified data. During 2001, the Company terminated the original license agreement with Orbimage and entered into a second agreement. The second agreement, at market value, provided that the Company would license certain rights to data from the Radarsat-2 satellite. As at December 31, 2002, U.S. $30,000,000 had been received under the agreement. In conjunction with the second agreement, Orbimage agreed to relinquish certain data rights that had been licensed under the original agreement.

During 2003, the Company and Orbimage entered into a new agreement whereby the Company refunded consideration of U.S. $12,000,000 to Orbimage. In turn, Orbimage agreed to return all rights to data for the Radarsat-2 satellite.

(c) As at December 31, 2004, the Company's banks have issued letters of credit for $65,028,000 (2003 - $2,730,000) of which $64,759,000 (2003 - nil) is guaranteed by the Export Development Corporation ("EDC"), a Canadian government corporation. If the letters of credit were called, the $65,028,000 (2003 - $2,730,000) would be due to the Company's banks. In addition, the Company's banks have issued a letter of credit in the amount of $44,398,000 (2003 - $44,398,000) related to the construction of the Radarsat-2 satellite. In the event the Company was financially unable to meet its commitments for the construction of the satellite, the funds from the draw-down of the letter of credit would be provided to the Company to complete the construction of the satellite. These amounts are secured by general security agreements and guarantees of the Company and certain of its subsidiaries.

(d) Certain government assistance may be repayable based on future sales levels related to the projects funded. At December 31, 2004, the amount of government assistance received subject to possible repayment is approximately $13,521,000 (2003 - $7,902,000). Amounts, if any, that may be repayable would be accounted for in the period in which it is determined that repayment is likely.

(e) The Company has granted the EDC an option to require the Company to purchase up to 76,306 common shares in Digital Globe, Inc. at a price of U.S. $22.67 per share plus accrued interest. The option may be exercised each May 15 and November 15 until 2006. The number of shares available at each exercise date is a percentage of the gross revenue from certain contracts between the Company and Digital Globe, Inc. during the prior six-month period. If EDC should elect not to exercise their option at any particular exercise date, the maximum number of shares is reduced by the number of shares that could have been exercised.

(f) Pursuant to an agreement to provide electronic land information access and delivery services, with Local Government Information House in the United Kingdom, the Company is required to pay a periodic charge of £250,000 per quarter until March 2009.

(g) The Company is either a plaintiff or a defendant to various legal proceedings. The actions brought against the Company from time to time represent actions against the Company and its subsidiaries under contracts and relating to procurement matters. The Company analyzes all legal proceedings and the allegations therein. The outcome of any of these 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Tabular amounts in thousands of dollars)*
*Years ended December 31, 2004 and 2003*

16. **PENSION AND RETIREMENT PLANS:**

The Company maintains contributory and non-contributory, defined benefit pension plans covering a portion of its employees. The defined benefit plans provide pension benefits based on various factors including earnings and length of service. The present value of accumulated pension benefits based on earnings and length of service is provided for in the financial statements. The Company also provides for post-retirement benefits for these employees, comprised of extended health benefits, dental care and life insurance. The cost of these benefits is funded annually out of general revenues.

The composition of the pension plan assets is as follows:

| | 2004 | 2003 |
|---|---|---|
| Short-term notes | 10% | 9% |
| Fixed income | 39% | 43% |
| Canadian equity | 30% | 28% |
| Foreign equity | 21% | 20% |

The total pension expense for the Company's defined contribution pension plans for the year ended December 31, 2004 was $3,410,000 (2003 - $1,831,000).

The pension plans were most recently valued at January 1, 2002, and the other post-retirement benefit arrangements were most recently valued at January 1, 2003. The next actuarial valuations for pension plans will be prepared as of January 1, 2005 and January 1, 2006 for other post-retirement benefit arrangements.

The status of the Company's defined benefit pension plans and post-retirement plans as of December 31, 2004 and 2003 is as follows:

| | | 2004 | | 2003 |
|---|---|---|---|---|
| | PENSION PLANS | POST-RETIREMENT PLANS | PENSION PLANS | POST-RETIREMENT PLANS |
| Pension and post-retirement expense: | | | | |
| Current service cost | $ 650 | 260 | 601 | 231 |
| Interest cost | 1,007 | 399 | 973 | 359 |
| Expected return on plan assets | (1,282) | - | (1,397) | - |
| Amortization of past service costs | (109) | - | 63 | - |
| Amortization of losses (gains) | - | 171 | - | (529) |
| Net benefit plan expense | $ 266 | 830 | 240 | 61 |

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16. **PENSION AND RETIREMENT PLANS (CONTINUED):**

| | 2004 PENSION PLANS | 2004 POST-RETIREMENT PLANS | 2003 PENSION PLANS | 2003 POST-RETIREMENT PLANS |
|---|---|---|---|---|
| Accrued benefit obligation: | | | | |
| Projected benefit obligations, beginning of year | $ 16,835 | 6,134 | 15,045 | 7,004 |
| Service cost | 650 | 260 | 601 | 231 |
| Interest cost | 1,007 | 399 | 973 | 359 |
| Employee contributions | 180 | - | 186 | - |
| Plan amendments | 194 | - | - | - |
| Benefits paid | (405) | (48) | (915) | - |
| Actuarial (gains) losses | 560 | 394 | 945 | (1,460) |
| Projected benefit obligations, end of year | $ 19,021 | 7,139 | 16,835 | 6,134 |
| Plan assets: | | | | |
| Fair value of plan assets, beginning of year | $ 20,962 | - | 19,786 | - |
| Actual return on plan assets | 1,742 | - | 1,620 | - |
| Employer contributions | 343 | 48 | 285 | - |
| Employee contributions | 180 | - | 186 | - |
| Benefits paid | (405) | (48) | (915) | - |
| Fair value of plan assets, end of year | $ 22,822 | - | 20,962 | - |

| | 2004 PENSION PLANS | 2004 POST-RETIREMENT PLANS | 2003 PENSION PLANS | 2003 POST-RETIREMENT PLANS |
|---|---|---|---|---|
| Funded status of the plan, end of year: | | | | |
| Funded status – surplus (unfunded) | $ 3,801 | (7,139) | 4,127 | (6,134) |
| Unamortized past service costs | 527 | - | 417 | - |
| Unamortized net actuarial (gains) losses | 160 | (709) | (133) | (931) |
| Net accrued benefit asset (liability) | $ 4,488 | (7,848) | 4,411 | (7,065) |

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

| | | | | |
|---|---|---|---|---|
| Discount rate, beginning of year | 6.0% | 6.3% | 6.5% | 6.5% |
| Discount rate, end of year | 5.8% | 6.0% | 6.0% | 6.3% |
| Expected rate of return on plan assets | 7.0% | n/a | 7.0% | n/a |
| Rate of compensation increase | 4.5% | n/a | 4.5% | n/a |
| Rate of increase in medical inflation | n/a | 8.5% reducing by 0.5% per annum to 5.0% ultimate rate | n/a | 9.0% reducing by 0.5% per annum to 5.0% ultimate rate |

*(Tabular amounts in thousands of dollars)*

Increasing or decreasing the assumed health care cost trend rates by one percentage point would have had the following effect for 2004:

| | INCREASE | DECREASE |
|---|---|---|
| Post retirement benefit plans: | | |
| On service and interest cost | $ 155 | (128) |
| On obligation | $ 1,359 | (1,140) |

## 17. SEGMENTED INFORMATION:

The Company has two operating segments, Information Products and Information Systems.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Revenue is based on the geographic location of customers.

| | CONSOLIDATED | | CORPORATE | | INFORMATION SYSTEMS | | INFORMATION PRODUCTS | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Revenues: | | | | | | | | |
| Canada | $ 227,754 | 228,710 | - | - | 138,562 | 157,003 | 89,192 | 71,707 |
| United States | 272,408 | 228,453 | - | - | 102,627 | 94,429 | 169,781 | 134,024 |
| Other | 251,224 | 169,313 | - | - | 74,855 | 43,724 | 176,369 | 125,589 |
| | $ 751,386 | 626,476 | - | - | 316,044 | 295,156 | 435,342 | 331,320 |
| Earnings before undernoted | $ 123,626 | 103,489 | - | - | 49,228 | 53,553 | 74,398 | 49,936 |
| Amortization of capital and intangible assets | (26,021) | (21,982) | - | - | (4,771) | (5,277) | (21,250) | (16,705) |
| Corporate expenses | (5,387) | (5,554) | (5,387) | (5,554) | - | - | - | - |
| Earnings before other items | 92,218 | 75,953 | (5,387) | (5,554) | 44,457 | 48,276 | 53,148 | 33,231 |
| Interest expense | (14,336) | (7,465) | (14,336) | (7,465) | - | - | - | - |
| Other income | 469 | 833 | 469 | 833 | - | - | - | - |
| Earnings before income taxes | $ 78,351 | 69,321 | (19,254) | (12,186) | 44,457 | 48,276 | 53,148 | 33,231 |

As the Company does not evaluate the performance of its business segments based on assets employed, segmented information on assets is not included.

The Company's capital assets, intangible assets and goodwill are primarily located as follows:

| | 2004 | 2003 |
|---|---|---|
| Canada | $ 124,714 | 127,714 |
| United States | 529,336 | 171,774 |
| United Kingdom and other | 58,993 | 53,678 |
| | $ 713,043 | 353,166 |

During 2004, the Company had no individual customers that represented more than 10% of consolidated revenues (2003 - one customer at $109,660,000).

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## 18. SUPPLEMENTARY CASH FLOW INFORMATION:

| | 2004 | 2003 |
|---|---|---|
| Interest paid | $ 14,729 | 6,544 |
| Interest received | 433 | 746 |
| Income taxes paid | 13,965 | 16,629 |
| Income taxes recovered | 6,247 | 2,096 |
| Non-cash financing and investing activities: | | |
| Contingent shares issued (note 4(e)) | - | 2,994 |

## 19. EARNINGS PER SHARE:

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | EARNINGS | WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | PER SHARE AMOUNT | EARNINGS | WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | PER SHARE AMOUNT |
| Earnings per common share: | | | | | | |
| Basic | $ 52,495 | 38,886,402 | 1.35 | 42,223 | 37,764,546 | 1.12 |
| Stock options | - | 626,264 | - | - | 780,969 | - |
| Contingently issuable shares | - | - | - | - | 141,923 | - |
| Diluted | $ 52,495 | 39,512,666 | 1.33 | 42,223 | 38,687,438 | 1.09 |

## 20. COMPARATIVE FIGURES:

Certain prior year amounts have been reclassified to conform with the presentation adopted in the current year.

*"MDA is an important partner who supports our business and service goals. They understand how we work and are invaluable in managing our customers and meeting our online delivery needs."*

John Powell, Corporate & Personal Property Registry, Government of British Columbia

*"We are thrilled to provide our clients and other real estate investors with this powerful tax tool that has the comprehensive data of Marshall & Swift behind it. A strong chattel appraisal can often triple or quadruple the depreciation on an investment property in the early years. And the IRS specifically recommends Marshall & Swift data in their audit guide for chattel appraisals."*

Tom Wheelwright, Managing Partner of DKAdvisors, U.S.

*"The Canadian Space Agency and MacDonald Dettwiler have developed a strong working relationship, positioning Canada as a leader in space robotics, strengthening our Canadian space industry and creating high-tech jobs."*

Allan Rock, Former Minister of Industry and Minister Responsible for the Canadian Space Agency, Government of Canada

*"MDA's Local Authority Modernization Program has given us the opportunity to implement a modern eGovernment solution which will transform the way information is managed within the authority and assist the authority in meeting its eGovernment goals."*

Janet Norman Phillips, Head of eGovernment for South Norfolk Council, U.K.

*"The benefits of NLIS and MDA's Channel in particular should be obvious to everyone. Searches arrive quicker, and administration time, and therefore cost, is reduced substantially."*

Solicitor at Gaby Hardwick Solicitors, a U.K. legal firm

## COMPANY INFORMATION

### BOARD OF DIRECTORS

ROBERT L. PHILLIPS (1)(2)
Vancouver, British Columbia
*Corporate Director*
*Chairman of the Human Resources and Management Compensation Committee*
*Acting Chairman of the Board of Directors*

DANIEL E. FRIEDMANN
Vancouver, British Columbia
*President and Chief Executive Officer,* MacDonald, Dettwiler and Associates Ltd.

ROBERT W. DEAN (2)
Newport Beach, California
*Chief Executive Officer,* EOS Technologies, Inc.

BRIAN J. GIBSON (2)
Toronto, Ontario
*Senior Vice President, Public Equities,* Ontario Teachers' Pension Plan

BRIAN G. KENNING (1)(3)
Vancouver, British Columbia
*Director,* Brascan Asset Management Advisory Board
*Chairman of the Audit Committee*

HARTLEY T. RICHARDSON (3)
Winnipeg, Manitoba
*President and Chief Executive Officer,* James Richardson & Sons, Limited

FARES F. SALLOUM (3)
Plano, Texas
*Corporate Director*

MARK A. SHUPARSKI (1)(3)
West Vancouver, British Columbia
*President,* Pacific Capital Investments
*Chairman of the Governance and Nomination Committee*

(1) Member of the Governance and Nomination Committee

(2) Member of the Human Resources and Management Compensation Committee

(3) Member of the Audit Committee

### SELECTED COMPANY OFFICERS

DANIEL E. FRIEDMANN
*President and Chief Executive Officer*

ANIL WIRASEKARA
*Executive Vice President and Chief Financial Officer*

GORDON D. THIESSEN
*Vice President, Chief Accounting Officer and Secretary*

# INVESTOR INFORMATION

### INCORPORATION

MacDonald, Dettwiler and Associates Ltd. was incorporated February 3rd, 1969.

### TRANSFER AGENT

COMPUTERSHARE TRUST COMPANY OF CANADA
510 Burrard Street
Vancouver, British Columbia
Canada V6C 3B9
Telephone (604) 661-0222
Fax (604) 661-9480

### AUDITORS

KPMG LLP, Chartered Accountants

### INVESTOR RELATIONS

Heather Harrison
Telephone (604) 231-2064
invest@mdacorporation.com

### MEDIA RELATIONS

Liza Aboud
Telephone (604) 231-2197
info@mdacorporation.com

### STOCK LISTING

MDA is listed on the Toronto Stock Exchange under the trading symbol MDA.

### ANNUAL GENERAL MEETING

The annual general meeting of shareholders will be held on Wednesday, May 11th, 2005 at 1:30 P.M. at the

**Terminal City Club**
837 West Hastings Street
Vancouver, British Columbia
Canada V6C 1B6
(604) 488-8605

MDA's annual general meeting will also be webcast and can be heard live or archived at **www.mdacorporation.com/investor**

# OFFICES

MDA

## CORPORATE HEADQUARTERS

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Telephone (604) 278-3411
Fax (604) 231-2750
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Toll-free in B.C. 1-800-663-6102

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Canada L6S 4J3
Telephone (905) 790-2800

2700 Matheson Boulevard
East Tower
Suite 703
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Canada L4W 4V9
Telephone (905) 282-0110

Suite 60, 1000 Windmill Road
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Canada B3B 1L7
Telephone (902) 468-3356

2060 Walkley Road
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Canada K1G 3P5
Telephone (613) 736-9716

## MDA BUSINESS LOCATIONS - UNITED STATES

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Telephone (281) 226-5200

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San Diego, California
USA 92121-1963
Telephone (858) 597-3100

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Telephone (256) 882-7788

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USA 08648
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Telephone (903) 596-7018

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USA 53151
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## MDA BUSINESS LOCATIONS - UNITED KINGDOM

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