

MAGELLAN QUARTERLY REPORT

SEPTEMBER 30, 2013



This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Magellan Aerospace Corporation ("Magellan" or the "Corporation") has been prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements and the notes thereto for the three and nine months ended September 30, 2013, and the audited annual consolidated financial statements for the year ended December 31, 2012 (available on SEDAR at www.sedar.com). This MD&A provides a review of the significant developments that have impacted the Corporation's performance during the three month period ended September 30, 2013 relative to the three month period ended September 30, 2012. The information contained in this report is as at November 8, 2013. All financial references are in Canadian dollars unless otherwise noted.

The MD&A contains forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance. All statements other than statements of historical facts may be forward-looking statements. In particular and without limitation there are forward looking statements under the heading "Overview", "Results of Operations", "Liquidity and Capital Resources", "Future Changes in Accounting Policies" and "Outlook". In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", and similar expressions. The projections, estimates and beliefs contained in such forward-looking statements are based on management's assumptions relating to the production performance of Magellan's assets and competition throughout the aerospace industry and continuation of the current regulatory and tax regimes in the jurisdictions in which the Corporation operates, and necessarily involve known and unknown risks and uncertainties, including the business risks discussed in this MD&A, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Except as required by law, the Corporation does not undertake to update any forward-looking information in this document whether as to new information, future events or otherwise.

The MD&A presents certain non-IFRS financial measures to assist readers in understanding the Corporation's performance. Non-IFRS financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with Generally Accepted Accounting Principles ("GAAP"). Throughout this discussion, reference is made to EBITDA (defined as net income before interest, income taxes, depreciation and amortization), which the Corporation considers to be an indicative measure of operating performance and a metric to evaluate profitability. EBITDA is not generally accepted earnings measures and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating this measure, the Corporation's EBITDA may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA to net income (loss) reported in accordance with IFRS are included in this MD&A.

1. Overview

A summary of Magellan's business and significant updates

Magellan is a diversified supplier of components to the aerospace industry and in certain circumstances for power generation projects. Through its wholly owned subsidiaries, Magellan designs, engineers, and manufactures aeroengine and aerostructure components for aerospace markets, advanced products for defence and space markets, and complementary specialty products. The Corporation also supports the aftermarket through supply of spare parts as well as performing repair and overhaul services and supplies in certain circumstances parts and equipment for power generation projects.

The Corporation's strategy has been to focus on several core competencies within the aerospace industry. These include precision machining of a wide variety of aerospace material, composites, complex high technology magnesium and aluminum alloy castings, repair and overhaul technologies and design of structures. The Corporation is now seeking to leverage these core competencies by achieving growth in applications where these abilities are critical in meeting customer needs.

Business Update

In the third quarter of 2013, the Corporation announced the award of a \$110 million Cdn contract from MacDonald Dettwiler and Associates Ltd. ("MDA") for the RADARSAT Constellation Mission ("RCM") satellite bus manufacture. RCM is comprised of three low earth orbit spacecraft, each carrying a C-band Synthetic Aperture Radar payload. The Corporation will design and manufacture the three spacecraft buses, including the control systems, on-board computers, power generation and distribution systems, electronics, wiring and on-board communications links with the ground. This contract will be performed at the Corporation's Winnipeg, Manitoba facility.



The Corporation also announced the first successful launch of its MAC-200 bus on the Cascade SmallSat and IOnospheric Polar Explorer (“CASSIOPE”) satellite from the Vandenberg Air Force Base in California. CASSIOPE is a Canadian designed multi-purpose mission satellite carrying 8 unique instruments to conduct space environment research utilizing advanced telecommunications technology.

The Corporation’s sand casting operations in Haley, Ontario and Glendale, Arizona continue their efforts in developing and integrating new technologies into their production processes. Robotic finishing, digital scanning technologies and semi-automated radiographic systems are all currently operating at various stages of production maturity and are clearly demonstrating opportunities to improve operational efficiency and product quality. New additive manufacturing capabilities that were first introduced into operation one year ago are now transitioning into production and have been a key enabler for securing new business.

During the third quarter the US DoD and Lockheed Martin concluded the contracting process for 2 additional low rate initial production (“LRIP”) releases for the F-35 fighter. This contractually defines and secures F-35 work for the supply chain into 2015. As well, the Corporation is actively engaged in negotiations for future LRIPs beyond these approvals. In September, the first Magellan manufactured horizontal tail assembly was successfully assembled onto an aircraft at the Lockheed Martin assembly line in Fort Worth, Texas. In the third quarter the Corporation continued to be impacted to a modest degree by the combined effects of sequestration and the US Government shutdown.

In the Power Generation Sector the Corporation is working closely with Ghana on the existing power generation project and continues to pursue additional opportunities with Ghana and globally, for similar projects.

In the civil aerospace segment of the business, the Corporation continued to successfully manage and service rate increases on their single aisle programs, the A320 and B737. In addition efforts continued in support of the development and ramp up of new programs that the Corporation participates in such as the B787-9 and the A350XWB.

For additional information, please refer to the “Management’s Discussion and Analysis” section of the Corporation’s 2012 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan’s operating results for third quarter ended September 30, 2013

The Corporation reported higher revenue in its Aerospace segment and lower revenue in its Power Generation Project segment in the third quarter of 2013 when compared to the third quarter of 2012. Gross profit and net income for the third quarter of 2013 were \$26.1 million and \$9.6 million, respectively, an increase from the third quarter of 2012 gross profit of \$20.6 million and a decrease from net income of \$14.9 million in the third quarter of 2012. The decrease in net income year over year is not due to operational performance but due to a one time after tax gain on bargain purchase of \$7.4 million that was realized in the third quarter of 2012 on the acquisition of John Huddleston Engineering Limited (“JHE”).

Consolidated Revenue

Overall, the Corporation’s consolidated revenues grew by 12.1% when compared to the third quarter of 2012.

Expressed in thousands of dollars	Three month period ended September 30			Nine month period ended September 30		
	2013	2012	Change	2013	2012	Change
Aerospace	181,010	151,549	19.4%	552,688	480,374	15.1%
Power Generation Project	—	9,880	(100)%	3,478	37,241	(90.7)%
Total revenues	181,010	161,429	12.1%	556,166	517,615	7.4%

Consolidated revenues of \$181.0 million for the third quarter ended September 30, 2013 were higher than \$161.4 million in the third quarter of 2012. Increased revenues of a strong 19.4% year over year in the Aerospace segment due to the higher demand and volumes were somewhat offset by the fall off of revenues earned in the Power Generation Project segment. As the Corporation moves towards the end of fiscal 2013, revenues earned from the Power Generation Project will continue to decrease on a year over year basis and will be significantly lower than 2012 unless the Corporation receives further contracts in this area.



Aerospace Segment

Revenues for the Aerospace segment were as follows:

Expressed in thousands of dollars	Three month period ended September 30			Nine month period ended September 30		
	2013	2012	Change	2013	2012	Change
Canada	68,933	64,728	6.5%	215,706	212,239	1.6%
United States	56,484	49,560	14.0%	174,533	150,252	16.2%
Europe	55,593	37,261	49.2%	162,449	117,883	37.8%
Total revenues	181,010	151,549	19.4%	552,688	480,374	15.1%

Consolidated Aerospace revenues for the third quarter of 2013 of \$181.0 million were 19.4% higher than revenues of \$151.5 million in the third quarter of 2012. Revenues in Canada in the third quarter of 2013 increased 6.5% from the same period in 2012. Growth in the Corporation's proprietary products and new programs, partially offset by the decline in volumes in the defence market were the main contributing factors for the increase quarter over quarter. Revenues increased by 14.0% in the United States in the third quarter of 2013 in comparison to the third quarter of 2012 primarily due to increased volumes on several of the Corporation's commercial aircraft programs and the movement of the stronger US dollar in comparison to the CDN dollar during the same periods in 2013 and 2012. Increased volumes of production on new and existing Airbus statements of work, a favorable movement of the GBP in comparison to the CDN dollar and the business acquisition of JHE in the third quarter of 2012 contributed to a substantial 49.2% quarter-over-quarter increase in revenues in Europe in the third quarter of 2013 over revenues in the same period in 2012.

Power Generation Project Segment

Revenues for the Power Generation Project segment were as follows:

Expressed in thousands of dollars	Three month period ended September 30			Nine month period ended September 30		
	2013	2012	Change	2013	2012	Change
Power Generation Project	—	9,880	(100.0)%	3,478	37,241	(90.7)%
Total revenues	—	9,880	(100.0)%	3,478	37,241	(90.7)%

The Ghana Power Generation Project (the "Project") was substantially completed as at March 31, 2013. The Corporation has been notified of the mechanical breakdown of the turbines in the Project. The Corporation and Ghana have contracted an independent arbitrator to assess the cause of the damage and expect to receive the findings shortly. Plans for repairs of the equipment are underway. Based on internal assessments of the cause of the failure, the Corporation has not recorded any provisions in the current quarter. Additional revenues may be recorded as the Corporation continues to support the commercial operation of the Project; however, revenues from the Power Generation Project segment will decrease on a year over year basis unless the Corporation receives further contracts in this area.

Gross Profit

Expressed in thousands of dollars	Three month period ended September 30			Nine month period ended September 30		
	2013	2012	Change	2013	2012	Change
Gross profit	26,080	20,554	26.9%	79,662	68,627	16.1%
Percentage of revenues	14.4%	12.7%		14.3%	13.3%	

Gross profit of \$26.1 million (14.4% of revenues) was reported for the third quarter of 2013 compared to \$20.6 million (12.7% of revenues) during the same period in 2012. Increased gross profit in the third quarter of 2013 over the same period in 2012 was primarily due to increased volumes experienced at a number of the Corporation's locations and the associated higher leverage against the Corporation's fixed costs.

Administrative and General Expenses

Expressed in thousands of dollars	Three month period ended September 30			Nine month period ended September 30		
	2013	2012	Change	2013	2012	Change
Administrative and general expenses	11,544	9,998	15.5%	33,608	29,090	15.5%
Percentage of revenues	6.4%	6.2%		6.0%	5.6%	

Administrative and general expenses were \$11.5 million (6.4% of revenues) in the third quarter of 2013 compared to \$10.0 million (6.2% of revenues) in the third quarter of 2012. Higher expenses in the administration of support services and the acquisition of



JHE in August 2012, which increased general and administrative expenses by approximately \$0.8 million for the three months ended September 30, 2013 versus the same period in 2012, primarily contributed to the increase.

Gain on Bargain Purchase

	Three month period ended September 30		Nine month period ended September 30	
	2013	2012	2013	2012
Expressed in thousands of dollars				
Gain on bargain purchase	—	(9,597)	—	(9,597)
Gain on bargain purchase	—	(9,597)	—	(9,597)

On August 31, 2012, the Corporation purchased all of the issued and outstanding shares of the capital stock of JHE. As a result of such purchase, the Corporation recognized a gain on bargain purchase in the third quarter of 2012 of \$9.6 million on such acquisition of JHE as the consideration paid for the identifiable tangible assets acquired was lower than the fair value, as determined by an independent valuation specialist.

Other

	Three month period ended September 30		Nine month period ended September 30	
	2013	2012	2013	2012
Expressed in thousands of dollars				
Foreign exchange (gain) loss	(538)	(258)	388	(304)
Loss on disposal of property, plant and equipment	48	67	262	78
Total other	(490)	(191)	650	(226)

Other income of \$0.5 million in the third quarter of 2013 consisted of realized and unrealized foreign exchange gains and losses on the disposal of property, plant and equipment.

Interest Expense

	Three month period ended September 30		Nine month period ended September 30	
	2013	2012	2013	2012
Expressed in thousands of dollars				
Interest on bank indebtedness and long-term debt	1,695	1,889	5,242	5,849
Accretion charge for borrowings and long-term debt	(95)	313	(117)	653
Discount on sale of accounts receivable	182	157	513	452
Total interest expense	1,782	2,359	5,638	6,954

Interest expense of \$1.8 million in the third quarter of 2013 was lower than the third quarter of 2012 amount of \$2.4 million, as interest on bank indebtedness and long-term debt decreased mainly due to lower principal amounts outstanding during the third quarter of 2013 than those in the third quarter of 2012. Increased long-term bond rates resulted in a recovery of previously recorded accretion expense in the third quarter of 2013 when compared to the same quarter in the prior year.

Provision for Income Taxes

	Three month period ended September 30		Nine month period ended September 30	
	2013	2012	2013	2012
Expressed in thousands of dollars				
Expense of current income taxes	1,009	767	3,550	2,552
Expense of deferred income taxes	2,682	2,364	7,485	4,596
Total expense of income taxes	3,691	3,131	11,035	7,148
Effective tax rate	27.9%	17.4%	27.7%	16.9%

The Corporation recorded an income tax expense of \$3.7 million in the third quarter of 2013 as compared to an income tax expense of \$3.1 million in the third quarter of 2012. Current income taxes for the third quarter of 2013 consisted primarily of the tax expense in jurisdictions with current taxes payable. Deferred income taxes for the third quarter of 2013 consisted primarily of net deferred income tax recoveries for changes in temporary differences in various jurisdictions. The reduction in total income taxes in the third quarter of 2012 when compared to the same quarter in 2013 was due to the recognition of previously unrecognized deferred tax assets, which did not recur in the third quarter of 2013, offset by deferred income tax liability recorded upon the acquisition of JHE.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

Expressed in millions of dollars, except per share amounts	2013				2012 ¹				2011			
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Revenues	181.0	189.9	185.3	186.4	161.4	169.3	186.8	173.3	161.4	169.3	186.8	173.3
Income before taxes	13.2	15.5	11.0	18.0	18.0	10.9	13.5	13.8	18.0	10.9	13.5	13.8
Net Income	9.5	11.2	8.0	21.8	14.9	8.9	11.5	16.6	14.9	8.9	11.5	16.6
Net Income per share												
Basic	0.16	0.19	0.14	0.37	0.26	0.15	0.20	0.90	0.26	0.15	0.20	0.90
Diluted	0.16	0.19	0.14	0.37	0.26	0.15	0.20	0.31	0.26	0.15	0.20	0.31
EBITDA	22.8	25.6	21.3	28.6	27.7	21.2	23.0	29.6	27.7	21.2	23.0	29.6

¹Certain 2012 figures have been restated due to the implementation of IFRS 11, *Joint Arrangements* and revised IAS 19, *Employee Benefits*. See the "Changes in Accounting Policies" section on page 9 of this report.

The Corporation reported its highest quarterly revenues in the second quarter of 2013. Revenues and net income reported in the quarterly information was impacted by the fluctuations in the Canadian dollar exchange rate in comparison to the US dollar and British Pound. The US dollar/Canadian dollar exchange rate in the third quarter of 2013 fluctuated reaching a low of 1.0225 and a high of 1.0588. During the third quarter of 2013, the British Pound relative to the Canadian dollar fluctuated reaching a low of 1.5632 and a high of 1.6647. Had the foreign exchange rates remained at levels experienced in the third quarter of 2012, reported revenues in the third quarter of 2013 would have been higher by \$5.5 million. Net income in the third quarter of 2012 was higher than the first two quarters of 2012 as the Corporation recognized an after tax gain on bargain purchase of \$7.4 million on the acquisition of JHE as the consideration paid was lower than the fair value of the identifiable tangible assets acquired at the time of purchase. Net income for the fourth quarter of 2012 and 2011 of \$21.8 million and \$16.6 million respectively was higher than other quarterly net income disclosed in the table above. In the fourth quarter of 2011 the Corporation recognized a reversal of previous impairment losses against intangible assets relating to various commercial aircraft programs. In addition, in both the fourth quarter of 2011 and 2012 the Corporation recognized previously unrecognized investment tax credits and other deferred tax assets as the Corporation determined that it will be able to benefit from these assets.

4. Reconciliation of Net Income to EBITDA

A description and reconciliation of certain non-IFRS measures used by management

In addition to the primary measures of earnings and earnings per share (basic and diluted) in accordance with IFRS, the Corporation includes EBITDA (earnings before interest expense, income taxes and depreciation and amortization) in this quarterly statement. The Corporation has provided this measure because it believes this information is used by certain investors to assess financial performance and that EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Corporation's principal business activities prior to consideration of how these activities are financed and how the results are taxed in the various jurisdictions. Each of the components of this measure are calculated in accordance with IFRS, but EBITDA is not a recognized measure under IFRS, and the Corporation's method of calculation may not be comparable with that of other companies. Accordingly, EBITDA should not be used as an alternative to net income as determined in accordance with IFRS or as an alternative to cash provided by or used in operations.

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2013	2012	2013	2012
Net income	9,553	14,854	28,731	35,258
Interest	1,782	2,359	5,638	6,954
Taxes	3,691	3,131	11,035	7,148
Depreciation and amortization	7,821	7,380	24,306	22,565
EBITDA	22,847	27,724	69,710	71,925

EBITDA for the third quarter of 2013 was \$22.8 million, compared to \$27.7 million in the third quarter of 2012, a decrease of 17.6% on a year-over-year basis. The one time recognition of the gain on bargain purchase of JHE of \$9.6 million in the third quarter of 2012 resulted in higher EBITDA when compared to the third quarter of 2013.



5. Liquidity and Capital Resources

A discussion of Magellan's cash flow, liquidity, credit facilities and other disclosures

The Corporation's liquidity needs can be met through a variety of sources including cash on hand, cash provided by operations, short-term borrowings from its credit facility and accounts receivable securitization program, and long-term debt and equity capacity. Principal uses of cash are for operational requirements and capital expenditures. Based on current funds available and expected cash flow from operating activities, management believes that the Corporation has sufficient funds available to meet its liquidity requirements at any point in time. However, if cash from operating activities is lower than expected or capital projects exceed current estimates, or if the Corporation incurs major unanticipated expenses, it may be required to seek additional capital in the form of debt or equity or a combination of both.

Cash Flow from Operations

	Three month period ended September 30		Nine month period ended September 30	
	2013	2012	2013	2012
Expressed in thousands of dollars				
Decrease (increase) in accounts receivable	6,280	9,756	(16,367)	(12,676)
Increase in inventories	(5,011)	(9,536)	(12,475)	(25,152)
Increase in prepaid expenses and other	(925)	(1,412)	(3,188)	(2,374)
Increase (decrease) in accounts payable, accrued liabilities and provisions	1,659	(6,539)	7,677	8,077
Changes to non-cash working capital balances	2,003	(7,731)	(24,353)	(32,125)
Cash provided by operating activities	19,940	4,484	31,689	13,275

In the quarter ended September 30, 2013, the Corporation generated \$19.9 million in cash in its operations, compared to \$4.5 million generated in the third quarter of 2012. The increase in cash generated from operations was primarily due to favorable changes to the Corporation's working capital requirements and increases in non-cash expenses in the third quarter of 2013 compared to the same period in 2012. With respect to working capital, compared to the third quarter of 2012, the change in A/R reflects primarily changes in customer mix, the change in A/P and accrued liabilities was primarily driven by the timing of purchases and payments, and the change in inventories reflects increased inventory levels primarily to support new customer programs and increased customer forecasts.

Investing Activities

	Three month period ended September 30		Nine month period ended September 30	
	2013	2012	2013	2012
Expressed in thousands of dollars				
Acquisition of JHE	—	(13,641)	—	(13,641)
Investment in joint venture	(3,994)	—	(3,994)	—
Purchase of property, plant and equipment	(5,153)	(10,071)	(13,471)	(22,534)
Proceeds of disposals of property plant and	237	25	364	67
Increase in intangibles and other assets	(6,262)	(1,532)	(10,705)	(9,723)
Cash used in investing activities	(15,172)	(25,219)	(27,806)	(45,831)

In the third quarter of 2013, the Corporation invested \$4.0 million acquiring a 49% interest in Triveni Aeronautics Private Limited, an aerospace components manufacturing company in India.

The Corporation's capital expenditures for the third quarter of 2013 were \$5.2 million compared to \$10.1 million in the third quarter of 2012. The capital expenditures were incurred primarily to enhance the Corporation's manufacturing capabilities in various geographies and to support new customer programs.

In August 2012, the Corporation completed the acquisition of JHE. The final purchase price was \$13.7 million, net of cash acquired, which was financed from cash on hand.

Financing Activities

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	2013	2012	2013	2012
(Decrease) increase in bank indebtedness	(5,790)	14,472	(10,651)	10,569
(Decrease) increase in debt due within one year	(659)	19	120	17,521
Decrease in long-term debt	(1,430)	(1,518)	(6,779)	(7,317)
(Decrease) increase in long-term liabilities and provisions	(225)	175	(344)	333
Increase in borrowings	210	1,460	796	2,462
Common share dividends	(1,746)	—	(1,746)	—
Cash (used) provided by financing activities	(9,640)	14,608	(18,604)	23,568

On December 21, 2012, the Corporation amended its operating credit agreement with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was decreased to a Canadian dollar limit of \$115.0 million (down from \$125.0 million) plus a US dollar limit of \$35.0 million (down from US \$50.0 million), with a maturity date of December 21, 2014. The Bank Facility Agreement also includes a Cdn\$50.0 million uncommitted accordion provision which will provide Magellan with the option to increase the size of the operating credit facility to \$200.0 million. The facility is extendible for unlimited future one year renewal periods, subject to mutual consent of the syndicate of lenders and the Corporation. The operating credit facility continues to be fully guaranteed until December 21, 2014 by the Chairman of the Board of the Corporation in consideration of the continued payment by the Corporation of an annual fee, payable monthly, equal to 0.50% (down from 0.63%) of the loan amount.

On December 21, 2012, the Corporation also extended the 7.5% loan payable ("Original Loan") to Edco Capital Corporation ("Edco"), a corporation controlled by the Chairman of the Board of the Corporation to January 1, 2015 in consideration of the payment of a fee to Edco equal to 0.75% of the principal amount outstanding at the time of extension. The Corporation has the right to repay the Original Loan at any time without penalty.

The terms of the amended operating credit agreement continue to permit the Corporation to repay, in whole or in part, the Original Loan from Edco provided there is no current default or event of default under the operating credit facility and after the repayment of the loan the Corporation has at least \$25.0 million in availability under the operating credit facility.

Dividends

On August 8, 2013, the Corporation Board announced its intention to pay its first quarterly dividend on common shares of \$0.03 per share. The Corporation declared and paid dividends on 58,209,001 common shares, amounting to \$1.7 million in the third quarter of 2013.

On November 8th 2013, the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of \$0.03 (three cents) per common share. The dividend will be payable December 31, 2013 to shareholders of record at the close of business on December 12, 2013.

Outstanding Share Information

The authorized capital of the Corporation consists of an unlimited number of Preference Shares, issuable in series, and an unlimited number of common shares. As at November 1, 2013, 58,209,001 common shares were outstanding.

6. Financial Instruments

A summary of Magellan's financial instruments

Derivative Contracts

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian dollar denominated financial statements of the Corporation's subsidiaries may vary on consolidation into the reporting currency of Canadian dollars.

The Corporation uses derivative financial instruments to help manage foreign exchange risk with the objective of reducing transaction exposures and the resulting volatility of the Corporation's earnings. The Corporation does not trade in derivatives for speculative purposes. Under these contracts the Corporation is obligated to purchase specified amounts at predetermined dates and exchange rates. These contracts are matched with anticipated cash flows in US dollars.



The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. As at September 30, 2013 the Corporation had foreign exchange contracts outstanding as follows:

Foreign exchange forward contracts	Amount	Rate
Maturity – less than 1 year – US Dollar	9,000	1.0150
Maturity – less than 1 year – US Dollar	3,600	1.0425

The fair values of the Corporation's foreign exchange forward contracts are based on the current market values of similar contracts with the same remaining duration as if the contract had been entered into on September 30, 2013.

The mark-to-market on these financial instruments as at September 30, 2013 was an unrealized loss of \$0.1 million which has been recorded in other expenses in the period.

Off Balance Sheet Arrangements

The Corporation does not have any off-balance sheet arrangements that have or reasonably are likely to have a material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. As a result, the Corporation is not exposed materially to any financing, liquidity, market or credit risk that could arise if it had engaged in these arrangements.

7. Related Party Transactions

A summary of Magellan's transactions with related parties

During the three month period ended September 30, 2013, the Corporation paid guarantee fees in the amount of \$0.2 million to the Chairman of the Board of the Corporation. During the three month period ended September 30, 2013, the Corporation incurred interest of \$0.5 million in relation to the Original Loan due to Edco, a corporation which is controlled by the Chairman of the Board of the Corporation which is due on January 1, 2015. At September 30, 2013, the Corporation owed Edco interest of \$0.2 million.

8. Risk Factors

A summary of risks and uncertainties facing Magellan

The Corporation manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without hindering the ability to maximize returns. Management has procedures to help identify and manage significant operational and financial risks.

For more information in relation to the risks inherent in Magellan's business, reference is made to the information under "Risk Factors" in the Corporation's Management's Discussion and Analysis for the year ended December 31, 2012 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2012, which have been filed with SEDAR at www.sedar.com.

9. Changes in Accounting Policies

A description of accounting standards adopted in the current year

The Corporation has adopted the new and amended IFRS pronouncements listed below as at January 1, 2013, in accordance with the transitional provisions outlined in the respective standards.

Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements* ("IFRS 10") replaced portions of IAS 27, *Consolidated and Separate Financial Statements*, that addressed consolidation, and superseded SIC-12, *Consolidation – Special Purpose Entities* ("SPE"), in its entirety. IFRS 10 provides a single model to be applied in the analysis of control of all investees, including entities that currently are SPEs in the scope of SIC-12. An investor must possess the following three elements to conclude if it controls an investee: power over the investee's financial and operating decisions, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee and its exposure or rights to variable returns.

The adoption of IFRS 10 had no impact on the consolidated interim financial statements for the period or prior periods presented as the adoption did not result in a change in the consolidation status of any of the Corporation's subsidiaries or investees or the identification of any subsidiaries.

Joint Arrangements

IFRS 11, *Joint Arrangements* ("IFRS 11") supersedes IAS 31, *Interest in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions*. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement, which are classified as either joint operations or joint ventures, and provides guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

In a joint operation, the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the arrangement, and recognize their share of the assets, liabilities, revenues and expenses in accordance with applicable IFRS. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement and account for their interest using the equity method of accounting under IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Corporation has concluded that its joint arrangement is a joint venture under IFRS 11 and, accordingly, has recorded its investment using the equity method of accounting whereas prior to adoption of IFRS 11, the proportionate consolidation method was used. The Corporation has applied the new policy retrospectively in accordance with the transitional provisions of IFRS 11 and recognized the deemed cost of its investments in joint ventures at January 1, 2012, as the net of the carrying amounts of the assets and liabilities previously proportionately consolidated by the Corporation. Under the equity method, the Corporation's share of individual assets and liabilities are replaced with a net investment in joint ventures amount in the consolidated balance sheet and individual revenues and expenses are replaced with earnings from investment in joint ventures amount in the consolidated statement of income.

The Corporation has restated its consolidated interim financial statements for the comparative period to reflect the change in method of accounting for the joint venture. The Corporation's consolidated revenues and expenses are reduced and the geographic information no longer includes the financial information of the joint venture. There is no impact on net earnings or earnings per share and the disclosure requirements have been incorporated into the Corporation's condensed consolidated interim financial statements.

Disclosure of Interests in Other Entities

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), contains disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The requirements of IFRS 12 relate to disclosures only and are applicable for the first annual period after adoption, and, accordingly, the additional disclosures about interests in other entities will be included in the annual consolidated financial statements for the year ended December 31, 2013.

The Corporation's subsidiaries are all wholly owned and as such the determination of whether to consolidate these entities or the identification of any subsidiaries did not involve any significant judgments or assumptions. There are no significant restrictions on the ability of the Corporation to access or use the assets, and settle the liabilities of the Corporation and its subsidiaries except for customary limitations in the Corporation's credit facility.

Fair Value Measurement

IFRS 13, *Fair Value Measurement* ("IFRS 13") replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements.

The adoption of IFRS 13 did not have an effect on the determination of fair values and the required disclosures in the consolidated interim financial statements for the current period. The annual disclosure requirements will be incorporated in the annual consolidated financial statements for the year ended December 31, 2013.

Presentation of Financial Statements

IAS 1, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* ("IAS 1"), requires that a Corporation present separately the items of other comprehensive income ("OCI") that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss.

The Corporation has amended its consolidated interim statements of comprehensive income for all periods presented in these consolidated interim financial statements to reflect the presentation changes required under the amended IAS 1. As these changes are reclassifications within the statement of comprehensive income, there is no net impact on comprehensive income.



Employee Benefits

IAS 19 *Employee Benefits* ("IAS 19") was amended to eliminate the 'corridor approach' previously permitted and accelerate the recognition of past service costs. As part of its transition to IFRS, the Corporation elected to present remeasurements in OCI. The Corporation replaced interest costs on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability measured by applying the same discount rate used to measure the defined benefit obligation at the beginning of the annual period. Interest expense or interest income on net post-employment benefit liabilities and assets continue to be recognized in net income. IAS 19 requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw an offer of termination benefits or recognizes any restructuring costs.

The amended version of IAS 19 was adopted with retrospective application and, accordingly, the comparative periods presented have been adjusted to reflect the reversal of any unamortized past service costs and the application of one discount rate to the net defined benefit asset or liability to determine the interest element of the defined benefit cost. The retrospective application of this amendment increased employee benefits expense by \$0.4 million and \$0.8 million, respectively for the three and nine month period ended September 30, 2012. Net income for the three and nine month period ended September 30, 2012 decreased by \$0.3 million and \$0.6 million, net of income taxes of \$0.1 million and \$0.2 million respectively. Basic net income per share decreased by \$0.01 for the nine month period ended September 30, 2012.

10. Future Changes in Accounting Policies

A description of new accounting standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the interim period ended September 30, 2013, and have not been applied in preparing these condensed consolidated interim financial statements. The following standards and interpretations have been issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

Financial Instruments – Recognition and Measurement

In October 2010, the IASB published amendments to IFRS 9, *Financial Instruments* ("IFRS 9") which provides added guidance on the classification and measurement of financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Corporation intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

Financial Assets and Liabilities

In December 2011, the IASB published amendments to IAS 32, *Financial Instruments: Presentation* ("IAS 32") and issued new disclosure requirements in IFRS 7. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014 with retrospective application.

The amendments to IAS 32 clarify when an entity has a legally enforceable right to off-set as well as clarify, when a settlement mechanism provides for net settlement, or gross settlement that is equivalent to net settlement. The Corporation intends to adopt the amendments to IAS 32 in its consolidated financial statements for the annual period beginning January 1, 2014. The extent of the impact of adoption of the amendments to IAS 32 has not yet been determined.

Levies

In May 2013, the IASB issued International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is to be applied retrospectively. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The Corporation intends to adopt IFRIC 21 in its financial statements for the annual period beginning January 1, 2014. The extent of the impact of adoption of IFRIC 21 has not yet been determined.

11. Critical Accounting Estimates

A description of accounting estimates that are critical to determining Magellan's financial results

In the 2012 annual audited consolidated financial statements and management's discussion and analysis, the Corporation identified the accounting policies and estimates that are critical to the understanding of the business and results of operations. Please refer to note 2 to the audited consolidated financial statements for the year ended December 31, 2012 for a discussion regarding the critical accounting estimates.

12. Controls and Procedures

A description of Magellan's disclosure controls and internal controls over financial reporting

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at September 30, 2013 that they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting.

Management does not expect disclosure controls and procedures and internal control over financial reporting to prevent all errors, misstatements or fraud. In addition, internal control over financial reporting that management has designed and established may be circumvented and rendered ineffective as a result of unauthorized acts of individuals through collusion or management override. A system of control, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that control objectives are met. Due to the inherent limitations in a system of control, there is no absolute assurance that all controls issues, which may result in errors, misstatements, or fraud, can be prevented or detected. The inherent limitations include, amongst other things: (i) management's assumptions and judgements could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of isolated errors; (iii) assumptions about the likelihood of future events.

No changes were made in the Corporation's internal control over financial reporting during the Corporation's most recent interim period, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

13. Outlook

The outlook for Magellan's business in 2014

In the third quarter of 2013 the partial shutdown of the US government combined with sequestration continued to cause concerns for North American defence OEM's. Due to these events spending and procurement activities have continued at lower levels than previously anticipated. It is now evident that the enforcement of US sequestration will affect all US defence programs indiscriminately. Industry analysts suggest there will be continued uncertainty in this market until the fiscal year 2014 budget and risk of government shutdown concludes. Despite this uncertainty, it is encouraging to see that future platforms are still being launched. The US Army recently awarded four, Joint Multi-Role ("JMR") technology demonstrator helicopter contracts to Boeing/Sikorsky, Bell/Lockheed Martin, AVX Aircraft and Karem Aircraft to refine initial design concepts in advance of potential flight demonstrations. Development of the JMR platform is intended to replace various utility and attack helicopters (Blackhawk, Apache etc.) across US military fleets out in the 2030 timeframe.

The world fighter markets are attracting significant press as countries grapple with replacement of aging fleets and the high cost of next generation platforms. Older aircraft are being retired faster than new replacements are being acquired. The US Navy is giving consideration to extending service life of the existing fleets and to procuring new variants of F-18's or F-15's while it waits for F-35 deliveries. Likewise, large international competitions, such as that in South Korea for 60 jets, pits new jets (F-35) against advanced prior generation platforms (F-15) in a battle between budget and capability, notwithstanding the changing dynamics in the worlds defense industries. The Corporation remains comfortable with the balance of our legacy and new product defence programs.

Civil aerospace markets are seeing airlines planning to grow and replace their less efficient fleets. Despite some projections that low cost capital may not be as available in the future and that some experts suggest that this "super cycle" may not be sustainable, strong demand for new aircraft continues. Major OEM's continue to hold forecasts of new aircraft builds at about 1,400 A/C per annum with the majority of the new growth coming from the Asian marketplace. Responding to this demand, OEM's are continuing to increase build rates. Boeing's 737 build rate is set to increase from 38 per month to 42 per month in the first half of 2014. Airbus is maintaining a 42 per month A320 build rate through 2014 and planning to reach 43 per month in 2015. The ramp for A320NEO production is a planned climb to 44 per month over 3 years (2015 – 2018). Boeing's 737 MAX is planned with a similarly aggressive ramp rate.

Boeing is recovering from the battery issues experienced earlier in the year on 787 and plans to hit a 10 per month rate on this aircraft in early 2014. While Airbus' A350XWB is progressing to plan, it should be noted that the large aircraft market has shown signs of flattening and we have seen slight production rate reductions announced on the B747 and we anticipate some modest future rate reductions on the A380.

Forecast International (FI) recently issued a report on the regional aircraft market which suggests "restrained" growth in this market. They predict gradual growth between 2013 and 2020 driven by the need for larger 90+ seat fuel-efficient aircraft. Restraining factors are the maturation of US and European markets, the need for consolidation of airlines and most critically, pilot



contract scope clauses which restrict the size (76 seats in most cases) and number of aircraft that regional carriers can operate. FI's senior analyst stated: "Demand in the market is trending towards larger-capacity aircraft and, in the absence of scope clause limitations, this trend would strengthen and accelerate". New entrants into the larger regional aircraft market, such as Japan's MRJ, China's COMAC and Russia's Sukkoi & IRKUT programs, suggest the regions where the largest future demand could materialize.

The business jet market continues to defy leading indicators that predict sector recovery. This sector's market as a whole however is showing some growth due to the positive trends of larger jets, however, the successful catalyst for recovery in the light jet market is still illusive. Certain light jets are showing success such as Embraer's Phenom 300 which is powered by Pratt & Whitney's PW535. On the medium/large jet segment Cessna's Citation XLS and Dassault's Falcon 7X are particularly strong. These are important platforms for the Corporation's casting business.

Additional information relating to Magellan Aerospace Corporation, including the Corporation's annual information form, can be found on the SEDAR web site at www.sedar.com.



MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Notes	Three month period ended September 30		Nine month period ended September 30	
		2013	2012 (Restated - Note 3)	2013	2012 (Restated - Note 3)
Revenues	12	181,010	161,429	556,166	517,615
Cost of revenues		154,930	140,875	476,504	448,988
Gross profit		26,080	20,554	79,662	68,627
Administrative and general expenses		11,544	9,998	33,608	29,090
Gain on bargain purchase		—	(9,597)	—	(9,597)
Other		(490)	(191)	650	(226)
		15,026	20,344	45,404	49,360
Interest		1,782	2,359	5,638	6,954
Income before income taxes		13,244	17,985	39,766	42,406
Income taxes					
Current	8	1,009	767	3,550	2,552
Deferred	8	2,682	2,364	7,485	4,596
		3,691	3,131	11,035	7,148
Net income		9,553	14,854	28,731	35,258
Other comprehensive income					
Other comprehensive income to be reclassified to profit and loss in subsequent periods:					
Foreign currency translation		443	(4,499)	6,863	(3,825)
Items not to be reclassified to profit and loss in subsequent periods:					
Actuarial gain on defined benefit pension plan, net of tax	7	—	—	9,498	—
Total comprehensive income, net of tax		9,996	10,355	45,092	31,433
Net income per share					
Basic	9	0.16	0.26	0.49	0.61
Diluted	9	0.16	0.26	0.49	0.61

See accompanying Notes to Condensed Consolidated Interim Financial Statements



MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	Notes	September 30 2013	December 31 2012 (Restated - Note 3)	January 1 2012 (Restated - Note 3)
Current assets				
Cash		8,212	22,423	26,502
Trade and other receivables		153,195	134,214	106,392
Inventories		162,393	147,329	127,434
Prepaid expenses and other		11,348	7,843	5,297
		335,148	311,809	265,625
Non-current assets				
Property, plant and equipment		315,282	315,484	288,763
Investment properties		2,769	2,875	3,041
Intangible assets		57,323	60,701	66,134
Other assets		26,399	13,097	8,783
Deferred tax assets		46,904	51,040	28,360
		448,677	443,197	395,081
Total assets		783,825	755,006	660,706
Current liabilities				
Accounts payable and accrued liabilities and provisions		132,355	121,161	105,551
Debt due within one year		32,194	32,256	12,297
		164,549	153,417	117,848
Non-current liabilities				
Bank indebtedness	5	102,786	112,666	120,674
Long-term debt	6	74,833	79,857	81,423
Borrowings subject to specific conditions		20,312	20,768	18,847
Other long-term liabilities and provisions	7	24,954	39,003	29,131
Deferred tax liabilities		18,511	14,761	10,088
		241,396	267,055	260,163
Equity				
Share capital		254,440	254,440	252,440
Contributed surplus		2,044	2,044	2,041
Other paid in capital		13,565	13,565	13,565
Retained earnings		108,165	71,682	20,747
Accumulated other comprehensive loss		(334)	(7,197)	(6,098)
		377,880	334,534	282,695
Total liabilities and equity		783,825	755,006	660,706

See accompanying Notes to Condensed Consolidated Interim Financial Statements



MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(unaudited) (expressed in thousands of Canadian dollars)	Share capital	Contributed surplus	Other paid in capital	Retained earnings (Restated – Note 3)	Foreign currency translation	Total equity (Restated – Note 3)
December 31, 2012	254,440	2,044	13,565	71,682	(7,197)	334,534
Net income for the period	—	—	—	28,731	—	28,731
Other comprehensive income for the period	—	—	—	9,498	6,863	16,361
Common share dividend	—	—	—	(1,746)	—	(1,746)
September 30, 2013	254,440	2,044	13,565	108,165	(334)	377,880
January 1, 2012 (Restated)	252,440	2,041	13,565	20,747	(6,098)	282,695
Net income for the period	—	—	—	35,258	—	35,258
Other comprehensive income for the period	—	—	—	—	(3,825)	(3,825)
Convertible debentures	2,000	—	—	—	—	2,000
Stock-based compensation	—	3	—	—	—	3
September 30, 2012	254,440	2,044	13,565	56,005	(9,923)	316,131



MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

(unaudited) (expressed in thousands of Canadian dollars)	Notes	Three month period ended September 30		Nine month period ended September 30	
		2013	2012	2013	2012
			(Restated - Note 3)		(Restated - Note 3)
Cash flow from operating activities					
Net income		9,553	14,854	28,731	35,258
Amortization/depreciation of intangible assets and property, plant and equipment		7,821	7,380	24,306	22,565
Loss on disposal of property, plant and equipment		74	67	288	78
Impairment reversal		—	—	—	(1,543)
Decrease in defined benefit plans		(945)	(1,227)	(1,246)	(1,910)
Gain on bargain purchase		—	(9,597)	—	(9,597)
Accretion		(93)	313	(116)	653
Deferred taxes		1,541	425	4,063	(104)
(Loss) income on investment in joint venture		(14)	—	16	—
Increase (decrease) in working capital		2,003	(7,731)	(24,353)	(32,125)
Net cash provided by operating activities		19,940	4,484	31,689	13,275
Cash flow from investing activities					
Acquisition of JHE		—	(13,641)	—	(13,641)
Investment in joint venture		(3,994)	—	(3,994)	—
Purchase of property, plant and equipment		(5,153)	(10,071)	(13,471)	(22,534)
Proceeds from disposal of property, plant and equipment		237	25	364	67
Increase in other assets		(6,262)	(1,532)	(10,705)	(9,723)
Net cash used in investing activities		(15,172)	(25,219)	(27,806)	(45,831)
Cash flow from financing activities					
(Decrease) increase in bank indebtedness	5	(5,790)	14,472	(10,651)	10,569
(Decrease) increase in debt due within one year		(659)	19	120	17,521
Decrease in long-term debt	6	(1,430)	(1,518)	(6,779)	(7,317)
(Decrease) increase in long-term liabilities and provisions		(225)	175	(344)	333
Increase in borrowings		210	1,460	796	2,462
Common share dividends	9	(1,746)	—	(1,746)	—
Net cash (used in) provided by financing activities		(9,640)	14,608	(18,604)	23,568
Decrease in cash during the period		(4,872)	(6,127)	(14,721)	(8,988)
Cash at beginning of the period		12,770	23,752	22,423	26,502
Effect of exchange rate differences		314	(544)	510	(433)
Cash at end of the period		8,212	17,081	8,212	17,081

See accompanying Notes to Condensed Consolidated Interim Financial Statements



MAGELLAN AEROSPACE CORPORATION NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, expressed in thousands of dollars except share and per share data)

NOTE 1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Magellan Aerospace Corporation (the "Corporation") is a publicly listed company incorporated in Ontario, Canada under the Ontario Business Corporations Act and its shares are listed on the Toronto Stock Exchange. The registered and head office of the Corporation is located at 3160 Derry Road East, Mississauga, Ontario, Canada, L4T 1A9.

The Corporation is a diversified supplier of components to the aerospace industry and in certain circumstances for power generation projects. Through its wholly owned subsidiaries, Magellan designs, engineers, and manufactures aeroengine and aerospace components for aerospace markets, advanced products for defence and space markets, and complementary specialty products. The Corporation also supports the aftermarket through supply of spare parts as well as performing repair and overhaul services and supplies in certain circumstances parts and equipment for power generation projects.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") and using the same accounting policies and methods as were used for the Corporation's consolidated financial statements and the notes thereto for the year ended December 31, 2012, except for the any new accounting pronouncements which have been adopted (See Note 3). Certain comparative figures have been reclassified to conform to the current presentation.

These condensed consolidated interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the Corporation's annual financial statements for the year ended December 31, 2012, which are available at www.sedar.com and on the Corporation's website at www.magellan.aero.

The timely preparation of the condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the condensed consolidated interim financial statements.

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors of the Corporation on November 8, 2013.

NOTE 3. ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS

The Corporation has adopted the new and amended IFRS pronouncements listed below as at January 1, 2013, in accordance with the transitional provisions outlined in the respective standards.

a) Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements* ("IFRS 10") replaced portions of IAS 27, *Consolidated and Separate Financial Statements*, that addressed consolidation, and superseded SIC-12, *Consolidation – Special Purpose Entities* ("SPE"), in its entirety. IFRS 10 provides a single model to be applied in the analysis of control of all investees, including entities that currently are SPEs in the scope of SIC-12. An investor must possess the following three elements to conclude if it controls an investee: power over the investee's financial and operating decisions, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee and its exposure or rights to variable returns.

The adoption of IFRS 10 had no impact on the consolidated interim financial statements for the period or prior periods presented as the adoption did not result in a change in the consolidation status of any of the Corporation's subsidiaries or investees or the identification of any subsidiaries.

b) Joint Arrangements

IFRS 11, *Joint Arrangements* ("IFRS 11") supersedes IAS 31, *Interest in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions*. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement, which are classified as either joint operations or joint ventures, and provides guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

In a joint operation, the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the arrangement, and recognize their share of the assets, liabilities, revenues and expenses in accordance with applicable IFRS. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement and account for their interest using the equity method of accounting

under IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Corporation has concluded that its joint arrangement is a joint venture under IFRS 11 and, accordingly, has recorded its investment using the equity method of accounting whereas prior to adoption of IFRS 11, the proportionate consolidation method was used. The Corporation has applied the new policy retrospectively in accordance with the transitional provisions of IFRS 11 and recognized the deemed cost of its investments in joint ventures at January 1, 2012, as the net of the carrying amounts of the assets and liabilities previously proportionately consolidated by the Corporation. Under the equity method, the Corporation's share of individual assets and liabilities are replaced with a net investment in joint ventures amount in the consolidated balance sheet and individual revenues and expenses are replaced with earnings from investment in joint ventures amount in the consolidated statement of income. The Corporation has restated its consolidated interim financial statements for the comparative period to reflect the change in method of accounting for the joint venture.

c) Disclosure of Interests in Other Entities

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), contains disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The requirements of IFRS 12 relate to disclosures only and are applicable for the first annual period after adoption, and, accordingly, the additional disclosures about interests in other entities will be included in the annual consolidated financial statements for the year ended December 31, 2013.

The Corporation's subsidiaries are all wholly owned and as such the determination of whether to consolidate these entities or the identification of any subsidiaries did not involve any significant judgments or assumptions. There are no significant restrictions on the ability of the Corporation to access or use the assets, and settle the liabilities of the Corporation and its subsidiaries except for customary limitations in the Corporation's credit facility.

d) Fair Value Measurement

IFRS 13, *Fair Value Measurement* ("IFRS 13") replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements.

The adoption of IFRS 13 did not have an effect on determination of fair values and the required disclosures in the consolidated interim financial statements for the current period. The annual disclosure requirements will be incorporated in the annual consolidated financial statements for the year ended December 31, 2013.

e) Presentation of Financial Statements

IAS 1, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* ("IAS 1"), requires that a Corporation present separately the items of other comprehensive income ("OCI") that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss.

The Corporation has amended its consolidated interim statements of comprehensive income for all periods presented in these consolidated interim financial statements to reflect the presentation changes required under the amended IAS 1. As these changes are reclassifications within the statement of comprehensive income, there is no net impact on comprehensive income.

f) Employee Benefits

IAS 19, *Employee Benefits* ("IAS 19") was amended to eliminate the 'corridor approach' previously permitted and accelerate the recognition of past service costs. As part of its transition to IFRS, the Corporation elected to present remeasurements in OCI. The Corporation replaced interest costs on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability measured by applying the same discount rate used to measure the defined benefit obligation at the beginning of the annual period. Interest expense or interest income on net post-employment benefit liabilities and assets continue to be recognized in net income. IAS 19 requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw an offer of termination benefits or recognizes any restructuring costs.

The amended version of IAS 19 was adopted with retrospective application and, accordingly, the comparative periods presented have been adjusted to reflect the reversal of any unamortized past service costs and the application of one discount rate to the net defined benefit asset or liability to determine the interest element of the defined benefit cost.

g) Prior Year Consolidated Financial Statements

For the quantitative impact of adopting IFRS 11 and IAS 19 on the prior year consolidated financial statements, reference is made to the following tables.

Adjustments to the consolidated statements of financial position:

As at January 1	2012 (previously stated)	Adjustments for changes in accounting policy		2012 (restated)
		IFRS 11	IAS 19	
Cash	26,520	(18)	—	26,502
Trade and other receivables	106,480	(88)	—	106,392
Inventories	127,473	(39)	—	127,434
Prepaid expenses and other	5,326	(29)	—	5,297
Property, plant and equipment	289,744	(981)	—	288,763
Other assets	8,660	123	—	8,783
Accounts payable, accrued liabilities and provisions	106,022	(471)	—	105,551
Debt due within one year	12,513	(216)	—	12,297
Long-term debt	81,768	(345)	—	81,423
Increase in net assets/shareholders' equity		—	—	

As at December 31	2012 (previously stated)	Adjustments for changes in accounting policy		2012 (restated)
		IFRS 11	IAS 19	
Cash	22,431	(8)	—	22,423
Trade and other receivables	134,361	(147)	—	134,214
Inventories	147,382	(53)	—	147,329
Prepaid expenses and other	7,879	(36)	—	7,843
Property, plant and equipment	316,441	(957)	—	315,484
Other assets	12,697	400	—	13,097
Accounts payable, accrued liabilities and provisions	121,644	(483)	—	121,161
Debt due within one year	32,425	(169)	—	32,256
Long-term debt	80,024	(167)	—	79,857
Increase in net assets/shareholders' equity		18	—	

Adjustments to the consolidated statements of income and comprehensive income:

For the three month period ended September 30	2012 (previously stated)	Adjustments for changes in accounting policy		2012 (restated)
		IFRS 11	IAS 19	
Revenues	161,565	(136)	—	161,429
Cost of revenues	140,534	(81)	422	140,875
Administrative and general expenses	10,106	(108)	—	9,998
Other	(260)	69	—	(191)
Interest	2,375	(16)	—	2,359
Income taxes	3,240	—	(109)	3,131
Decrease in net income		—	(313)	
Other comprehensive (loss) income, net of tax	(4,519)	20	—	(4,499)
Decrease (increase) in comprehensive loss		20	(313)	

For the nine month period ended September 30	2012 (previously stated)	Adjustments for changes in accounting policy		2012 (restated)
		IFRS 11	IAS 19	
Revenues	518,018	(403)	—	517,615
Cost of revenues	447,975	(253)	1,266	448,988
Administrative and general expenses	29,255	(165)	—	29,090
Other	(286)	60	—	(226)
Interest	6,999	(45)	—	6,954
Income taxes	7,475	—	(327)	7,148
Decrease in net income		—	(939)	
Other comprehensive (loss) income, net of tax	(3,859)	34	—	(3,825)
Decrease (increase) in comprehensive loss		34	(939)	

For the year ended December 31	2012 (previously stated)	Adjustments for changes in accounting policy		2012 (restated)
		IFRS 11	IAS 19	
Revenues	704,579	(539)	—	704,040
Cost of revenues	603,887	(333)	1,688	605,242
Administrative and general expenses	39,203	(231)	—	38,972
Other	(260)	83	—	(177)
Interest	9,237	(59)	—	9,178
Income taxes	3,814	—	(436)	3,378
Increase (decrease) in net income		1	(1,252)	
Other comprehensive (loss) income, net of tax	(8,477)	17	1,252	(7,208)
Decrease in comprehensive loss		18	—	

Adjustments to the consolidated statements of cash flow:

For the three month period ended September 30	2012 (previously stated)	Adjustments for changes in accounting policy		2012 (restated)
		IFRS 11	IAS 19	
Net income	15,167	—	(313)	14,854
Depreciation/amortization of intangible assets and property, plant and equipment	7,416	(36)	—	7,380
(Decrease) increase in defined benefit plans	(1,649)	—	422	(1,227)
Deferred taxes	534	—	(109)	425
Increase in non-cash working capital	(7,715)	(16)	—	(7,731)
Purchase of property, plant and equipment	(10,143)	72	—	(10,071)
Decrease in other assets	(1,438)	(94)	—	(1,532)
Decrease in long-term debt	(1,575)	57	—	(1,518)
		(17)	—	

For the nine month period ended September 30	2012 (previously stated)	Adjustments for changes in accounting policy		2012 (restated)
		IFRS 11	IAS 19	
Net income	36,197	—	(939)	35,258
Depreciation/amortization of intangible assets and property, plant and equipment	22,643	(78)	—	22,565
Decrease in defined benefit plans	(3,176)	—	1,266	(1,910)
Deferred taxes	223	—	(327)	(104)
Increase in non-cash working capital	(32,152)	27	—	(32,125)
Purchase of property, plant and equipment	(22,639)	105	—	(22,534)
Increase in other assets	(9,550)	(173)	—	(9,723)
Decrease in long-term debt	(7,433)	116	—	(7,317)
		(3)	—	

For the year ended December 31	2012 (previously stated)	Adjustments for changes in accounting policy		2012 (restated)
		IFRS 11	IAS 19	
Net income	58,295	1	(1,252)	57,044
Depreciation/amortization of intangible assets and property, plant and equipment	31,029	(100)	—	30,929
Decrease in defined benefit plans	(4,767)	—	1,688	(3,079)
Deferred taxes	(14,419)	—	(436)	(14,855)
Increase in non-cash working capital	(25,355)	54	—	(25,301)
Purchase of property, plant and equipment	(33,829)	130	—	(33,699)
Decrease in other assets	(6,654)	(277)	—	(6,931)
Decrease in long-term debt	(8,849)	201	—	(8,648)
Effect of exchange rate differences	(39)	1	—	(38)
		10	—	



h) New standards and interpretations not yet adopted

In May 2013, the IASB issued International Financial Reporting Interpretations Committee (IFRIC) 21, Levies. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is to be applied retrospectively. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The Corporation intends to adopt IFRIC 21 in its financial statements for the annual period beginning January 1, 2014. The extent of the impact of IFRIC 21 has not yet been determined.

NOTE 4. JOINT VENTURES

On July 10, 2013, the Corporation invested \$3,994 in a 49% interest in Triveni Aeronautics Private Limited ("Triveni") located in India which was funded through working capital. Triveni is an aerospace components manufacturing company which offers critical parts and sub-assemblies to aero-engines and aero-structures industries, and as such the Corporation views the acquisition as a strategic fit. The Corporation has accounted for its interest in Triveni as a joint venture and recorded the investment at the amount of consideration paid of \$3,994, which included the Corporation's share of the net fair value of assets and liabilities of \$3,090 and goodwill of \$904 identified on acquisition.

NOTE 5. BANK INDEBTEDNESS

During 2012, the Corporation amended its credit agreement with its existing lenders. The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian dollar limit of \$115,000 plus a US dollar limit of US\$35,000 [\$151,061 at September 30, 2013]. Under the terms of the amended credit agreement, the operating credit facility expires on December 21, 2014 and is extendable for unlimited one-year periods subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a \$50,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility to \$200,000. Bank indebtedness as at September 30, 2013 of \$102,786 [December 31, 2012 - \$112,666] bears interest at the bankers' acceptance or LIBOR rates, plus 1.20% [2.07% at September 30, 2013 (2012 – bankers' acceptance or LIBOR rates plus 1.50% or 2.44%)]. Included in the amount outstanding at September 30, 2013 is US\$32,930 [December 31, 2012 - US\$18,358]. At September 30, 2013, the Corporation had drawn \$105,477 under the operating credit facility, including letters of credit totalling \$2,691, such that \$45,584 was unused and available. A fixed and floating charge debenture on accounts receivable, inventories and property, plant and equipment is pledged as collateral for the operating credit facility. The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the operating credit facility.

NOTE 6. LONG-TERM DEBT

During 2012, the loan due on July 1, 2013 (the "Original Loan") to Edco Capital Corporation ("Edco") was extended to January 1, 2015 in consideration of the payment of a one-time extension fee of 0.75% of the principal amount outstanding as of December 21, 2012. The Corporation has the right to prepay the Original Loan at any time without penalty. During the three and nine month period ended September, 2013, the Corporation prepaid the Original Loan by \$nil and \$2,500 respectively [three and nine month period ended September 30, 2012 - \$nil and \$3,500 respectively]. As at September 30, 2013, the principal amount outstanding was \$27,500 [December 31, 2012 - \$30,000].

NOTE 7. EMPLOYEE FUTURE BENEFITS

The Corporation has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to substantially all of its employees. The employee benefit obligation reflected in the unaudited condensed consolidated interim financial statements is as follows:

	September 30 2013	December 31 2012
Pension Benefit Plan	(14,784)	(28,739)
Other Benefit Plan	(888)	(880)
	(15,672)	(29,619)

The discount rate assumption used in determining the obligation for pension and other benefit plans is selected based on a review of current market interest rates of high-quality, fixed rate debt securities adjusted to reflect the duration of the expected future cash outflows for pension benefit payments. During the second quarter of 2013 the Corporation changed the assumed discount rate of 4.0% used in the pension obligation calculation as at December 31, 2012 to a discount rate of 4.6% in the calculation of the pension obligation as current market interest rate of high-quality, fixed rate debt securities have increased. The change in assumption resulted in an actuarial gain of \$12,800 net of taxes of \$3,302 recorded in other comprehensive income.



NOTE 8. TAXATION

The Corporation's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Corporation operates in, adjusted for the main permanent differences identified. The effective tax rate for the three and nine month period ended September 30, 2013 was 27.9% and 27.7% respectively [17.4% and 16.9% respectively for the three and nine month period ended September 30, 2012]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the impact of recognizing investment tax credits during the period.

NOTE 9. SHARE CAPITAL

Net income per share

	2013			Three month period ended September 30		
	Amount	Weighted average no. of shares	Per share amount (\$)	Amount	Weighted average no. of shares	Per share amount (\$)
Basic and diluted net income per share						
At September 30	9,553	58,209	0.16	14,854	58,209	0.26

	2013			Nine month period ended September 30		
	Amount	Weighted average no. of shares	Per share amount (\$)	Amount	Weighted average no. of shares	Per share amount (\$)
Basic net income per share	28,731	58,209	0.49	35,258	57,333	0.61
Effect of dilutive securities:						
Convertible debentures	—	—	—	80	876	(0.00)
At September 30	28,731	58,209	0.49	35,338	58,209	0.61

Dividends

On September 30, 2013, the Corporation paid its first quarterly dividend on 58,209,001 common shares of \$0.03 per common share, amounting to \$1.7 million.

Subsequent to September 30, 2013, the Corporation declared dividends to holders of common shares in the amount of \$0.03 per common share payable on December 31, 2013, for shareholders of record at the close of business on December 12, 2013.

NOTE 10. FINANCIAL INSTRUMENTS

Fair values

The Corporation has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgement is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described as follows:

Cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities

Due to the short period to maturity of these instruments, the carrying values as presented in the consolidated statement of financial positions are reasonable estimates of their fair values.

Foreign exchange contracts

The Corporation has entered into foreign forward exchange contracts to mitigate future cash flow exposures in US dollars. Under these contracts the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in US dollars. The Corporation has foreign exchange contracts outstanding as follows:

Foreign exchange forward contracts	Amount	Ceiling
Maturity – less than 1 year – US Dollar	9,000	1.0150
Maturity – less than 1 year – US Dollar	3,600	1.0425

The fair values of the Corporation's forward foreign exchange contracts are based on the current market values of similar contracts with the same remaining duration as if the contract had been entered into on September 30, 2013.



The mark-to-market on these financial instruments as at September 30, 2013 was an unrealized loss of \$107, which has been recorded in other expense for the period.

Long-term debt

The fair value of the Corporation's long-term debt, calculated by discounting the expected future cash flows based on current rates for debt with similar terms and maturities, is \$79,839 at September 30, 2013.

Collateral

As at September 30, 2013, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was \$161,407.

Fair value hierarchy

The Corporation's financial assets and liabilities recorded at fair value on the consolidated statement of financial position have been categorized into three categories based on a fair value hierarchy. Fair value of assets and liabilities included in Level I are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level II include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level III valuations are based on inputs that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the fair value of the financial instruments that are carried at fair value classified using the fair value hierarchy:

	Quoted Prices in Active Markets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total
Financial assets				
Forward foreign exchange contracts	-	107	-	107

NOTE 11. RELATED PARTY TRANSACTIONS

During the three and nine month period ended September 30, 2013, the Corporation paid guarantee fees in the amount of \$189 and \$565 respectively [three and nine month period ended September 30, 2012 - \$275 and \$827 respectively] to the Chairman of the Board of the Corporation. During the three and nine month period ended September 30, 2013, the Corporation incurred interest of \$520 and \$1,597 respectively [three and nine month period ended September 30, 2012 - \$566 and \$1,760 respectively] in relation to the Original Loan due to Edco, a corporation which is controlled by the Chairman of the Board of the Corporation which is due on January 1, 2015. At September 30, 2013, the Corporation owed Edco interest of \$170 [December 31, 2012 - \$191].

NOTE 12. SEGMENTED INFORMATION

Based on the nature of the Corporation's markets, two main operating segments were identified: Aerospace and Power Generation Project. The Aerospace segment includes the design, development, manufacture, repair and overhaul and sale of systems and components for defence and civil aviation, while the Power Generation Project segment includes the supply of gas turbine power generation units. Revenues in the Power Generation Project segment arise solely from the power generation project in Ghana and the revenue is included in Canada export revenue.

The Corporation evaluated the performance of its operating segments primarily based on income before interest expense and income tax expense.

The Corporation accounts for intersegment and related party sales and transfers, if any, at the exchange amount.

The Corporation's primary sources of revenue are as follows:

	Three month period ended September 30		Nine month period ended September 30	
	2013	2012	2013	2012
Sale of goods	148,606	126,349	474,692	391,826
Construction contracts	6,054	12,198	18,333	49,230
Services	26,350	22,882	63,141	76,559
	181,010	161,429	556,166	517,615



The aggregate amount of revenue recognized to date for construction contracts in progress at September 30, 2013 was \$288,465 [December 31, 2012 - \$269,800]. Advance payments received for construction contracts in progress at September 30, 2013 was \$8,850 [December 31, 2012 - \$11,663]. Retention in connection with construction contracts at September 30, 2013 was \$1,030 [December 31, 2012 - \$995]. Advance payments and retentions are included in accounts payable, accrued liabilities and provisions.

Segmented information consists of the following:

Activity segments:

	2013			Three months ended September 30 2012		
	Aerospace	Power Generation Project	Total	Aerospace	Power Generation Project	Total
Revenues	181,010	—	181,010	151,549	9,880	161,429
Income before interest and income taxes	15,007	19	15,026	19,939	405	20,344
Interest expense			1,782			2,359
Income before income taxes			13,244			17,985
Total assets	759,213	24,612	783,825	705,707	25,408	731,115
Total liabilities	394,627	11,318	405,945	403,574	11,410	414,984
Additions to property, plant and equipment	5,153	—	5,153	10,071	—	10,071
Depreciation and amortization	7,821	—	7,821	7,380	—	7,380

	2013			Nine months ended September 30 2012		
	Aerospace	Power Generation Project	Total	Aerospace	Power Generation Project	Total
Revenues	552,688	3,478	556,166	480,374	37,241	517,615
Income before interest and income taxes	45,992	(588)	45,404	48,663	697	49,360
Interest expense			5,638			6,954
Income before income taxes			39,766			42,406
Total assets	759,213	24,612	783,825	705,707	25,408	731,115
Total liabilities	394,627	11,318	405,945	403,574	11,410	414,984
Additions to property, plant and equipment	13,471	—	13,471	22,534	—	22,534
Depreciation and amortization	24,306	—	24,306	22,565	—	22,565

Geographic segments:

	2013				Three month period ended September 30 2012			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	68,933	56,484	55,593	181,010	74,608	49,560	37,261	161,429
Export revenue ¹	47,308	15,890	3,382	66,580	53,585	12,259	2,215	68,059

	2013				Nine month period ended September 30 2012			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	219,184	174,533	162,449	556,166	249,480	150,252	117,883	517,615
Export revenue ¹	152,044	47,882	12,049	211,975	183,180	35,224	5,397	223,801

¹Export revenue is attributed to countries based on the location of the customers



	September 30, 2013				December 31, 2012			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment and intangible assets	187,775	121,556	63,274	372,605	195,379	118,945	61,861	376,185

The major customers for the Corporation are as follows:

	Three month period ended September 30		Nine month period ended September 30	
	2013	2012	2013	2012
Major customers				
Canadian operations				
- Number of customers	3	3	2	3
- Percentage of total Canadian revenue	30%	43%	28%	38%
US operations				
- Number of customers	2	2	2	1
- Percentage of total US revenue	56%	50%	55%	39%
UK operations				
- Number of customers	2	2	2	2
- Percentage of total UK revenue	85%	88%	85%	90%

NOTE 13. MANAGEMENT OF CAPITAL

The Corporation's objective is to maintain a capital base sufficient to maintain investor, creditor and market confidence and to sustain future development of the business. Management defines capital as the Corporation's shareholders' equity and interest bearing debt, including the debt and equity components of the convertible debentures.

Total managed capital as at September 30, 2013 of \$587,693 is comprised of shareholders' equity of \$377,880 and interest-bearing debt of \$209,813.

The Corporation manages its capital structure and makes adjustments to it in light of economic conditions, the risk characteristics of the underlying assets and the Corporation's working capital requirements. In order to maintain or adjust its capital structure, the Corporation, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares through the normal course issuer bid, pay dividends or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets. There were no changes in the Corporation's approach to capital management during the period.

NOTE 14. CONTINGENT LIABILITIES AND COMMITMENTS

In the ordinary course of business activities, the Corporation may be contingently liable for litigation and claims with, among other, customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although, it is not possible to accurately estimate the extent of the potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Corporation.

At September 30, 2013 capital commitments in respect of purchase of property, plant and equipment totalled \$11,082, all of which had been ordered. There were no other material capital commitments at the end of the period.