

## 2014 FOURTH QUARTER REPORT

### 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 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

The Corporation announced on October 3, 2014 the first anniversary of its MAC-200 Bus on the Cascade SmallSat and Ionospheric Polar Explorer (CASSIOPE) mission in space. The mission was developed and implemented by Canadian industry led by MacDonald Dettwiler and Associates Ltd., as prime contractor, with important contributions from the Canadian industry team, which includes Magellan. The mission launched on September 29, 2013, carrying eight science instruments, collectively named e-Pop as well as a second payload for advanced telecommunications technology demonstration (termed Cascade). The two payloads were assembled into Magellan's MAC-200 satellite bus and have been operating in space for more than one year.

On January 6, 2015 Magellan announced the signing of a 10-year agreement with Pratt & Whitney Canada ("P&WC"), a United Technologies Company, for the supply of complex magnesium and aluminum castings. The castings will be produced primarily by Magellan's facility in Haley, Ontario, with several being produced at its Glendale, Arizona plant. The agreement is expected to represent approximately \$250 million in revenue for Magellan from 2014 through 2023. P&WC has been a key customer of Magellan's Haley facility for more than 50 years. This new long-term agreement recognizes Magellan's position as a leader in the industry and provides the framework for a new level of strategic alignment with P&WC.

For additional information, please refer to the 2014 Management's Discussion and Analysis available on [www.sedar.com](http://www.sedar.com).

### Results of Operations

A discussion of Magellan's operating results for fourth quarter ended December 31, 2014

The Corporation reported higher revenue in its Aerospace segment in the fourth quarter of 2014 when compared to the fourth quarter of 2013. Gross profit and net income for the fourth quarter of 2014 were \$38.2 million and \$17.9 million, respectively, an increase from the fourth quarter of 2013 gross profit and net income of \$32.7 million and \$16.8 million, respectively.

#### Consolidated Revenue

Overall, the Corporation's consolidated revenues in the fourth quarter of 2014 increased by 6.6% when compared to the fourth quarter of 2013.

Expressed in thousands of dollars	Three month period ended December 31			Twelve month period ended December 31		
	2014	2013	Change	2014	2013	Change
Aerospace	<b>208,778</b>	197,245	5.8%	<b>840,732</b>	749,934	12.1%
Power Generation Project	<b>164</b>	(1,285)	112.8%	<b>2,304</b>	2,192	5.1%
Revenues	<b>208,942</b>	195,960	6.6%	<b>843,036</b>	752,126	12.1%

Consolidated revenues of \$208.9 million for the fourth quarter ended December 31, 2014 were higher than the \$196.0 million of revenue in the fourth quarter of 2013. Higher volumes of production on both new and legacy commercial aircraft platforms and the appreciation of the United States dollar and the British pound against the Canadian dollar, when compared to the prior year quarter, increased revenues by 5.8% year over year in the Aerospace segment. In the fourth quarter of

2013, the Power Generation Project segment revenues were adjusted as the costs for the original work scope package were finalized.

### Aerospace Segment

Revenues for the Aerospace segment were as follows:

Expressed in thousands of dollars	Three month period ended December 31			Twelve month period ended December 31		
	2014	2013	Change	2014	2013	Change
Canada	<b>81,458</b>	83,591	(2.6)%	<b>322,914</b>	299,297	7.9%
United States	<b>69,261</b>	57,726	20.0%	<b>272,646</b>	232,260	17.4%
Europe	<b>58,059</b>	55,928	3.8%	<b>245,172</b>	218,377	12.3%
Total revenues	<b>208,778</b>	197,245	5.8%	<b>840,732</b>	749,934	12.1%

Consolidated Aerospace revenues for the fourth quarter of 2014 of \$208.8 million were 5.8% higher than revenues of \$197.3 million in the fourth quarter of 2013. Revenues in Canada in the fourth quarter of 2014 decreased 2.6% from the same period in 2013 primarily due to reduced revenues earned on defence programs. The favourable movement in the United States dollar in comparison to the Canadian dollar partially offset the decrease in revenues in Canada in the fourth quarter of 2014 when compared to the same period in 2013. Revenues increased by 20.0% in the United States in the fourth quarter of 2014 in comparison to the fourth quarter of 2013. The Corporation's continued participation on a number of single aisle and wide body commercial aircraft programs, that have increased in build rates when compared to the prior year and the strengthening of the United States dollar in comparison to the Canadian dollar during the same periods in 2014 versus 2013 were the primary contributors to the increased revenues quarter over quarter. European revenues in the fourth quarter of 2014 increased 3.8% over revenues in the same period in 2013 primarily due to the strength of the British pound in comparison to the Canadian dollar.

### Power Generation Project Segment

Revenues for the Power Generation Project segment were as follows:

Expressed in thousands of dollars	Three month period ended December 31			Twelve month period ended December 31		
	2014	2013	Change	2014	2013	Change
Power Generation Project	<b>164</b>	(1,285)	112.8%	<b>2,304</b>	2,192	5.1%
Total revenues	<b>164</b>	(1,285)		<b>2,304</b>	2,192	

The original statement of work on the Ghana Power Generation Project (the "Project") was substantially completed and all revenue related to the original statement of work was recognized as at March 31, 2013. In the second quarter of 2014, the Corporation signed an amendment to the original Project contract which increased the statement of work for the Project. Revenues recorded in the year represent the progress made to date on the additional statement of work.

### Gross Profit

Expressed in thousands of dollars	Three month period ended December 31			Twelve month period ended December 31		
	2014	2013	Change	2014	2013	Change
Gross profit	<b>38,158</b>	32,665	16.8%	<b>133,782</b>	112,327	19.1%
Percentage of revenues	<b>18.3%</b>	16.7%		<b>15.9%</b>	14.9%	

Gross profit of \$38.2 million (18.3% of revenues) was reported for the fourth quarter of 2014 compared to \$32.7 million (16.7% of revenues) during the same period in 2013. Increased gross profit in the fourth quarter of 2014 over the same period in 2013 resulted from a favorable mix of products, offset, in part, by new product introduction costs. The strengthening year over year of the United States dollar and British Pound against the Canadian dollar also contributed, in part, to increased margins quarter over quarter.

### Administrative and General Expenses

Expressed in thousands of dollars	Three month period ended December 31			Twelve month period ended December 31		
	2014	2013	Change	2014	2013	Change
Administrative and general expenses	<b>12,341</b>	11,873	3.9%	<b>48,221</b>	45,481	6.0%
Percentage of revenues	<b>5.9%</b>	6.1%		<b>5.7%</b>	6.0%	

As a percentage of revenues, administrative and general expenses decreased to 5.9% of revenues for the quarter ended December 31, 2014 from 6.1% for the quarter ended December 31, 2013. In absolute terms, administrative and general

expenses increased during the current quarter relative to the same quarter of the prior year as a result of the effect on translation of the strengthening United States dollar and British pound exchange rates against the Canadian dollar.

#### Other

	Three month period ended December 31		Twelve month period ended December 31	
	2014	2013	2014	2013
Expressed in thousands of dollars				
Foreign exchange gain	(440)	(530)	(523)	(142)
Gain on settlement of long-term liabilities	–	(1,031)	–	(1,031)
Loss on disposal of property, plant and equipment	294	314	1,097	576
Total other	(146)	(1,247)	574	(597)

Other income of \$0.2 million in the fourth quarter of 2014 consisted of realized and unrealized foreign exchange gains offset in part by losses recorded on the retirement and disposal of property, plant and equipment.

#### Interest Expense

	Three month period ended December 31		Twelve month period ended December 31	
	2014	2013	2014	2013
Expressed in thousands of dollars				
Interest on bank indebtedness and long-term debt	886	1,694	4,590	6,935
Accretion charge for borrowings and long-term debt	968	(800)	2,531	(916)
Discount on sale of accounts receivable	208	189	766	702
Total interest expense	2,062	1,083	7,887	6,721

Interest expense of \$2.1 million in the fourth quarter of 2014 was higher than the fourth quarter of 2013 amount of \$1.1 million primarily as a result of an increase in non-cash accretion expense in the current quarter due to changes in the long-term bond rate offset in part by a decrease in interest on bank indebtedness and long-term debt. The decrease in interest on bank indebtedness and long-term debt quarter over quarter is mainly due to the repayment of external interest bearing long-term debt late in the last quarter of 2013.

#### Provision for Income Taxes

	Three month period ended December 31		Twelve month period ended December 31	
	2014	2013	2014	2013
Expressed in thousands of dollars				
Expense of current income taxes	1,398	343	4,991	3,893
Expense of deferred income taxes	4,648	3,861	15,537	11,346
Total expense of income taxes	6,046	4,204	20,528	15,239
Effective tax rate	25.3%	20.1%	26.6%	25.1%

The Corporation recorded an income tax expense of \$6.0 million in the fourth quarter of 2014 compared to an income tax expense of \$4.2 million in the fourth quarter of 2013. Current income taxes for the fourth quarter of 2014 consisted primarily of the tax expense in jurisdictions with current taxes payable. Deferred income taxes for the fourth quarter of 2014 consisted primarily of net deferred income tax expense for changes in temporary differences in various jurisdictions.

### Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

	2014				2013			
	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
Expressed in millions of dollars, except per share amounts								
Revenues	210.5	221.0	202.5	208.9	185.3	189.9	181.0	196.0
Income before taxes	16.7	18.8	17.7	23.9	11.0	15.5	13.2	21.0
Net Income	12.1	13.6	13.0	17.9	8.0	11.2	9.5	16.8
Net Income per share								
Basic and diluted	0.21	0.23	0.22	0.31	0.14	0.19	0.16	0.29
EBITDA	27.1	30.2	28.3	34.7	21.3	25.6	22.9	31.0

The Corporation reported its highest quarterly revenues in its history in the second quarter of 2014. Revenues and net income reported in 2014 were impacted positively by the weakness in the Canadian dollar exchange rate in comparison to

the United States dollar and British pound. The United States dollar/Canadian dollar exchange rate in the fourth quarter of 2014 fluctuated reaching a low of 1.1116 and a high of 1.1643. During the fourth quarter of 2014, the British pound relative to the Canadian dollar fluctuated reaching a low of 1.7572 and a high of 1.8271. Had the foreign exchange rates remained at levels experienced in the fourth quarter of 2013, reported revenues in the fourth quarter of 2014 would have been lower by \$12.0 million.

Net income for the fourth quarter of 2014 and 2013 of \$17.9 million and \$16.8 million, respectively, was higher than all other quarterly net income disclosed in the table above. In the fourth quarter of 2013 the Corporation recognized partial reversals of previous impairment losses against intangible assets relating to various commercial aircraft programs. Continued improvements in gross margin have contributed to higher net income in each of the quarters of 2014.

## 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, income taxes, 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.

	Three month period ended December 31		Twelve month period ended December 31	
	2014	2013	2014	2013
Expressed in thousands of dollars				
Net income	17,855	16,752	56,572	45,483
Interest	2,062	1,083	7,887	6,721
Taxes	6,046	4,204	20,528	15,239
Depreciation and amortization	8,726	9,003	35,300	33,309
EBITDA	34,689	31,042	120,287	100,752

EBITDA for the fourth quarter of 2014 was \$34.7 million, compared to \$31.0 million in the fourth quarter of 2013, an increase of 11.7% on a year-over-year basis. Increased revenue and gross profit for the fourth quarter of 2014 relative to the same quarter of 2013 is the primary cause for the current increase in EBITDA.

## 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 to fund liabilities as they become due, finance capital expenditures, fund debt repayments, pay dividends and provide flexibility for new investment opportunities. 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 December 31		Twelve month period ended December 31	
	2014	2013	2014	2013
Expressed in thousands of dollars				
Decrease (increase) in accounts receivable	<b>7,947</b>	8,241	<b>(8,438)</b>	(8,126)
(Increase) decrease in inventories	<b>(1,207)</b>	5,777	<b>(10,267)</b>	(6,698)
Decrease (increase) in prepaid expenses and other	<b>2,559</b>	(2,698)	<b>361</b>	(5,886)
(Decrease) increase in accounts payable, accrued liabilities and provisions	<b>(3,723)</b>	2,735	<b>(4,917)</b>	10,412
Changes to non-cash working capital balances	<b>5,576</b>	14,055	<b>(23,261)</b>	(10,298)
Cash provided by operating activities	<b>34,633</b>	38,130	<b>78,576</b>	69,819

In the fourth quarter ended December 31, 2014, the Corporation generated \$34.6 million in cash from operations, compared to \$38.1 million generated in the fourth quarter of 2013. The decrease in cash generated from operations quarter over quarter was primarily due to increased inventory levels and lower accounts payable, accrued liabilities and provisions. Change in accounts payable 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 forecasted customer volume increases.

## Investing Activities

	Three month period ended December 31		Twelve month period ended December 31	
	2014	2013	2014	2013
Expressed in thousands of dollars				
Investment in joint venture	<b>(164)</b>	(132)	<b>(326)</b>	(4,283)
Purchase of property, plant and equipment	<b>(16,699)</b>	(17,828)	<b>(35,481)</b>	(31,299)
Proceeds of disposals of property plant and equipment	<b>166</b>	122	<b>611</b>	486
(Increase) decrease in intangibles and other assets	<b>(1,243)</b>	1,255	<b>(5,945)</b>	(9,293)
Cash used in investing activities	<b>(17,940)</b>	(16,583)	<b>(41,141)</b>	(44,389)

The Corporation's capital expenditures for the fourth quarter of 2014 were \$16.7 million compared to \$17.8 million in the fourth quarter of 2013. The Corporation continues to invest in capital expenditures to enhance its manufacturing capabilities in various geographies and to support new customer programs. Additions to deferred development costs accounted for the majority of the increase in intangibles and other assets.

## Financing Activities

	Three month period ended December 31		Twelve month period ended December 31	
	2014	2013	2014	2013
Expressed in thousands of dollars				
(Decrease) increase in bank indebtedness	<b>(21,807)</b>	12,481	<b>(35,964)</b>	1,830
Increase (decrease) in debt due within one year	<b>1,216</b>	(1,564)	<b>8,515</b>	(1,444)
Decrease in long-term debt	<b>(1,263)</b>	(28,966)	<b>(4,972)</b>	(35,745)
Increase (decrease) in long-term liabilities and provisions	<b>503</b>	(237)	<b>161</b>	(581)
Decrease in borrowings	<b>(491)</b>	(2,592)	<b>(501)</b>	(1,796)
Common share dividend	<b>(3,201)</b>	(1,747)	<b>(10,186)</b>	(3,493)
Cash used by financing activities	<b>(25,043)</b>	(22,625)	<b>(42,947)</b>	(41,229)

On September 30, 2014, 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 amended to a Canadian dollar limit of \$95.0 million (down from \$115.0 million) plus a United States dollar limit of \$35.0 million, and the addition of a British pound £11.0 million limit with a maturity date of September 30, 2018. The operating credit agreement also includes a Canadian \$50.0 million uncommitted accordion provision which provides Magellan with the option to increase the size of the operating credit facility to \$200.0 million. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. Pursuant to the amendment of the operating credit agreement, the guarantee of the facility by the Chairman of the Board of the Corporation, which had supported the Corporation since 2005, was released.

As at December 31, 2014 the Corporation had made contractual commitments to purchase \$17.7 million of capital assets.

## Dividends

During the fourth quarter of 2014, the Corporation declared and paid quarterly cash dividends of \$0.055 per common share representing an aggregated dividend payment of \$3.2 million.



On February 20<sup>th</sup>, 2015, the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of \$0.055 per common share. The dividend will be payable on March 31, 2015 to shareholders of record at the close of business on March 13, 2015.

### **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 March 20, 2015, 58,209,001 common shares were outstanding and no preference shares were outstanding.

## **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 from time to time may use 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 United States dollars. The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. As at December 31, 2014, the Corporation entered into a forward exchange contract to purchase US dollars of \$3.5 million at an exchange rate of \$1.1613 Canadian per \$1.00 US dollar, expiring in January 2015.

### **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.

## **Related Party Transactions**

A summary of Magellan's transactions with related parties

There were no material related party transactions recorded in the fourth quarter of 2014.

## **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, 2014 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2014, which have been filed with SEDAR at [www.sedar.com](http://www.sedar.com).

## **Outlook**

The outlook for Magellan's business in 2015

The commercial aircraft cycle remains on the high from 2014 where airlines recorded one of the most profitable years on record partially as a result of lower fuel prices. Depending upon whether or not this manifests in lower fare prices, the coming year is expected to be healthier as airlines deplete their fuel hedges and take full advantage of continued low fuel costs. Industry experts are debating over the potential long term effect of lower fuel prices on next generation aircraft orders



such as order deferrals or cancellations. The prevailing opinion appears to be that airlines generally have a longer term perspective and that as long as interest rates remain low, the best hedge against volatile fuel prices is more fuel efficient aircraft.

Magellan remains well positioned in the civil aircraft market, particularly due to its participation within the aerostructures segment of its business. Magellan holds positions on all Airbus and Boeing programs and is seeking to increase these positions.

During 2015, Boeing expects to continue the B737 production rate at 42 per month with plans to increase to 47 per month by 2017, and 52 per month by 2018. Airbus plans to increase the A320 rate from 42 per month to 43 within 2015 and 50 by late 2016. The looming challenge faced by both companies in this narrow-body segment will be to raise output over the next three years to accommodate the transition to the new A320 neo and B737 MAX models.

Within the widebody segment, Boeing's B777 build rate is currently at 8.3 per month and is expected to remain steady through 2015. Boeing expects to continue the B787 rate through 2015 at 10 per month with plans to move to 12 per month by 2016 and 14 per month by the end of the decade. The B747 is running at 1.5 per month and is expected to drop to 1.3 per month mid-2015.

Airbus' A380 production rate is expected to remain at 30 per year for the foreseeable future. The A350XWB is expected to ramp up in 2015 from 2.2 per month to a maximum planned rate of 13 per month by 2018.

ATR continues to dominate the turboprop segment of the regional aircraft market and Embraer the jet segment. Within turboprops, Bombardier has succeeded at maintaining a Q400 production rate of approximately 30 per year despite the demise of their deal with Rostec in Russia that would have expanded their market share. Comparatively, ATR will build 83 ATR-42/72 aircraft in 2015. Within the jet segment, Embraer is in the detail design phase for its new E2 family of jets as the current E170/E190 series jets satisfy market demand. Finally, Bombardier celebrates the first flight of their C-Series aircraft after a number of setbacks. Magellan through third party contracts provides products primarily in support of the Bombardier Q400 and does not have an aerostructures support role for the "C-Series" program.

Within the business jet sector, Honeywell predicts in their annual forecast that large-cabin aircraft will represent 75% of business jets delivered by value through this decade. At the same time, Forecast International predicts solid recovery within the small to medium-cabin sector over the next several years. They believe the key to unlocking latent North American demand is continued economic improvement. Airframers are positioning for the recovery in this segment with a number of new products to enter into service such as the HondaJet, Pilatus PC-24 and the Cirrus SF-50. Magellan supports a number of programs within this sector through its aeroengine and casting capabilities.

The recent strength in the civil rotorcraft market had been a welcome refuge from military budget cuts in the past year but this has given way to a much flatter sales landscape. High oil prices which had been favourable to backlogs for oil and gas exploration applications are expected to be scaled back considering low crude prices. As well, the parapublic segment was originally hoped to bring a lift to the market, but the trimming of government budgets may curb potential opportunities. There is positive news as a number of new programs are on the horizon. They are AgustaWestland's AW169 and AW189 both showing strong sales, Bell Helicopter's 505 Jet Ranger X and the 525 Relentless, Airbus' EC175 and then finally their new X4 experimental helicopter.

US spending power will continue to dominate the military helicopter market as it prepares to map out the future modernization of its vast helicopter fleets. New programs such as the Joint Multi-Role Helicopter (JMR) competed between Boeing/Sikorsky's Defiant helicopter and Bell Helicopter's V-280 Valor tiltrotor is one example. In the heavy lift arena, development of the new Sikorsky CH53K heavy lift helicopter continues to make progress.

Still a large unknown in the US defence market is how the government will achieve a sequestration-compliant budget in light of political dysfunction and unforeseen budget demands from new global threats such as ISIS. In the midst of this, there are new-start programs such as F-35 Joint Strike Fighter, KC-46 Tanker, Long Range Strike Bomber and helicopters that compete for budget priorities. Extending out-of-service dates for existing fleets can be beneficial for defence contractors producing legacy platforms, as the new single-source program model can challenge the industry.

Having said this, the F-35 program continues to dominate the global fighter market. During 2014 the program overcame a significant setback as investigators determined the probable cause of the engine problems that triggered a fire on an F-35 fighter jet in July while on the ground. Modifications to the engine and the break in process were implemented allowing the Pentagon to resume the award of contracts for new aircraft and engines. From a program development perspective key milestones were achieved in 2014 including the first flight operations from an aircraft carrier for the F-35C. In July 2015, the US Marines are expected to declare initial-operational-capability ("IOC") of their F-35B's which will represent the first IOC achievement for the program. The USAF is expected to declare their IOC in 2016. Magellan's annual revenues have been



increasing steadily over the years and they have now exceeded \$140 million for the program to date. This trend will continue into 2015 with anticipated significant increases to annual production rates of the F-35 program going forward. A focus on driving costs down has been prominent for the program and this is expected to be maintained as international sales activities increase. The Canadian Government procurement decision for the next generation fighter continues to be addressed within the Government.

### **Additional Information**

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](http://www.sedar.com).

### **Forward Looking Statements**

This news release contains certain forward-looking statements that reflect the current views and/or expectations of the Corporation with respect to its performance, business and future events. Such statements are subject to a number of uncertainties and assumptions, which may cause actual results to be materially different from those expressed or implied. These forward looking statements can be identified by the words such as "anticipate", "continue", "estimate", "forecast", "expect", "may", "project", "could", "plan", "intend", "should", "believe" and similar words suggesting future events or future performance. In particular there are forward looking statements contained under the heading "Overview" which outlines certain expectations for future operations. These statements assume the continuation of the current regulatory and legal environment; the continuation of trends for passenger airliner and defence production and are subject to the risks contained herein and outlined in our annual information form. The Corporation assumes no future obligation to update these forward-looking statements except as required by law.



**MAGELLAN AEROSPACE CORPORATION**  
**CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Three month period ended December 31		Twelve month period ended December 31	
	2014	2013	2014	2013
Revenues	<b>208,942</b>	195,960	<b>843,036</b>	752,126
Cost of revenues	<b>170,784</b>	163,295	<b>709,254</b>	639,799
Gross profit	<b>38,158</b>	32,665	<b>133,782</b>	112,327
Administrative and general expenses	<b>12,341</b>	11,873	<b>48,221</b>	45,481
Other	<b>(146)</b>	(1,247)	<b>574</b>	(597)
Income before interest and income taxes	<b>25,963</b>	22,039	<b>84,987</b>	67,443
Interest	<b>2,062</b>	1,083	<b>7,887</b>	6,721
Income before income taxes	<b>23,901</b>	20,956	<b>77,100</b>	60,722
Income taxes				
Current	<b>1,398</b>	343	<b>4,991</b>	3,893
Deferred	<b>4,648</b>	3,861	<b>15,537</b>	11,346
	<b>6,046</b>	4,204	<b>20,528</b>	15,239
<b>Net income</b>	<b>17,855</b>	16,752	<b>56,572</b>	45,483
<b>Net income per share</b>				
Basic and diluted	<b>0.31</b>	0.29	<b>0.97</b>	0.78
Net Income	<b>17,855</b>	16,752	<b>56,572</b>	45,483
Other comprehensive income that may be reclassified to profit and loss in subsequent periods:				
Foreign currency translation gain	<b>4,884</b>	8,979	<b>14,504</b>	15,842
Other comprehensive (loss) income that will not be reclassified to profit and loss in subsequent periods:				
Actuarial (loss) gain on defined benefit pension plans, net of tax	<b>(5,076)</b>	6,294	<b>(9,452)</b>	15,792
<b>Total comprehensive income, net of tax</b>	<b>17,663</b>	32,025	<b>61,624</b>	77,117

**MAGELLAN AEROSPACE CORPORATION**  
**CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

(unaudited) (expressed in thousands of Canadian dollars)	December 31 2014	December 31 2013
<b>Current assets</b>		
Cash	2,645	7,760
Trade and other receivables	160,989	146,969
Inventories	176,870	160,269
Prepaid expenses and other	12,396	12,461
	<b>352,900</b>	<b>327,459</b>
<b>Non-current assets</b>		
Property, plant and equipment	351,057	331,940
Investment properties	4,370	4,663
Intangible assets	60,588	60,365
Other assets	23,139	24,472
Deferred tax assets	42,499	43,011
	<b>481,653</b>	<b>464,451</b>
<b>Total assets</b>	<b>834,553</b>	<b>791,910</b>
<b>Current liabilities</b>		
Bank indebtedness	–	115,930
Accounts payable and accrued liabilities and provisions	136,976	137,625
Debt due within one year	40,016	30,932
	<b>176,992</b>	<b>284,487</b>
<b>Non-current liabilities</b>		
Bank indebtedness	81,442	–
Long-term debt	43,866	46,154
Borrowings subject to specific conditions	18,777	17,637
Other long-term liabilities and provisions	26,562	15,713
Deferred tax liabilities	27,318	19,761
	<b>197,965</b>	<b>99,265</b>
<b>Equity</b>		
Share capital	254,440	254,440
Contributed surplus	2,044	2,044
Other paid in capital	13,565	13,565
Retained earnings	166,398	129,464
Accumulated other comprehensive income	23,149	8,645
	<b>459,596</b>	<b>408,158</b>
<b>Total liabilities and equity</b>	<b>834,553</b>	<b>791,910</b>

**MAGELLAN AEROSPACE CORPORATION**  
**CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW**

(unaudited) (expressed in thousands of Canadian dollars)	Three month period ended December 31		Twelve month period ended December 31	
	2014	2013	2014	2013
<b>Cash flow from operating activities</b>				
Net income	17,855	16,752	56,572	45,483
Amortization/depreciation of intangible assets and property, plant and equipment	8,726	9,003	35,300	33,309
Loss on disposal of property, plant and equipment	294	288	1,097	576
Impairment reversal	–	(1,312)	–	(1,312)
Increase (decrease) in defined benefit plans	(3,361)	(800)	(2,512)	(2,046)
Accretion	1,004	(800)	2,531	(916)
Deferred taxes	4,645	973	9,155	5,036
Gain on investment in joint venture	(106)	(29)	(306)	(13)
(Increase) decrease in non-cash working capital	5,576	14,055	(23,261)	(10,298)
<b>Net cash provided by operating activities</b>	<b>34,633</b>	<b>38,130</b>	<b>78,576</b>	<b>69,819</b>
<b>Cash flow from investing activities</b>				
Investment in joint venture	(164)	(132)	(326)	(4,283)
Purchase of property, plant and equipment	(16,699)	(17,828)	(35,481)	(31,299)
Proceeds from disposal of property, plant and equipment	166	122	611	486
Decrease (increase) in other assets	(1,243)	1,255	(5,945)	(9,293)
<b>Net cash used in investing activities</b>	<b>(17,940)</b>	<b>(16,583)</b>	<b>(41,141)</b>	<b>(44,389)</b>
<b>Cash flow from financing activities</b>				
(Decrease) increase in bank indebtedness	(21,807)	12,481	(35,964)	1,830
Increase (decrease) in debt due within one year	1,216	(1,564)	8,515	(1,444)
Decrease in long-term debt	(1,263)	(28,966)	(4,972)	(35,745)
Increase (decrease) in long-term liabilities and provisions	503	(237)	161	(581)
Decrease in borrowings	(491)	(2,592)	(501)	(1,796)
Common share dividend	(3,201)	(1,747)	(10,186)	(3,493)
<b>Net cash used in financing activities</b>	<b>(25,043)</b>	<b>(22,625)</b>	<b>(42,947)</b>	<b>(41,229)</b>
<b>Decrease in cash during the period</b>	<b>(8,350)</b>	<b>(1,078)</b>	<b>(5,512)</b>	<b>(15,799)</b>
Cash at beginning of the period	10,880	8,212	7,760	22,423
Effect of exchange rate differences	115	626	397	1,136
<b>Cash at end of the period</b>	<b>2,645</b>	<b>7,760</b>	<b>2,645</b>	<b>7,760</b>