

MAGELLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2015



Magellan Aerospace Corporation – Management's Discussion & Analysis

March 31, 2015

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Magellan Aerospace Corporation ("Magellan" or the "Corporation") should be read in conjunction with the unaudited condensed consolidated interim financial statements and the notes thereto for the three month period ended March 31, 2015, and the audited annual consolidated financial statements for the year ended December 31, 2014 (available on SEDAR at www.sedar.com). Unless otherwise noted, all financial information has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), specifically International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"), which is within the framework of International Financial Reporting Standards ("IFRS"). This MD&A provides a review of the significant developments that have impacted the Corporation's performance during the three month period ended March 31, 2015 relative to the three month period ended March 31, 2014. The information contained in this report is as at May 12, 2015. 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 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.

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Business Update

In the first quarter of 2015, the Corporation announced that a significant agreement had been reached with Pratt & Whitney Canada (“P&WC”), a United Technologies Company for the supply of complex magnesium and aluminum castings. This strategic contract is expected to generate CDN \$250 million in revenue for the Corporation through 2023. The long term agreement with P&WC reinforces the benefits of Magellan’s commitment to developing and implementing the latest in a variety of high technology initiatives at the Corporation’s castings facilities.

On March 4, 2015 Magellan, in partnership with The University of Manitoba, unveiled their new Advanced Satellite Integration Facility (or ASIF) at the Corporation’s Winnipeg facility. The ASIF is an International Organization for Standardization (“ISO”) class 8 clean room facility which can accommodate the assembly of up to three satellites at the same time in full support of current and future Canadian Government satellite programs.

On April 6, 2015 Magellan announced their intent to open a new advanced, precision machining facility in Mielec, Poland. The establishment of this machining facility is complimentary to the Corporation’s existing surface treatment facility in the same area in Poland. The expansion of the Corporation’s capabilities in Poland in conjunction with investments made in India strengthens the Corporation’s competitive advantage and provides direct support to its customers’ growing demand for globalization. It is expected that the Mielec facility will reach full operation capability in the second half of 2015.

For additional information, please refer to the “Management’s Discussion and Analysis” section of the Corporation’s 2014 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan’s operating results for first quarter ended March 31, 2015

The Corporation operates substantially all of its activities in one reportable segment, Aerospace, which include the design, development, manufacture, repair and overhaul and sale of systems and components for defence and civil aviation. The Corporation continues to provide services to the Power Generation segment, however the Corporation has removed the disclosure of this segment as the activity in relation to these services were not material in the current quarter and, at present, they are not expected to be material in future periods.

The Corporation reported higher revenue in the first quarter of 2015 when compared to the first quarter of 2014. Gross profit and net income for the first quarter of 2015 were \$39.2 million and \$19.2 million, respectively, an increase from the first quarter of 2014 gross profit of \$29.5 million and from the first quarter of 2014 net income of \$12.1 million.

Consolidated Revenue

Overall, the Corporation’s consolidated revenues grew by 8.4% when compared to the first quarter of 2014.

	Three month period ended March 31		
	2015	2014	Change
Expressed in thousands of dollars			
Canada	78,551	77,598	1.2%
United States	82,706	67,687	22.2%
Europe	66,996	65,217	2.7%
Total revenues	228,253	210,502	8.4%

Consolidated revenues for the first quarter of 2015 of \$228.3 million were 8.4% higher than revenues of \$210.5 million in the first quarter of 2014. Revenues in Canada were slightly higher in the first quarter of 2015 by 1.2% from the same period in 2014, primarily due to the appreciation of the US dollar in comparison to the Canadian dollar, and an increase in revenues earned in the defence market, offset in part by reduced revenues in the Corporation’s proprietary products, in particular space programs. On a constant currency basis, Canadian revenues decreased in the first quarter of 2015 by 5.2% over the same period of 2014 as a result of lower revenues earned on space programs as these programs progress towards completion. Increased revenues (in Canadian dollar equivalent) of 22.2% in the United States in the first quarter of 2015 in comparison to the first quarter of 2014 were primarily due the stronger United States dollar in comparison to the Canadian dollar during the same periods in 2015 and 2014, and higher production volumes on several of the Corporation’s single aisle and wide body commercial aircraft programs. On a constant currency basis, revenues in the United States increased by 7.4% in the first quarter of 2015 over the same period in 2014. European revenues in the first quarter of 2015 increased 2.7% over revenues in the same period in 2014 primarily due to the strength of the British pound in comparison to the

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Canadian dollar. On a constant currency basis, revenues in the first quarter of 2015 in Europe were consistent with the revenues for the same period in 2014.

Gross Profit

	Three month period ended March 31		
	2015	2014	Change
Expressed in thousands of dollars			
Gross profit	39,195	29,476	32.9%
Percentage of revenues	17.2%	14.0%	

Gross profit of \$39.2 million (17.2% of revenues) was reported for the first quarter of 2015 compared to \$29.5 million (14.0% of revenues) during the same period in 2014. Increased gross profit in the first quarter of 2015 over the same period in 2014 was primarily due to the strengthening year over year of the United States dollar and British pound against the Canadian dollar, favourable product mix and lower costs experienced on new product introduction.

Administrative and General Expenses

	Three month period ended March 31		
	2015	2014	Change
Expressed in thousands of dollars			
Administrative and general expenses	13,115	11,470	14.3%
Percentage of revenues	5.7%	5.5%	

Administrative and general expenses were \$13.1 million (5.7% of revenues) in the first quarter of 2015 compared to \$11.5 million (5.5% of revenues) in the first quarter of 2014. In absolute terms, administrative and general expenses increased during the current quarter relative to the same quarter of the prior year largely 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 March 31		
	2015	2014	
Expressed in thousands of dollars			
Foreign exchange gain	(2,179)	(296)	
Loss (gain) on disposal of property, plant and equipment	101	(47)	
Total other	(2,078)	(343)	

Other income of \$2.1 million in the first quarter of 2015 consisted of realized and unrealized foreign exchange gains and losses recorded on the disposal of property, plant and equipment.

Interest Expense

	Three month period ended March 31		
	2015	2014	
Expressed in thousands of dollars			
Interest on bank indebtedness and long-term debt	971	1,359	
Accretion charge for borrowings and long-term debt	212	80	
Discount on sale of accounts receivable	207	259	
Total interest expense	1,390	1,698	

Interest expense of \$1.4 million in the first quarter of 2015 was lower than the first quarter of 2014 amount of \$1.7 million, as interest on bank indebtedness and long term debt decreased mainly due to lower principal amounts outstanding during the first quarter of 2015 than those in the first quarter of 2014. In addition, the Corporation did not incur any guarantee fees for the operating credit facility during the first quarter of 2015.

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Provision for Income Taxes

	Three month period ended March 31	
	2015	2014
Expressed in thousands of dollars		
Expense of current income taxes	1,490	1,224
Expense of deferred income taxes	6,056	3,348
Total expense of income taxes	7,546	4,572
Effective tax rate	28.2%	27.5%

The Corporation recorded an income tax expense of \$7.5 million in the first quarter of 2015 as compared to an income tax expense of \$4.6 million in the first quarter of 2014. The change in effective tax rates quarter over quarter is a result of a changing mix of income across the different jurisdictions in which the Corporation operates. The increase in deferred income taxes in the first quarter of 2015 compared to the same period in 2014 consisted primarily of net deferred income tax recoveries for changes in temporary differences in various jurisdictions.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

	2015			2014			2013	
	Mar 31	Mar 31	Jun 30	Sep 30	Dec 31	Jun 30	Sep 30	Dec 31
Expressed in millions of dollars, except per share amounts								
Revenues	228.3	210.5	221.0	202.5	208.9	189.9	181.0	195.9
Income before taxes	26.8	16.7	18.8	17.7	23.9	15.5	13.2	21.0
Net Income	19.2	12.1	13.6	13.0	17.9	11.2	9.5	16.8
Net Income per share								
Basic and diluted	0.33	0.21	0.23	0.22	0.31	0.19	0.16	0.29
EBITDA	37.4	27.1	30.2	28.3	34.7	25.6	22.9	31.0

The Corporation reported its highest quarterly revenues and net income in its history in the first quarter of 2015. Revenues and net income reported in the quarterly information were impacted positively by the fluctuations 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 first quarter of 2015 fluctuated reaching a low of 1.1599 and a high of 1.2783. During the first quarter of 2015, the British pound relative to the Canadian dollar fluctuated reaching a low of 1.7832 and a high of 1.9449. Had the foreign exchange rates remained at levels experienced in the first quarter of 2014, reported revenues in the first quarter of 2015 would have been lower by \$16.5 million.

Net income for the first quarter of 2015, and the fourth quarters of 2014 and 2013 of \$19.2 million, \$17.9 million and \$16.8 million, respectively, was higher than all other quarterly net income shown in the table above. In the first quarter of 2015, movements of the US dollar and British pound in relation to the Canadian dollar favourably impacted net income. In the fourth quarter of 2013 the Corporation recognized a reversal of previous impairment losses against intangible assets relating to various commercial aircraft programs and in the fourth quarter of 2013 and 2014 the Corporation recognized previously unrecognized investment tax credits.

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.

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	Three month period ended March 31	
	2015	2014
Expressed in thousands of dollars		
Net income	19,222	12,079
Interest	1,390	1,698
Taxes	7,546	4,572
Depreciation and amortization	9,194	8,781
EBITDA	37,352	27,130

EBITDA for the first quarter of 2015 was \$37.4 million, compared to \$27.1 million in the first quarter of 2014, an increase of 37.7% on a year-over-year basis. Increased gross profit and gains recognized on foreign exchange in the first quarter of 2015 resulted in higher EBITDA when compared to the first quarter of 2014.

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 March 31	
	2015	2014
Expressed in thousands of dollars		
Increase in trade receivables	(26,659)	(13,478)
Increase in inventories	(6,817)	(4,002)
Decrease in prepaid expenses and other	833	293
Increase (decrease) in accounts payable, accrued liabilities and provisions	5,985	(3,675)
Changes to non-cash working capital balances	(26,658)	(20,862)
Cash provided by operating activities	6,962	1,950

In the quarter ended March 31, 2015, the Corporation generated \$6.9 million in cash from operations, compared to \$1.9 million in the first quarter of 2014. Cash was generated by an increase in net income and in accounts payable, accrued liabilities and provisions, offset in part by increases in accounts receivables, and an increase in inventory levels.

Investing Activities

	Three month period ended March 31	
	2015	2014
Expressed in thousands of dollars		
Purchase of property, plant and equipment	(6,059)	(6,564)
Proceeds of disposal of property plant and equipment	192	71
Increase in other assets	(2,612)	(3,099)
Cash used in investing activities	(8,479)	(9,592)

The Corporation's capital expenditures for the first quarter of 2015 were \$6.1 million compared to \$6.6 million in the first quarter of 2014. The Corporation continues to invest in capital expenditures to enhance its manufacturing capabilities in various geographies and to support new customer programs.

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Financing Activities

	Three month period ended March 31	
	2015	2014
Expressed in thousands of dollars		
Increase in bank indebtedness	1,367	5,497
Increase in debt due within one year	2,969	5,743
Decrease in long-term debt	(994)	(1,345)
Increase in long-term debt	276	—
Increase in long-term liabilities and provisions	740	107
Increase in borrowings subject to specific conditions	85	—
Common share dividend	(3,202)	(2,328)
Cash provided by financing activities	1,241	7,674

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 US dollar limit of US\$35.0 million, and the addition of a British pound limit of £11.0 million with a maturity date of September 30, 2018. The operating credit agreement also includes a Canadian \$50.0 million uncommitted accordion provision which provides the Corporation with the option to increase the size of the operating credit facility. 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 March 31, 2015 the Corporation has made contractual commitments to purchase \$16.9 million of capital assets.

Dividends

During the first quarter of 2015, the Corporation declared and paid quarterly cash dividends of \$0.055 per common shares representing an aggregating dividend payment of \$3.2 million.

Subsequent to March 31, 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 June 30, 2015 to shareholders of record at the close of business on June 12, 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 May 1, 2015, 58,209,001 common shares were outstanding and no preference 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 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. The Corporation had no material foreign exchange contracts outstanding as at March 31, 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.

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7. Related Party Transactions

A summary of Magellan's transactions with related parties

During the three month period ended March 31, 2014, the Corporation paid guarantee fees in the amount of \$0.2 million to the Chairman of the Board of the Corporation. Upon renewal of the operating credit facility on September 30, 2014, the guarantee provided by the Chairman of the Board of the Corporation was released.

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, 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.

9. Changes in Accounting Policies

A description of accounting standards adopted in the current year

The following new standards, and amendments to standards and interpretations, are effective for the first time for interim periods beginning on or after January 1, 2015 and have been applied in preparing the consolidated interim financial statements.

Employee Benefits

In November 2013, Defined Benefit Plans: Employee Contributions was issued to amend IAS 19, *Employee Benefits*. These narrow scope amendments simplify the accounting for contributions to defined benefit plans. These amendments are effective for annual periods beginning on or after July 1, 2014, with earlier application permitted. As at January 1, 2015, the Corporation adopted the amendments and there was no material impact on the condensed interim financial statements.

Operating Segments

The Annual Improvements to IFRSs 2010-2012 included amendments to IFRS, *Operating Segments*. This standard has been amended to require (i) disclosure of judgements made by a company's management in aggregating segments, and (ii) a reconciliation of segment assets to the entity's assets when a measure of segment is reported to the Chief Operating Decision Maker. These amendments are effective for annual periods beginning on or after July 1, 2014. As at January 1, 2015, the Corporation adopted this pronouncement and there was no material impact on the condensed interim financial statements.

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 March 31, 2015, and have not been applied in preparing these condensed consolidated interim financial statements. These changes are not yet adopted by the Corporation and could have an impact on future periods. These changes are described in detail in the Corporation's 2014 audited annual consolidated financial statements.

- IFRS 15, *Revenue from Contracts with Customers*
- IFRS 9, *Financial Instruments*
- Amendments to IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets*
- Amendments to IFRS 11, *Joint Arrangements*
- Amendments to IFRS 10, *Consolidated Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures*

The Corporation is in the process of evaluating the impact of adopting these standards on the Corporation's consolidated financial statements.

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11. Critical Accounting Estimates

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

In the 2014 audited annual 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 1 to the audited consolidated financial statements for the year ended December 31, 2014 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 March 31, 2015 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 2015

The Corporation expects that its position and participation in the commercial aircraft market, predominately in support of Airbus and Boeing platforms, will remain strong throughout 2015. Both Airbus and Boeing continue to track to their published production forecasts which reflect ongoing rate increases on the single aisle aircraft programs. Additional new product introductions, which Magellan supports, A320neo, A330neo, A350, B737max and the B787-9 are all developing along published projections. The Corporation anticipated a softening in the wide-body production rates specifically on the A380 and will experience no adverse financial impacts from the planned production rate reduction to twenty-four aircraft per year from thirty aircraft per year.

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. Airframers are positioning for the recovery in this segment with a number of new products expected to enter into service such as the HondaJet, Pilatus PC-24 and the Sirrus SF-50. Magellan supports a number of programs within this sector through its aeroengine and casting capabilities.

The civil rotorcraft market and the military market that Magellan supports is expected to experience a much flatter sales landscape in 2015. Contributing to the reduction in demand for helicopters, is the current slowdown in oil and gas exploration market. In addition, the parapublic segment was originally hoped to bring a lift to the market, but the trimming of government budgets may curb potential opportunities. A number of new programs on the horizon are expected to offset these setbacks. The AgustaWestland's AW169 and AW189, Bell Helicopter's 505 Jet Ranger X and the 525 Relentless, Airbus' EC175 and then finally their new X4 experimental helicopter represent potential market opportunities for Magellan.

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US spending power will continue to dominate the military helicopter market as it prepares to map out the future modernization of its 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.

In the US defence market, the US government is focused on achieving a sequestration-compliant budget while insuring they have a sustainable capability to manage the current political unrest and the budget demands created by the need to manage 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. The extending of out-of-service dates for existing fleets will be beneficial for defence contractors like Magellan who provide products for legacy platforms.

Of particular interest to the Corporation, the F-35 program continues to dominate the global fighter market. During the first quarter of 2015 the program has achieved a number of significant milestones including;

- The US Marine Corps declaration that initial operating capability has been achieved, the first for the program,
- The first rollout of a completed aircraft from Italy's final assembly facility, and
- The on-time delivery of the 200th aircraft from Lockheed Martin's Fort Worth factory.

Magellan's annual revenues related to the F-35 program have been increasing steadily over the years and they have now exceeded \$165 million for the program to date. This growth trend has continued 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.