



QUARTERLY REPORT

JUNE 30, 2015



Magellan Aerospace Corporation – Management’s Discussion & Analysis

June 30, 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 and six month periods ended June 30, 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 June 30, 2015 relative to the three month period ended June 30, 2014. The information contained in this report is as at August 7, 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

Magellan Aerospace exhibited at the 2015 Paris International Air Show held in June in Le Bourget, France. Magellan considers this event as one of its primary venues to meet key customers and discuss alignment of business strategies. The theme in Paris this year was less about announcing new programs and orders, and more about new program demands and execution. OEM’s are acutely focused on the global supply chain’s capacity and readiness to manage the growth in both the commercial and military aircraft market, with particular concern in supporting the steep ramp up of new single aisle production. This show was the first opportunity for the Corporation to promote the added maintenance, repair and overhaul (“MRO”) capabilities of Euravia Engineering & Supply Co. (“Euravia”), which was acquired by Magellan in May 2015. Also during the show, Magellan announced the signing of a Memorandum of Understanding with Mahindra Aerospace, establishing a framework to offer mutual customers major structural assemblies, machined components and fabrications for the global market.

During the quarter, the Corporation announced the acquisition of Euravia, an aviation company that provides MRO solutions for a wide range of aircraft and helicopter gas turbine engines. Euravia is located in Lancashire, UK and holds 19 international approvals supporting over 150 civil and defence customers in 50 countries. Euravia’s revenues for the fiscal year ending December 31, 2014 were approximately \$25.5M (£14.0M). This acquisition complements Magellan’s existing repair and overhaul capability in North America. On June 29, 2015, Magellan announced that Euravia had been selected to provide PT6T and PT6C engine MRO for Petroleum Air Services (“PAS”). The contract is expected to generate US \$6 million over a 3 year period. PAS is a major airline providing oil industry support and commercial passenger services across Egypt.

On the space side, Magellan continues to make progress on the Canadian Space Agency’s RADARSAT Constellation Mission (RCM) satellite bus contract. The Company has delivered two of three payload modules to the customer. The first bus is assembled and undergoing testing with the second in assembly. Magellan is leveraging its expertise in this field and targeting new markets for satellite buses, spacecraft avionics and potentially satellites providing broadband internet services.

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 the second quarter ended June 30, 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 three and six month periods ended June 30, 2015 and, at present, they are not expected to be material in future periods.

The Corporation reported higher revenue in the second quarter of 2015 of \$234.4 million when compared to the second quarter of 2014 of \$221.1 million. Gross profit and net income for the second quarter of 2015 were \$40.8 million and \$16.5 million, respectively, an increase from the second quarter of 2014 gross profit of \$34.5 million and net income of \$13.6 million.

Consolidated Revenue

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2015	2014	Change	2015	2014	Change
Canada	78,295	92,204	(15.1%)	156,846	169,803	(7.6%)
United States	84,726	68,109	24.4%	167,432	135,796	23.3%
Europe	71,418	60,737	17.6%	138,414	125,953	9.9%
Total revenues	234,439	221,050	6.1%	462,692	431,552	7.2%

Consolidated revenues for the second quarter of 2015 of \$234.4 million were 6.1% higher than revenues of \$221.1 million in the second quarter of 2014. Revenues in Canada in the second quarter of 2015 decreased 15.1% from the same period in 2014. Decreased revenues were mainly attributed to a decline in volumes on the Corporation’s proprietary products and in the defence market. The lower revenues were partially offset by higher production volumes on the Corporation’s commercial aircraft programs and the appreciation of the US dollar in comparison to the Canadian dollar. On a constant currency basis,

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Canadian revenues decreased in the second quarter of 2015 by 21.1% over the same period of 2014 as a result of lower revenues earned. Increased revenues of 24.4% in the United States in the second quarter of 2015 in comparison to the second 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 commercial aircraft programs. On a constant currency basis, revenues in the United States increased by 10.3% in the second quarter of 2015 over the same period in 2014. European revenues in the second quarter of 2015 increased 17.6% over revenues in the same period in 2014 partially due to an increase in revenues on the Airbus statement of work and the strengthening of the British pound in comparison to the Canadian dollar. On a constant currency basis, revenues in the second quarter of 2015 in Europe increased by 14.4% over the same period in 2014. The acquisition of Euravia, which was included in operations from May 15, 2015, also contributed to the higher revenues earned in Europe in the second quarter of 2015.

Gross Profit

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2015	2014	Change	2015	2014	Change
Gross profit	40,832	34,497	18.3%	80,027	63,973	25.1%
Percentage of revenues	17.4%	15.6%		17.3%	14.8%	

Gross profit of \$40.8 million (17.4% of revenues) was reported for the second quarter of 2015 compared to \$34.5 million (15.6% of revenues) during the same period in 2014. Increased gross profit in the second 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 and the change in mix of revenues across the Corporation’s geographic locations.

Administrative and General Expenses

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2015	2014	Change	2015	2014	Change
Administrative and general expenses	14,603	11,802	23.7%	27,718	23,272	19.1%
Percentage of revenues	6.2%	5.3%		6.0%	5.4%	

Administrative and general expenses were \$14.6 million (6.2% of revenues) in the second quarter of 2015 compared to \$11.8 million (5.3% of revenues) in the second 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. In addition, the acquisition of Euravia, including acquisition related transaction costs of \$0.5 million, increased administrative and general expenses in the three months ended June 30, 2015 versus the same period in 2014.

Other

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2015	2014	2015	2014
Foreign exchange loss	2,251	610	72	314
Loss on disposal of property, plant and equipment	375	811	476	764
Total other	2,626	1,421	548	1,078

Other expense of \$2.7 million in the second quarter of 2015 consisted of realized and unrealized foreign exchange losses and losses recorded on the disposal of property, plant and equipment.

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Interest Expense

	Three month period ended June 30		Six month period ended June 30	
	2015	2014	2015	2014
Expressed in thousands of dollars				
Interest on bank indebtedness and long-term debt	1,002	1,212	1,973	2,431
Accretion charge on borrowings and long-term debt	268	1,050	480	1,360
Discount on sale of accounts receivable	225	206	432	375
Total interest expense	1,495	2,468	2,885	4,166

Interest expense of \$1.5 million in the second quarter of 2015 was lower than the second quarter of 2014 amount of \$2.5 million, primarily as a result of a decrease in non-cash accretion expense in the current quarter when compared to the same period in 2014. The decrease in interest on bank indebtedness and long-term debt quarter over quarter is mainly due to repayment of debt resulting in lower principal amounts outstanding during the second quarter of 2015 than those in the second quarter of 2014. In addition, the Corporation did not incur any guarantee fees for the operating credit facility during the second quarter of 2015.

Provision for Income Taxes

	Three month period ended June 30		Six month period ended June 30	
	2015	2014	2015	2014
Expressed in thousands of dollars				
Current income tax expense	2,792	1,014	4,282	2,238
Deferred income tax expense	2,849	4,186	8,905	7,534
Income tax expense	5,641	5,200	13,187	9,772
Effective tax rate	25.5%	27.7%	27.0%	27.6%

The Corporation recorded an income tax expense of \$5.6 million in the second quarter of 2015 as compared to an income tax expense of \$5.2 million in the second 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 decrease in deferred income tax expense in the second quarter of 2015 consisted primarily of changes in temporary differences in various jurisdictions.

3. Selected Quarterly Financial Information

A summary view of Magellan’s quarterly financial performance

	2015		2014			2013		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Expressed in millions of dollars, except per share amounts								
Revenues	234.4	228.3	208.9	202.5	221.0	210.5	195.9	181.0
Income before taxes	22.1	26.8	23.9	17.7	18.8	16.7	21.0	13.2
Net Income	16.5	19.2	17.9	13.0	13.6	12.1	16.8	9.5
Net Income per share								
Basic and diluted	0.28	0.33	0.31	0.22	0.23	0.21	0.29	0.16
EBITDA	33.5	37.4	34.7	28.3	30.2	27.1	31.0	22.9

The Corporation reported its highest quarterly revenues in its history in the second 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 second quarter of 2015 fluctuated reaching a low of 1.1957 and a high of 1.2699. During the second quarter of 2015, the British pound relative to the Canadian dollar fluctuated reaching a low of 1.8237 and a high of 1.9626. Had the foreign exchange rates remained at levels experienced in the second quarter of 2014, reported revenues in the second quarter of 2015 would have been lower by \$17.1 million.

Net income for the second quarter of 2015, the first quarter of 2015, and the fourth quarters of 2014 and 2013 of \$16.5 million, \$19.2 million, \$17.9 million and \$16.8 million, respectively, were higher than all other quarterly net income shown in the table above. In the second and first quarter of 2015, movements of the US dollar and British pound in relation to the Canadian dollar favourably impacted net income. Somewhat offsetting the favourable transactional currency movement in the second quarter of 2015, the Corporation recorded a loss on translation of its foreign currency liabilities within Canada and Europe. In the fourth quarter of 2013 the Corporation recognized a reversal of previous impairment losses against

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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.

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2015	2014	2015	2014
Net income	16,467	13,606	35,689	25,685
Interest	1,495	2,468	2,885	4,166
Taxes	5,641	5,200	13,187	9,772
Depreciation and amortization	9,918	8,917	19,112	17,698
EBITDA	33,521	30,191	70,873	57,321

EBITDA for the second quarter of 2015 was \$33.5 million, compared to \$30.2 million in the second quarter of 2014, an increase of 11.0% on a year-over-year basis. Increased gross profit in the second quarter of 2015, offset somewhat by foreign exchange losses on translation, resulted in higher EBITDA when compared to the second 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 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

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2015	2014	2015	2014
Decrease (increase) in accounts receivable	2,728	(3,206)	(23,931)	(16,684)
(Increase) decrease in inventories	(942)	256	(7,759)	(3,746)
Increase in prepaid expenses and other	(2,549)	(660)	(1,716)	(367)
Increase (decrease) in accounts payable, accrued liabilities and provisions	8,168	(1,563)	14,153	(5,238)
Changes in non-cash working capital balances	7,405	(5,173)	(19,253)	(26,035)
Cash provided by operating activities	36,070	21,709	43,032	23,659

In the quarter ended June 30, 2015, the Corporation generated \$36.1 million in cash from operations, compared to \$21.7 million in the second quarter of 2014. The increase in cash generated from operations was primarily due to improvement in working capital balances. Decreased accounts receivables, an increase in accounts payable, accrued liabilities and

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provisions, offset in part by an increase in prepaid expenses and other resulted in a \$12.6 million increase in cash provided by changes in non-cash working capital balances.

Investing Activities

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2015	2014	2015	2014
Acquisition	(50,462)	—	(50,462)	—
Purchase of property, plant and equipment	(8,921)	(4,966)	(14,980)	(11,530)
Proceeds of disposals of property plant and equipment	107	259	299	330
Increase in intangibles and other assets	(921)	(5,672)	(3,533)	(8,771)
Cash used in investing activities	(60,197)	(10,379)	(68,676)	(19,971)

In May 2015, the Corporation invested \$50.5 million, net of cash acquired, in the acquisition of Euravia. The Corporation’s capital expenditures for the second quarter of 2015 were \$8.9 million compared to \$5.0 million in capital expenditures in the second quarter of 2014. The capital expenditures were incurred primarily to enhance the Corporation’s manufacturing capabilities in various geographies and to support new customer programs.

Financing Activities

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2015	2014	2015	2014
Increase (decrease) in bank indebtedness	39,748	(9,624)	41,115	(4,127)
Increase in debt due within one year	323	402	3,292	6,145
Decrease in long-term debt	(2,961)	(1,170)	(3,955)	(2,515)
Increase in long-term debt	—	—	276	—
Increase (decrease) in long-term liabilities and provisions	28	(536)	768	(429)
Increase (decrease) in borrowings	99	(534)	184	(534)
Common share dividend	(3,201)	(2,328)	(6,403)	(4,656)
Cash provided by (used in) financing activities	34,036	(13,790)	35,277	(6,116)

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.

The Corporation’s operating credit facility was drawn during the second quarter of 2015 to finance the acquisition of Euravia.

As at June 30, 2015 the Corporation has made contractual commitments to purchase \$12.9 million of capital assets.

Dividends

During the second 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 June 30, 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 September 30, 2015 to shareholders of record at the close of business on September 11, 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 August 1, 2015, 58,209,001 common shares were outstanding and no preference shares were outstanding.

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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. As at June 30, 2015 the Corporation had foreign exchange contracts outstanding as follows:

Foreign exchange forward contracts	Amount	Rate
Maturity – less than 1 year – US Dollar - buy	3,500	1.2229

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 June 30, 2015.

The mark-to-market on these financial instruments as at June 30, 2015 was an unrealized gain of \$0.1 million which has been recorded in other income 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 June 30, 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.

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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 June 30, 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*
 - The IASB deferred the effective date of the standard by one year to January 1, 2018.
- 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.

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 annual 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 June 30, 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

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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

Boeing’s June 2015 Current Market Outlook confirmed a “strong, growing market being driven by expansion and emerging economies”. The commercial aircraft backlog currently reflects an estimated nine years’ worth of production orders. Boeing predicts that the global commercial fleet will double in the next 20 years requiring approximately 38,000 new aircraft. Pure market growth will account for 58% of this number with replacements representing 42%. The new fleet of over 43,000 aircraft by 2034, will be comprised of 70% single-aisle aircraft from what is 65% today.

Boeing previously announced a B737 build rate of 52 aircraft per month for 2018 and maintains that this record rate reflects the appetite of a strong global market demand. This compares to the current rate of 42 aircraft per month in 2015 and a planned rate of 47 aircraft per month in 2017. In the first quarter of 2015 Airbus announced a rate increase from the current A320 production rate of 42 aircraft per month to 50 aircraft per month beginning in the first quarter of 2017 to match market demand.

In the wide-body market, Airbus is considering a rate of 13 or 14 aircraft per month in 2018 for their A350XWB, an increase from the planned build of 32 aircraft in 2015. Airbus plans to build 29 A380’s in 2015 with reductions to the rate to 2 per month in the following year. Airbus announced it will reduce the rate for its A330 family to 6 aircraft per month from the current rate of 8.5 aircraft per month commencing in the first quarter of 2016 as it transitions toward the A330 NEO. Boeing is forecasting 787 build rates to reach 12 aircraft per month in 2016 and then reach 14 aircraft per month thereafter from the current rate of 10 aircraft per month. The 777 build rate remains at 8.3 aircraft per month. In June 2015, Boeing announced a 747 build rate cut to 1 aircraft per month from 1.3 aircraft per month, effective March 2016 to account for the soft cargo market demand. Finally, the 767 build rate will be at 1.5 aircraft per month through the first quarter of 2016 after which it will step to 2 aircraft per month.

The regional turboprop aircraft market has traditionally been led by Bombardier and Embraer, but new entrants to the market, such as COMAC’s ARJ21, Mitsubishi’s MRJ and Sukhoi’s S100, are expected to challenge them for market share in certain regions. The established two are developing their latest new platforms, Bombardier with the C-Series and Embraer with the new E2 lines, both of which use the new Pratt & Whitney PW1000 Geared Turbofan engine. In the regional turboprop market Bombardier and ATR dominate the market, with ATR holding the larger market share. They too are being challenged by new aircraft such as AVIC’s MA700 turboprop, which will enter the 60 – 99 seat market with a goal to gain a third of the market share. This aircraft will use a derivative of the PW150 engine that Bombardier uses in its Q400. Both Bombardier and ATR were considering a move to enter the upper (90-seat) end of this segment, but neither is expected to do so at this time.

It is well recognized that global defence spending is in decline due to reduced armed conflict in Iraq and Afghanistan. According to Deloitte’s 2015 Industry Outlook, the top 20 US defence companies experienced a 2.5% decline in revenues in 2013 and a 2.1% decline in 2014. Overall there has been a 9.7% decline since 2010. Deloitte says that the “global defence industry...will be challenged in two major ways: how to grow profitably in a declining market and what actions are necessary to cut costs to maintain acceptable financial performance.” One approach being taken in the defence helicopter segment, is where companies are teaming together to share development costs on new programs, such as Boeing and Sikorsky on the Joint Multi-Role (JMR) helicopter program. Other actions are more drastic, such as United Technologies Corporation’s (UTC) decision to spin off their Sikorsky Aircraft division. Defence companies may also be forced to invest their own funds into new programs. What this all means for the supply chain, is added pressure to cut costs, to share in new program development costs and to possibly consolidate to obtain the necessary critical mass to participate in future defence programs.

The F-35 program continues to gain momentum. Production is ramping up to deliver annual quantities of over 100 aircraft by 2019 and Magellan’s participation will be growing accordingly. The F-35 program surpassed 30,000 flight hours recently, doubling the previous expended hours in one year. Extensive testing and training has been applied in support of the U.S. Marines target date for reaching Initial Operating Capacity. The first of 72 F-35A’s required at Hill AFB will likely be

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completed in September 2015. The F-35 Joint Strike Fighter was on display at this year’s Experimental Aircraft Association AirVenture event in Oshkosh, Wisconsin.

Civil helicopter markets, according to Honeywell’s 2015 Global Outlook, are “stable despite a pullback in 2014 deliveries and ongoing concerns with the energy sector.” Their forecast shows a moderate improvement over the next five year period which is driven by increased utilization rates and replacement cycles in the tourism and parapublic sectors. The energy sector shows near term volatility due to energy markets with a longer term positive outlook coming from the emerging super-medium class helicopters such as AW189, Bell 525 and EC175. On the defence helicopter side, Airbus with its EC175, won from Poland one of the largest European procurement programs since the economic crisis. They beat out Sikorsky and AgustaWestland on a US \$3.0 billion deal to replace Poland’s Soviet-era military helicopters. Otherwise, the defence helicopter market continues to deal with global defence budget cuts.

Overall the Corporation continues to be confident in its positioning in the aerospace market. Magellan intends to be conservative in its approach and commitments to sectors of the industry that are experiencing stress from reduced demands and it is expected that current demands for high volume Magellan commodities will offset these known weaknesses.



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 June 30		Six month period ended June 30	
		2015	2014	2015	2014
Revenues	12	234,439	221,050	462,692	431,552
Cost of revenues		193,607	186,553	382,665	367,579
Gross profit		40,832	34,497	80,027	63,973
Administrative and general expenses		14,603	11,802	27,718	23,272
Other		2,626	1,421	548	1,078
Income before interest and income taxes		23,603	21,274	51,761	39,623
Interest		1,495	2,468	2,885	4,166
Income before income taxes		22,108	18,806	48,876	35,457
Income taxes					
Current	8	2,792	1,014	4,282	2,238
Deferred	8	2,849	4,186	8,905	7,534
		5,641	5,200	13,187	9,772
Net income		16,467	13,606	35,689	25,685
Other comprehensive income					
Items that may be reclassified to profit and loss in subsequent periods:					
Foreign currency translation gain (loss)		3,364	(6,079)	21,183	3,222
Items not to be reclassified to profit and loss in subsequent periods:					
Actuarial gain (loss) on defined benefit pension plans, net of tax		3,660	(1,173)	2,210	(4,376)
Total comprehensive income, net of tax		23,491	6,354	59,082	24,531
Net income per share					
Basic and diluted	9	0.28	0.23	0.61	0.44

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	June 30 2015	December 31 2014
Current assets			
Cash	4	12,665	2,645
Trade and other receivables		203,951	160,989
Inventories		200,462	176,870
Prepaid expenses and other		14,991	12,396
		432,069	352,900
Non-current assets			
Property, plant and equipment		368,394	351,057
Investment properties		4,812	4,370
Goodwill and intangible assets	4,5	103,013	60,588
Other assets		27,163	23,139
Deferred tax assets		38,094	42,499
		541,476	481,653
Total assets		973,545	834,553
Current liabilities			
Accounts payable and accrued liabilities and provisions		168,081	136,976
Debt due within one year		45,308	40,016
		213,389	176,992
Non-current liabilities			
Bank indebtedness	6	125,550	81,442
Long-term debt		41,370	43,866
Borrowings subject to specific conditions		19,106	18,777
Other long-term liabilities and provisions	7	29,349	26,562
Deferred tax liabilities		32,506	27,318
		247,881	197,965
Equity			
Share capital		254,440	254,440
Contributed surplus		2,044	2,044
Other paid in capital		13,565	13,565
Retained earnings		197,894	166,398
Accumulated other comprehensive income		44,332	23,149
		512,275	459,596
Total liabilities and equity		973,545	834,553

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	Foreign currency translation	Total equity
December 31, 2014	254,440	2,044	13,565	166,398	23,149	459,596
Net income for the period	-	-	-	35,689	-	35,689
Other comprehensive income for the period	-	-	-	2,210	21,183	23,393
Common share dividend	-	-	-	(6,403)	-	(6,403)
June 30, 2015	254,440	2,044	13,565	197,894	44,332	512,275
December 31, 2013	254,440	2,044	13,565	129,464	8,645	408,158
Net income for the period	-	-	-	25,685	-	25,685
Other comprehensive (loss) income for the period	-	-	-	(4,376)	3,222	(1,154)
Common share dividend	-	-	-	(4,656)	-	(4,656)
June 30, 2014	254,440	2,044	13,565	146,117	11,867	428,033

See accompanying notes to condensed consolidated interim financial statements



MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

(unaudited) (expressed in thousands of Canadian dollars)	Notes	Three month period ended June 30		Six month period ended June 30	
		2015	2014	2015	2014
Cash flow from operating activities					
Net income		16,467	13,606	35,689	25,685
Amortization/depreciation of intangible assets and property, plant and equipment		9,918	8,917	19,112	17,698
Loss on disposal of property, plant and equipment		375	811	476	764
(Decrease) increase in defined benefit plans		(22)	934	(178)	513
Accretion		269	1,032	481	1,322
Deferred taxes		1,698	1,618	6,604	3,828
(Income) loss on investments in joint ventures		(40)	(36)	101	(116)
Increase (decrease) in non-cash working capital		7,405	(5,173)	(19,253)	(26,035)
Net cash provided by operating activities		36,070	21,709	43,032	23,659
Cash flow from investing activities					
Acquisition		(50,462)	–	(50,462)	–
Purchase of property, plant and equipment		(8,921)	(4,966)	(14,980)	(11,530)
Proceeds from disposal of property, plant and equipment		107	259	299	330
Increase in other assets		(921)	(5,672)	(3,533)	(8,771)
Net cash used in investing activities		(60,197)	(10,379)	(68,676)	(19,971)
Cash flow from financing activities					
Increase (decrease) in bank indebtedness	6	39,748	(9,624)	41,115	(4,127)
Increase in debt due within one year		323	402	3,292	6,145
Decrease in long-term debt		(2,961)	(1,170)	(3,955)	(2,515)
Increase in long-term debt		–	–	276	–
Increase (decrease) in long-term liabilities and provisions		28	(536)	768	(429)
Increase (decrease) in borrowings		99	(534)	184	(534)
Common share dividend	9	(3,201)	(2,328)	(6,403)	(4,656)
Net cash provided by (used in) financing activities		34,036	(13,790)	35,277	(6,116)
Increase (decrease) in cash during the period		9,909	(2,460)	9,633	(2,428)
Cash at beginning of the period		2,608	8,124	2,645	7,760
Effect of exchange rate differences		148	(143)	387	189
Cash at end of the period		12,665	5,521	12,665	5,521

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)

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 engineers and manufactures aeroengine and aerostructure components for aerospace markets, including 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 through repair and overhaul services and supplies in certain circumstances parts and equipment for power generation projects.

2. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("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, 2014, except for the new accounting pronouncements which have been adopted as disclosed in Note 3.

The Corporation accounts for business combinations using the acquisition method, under which the acquirer measures the cost of the business combination as the total of the fair values, at the date of exchange, of the assets obtained, liabilities incurred and equity instruments issued by the acquirer in exchange for control of the acquiree. Goodwill is measured as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally the fair value) of the identifiable assets and liabilities assumed, measured as at the acquisition date. Transaction costs, other than those associated with issue of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

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, 2014, 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 August 7, 2015.

3. ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS

The Corporation has adopted the new and amended International Financial Reporting Standards ("IFRS") pronouncements listed below as at January 1, 2015, in accordance with the transitional provisions outlined in the respective standards.

a) *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 consolidated interim financial statements.

b) *Operating Segments*

The Annual Improvements to IFRSs 2010-2012 included amendments to IFRS 8, *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 assets is reported to the Chief Operating Decisions 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 consolidated interim financial statements.



c) Recent accounting pronouncements not yet adopted

The IASB has issued new standards and amendments to existing standards. 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 consolidated financial statements.

- IFRS 15, *Revenue from Contracts with Customers*
 - On July 22, 2015, the IASB deferred the effective date of the standard by one year to January 1, 2018.
- 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.

4. ACQUISITION

On May 15, 2015, the Corporation purchased all of the issued and outstanding shares of the capital stock of Euravia Engineering & Supply Co. Limited ("Euravia"), an aviation company that provides maintenance, repair and overhaul solutions for a wide range of aircraft and helicopter gas turbine engines. This acquisition in the United Kingdom complements the Corporations' existing repair and overhaul capabilities in North America.

The total consideration payable to the seller at closing was \$70,209 in cash, or \$59,146 net of cash acquired of \$11,063. Included in the cash consideration paid on the acquisition date, is an estimated contingent consideration payable of \$8,343 to the owner of which \$4,171 has been recorded in accounts payable and accrued liabilities and provisions and \$4,172 has been recorded in other long-term liabilities and provisions. The estimated contingent consideration payable is based on the annual adjusted profit before interest and taxes of Euravia over a two year period, starting January 1, 2015. The contingent consideration payable provides for a minimum payment of \$6,357 and a maximum payment of \$10,429.

Accounting guidance requires that identifiable assets acquired and liabilities assumed be reported at fair value as of the acquisition date of a business combination. The following table summarizes the preliminary fair values of Euravia assets and liabilities

	Amount
Current assets	18,351
Non-current assets	1,556
Goodwill and intangible assets	44,152
Current liabilities	(4,818)
Deferred tax liabilities	(95)
	59,146
Cash in subsidiary acquired	11,063
Total purchase consideration ¹	70,209

¹Includes amount of \$8,343 deposited in an escrow account in connection with the acquisition.

The fair value of the assets acquired and liabilities assumed remain subject to completion. Under IFRS, the preliminary allocation of the purchase price to the tangible and intangible assets and liabilities acquired may change up to a period of one year from the date of the acquisition. Accordingly, the Corporation may adjust the amounts recorded as of June 30, 2015 to reflect the final valuations of the assets acquired or liabilities assumed. Material adjustments, if any, to provisional amounts in subsequent periods, will be reflected retrospectively as required.

The Corporation incurred acquisition-related costs of \$523 relating to external legal fees, consulting fees and due diligence costs that are included in administration and general expenses.

The amount of goodwill recognized from the Euravia acquisition is not deductible for tax purposes.

The Corporation's results of operations for the three and six month period ended June 30, 2015 includes revenues of \$4,442 and net income of \$729 for Euravia since May 15, 2015, the date on which the acquisition was consummated. If the acquisition had occurred on January 1, 2015, management estimates that consolidated revenue would have been approximately \$473,466 and consolidated net income would have been approximately \$36,123 for the six months ended June 30, 2015. This pro forma information is for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated at that time, nor is it intended to be a projection of future results.



5. GOODWILL AND INTANGIBLE ASSETS

The intangible assets reflected in the unaudited condensed interim financial statements are as follows:

	June 30 2015	December 31 2014
Technology Rights	13,724	15,014
Development Costs	45,137	45,574
Acquisition goodwill and intangible assets	44,152	—
	103,013	60,588

6. BANK INDEBTEDNESS

On September 30, 2014, 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 \$95,000, a US dollar limit of US\$35,000 and a British Pound limit of £11,000 [\$160,304 at June 30, 2015]. Under the terms of the amended credit agreement, the operating credit facility expires on September 30, 2018. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a CDN\$50,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility. Bank indebtedness as at June 30, 2015 of \$125,550 [December 31, 2014 - \$81,442] bears interest at the bankers' acceptance or LIBOR rates plus 1.875% [2.56% at June 30, 2015 (2014 – bankers' acceptance or LIBOR rates plus 2.0% or 2.87%)]. Included in the amount outstanding at June 30, 2015 is US\$23,872 and £10,182 [December 31, 2014 - US\$15,946 and £6,820]. At June 30, 2015, the Corporation had drawn \$128,879 under the operating credit facility, including letters of credit totalling \$3,329 such that \$31,425 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.

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 interim financial statements is as follows:

	June 30 2015	December 31 2014
Pension Benefit Plans	12,992	15,989
Other Benefit Plan	1,449	1,346
	14,441	17,335

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. As at June 30, 2015, the market interest rate of high-quality, fixed rate debt securities increased from the March 31, 2015 discount rate of 3.5% to an assumed discount rate of 3.9% which was consistent with that used in the pension obligation calculation as at December 31, 2014. In addition, the return on plan assets exceeded the expected return during the first six months of 2015. The change in assumptions resulted in an actuarial gain recorded in other comprehensive income in the three and six month period ended June 30, 2015 of \$3,660, net of taxes of \$1,272 and \$2,210, net of taxes of \$768, respectively.

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 six month period ended June 30, 2015 was 25.5% and 27.0% respectively [27.7% and 27.6% respectively for the three and six month period ended June 30, 2014]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the change in mix of income across the different jurisdictions in which the Corporation operates.



9. SHARE CAPITAL

Net income per share

	Three month period ended June 30		Six month period ended June 30	
	2015	2014	2015	2014
Net income	16,467	13,606	35,689	25,685
Weighted average number of shares	58,209	58,209	58,209	58,209
Basic and diluted net income per share	0.28	0.23	0.61	0.44

Dividends

On March 31, 2015 and June 30, 2015, the Corporation paid quarterly dividends on 58,209,001 common shares of \$0.055 per common share, amounting to \$6,403.

Subsequent to June 30, 2015, the Corporation declared dividends to holders of common shares in the amount of \$0.055 per common share payable on September 30, 2015, for shareholders of record at the close of business on September 11, 2015.

10. FINANCIAL INSTRUMENTS

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 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 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 3 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.

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, trade receivables, 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 enters into foreign forward exchange contracts to mitigate future cash flow exposures in United States dollars and Euros. 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 United States dollars and Euros. The Corporation has foreign exchange contracts outstanding as follows:

Foreign exchange forward contracts	Amount	Ceiling
Maturity – less than 1 year – US Dollar - buy	3,500	1.2229

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 June 30, 2015.

The mark-to-market on these financial instruments as at June 30, 2015 was an unrealized gain of \$94, which has been recorded in other income for the period.

Borrowings subject to specific conditions

As at June 30, 2015, the Corporation has recognized \$19,106 as the amount repayable to Canadian government agencies. The contributions are repayable as future royalty payments; a liability is recorded for the amounts received that will be repaid based on future estimated sales.



Collateral

As at June 30, 2015, the carrying amount of the financial assets that the Corporation has pledged as collateral for its bank indebtedness and long-term debt facilities was \$207,932.

11. RELATED PARTY TRANSACTIONS

During the three and six month period ended June 30, 2014, the Corporation paid guarantee fees in the amount of \$191 and \$383 respectively to the Chairman of the Board of the Corporation. Upon the renewal of the operating credit facility on September 20, 2014, the guarantee provided by the Chairman of the Board of the Corporation was released.

12. SEGMENTED INFORMATION

Operating segments are defined as components of the Corporation for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Corporation is the President and Chief Executive Officer. 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 disclosed in the notes to the 2014 consolidated financial statements, however the Corporation has removed the disclosure of this segment as activities in relation to these services were not material in the current quarter and they are not expected to be material in future periods.

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

	Three month period ended June 30		Six month period ended June 30	
	2015	2014	2015	2014
Sale of goods	201,587	182,576	398,534	357,968
Construction contracts	8,335	20,246	17,320	38,275
Services	24,517	18,228	46,838	35,309
	234,439	221,050	462,692	431,552

At June 30, 2015, aggregate costs incurred under open construction contracts and recognized profits, net of recognized losses, amounted to \$335,218 [December 31, 2014 - \$335,440]. Advance payments received for construction contracts in progress at June 30, 2015 was \$3,016 [December 31, 2014 - \$2,521]. Retention in connection with construction contracts at June 30, 2015 was \$1,249 [December 31, 2014 - \$1,160]. Advance payments and retentions are included in accounts payable, accrued liabilities and provisions.

Revenues from the Corporation's two largest customers accounted for 37.1% and 37.4% respectively of total sales for the three and six month period ended June 30, 2015 [June 30, 2014 – two largest customers accounted for 33.0% and 34.4% respectively of total sales in the three and six month period].

Geographic segments:

	2015				Three month period ended June 30 2014			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	78,295	84,726	71,418	234,439	92,204	68,109	60,737	221,050
Export revenue ¹	58,044	24,556	10,693	93,293	57,088	18,669	6,452	82,209

	2015				Six month period ended June 30 2014			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	156,846	167,432	138,414	462,692	169,803	135,796	125,953	431,552
Export revenue ¹	113,254	46,590	20,175	180,019	101,169	35,683	12,950	149,802

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



	June 30, 2015				December 31, 2014			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment and intangible assets	175,522	154,759	141,126	471,407	179,881	146,722	85,042	411,645

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 June 30, 2015 of \$724,503 is comprised of shareholders' equity of \$512,275 and interest-bearing debt of \$212,228.

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.

14. CONTINGENT LIABILITIES AND COMMITMENTS

In the ordinary course of business activities, the Corporation may be contingently liable for litigation and claims with, among others, 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 June 30, 2015 capital commitments in respect of purchase of property, plant and equipment totalled \$12,911, all of which had been ordered. There were no other material capital commitments at the end of the period.