MAGELLAN AEROSPACE

QUARTERLY REPORT

SEPTEMBER 30, 2016

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 nine month periods ended September 30, 2016, and the audited annual consolidated financial statements for the year ended December 31, 2015 (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 September 30, 2016 relative to the three month period ended September 30, 2015. The information contained in this report is as at November 10, 2016. 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 a generally accepted earnings measure and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating this measure, the Corporation's EBITDA may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA to net income (loss) reported in accordance with IFRS are included in this MD&A.

1. Overview

A summary of Magellan's business and significant updates

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

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

Business Update

On October 12, 2016, the Corporation announced that it showcased, at the Helitech 2016 helicopter show in Amsterdam, an expanded product capability as offered by Euravia Engineering and Supply Co. LTD, a Magellan Aerospace company. Euravia is now providing total engine support for the Rolls-Royce 250 engine and growing its operation through its new expansion facility, Euravia North America, located in Phoenix, Arizona.

On October 13, 2016, Magellan and the Boeing Company announced the signing of new long term contracts for the supply of complex titanium machined components for the 777X program and the signing of an extension to the existing 787 Dreamliner program statement of work. The components are to be manufactured at Magellan's Kitchener, ON and New York, NY facilities.

On October 27, 2016, Magellan announced that it will be producing F-35 Lightning II horizontal tail assemblies under an agreement with BAE Systems. The agreement is the continuation of annual contract awards made to Magellan by BAE Systems for F-35 assemblies, valued at more than CDN $70 million over a two year period.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2015 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan's operating results for third quarter ended September 30, 2016

The Corporation operates substantially all of its activities in one reportable segment, Aerospace, which includes 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 was not material in the current quarter and, at present, it is not expected to be material in future periods.

The Corporation reported revenue of $238.0 million in the third quarter of 2016 as compared to $236.2 million in the third quarter of 2015. Gross profit and net income for the third quarter of 2016 were $38.9 million and $18.8 million, respectively, decreased from the gross profit of $39.9 million and increased from the net income of $18.5 million for the third quarter of 2015.

Consolidated Revenue

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2016**	2015	Change	**2016**	2015	Change
Canada	**74,827**	81,114	(7.8%)	**248,684**	237,960	4.5%
United States	**84,590**	83,925	0.8%	**262,123**	251,357	4.3%
Europe	**78,625**	71,168	10.5%	**245,964**	209,582	17.4%
Total revenues	**238,042**	236,207	0.8%	**756,771**	698,899	8.3%

Consolidated revenues for the three months ended September 30, 3016 were $238.0 million, $1.8 million or 0.8% higher than $236.2 million recorded for the same period in 2015. Revenues in Canada decreased $6.3 million or 7.8% in the third quarter of 2016 as compared to the third quarter of 2015, primarily due to lower demand in aeroengine components, and lower revenues recorded in space and specialty products, partially offset by higher revenues related to the aerostructure products.

Revenues in the United States in the third quarter of 2016 were relatively consistent with the third quarter of 2015 when measured in Canadian dollars. On a currency neutral basis, revenues in the United States were 1.1% higher than the third quarter of 2015.

Revenues in Europe increased $7.5 million or 10.5% to $78.6 million in the third quarter of 2016 as compared to $71.2 million during the same period in 2015, primarily driven by increased production build rates and repair and overhaul services, offset by the unfavourable foreign exchange impact due to the weakening British pound relative to the Canadian dollar. On a constant currency basis, revenues in the third quarter of 2016 in Europe increased by 14.2% as compared to the third quarter of 2015.

Gross Profit

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2016**	2015	Change	**2016**	2015	Change
Gross profit	**38,863**	39,855	(2.5%)	**133,334**	119,545	11.5%
Percentage of revenues	**16.3%**	16.9%		**17.6%**	17.1%	

Gross profit decreased slightly by $1.0 million to $38.9 million for the third quarter of 2016 as compared to $39.9 million for the third quarter of 2015, and gross profit as a percentage of revenues declined to 16.3% for the third quarter of 2016 as compared to 16.9% for the third quarter of 2015. Decrease in gross profit was driven by an unfavourable adjustment on one of the Corporation's construction contracts. The weakening British pound in comparison to the United States dollar and the strengthening of the United States dollar in comparison to the Canadian dollar quarter over quarter, in addition to increased operational efficiencies partially offset this one-time adjustment.

Administrative and General Expenses

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2016**	2015	Change	**2016**	2015	Change
Administrative and general expenses	**13,997**	13,608	2.9%	**42,779**	41,326	3.5%
Percentage of revenues	**5.9%**	5.8%		**5.7%**	5.9%	

Administrative and general expenses were $14.0 million for the third quarter of 2016, slightly higher than $13.6 million for the same quarter in the prior year. Administrative and general expenses as a percentage of revenues were 5.9% for the third quarter of 2016, and 5.8% in the corresponding period of 2015.

Other

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2016**	2015	**2016**	2015
Foreign exchange gain	**(1,888)**	(222)	**(2,737)**	(150)
Business closure costs	–	–	**2,208**	–
Loss on disposal of property, plant and equipment	**56**	89	**241**	565
Total other	**(1,832)**	(133)	**(288)**	415

Other income of $1.8 million for the third quarter of 2016 increased significantly from $0.1 million for the third quarter of 2015, mainly due to the foreign exchange gain of $1.8 million recorded in the third quarter of 2016 as a result of the weakening British pound and Canadian dollar relative to the United States dollar. The movements in balances denominated in the foreign currencies and the fluctuations of the foreign exchange rates impact the net foreign exchange gain or loss recorded in a quarter.

Interest Expense

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2016**	2015	**2016**	2015
Interest on bank indebtedness and long-term debt	**974**	1,118	**3,144**	3,091
Accretion charge on borrowings and long-term debt	**210**	242	**678**	722
Discount on sale of accounts receivable	**308**	227	**955**	659
Total interest expense	**1,492**	1,587	**4,777**	4,472

Total interest expense of $1.5 million in the third quarter of 2016 was consistent with the third quarter of 2015. On a year over year basis, interest on bank indebtedness and long-term debt of $1.0 million decreased $0.1 million or 13.0% mainly as a result of lower principal amounts outstanding on bank indebtedness and long term debt during the third quarter of 2016 compared to the third quarter of 2015. Discount on sale of accounts receivable of $0.3 million increased slightly over the prior year due to a larger volume of receivables transferred under the securitization program for the third of quarter of 2016 as compared to the same period in the prior year.

Provision for Income Taxes

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2016**	2015	**2016**	2015
Current income tax expense	**4,716**	1,521	**12,463**	5,803
Deferred income tax expense	**1,659**	4,739	**9,023**	13,577
Income tax expense	**6,375**	6,260	**21,486**	19,380
Effective tax rate	**25.3%**	25.2%	**25.0%**	26.4%

Income tax expense for the three months ended September 30, 2016 was $6.4 million, representing an effective income tax rate of 25.3% as compared to 25.2% for the same quarter of 2015. The effective tax rate is impacted by changes in corporation taxation rates in the income tax jurisdictions in which the Corporation operates. The increase in current income taxes expense during the current quarter was due to increased taxable income resulting mainly from improved business results. The decrease in deferred tax expense was due to the utilization of deferred tax assets in the third quarter of 2015 which did not recur in the third quarter of 2016.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

	2016	2015						2014
Expressed in millions of dollars, except per share amounts	**Sep 30**	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Revenues	**238.0**	252.7	266.1	252.6	236.2	234.4	228.4	208.9
Income before taxes	**25.2**	29.6	31.3	27.1	24.8	21.8	26.8	23.9
Net Income	**18.8**	22.3	23.4	25.5	18.5	16.2	19.2	17.9
Net Income per share								
Basic and diluted	**0.32**	0.38	0.40	0.44	0.32	0.28	0.33	0.31
EBITDA[1]	**38.4**	44.7	45.8	43.1	37.8	33.5	37.4	34.7

[1] EBITDA is not an IFRS financial measure. Please see the "Reconciliation of Net Income to EBITDA" section for more information.

The quarterly revenues reported in the table above have been increasing steadily, reaching a peak in the first quarter of 2016 and then decreasing in the second and third quarter of 2016, partially due to the foreign exchange impact driven by the movements of the United States dollar and British pound against the Canadian dollar. The average exchange rate of United States dollar relative to the Canadian dollar fluctuated between a high of 1.3748 in the first quarter of 2016 and a low of 1.1357 in the fourth quarter of 2014. The average exchange rate of British pound relative to the Canadian dollar fluctuated between a high of 2.0280 in the third quarter of 2015 and a low of 1.7126 in the third quarter of 2016.

Revenue for the third quarter of 2016 of $238.0 million was slightly higher by $1.8 million than the third quarter in 2015. Had the foreign exchange rates remained at the same level experienced in the third quarter of 2015, revenue for the third quarter of 2016 would have been higher by $3.0 million.

Net income for the first quarter of 2016 and fourth quarter of 2015 of $23.4 million and $25.5 million, respectively, was higher than all other quarterly net income shown in the table above. As discussed above, net income reported in the quarterly information was also impacted by the foreign exchange movements. During the three quarters of 2016, the Corporation recorded higher income taxes due to full utilization of the net operating loss carry-forwards and certain tax credits in the United States in the second quarter of 2015. In the third quarter of 2016, the Corporation recorded a margin adjustment related to one of its construction contracts. 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 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.

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2016**	2015	**2016**	2015
Net income	**18,831**	18,533	**64,580**	53,952
Interest	**1,492**	1,587	**4,777**	4,472
Taxes	**6,375**	6,260	**21,486**	19,380
Depreciation and amortization	**11,695**	11,383	**38,118**	30,832
EBITDA	**38,393**	37,763	**128,961**	108,636

EBITDA increased $0.6 million or 1.7% to $38.4 million for the third quarter of 2016, compared to $37.8 million in the third quarter of 2015 primarily as a result of higher net income, taxes and depreciation and amortization expenses.

5. Liquidity and Capital Resources

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

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

Cash Flow from Operations

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2016**	2015	**2016**	2015
(Increase) decrease in accounts receivable	**(3,856)**	2,707	**(21,999)**	(21,224)
Decrease (increase) in inventories	**959**	(4,792)	**(9,158)**	(12,551)
Increase in prepaid expenses and other	**(1,974)**	(975)	**(1,468)**	(2,691)
Increase (decrease) in accounts payable, accrued liabilities and provisions	**1**	(8,063)	**(490)**	6,090
Changes in non-cash working capital balances	**(4,870)**	(11,123)	**(33,115)**	(30,376)
Cash provided by operating activities	**25,530**	22,407	**73,291**	65,439

For the three months ended September 30, 2016, the Corporation generated $25.5 million from operating activities, compared to $22.4 million in the third quarter of 2015, an increase of $3.1 million mainly driven by the favourable changes in non-cash working capital balances, offset by the lower deferred income taxes recorded in the third quarter of 2016.

Investing Activities

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2016**	2015	**2016**	2015
Business combinations	–	313	–	(50,149)
Purchase of property, plant and equipment	**(8,986)**	(7,883)	**(20,576)**	(22,863)
Proceeds of disposals of property, plant and equipment	**60**	161	**223**	460
Increase in intangible and other assets	**(1,970)**	(4,881)	**(9,025)**	(8,414)
Change in restricted cash	**198**	–	**5,423**	–
Cash used in investing activities	**(10,698)**	(12,290)	**(23,955)**	(80,966)

Cash used in investing activities for the third quarter of 2016 was $10.7 million compared to $12.3 million in the same quarter of 2015, a decrease of $1.6 million primarily due to less development costs incurred. The Corporation continues to invest in capital expenditures to enhance its manufacturing capabilities in various geographies and to support new customer programs. Total capital expenditures for the three month period ended September 30, 2016 were $9.0 million, $1.1 million higher than those invested in the same period of the prior year.

Financing Activities

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2016	2015	**2016**	2015
(Decrease) increase in bank indebtedness	**(11,578)**	(2,760)	**(40,791)**	38,355
(Decrease) increase in debt due within one year	**(2,354)**	(1,313)	**352**	1,979
Decrease in long-term debt	**(1,156)**	(1,035)	**(3,407)**	(4,990)
Increase in long-term debt	**—**	–	**—**	276
(Decrease) increase in long-term liabilities and provisions	**(177)**	(944)	**31**	(176)
Increase in borrowings subject to specific conditions	**1,988**	34	**2,795**	218
Common share dividend	**(3,347)**	(3,202)	**(10,041)**	(9,605)
Cash (used in) provided by financing activities	**(16,624)**	(9,220)	**(51,061)**	26,057

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. Under the terms of the 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 Canadian $50,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility. The credit agreement was amended on December 4, 2015 to include a short term bridge credit facility that increased the operating credit facility by a US dollar limit US$10,000, which expired on March 4, 2016.

The Corporation used $16.6 million in financing activities in the third quarter of 2016 mainly due to the repayment of bank indebtedness and long-term debt, offset by the receipt of $2.0 million government funding.

As at September 30, 2016 the Corporation has made contractual commitments to purchase $22.6 million of capital assets.

Dividends

During the third quarter of 2016, the Corporation declared and paid quarterly cash dividends of $0.0575 per common share representing an aggregating dividend payment of $3.3 million.

Subsequent to September 30, 2016 the Corporation announced that its Board of Directors had declared a quarterly dividend payment for the fourth quarter of 2016 in the amount of $0.065 per share on the Corporation's common stock. This represents a 13.0% increase in the rate of the Corporation's current quarterly dividend. Magellan's dividend has more than doubled over the past three years, and today's announcement marks the 4th consecutive year of dividend increases by the Corporation since it first implemented a dividend in the third quarter of 2013. The dividend will be payable on December 30, 2016 to shareholders of record at the close of business on December 9, 2016.

Outstanding Share Information

The authorized capital of the Corporation consists of an unlimited number of Preference Shares, issuable in series, and an unlimited number of common shares. As at November 10, 2016, 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 September 30, 2016.

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

For the three and nine month periods ended September 30, 2016, the Corporation had no material transactions with related parties as defined in IAS 24 - *Related Party Disclosures*.

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, 2015 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2015, 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, 2016 and have been applied in preparing the consolidated interim financial statements.

Property, Plant and Equipment and Intangibles Assets

In 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* ("IAS 16") and IAS 38, *Intangible Assets* ("IAS 38") to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. As at January 1, 2016, the Corporation adopted the amendments and there was no material impact on the condensed consolidated interim financial statements.

Joint Arrangements

In 2014, the IASB issued amendments to IFRS 11, *Joint Arrangements* ("IFRS 11") to address the accounting for acquisitions of interests in joint operations. The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11, as amended, now requires that such transactions shall be accounted for using the principles related to business combinations accounting as outlined in IFRS 3, *Business Combinations*. As at January 1, 2016, the Corporation adopted the amendments and there was no impact on the condensed consolidated 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 September 30, 2016, 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 2015 audited annual consolidated financial statements.

- IFRS 15, *Revenue from Contracts with Customers*
- IFRS 9, *Financial Instruments*
- IFRS 16*, Leases*
- Amendments to IAS 12, *Recognition of Deferred Tax Assets for Unrealised Losses*
- Amendments to IAS 7, *Disclosure Initiative*
- Amendments to IFRS 2, *Classification and Measurement of Share-based Payment Transactions*

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 2015 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, 2015 for a discussion regarding the critical accounting estimates.

12. Controls and Procedures

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

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at September 30, 2016 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 2016

Magellan management, supported by industry analysts, are projecting that civil and commercial aircraft demand are approaching peak levels. It is anticipated that there will be a general levelling out of demand beyond the anticipated peak period. The Corporation expects single aisle production rates will continue to increase with some contraction in the twin aisle market as legacy programs wind up and new platforms ramp up i.e. the B777 and the A330 giving way to the B777X and the A330neo.

Magellan is anticipating future growth in defense spending for domestic, United States and foreign military sales. It appears that defense spending in general bottomed out in 2015/2016.

One of the most robust areas of the aerospace market, new single-aisle aircraft production, has experienced a temporary setback as engine supply chain issues forced Airbus to adjust the A320 CEO/NEO transition plan. Airbus has indicated that it has changed approximately 70 A320 NEO builds for A320 CEO builds in 2017. The consolidated NEO/CEO build rate remains unchanged as it increases from 48 aircraft per month to 55 aircraft per month in late 2017. Pratt & Whitney's PW1100 engine build rate was reset to reflect a reduction in 2016 and 2017 deliveries. Boeing's 737 MAX and CFM's LEAP engine schedules have not yet reached the steep ramp period. CFM will build approximately 100 LEAP engines in 2016 and plans to build over 2,000 per year by 2020 to support new single aisle platforms. The current consolidated 737 build rate is planned to go from 42 aircraft per month to 47 aircraft per month by the third quarter of 2017, then 52 aircraft per month in 2018. On the wide body side, Airbus' new A350XWB production steps up from 5.6 aircraft per month to 8.6 aircraft per month in 2017. Their A330NEO begins initial production in 2017 with first entry into service expected in the fourth quarter of 2017. A380 production will drop from 25 aircraft in 2016 to 16 aircraft in 2017 which is reflecting the current slowing order pace. Boeing's 787 build rate remains at 12 aircraft per month and the B777 build rate drops from 8.3 aircraft to 7 aircraft per month.

In the regional market segment, both Bombardier and Embraer are aggressively promoting their new platforms, the Bombardier C Series and Embraer E190-E2 and E2-195.This jet segment, within which these aircraft participate, remains the strongest in the regional market. The turboprop segment however is expected to weaken overall due to lower oil prices, which allows regional airlines to retain less fuel-efficient jets in service. Forecast International predicts that demand will be hurt in the near term by used aircraft hitting the market from Republic Airways' bankruptcy and Alaskan Airlines divesting of their Q400's. Magellan supports this market through our casting commodity groups.

According to industry analysts, business aircraft and civil rotorcraft markets currently have much in common in that both are weakening, largely due to the decline in energy prices. The General Aviation Manufacturers Association reported that civil rotorcraft deliveries in the first half of 2016 fell by 18.3% in units from the first half of 2015, with more expensive models used by the oil and gas industry declining more rapidly. Similarly, large cabin business jets fell by 4.5% over the same period, again with higher priced jets leading the decline. While OEM's are talking market stabilization, industry analysts state that both markets are difficult to forecast and will remain unpredictable while they remain influenced by oil prices rather than their usual economic indicators.

The defence helicopter segment has seen little change within the last period, other than recent news that Poland's army appears to have reversed a previous decision to modernize their fleet with Airbus helicopters. Instead they have indicated that they will buy Blackhawk's from Lockheed's Sikorsky division. Sikorsky plans to build the 50 Blackhawks at their facility in Mielec Poland.

Regarding the defence fighter market, it was reported at the recent Farnborough Air Show that over the next decade Europe's air arms will be reequipped or will be in the process of being reequipped with new fighters. In spite of the economic constraints that many countries face, defence budgets in Europe are generally thought to be on the way up. According to Aerospace media reports, "Russia's aggressive activities in Ukraine and the recapitalization of its armed forces have given European countries a new impetus to upgrade the capabilities of their combat aircraft." There are five primary contenders vying for a win in Europe; the Lockheed F-35 Lightening II, Boeing F-18 Super Hornet, the Eurofighter Typhoon, Dassault Rafale and the Saab JAS 39 Grippen. Over the last five years, Lockheed's F-35 has been the big winner, having been selected by Denmark, the Netherlands and the UK. However, fighter procurements can be very political; they are about joining a wider community of operators and taking advantage of industrial offsets. Moreover, fighter awards are hotly contested, particularly as programs fight to remain in production such as the Eurofighter and the Boeing Super Hornet. Magellan currently supports the F-35 Lightening II, the Boeing F-18 and the Saab JAS 39 Grippen programs.

In Canada, the same five contenders as in Europe are awaiting a Canadian government announcement to move forward in selecting the fighter replacement required in Canada. This decision is not expected until the government has reviewed the results of their industrial consultation process, which sought input from the aerospace industry about the aircraft that might serve as a potential replacement for Canada's aging CF-18's.

Meanwhile, the F-35 continues to pass significant milestones on its path to full deployment. On September 19th 2016, the F-35 Joint Strike Fighter program received a significant endorsement as NATO air chiefs "advocated the jet as a vital component of Allied air capability in Europe, including to deter Russian aggression." This news came one month after Luke Air Force Base announced the delivery of the 100th F-35 Joint Strike Fighter. Additionally, Norway's defence department announced to its parliament that it plans to purchase 12 jets in 2019 and 2020, making them the first international partner to confirm a multi-year block buy.

MAGELLAN AEROSPACE

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Notes	Three month period ended September 30 **2016**	 2015	Nine month period ended September 30 **2016**	 2015
Revenues	8	**238,042**	236,207	**756,771**	698,899
Cost of revenues		**199,179**	196,352	**623,437**	579,354
Gross profit		**38,863**	39,855	**133,334**	119,545
Administrative and general expenses		**13,997**	13,608	**42,779**	41,326
Other	9	**(1,832)**	(133)	**(288)**	415
Income before interest and income taxes		**26,698**	26,380	**90,843**	77,804
Interest		**1,492**	1,587	**4,777**	4,472
Income before income taxes		**25,206**	24,793	**86,066**	73,332
Income taxes					
Current	10	**4,716**	1,521	**12,463**	5,803
Deferred	10	**1,659**	4,739	**9,023**	13,577
		6,375	6,260	**21,486**	19,380
Net income		**18,831**	18,533	**64,580**	53,952
Other comprehensive income					
Other comprehensive income (loss) that may be reclassified to profit and loss in subsequent periods:					
Foreign currency translation gain (loss)		**1,085**	18,658	**(44,387)**	39,837
Items not to be reclassified to profit and loss in subsequent periods:					
Actuarial gain (loss) on defined benefit pension plans, net of tax	5	**888**	252	**(7,583)**	2,462
Total comprehensive income, net of tax		**20,804**	37,443	**12,610**	96,251
Net income per share					
Basic and diluted	6	**0.32**	0.32	**1.11**	0.93

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited) **(expressed in thousands of Canadian dollars)**	Notes	**September 30 2016**	December 31 2015
Current assets			
Cash		**3,378**	5,538
Restricted cash		**7,277**	12,902
Trade and other receivables		**213,740**	207,074
Inventories		**210,493**	215,351
Prepaid expenses and other		**16,937**	17,914
		451,825	458,779
Non-current assets			
Property, plant and equipment		**374,866**	405,526
Investment properties		**4,451**	4,753
Intangible assets		**70,480**	87,844
Goodwill		**34,048**	39,439
Other assets		**30,510**	23,642
Deferred tax assets		**27,681**	30,070
		542,036	591,274
Total assets		**993,861**	1,050,053
Current liabilities			
Accounts payable and accrued liabilities and provisions	9	**150,477**	158,490
Debt due within one year		**54,029**	55,255
		204,506	213,745
Non-current liabilities			
Bank indebtedness	4	**89,670**	135,828
Long-term debt		**36,206**	40,402
Borrowings subject to specific conditions		**21,634**	19,751
Other long-term liabilities and provisions	5,9	**29,856**	26,047
Deferred tax liabilities		**32,075**	36,935
		209,441	258,963
Equity			
Share capital		**254,440**	254,440
Contributed surplus		**2,044**	2,044
Other paid in capital		**13,565**	13,565
Retained earnings		**282,657**	235,701
Accumulated other comprehensive income		**27,208**	71,595
		579,914	577,345
Total liabilities and equity		**993,861**	1,050,053

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE

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, 2015	254,440	2,044	13,565	235,701	71,595	577,345
Net income for the period	-	-	-	64,580	-	64,580
Other comprehensive loss for the period	-	-	-	(7,583)	(44,387)	(51,970)
Common share dividend	-	-	-	(10,041)	-	(10,041)
September 30, 2016	254,440	2,044	13,565	282,657	27,208	579,914
December 31, 2014	254,440	2,044	13,565	166,398	23,149	459,596
Net income for the period	-	-	-	53,952	-	53,952
Other comprehensive income for the period	-	-	-	2,462	39,837	42,299
Common share dividend	-	-	-	(9,605)	-	(9,605)
September 30, 2015	254,440	2,044	13,565	213,207	62,986	546,242

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 September 30 2016	2015	Nine month period ended September 30 2016	2015
Cash flow from operating activities					
Net income		**18,831**	18,533	**64,580**	53,952
Amortization/depreciation of intangible assets and property, plant and equipment		**11,695**	11,383	**38,118**	30,832
Impairment of property, plant and equipment	9	–	–	**1,135**	–
Loss on disposal of property, plant and equipment		**56**	164	**241**	640
Decrease in defined benefit plans		**(445)**	(31)	**(1,203)**	(209)
Accretion		**210**	206	**677**	687
Deferred taxes		**334**	3,536	**3,449**	10,073
Income on investments in joint ventures		**(281)**	(261)	**(591)**	(160)
Changes to non-cash working capital		**(4,870)**	(11,123)	**(33,115)**	(30,376)
Net cash provided by operating activities		**25,530**	22,407	**73,291**	65,439
Cash flow from investing activities					
Business combinations		–	313	–	(50,149)
Purchase of property, plant and equipment		**(8,986)**	(7,883)	**(20,576)**	(22,863)
Proceeds from disposal of property, plant and equipment		**60**	161	**223**	460
Increase in intangible and other assets		**(1,970)**	(4,881)	**(9,025)**	(8,414)
Change in restricted cash		**198**	–	**5,423**	–
Net cash used in investing activities		**(10,698)**	(12,290)	**(23,955)**	(80,966)
Cash flow from financing activities					
(Decrease) increase in bank indebtedness	4	**(11,578)**	(2,760)	**(40,791)**	38,355
(Decrease) increase in debt due within one year		**(2,354)**	(1,313)	**352**	1,979
Decrease in long-term debt		**(1,156)**	(1,035)	**(3,407)**	(4,990)
Increase in long-term debt		–	–	–	276
(Decrease) increase in long-term liabilities and provisions		**(177)**	(944)	**31**	(176)
Increase in borrowings subject to specific conditions		**1,988**	34	**2,795**	218
Common share dividend	6	**(3,347)**	(3,202)	**(10,041)**	(9,605)
Net cash (used in) provided by financing activities		**(16,624)**	(9,220)	**(51,061)**	26,057
(Decrease) increase in cash during the period		**(1,792)**	897	**(1,725)**	10,530
Cash at beginning of the period		**5,018**	12,665	**5,538**	2,645
Effect of exchange rate differences		**152**	542	**(435)**	929
Cash at end of the period		**3,378**	14,104	**3,378**	14,104

See accompanying notes to condensed consolidated interim financial statements

NOTE 1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Magellan Aerospace Corporation (the "Corporation" or "Magellan") 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.

NOTE 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, 2015, except for the new accounting pronouncements which have been adopted as disclosed in Note 3.

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, 2015, which are available at www.sedar.com and on the Corporation's website at www.magellan.aero.

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

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors of the Corporation on November 10, 2016.

NOTE 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, 2016, in accordance with the transitional provisions outlined in the respective standards.

a) Property, Plant and Equipment and Intangibles Assets
In 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* ("IAS 16") and IAS 38, *Intangible Assets* ("IAS 38") to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. As at January 1, 2016, the Corporation adopted the amendments and there was no material impact on the condensed consolidated interim financial statements.

b) Joint Arrangements
In 2014, the IASB issued amendments to IFRS 11, *Joint Arrangements* ("IFRS 11") to address the accounting for acquisitions of interests in joint operations. The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11, as amended, now requires that such transactions shall be accounted for using the principles related to business combinations accounting as outlined in IFRS 3, *Business Combinations*. As at January 1, 2016, the Corporation adopted the amendments and there was no 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 2015 consolidated financial statements.

- IFRS 15, *Revenue from Contracts with Customers*
- IFRS 9, *Financial Instruments*
- IFRS 16*, Leases*

• Amendments to IAS 12, *Recognition of Deferred Tax Assets for Unrealised Losses*
• Amendments to IAS 7, *Disclosure Initiative*
• Amendments to IFRS 2, *Classification and Measurement of Share-based Payment Transactions*

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

NOTE 4. 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 [$159,614 at September 30, 2016]. 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. The credit agreement was amended on December 4, 2015 to include a short term bridge credit facility that increased the operating credit facility by a US dollar limit US$10,000 [$13,840 at December 31, 2015]. The bridge credit facility expired on March 4, 2016. Bank indebtedness as at September 30, 2016 of $89,670 [December 31, 2015 - $135,828] bears interest at the bankers' acceptance or LIBOR rates plus 1.875% [2.51% at September 30, 2016 (December 31, 2015 - 2.53%)]. Included in the amount outstanding at September 30, 2016 is US$12,480 and £10,924 [December 31, 2015 - US$32,524 and £9,861]. At September 30, 2016, the Corporation had drawn $93,542 under the operating credit facility, including letters of credit totalling $3,872 such that $66,072 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.

NOTE 5. EMPLOYEE FUTURE BENEFITS

The Corporation has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to substantially all of its employees.

The employee benefit obligation reflected in the unaudited condensed consolidated interim financial statements is as follows:

	September 30 2016	December 31 2015
Pension Benefit Plans	19,798	10,854
Other Benefit Plan	1,209	1,263
	21,007	12,117

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 September 30, 2016, the Corporation changed the assumed discount rate for the Canadian pension plans to 3.35% from the 3.5% and 4.0% rates used in calculating the pension obligation as at June 30, 2016 and December 31, 2015, respectively, as a result of a reduction in the market interest rate of high-quality, fixed rate debt securities. The assumed discount rate for the U.S. pension plan as at September 30, 2016 remained at the 3.2% rate used in the calculation as at June 30, 2016 and decreased from 4.0% determined as at December 31, 2015. In addition, the return on plan assets exceeded the expected return during the three month period ended September 30, 2016. The change in the discount rate assumptions and the difference between the actual and expected rate of return on the plan assets resulted in an actuarial gain of $888 and an actuarial loss of $7,583, net of taxes of $335 and $2,678, respectively, recorded in other comprehensive income in the three and nine month periods ended September 30, 2016.

NOTE 6. SHARE CAPITAL

Net income per share

	Three month period ended September 30		Nine month period ended September 30	
	2016	2015	2016	2015
Net income	18,831	18,533	64,580	53,952
Weighted average number of shares	58,209	58,209	58,209	58,209
Basic and diluted net income per share	0.32	0.32	1.11	0.93

Dividends

On March 31, 2016, June 30, 2016 and September 30, 2016, the Corporation paid quarterly dividends on 58,209,001 common shares of $0.0575 per common share, amounting to $10,041.

Subsequent to September 30, 2016, the Corporation declared dividends to holders of common shares in the amount of $0.065 per common share payable on December 30, 2016, for shareholders of record at the close of business on December 9, 2016.

NOTE 7. 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 Company does not have any material forward foreign exchange contracts outstanding as at September 30, 2016.

Borrowings subject to specific conditions
As at September 30, 2016, the Corporation has recognized $21,634 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.

Contingent considerations
The contingent considerations recognized represent future amounts the Corporation may be required to pay in conjunction with various business combinations. The ultimate amount of future payments is based on specified future criteria, such as sales and earnings metrics. The Corporation estimates the fair value of the contingent consideration liabilities related to the achievement of these metrics by assigning an achievement probability to each potential milestone. During the second quarter of 2016, the Corporation has paid $2,852 contingent consideration and as at September 30, 2016 recognized $3,287 as a contingent liability.

Collateral
As at September 30, 2016, the carrying amount of the financial assets that the Corporation has pledged as collateral for its bank indebtedness and long-term debt facilities was $179,905.

NOTE 8. 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's primary sources of revenue are as follows:

	Three month period ended September 30		Nine month period ended September 30	
	2016	2015	2016	2015
Sale of goods	205,358	199,338	646,622	597,872
Construction contracts	4,392	10,196	20,172	27,516
Services	28,292	26,673	89,977	73,511
	238,042	236,207	756,771	698,899

As at September 30, 2016, aggregate costs incurred under open construction contracts and recognized profits, net of recognized losses, amounted to $363,189 [December 31, 2015 - $351,672]. Advance payments received for construction contracts in progress at September 30, 2016 was $1,734 [December 31, 2015 - $3,439]. Retention in connection with construction contracts as at September 30, 2016 was $296 [December 31, 2015 - $313]. Advance payments and retentions are included in accounts payable, accrued liabilities and provisions.

Revenues from the Corporation's two largest customers accounted for 40.7% and 39.2% respectively of total sales for the three and nine month periods ended September 30, 2016 [September 30, 2015 – two largest customers accounted for 37.4% and 37.3% respectively of total sales in the three and nine month periods].

Geographic segments:

	Three month period ended September 30							
				2016				2015
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	74,827	84,590	78,625	238,042	81,114	83,925	71,168	236,207
Export revenue[1]	57,751	21,525	25,851	105,127	49,842	21,804	11,515	83,161

	Nine month period ended September 30							
				2016				2015
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	248,684	262,123	245,964	756,771	237,960	251,357	209,582	698,899
Export revenue[1]	185,419	68,913	76,756	331,088	163,096	68,394	31,690	263,180

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

	September 30, 2016				December 31, 2015			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment, intangible assets and goodwill	167,177	183,305	128,912	479,394	169,853	205,375	157,581	532,809

NOTE 9. BUSINESS CLOSURE

During the second quarter of 2016, the Corporation determined to close an operating facility in the United States in order to lower operating costs, increase efficiencies and better align the Corporation's workforce with the needs of the business.

Costs associated with the closure are summarized below:

	2016
Write-down of non-current assets	1,135
Severance and other	1,073
	2,208

The write down of non-current assets consists of impairment charges to property, plant and equipment to bring them to the lower of carrying value and recoverable amount, which is based on their fair value less costs of disposal. The fair value less costs of disposal was determined by reference to quoted prices in active markets for identical assets and liabilities, and therefore, was categorized within Level 1 of the fair value hierarchy.

The severance and other costs related to severance and other termination benefits and are calculated based on long-standing benefit practices, local statutory requirement and, in certain cases, voluntary termination arrangements. Other costs consist primarily of costs to exit facility leases. The severance and other liabilities have been recorded as current and long-term liabilities on the balance sheet.

NOTE 10. TAXATION

The Corporation's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Corporation operates in, adjusted for the main permanent differences identified. The effective tax rate for the three and nine month periods ended September 30, 2016 was 25.3% and 25.0% respectively [25.3% and 26.4% respectively for the three and nine month periods ended September 30, 2015]. 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.

NOTE 11. MANAGEMENT OF CAPITAL

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

Total managed capital as at September 30, 2016 of $759,819 is comprised of shareholders' equity of $579,914 and interest-bearing debt of $179,905.

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

NOTE 12. CONTINGENT LIABILITES 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 September 30, 2016 capital commitments in respect of purchase of property, plant and equipment totalled $22,612, all of which had been ordered. There were no other material capital commitments at the end of the period.