

# MAGELLAN

## MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2017

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# Magellan Aerospace Corporation – Management’s Discussion & Analysis

## March 31, 2017

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This Management’s Discussion and Analysis (“MD&A”) of the financial condition and results of operations of Magellan Aerospace Corporation (“Magellan” or the “Corporation”) should be read in conjunction with the unaudited condensed consolidated interim financial statements and the notes thereto for the three month period ended March 31, 2017, and the audited annual consolidated financial statements for the year ended December 31, 2016 (available on SEDAR at www.sedar.com). Unless otherwise noted, all financial information has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), specifically International Accounting Standard (“IAS”) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”), which is within the framework of International Financial Reporting Standards (“IFRS”). This MD&A provides a review of the significant developments that have impacted the Corporation’s performance during the three month period ended March 31, 2017 relative to the three month period ended March 31, 2016. The information contained in this report is as at May 2, 2017. 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.

During 2016 and the first quarter of 2017 the Corporation has been focusing on reorganization of the Business Development Organization. This completed reorganization provides the Corporation with capable resources leading pro-active sales capture strategies for Magellan’s key commodity groups: Aerostructures, Aeroengine, Castings, Maintenance, Repair and Overhaul (“R&O”), and Proprietary Products. The rollout of Magellan’s sales strategy has been aligned with its customers’ needs and is fully integrated with its site operations. Recent program awards for contract extensions and new work announcements are solid indicators that this realigned business focus is helping to support Magellan’s vision of continued profitable growth. As in the past year Magellan will continue to rely on the Magellan Operating System (“MOS™”) to drive continuous improvements in cash generation and profitability.

Magellan operates substantially all of its activities in one reportable segment, Aerospace, which is viewed as one segment by the chief operating decision-makers for the purpose of resource allocations, assessing performance and strategic

# Magellan Aerospace Corporation – Management’s Discussion & Analysis

## March 31, 2017

planning. The Aerospace segment includes the design, development, manufacture, repair and overhaul, and sale of systems and components for defence and civil aviation.

### Business Update

On March 8, 2017, Magellan announced a contract extension with Airbus to supply A350 XWB Crown Module assemblies. The contract extension has an approximate value of CDN \$140 million. In the future the Corporation intends to satisfy a portion of this contract with parts and assemblies produced in Magellan facilities located in India and Poland.

On April 3, 2017, Magellan announced the sale of the land and building of its Mississauga facility (“Mississauga Property”) effective March 31, 2017. The sale generated net cash proceeds of approximately CDN \$32.7 million. The Corporation intends to lease a new facility that will be constructed on the existing site by the new buyer.

For additional information, please refer to the “Management’s Discussion and Analysis” section of the Corporation’s 2016 Annual Report available on [www.sedar.com](http://www.sedar.com).

## 2. Results of Operations

A discussion of Magellan’s operating results for first quarter ended March 31, 2017

The Corporation reported revenue of \$247.2 million in the first quarter of 2017 as compared to \$266.1 million in the first quarter of 2016. Gross profit and net income for the first quarter of 2017 were \$43.2 million and \$38.7 million, respectively, in comparison to gross profit of \$48.5 million and net income of \$23.4 million for the first quarter of 2016.

### Consolidated Revenue

Overall, the Corporation’s consolidated revenues decreased by 7.1% when compared to the first quarter of 2016.

Expressed in thousands of dollars	Three month period ended March 31		
	2017	2016	Change
Canada	75,020	92,342	(18.8%)
United States	80,025	88,357	(9.4%)
Europe	92,165	85,359	8.0%
Total revenues	247,210	266,058	(7.1%)

Consolidated revenues for the three month period ended March 31, 2017 were \$247.2 million, \$18.9 million or 7.1% lower than \$266.1 million recorded for the same period in 2016. Revenues in Canada decreased 18.8% in the first quarter of 2017 compared to the first quarter of 2016, primarily due to lower production volume and timing of aftermarket sales as well as the weakening of the United States dollar relative to the Canadian dollar. On a currency neutral basis, Canadian revenues in the first quarter of 2017 decreased by 17.1% over the corresponding period of 2016.

Revenues in United States decreased 9.4% in the first quarter of 2017 in comparison to the first quarter of 2016 when measured in Canadian dollars mainly due to volume reduction and unfavourable foreign exchange impact due to the weakening United States dollar against the Canadian dollar. On a currency neutral basis, revenues in the United States decreased by 6.2% in the first quarter of 2017 over the first quarter of 2016.

European revenues increased \$6.8 million or 8.0% to \$92.2 million in the first quarter of 2017 compared to \$85.4 million during the first quarter of 2016, primarily driven by increased production build rates 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 first quarter of 2017 in Europe were up by 14.0% compared to the same period in 2016.

### Gross Profit

Expressed in thousands of dollars	Three month period ended March 31		
	2017	2016	Change
Gross profit	43,208	48,525	(11.0%)
Percentage of revenues	17.5%	18.2%	

## Magellan Aerospace Corporation – Management’s Discussion & Analysis

### March 31, 2017

Gross profit decreased \$5.3 million to \$43.2 million for the first quarter of 2017 compared to \$48.5 million for the first quarter of 2016 and gross profit as a percentage of revenues decreased to 17.5% for the first quarter of 2017 from 18.2% recorded in the same period in 2016. Decrease in gross profit was primarily due to volume decrease and unfavourable product mix, partially offset by the favourable foreign exchange impact primarily driven by the weakening British pound in comparison to the United States dollar.

#### Administrative and General Expenses

Expressed in thousands of dollars	Three month period ended March 31		
	2017	2016	Change
Administrative and general expenses	15,087	15,199	(0.7%)
Percentage of revenues	6.1%	5.7%	

Administrative and general expenses as a percentage of revenues were 6.1% for the first quarter of 2017, slightly higher on a percentage basis with that in the corresponding period of 2016. Administrative and general expenses were relatively flat quarter over quarter.

#### Other

Expressed in thousands of dollars	Three month period ended March 31	
	2017	2016
Foreign exchange loss	876	113
(Gain) loss on disposal of property, plant and equipment	(26,593)	124
Other	4,010	-
Total other (income) expenses	(21,707)	237

On March 31, 2017, the Corporation sold the Mississauga Property and recorded a gain of \$26.6 million. In addition, the Corporation recorded \$4.0 million of costs associated with the sale which was partially offset by \$0.9 million foreign exchange loss recognized in the first quarter of 2017. Other expense of \$0.2 million in the first quarter of 2016 consisted of foreign exchange loss and losses on the retirement and disposal of property, plant and equipment.

#### Interest Expense

Expressed in thousands of dollars	Three month period ended March 31	
	2017	2016
Interest on bank indebtedness and long-term debt	869	1,281
Accretion charge for borrowings and long-term debt	234	207
Discount on sale of accounts receivable	252	331
Total interest expense	1,355	1,819

Interest expense of \$1.4 million in the first quarter of 2017 was \$0.4 million lower than the first quarter of 2016 amount of \$1.8 million, mainly due to lower interest on bank indebtedness and long-term debt. Lower principal amounts outstanding on bank indebtedness and long term debt during the first quarter of 2017 than the first quarter of 2016 contributed to the decrease in interest expenses quarter over quarter.

#### Provision for Income Taxes

Expressed in thousands of dollars	Three month period ended March 31	
	2017	2016
Expense of current income taxes	4,562	3,588
Expense of deferred income taxes	4,498	4,254
Total expense of income taxes	9,060	7,842
Effective tax rate	18.7%	25.1%

Income tax expense for the first quarter ended March 31, 2017 was \$9.1 million, representing an effective income tax rate of 18.7% compared to 25.1% for the first quarter of 2016. The decrease in effective tax rate quarter over quarter was primarily due to the lower tax rate applicable to the capital gain on the sale of Mississauga Property in the current quarter. The increase in both current and deferred income taxes expense during the quarter was mainly attributed to higher taxable income in the first quarter of 2017 compared to the same quarter in the prior year.

# Magellan Aerospace Corporation – Management’s Discussion & Analysis

## March 31, 2017

### 3. Selected Quarterly Financial Information

A summary view of Magellan’s quarterly financial performance

Expressed in millions of dollars, except per share amounts	2017				2016				2015
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	
Revenues	<b>247.2</b>	247.1	238.0	252.7	266.1	252.6	236.2	234.4	
Income before taxes	<b>48.5</b>	31.3	25.2	29.6	31.3	27.1	24.8	21.8	
Net Income	<b>39.4</b>	24.0	18.8	22.3	23.4	25.5	18.5	16.2	
Net Income per share									
Basic and diluted	<b>0.68</b>	0.41	0.32	0.38	0.40	0.44	0.32	0.28	
EBITDA <sup>1</sup>	<b>62.3</b>	45.3	38.4	44.7	45.8	43.1	37.8	33.5	

<sup>1</sup> 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 reached a peak of \$266.1 million in the first quarter of 2016 as compared to \$247.2 million in the first quarter of 2017. Revenues and net income reported in the quarterly information were impacted by the movements in the Canadian dollar relative to the United States dollar and British pound when the Corporation translates its foreign operations to Canadian dollars. Further, the movements in the United States dollar relative to British pound impact the Corporation’s United States dollar exposures in its European operations. The average exchange rate of the United States dollar relative to the Canadian dollar in the first quarter of 2017 was 1.3237 versus 1.3703 in the same period of 2016. The average exchange rate of British pound relative to the Canadian dollar moved from 1.9594 in the first quarter of 2016 to 1.6414 during the current quarter. The average exchange rate of the British pound relative to the United States dollar decreased from 1.4299 in the first quarter of 2016 to 1.2409 in the current quarter. Had the foreign exchange rates remained at levels experienced in the first quarter of 2016, reported revenues in the first quarter of 2017 would have been higher by \$9.4 million.

The Corporation reported its highest net income in the first quarter of 2017 mainly driven by the recording of the gain on the sale of the Mississauga Property. As discussed above, net income reported in the quarterly information was also impacted by the foreign exchange movements. The Corporation fully utilized its net operating loss carry-forwards and certain tax credits in the United States in the second quarter of 2015, which resulted in higher income taxes thereon. The Corporation recorded business closure costs related to the closure of a small operating facility in the United States in the second quarter of 2016, and a margin adjustment related to one of its construction contracts in the third quarter of 2016, respectively. In the fourth quarter of 2015, the Corporation recognized an adjustment in corporation taxation rates in the income tax jurisdictions in which the Corporation operates. In the second quarter of 2015, the Corporation recorded a loss on translation of its foreign currency liabilities within Canada and Europe.

### 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.

## Magellan Aerospace Corporation – Management’s Discussion & Analysis

### March 31, 2017

Expressed in thousands of dollars	Three month period ended March 31	
	2017	2016
Net income	39,413	23,428
Interest	1,355	1,819
Taxes	9,060	7,842
Depreciation and amortization	12,471	12,737
EBITDA	62,299	45,826

EBITDA increased \$16.5 million or 35.9% to \$62.3 million for the first quarter of 2017, compared to \$45.8 million in the first quarter of 2016 primarily as a result of higher net income and income taxes expenses offset by lower interest 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, capital expenditures and dividend payments. 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 March 31	
	2017	2016
Increase in trade receivables	(27,478)	(18,436)
Increase in inventories	(4,790)	(2,319)
Decrease in prepaid expenses and other	861	639
(Decrease) increase in accounts payable, accrued liabilities and provisions	(10,403)	7,049
Changes to non-cash working capital balances	(41,810)	(13,067)
Cash (used in) provided by operating activities	(10,772)	25,401

For the first quarter ended March 31, 2017, the Corporation used \$10.8 million in operations, compared to \$25.4 million cash generated from operations in the first quarter of 2016. The decrease in cash generation from operating activities was primarily driven by lower net income, adjusted for the impact of disposal of the Mississauga Property, and the unfavourable changes in non-cash working capital balances, largely as a result of increases in accounts receivables resulting from changes in payment terms and inventories and decreases in accounts payables, accrued liabilities and provisions.

### Investing Activities

Expressed in thousands of dollars	Three month period ended March 31	
	2017	2016
Purchase of property, plant and equipment	(16,592)	(3,634)
Proceeds of disposal of property plant and equipment	32,661	159
Decrease (increase) in intangible and other assets	3,120	(4,645)
Change in restricted cash	(21)	776
Cash provided by (used in) investing activities	19,168	(7,344)

The Corporation’s capital expenditures for the first quarter of 2017 were \$16.6 million compared to \$3.6 million in the first quarter of 2016. The Corporation continues to invest in capital expenditures to enhance its manufacturing capabilities in various geographies and to support new customer programs. The Corporation also sold its Mississauga Property and generated net cash proceeds of \$32.7 million in the quarter. The decrease in intangibles and other assets in the first quarter of 2017 is a result of deposits made on capital equipment in the prior periods being capitalized.

# Magellan Aerospace Corporation – Management’s Discussion & Analysis

## March 31, 2017

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### Financing Activities

Expressed in thousands of dollars	Three month period ended March 31	
	2017	2016
Decrease in bank indebtedness	(13,062)	(10,704)
Increase (decrease) in debt due within one year	5,361	(2,217)
Decrease in long-term debt	(1,114)	(1,108)
Increase (decrease) in long-term liabilities and provisions	1,054	(253)
Increase in borrowings subject to specific conditions	530	110
Common share dividend	(3,784)	(3,347)
Cash used in financing activities	(11,015)	(17,519)

The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian dollar limit of \$95.0 million, a US dollar limit of US\$35.0 million and a British pound limit of £11.0 million. 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 Canadian \$50.0 million 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 \$11.0 million in the first quarter of 2017 mainly to repay bank indebtedness and pay dividends which was partially offset by the financing of trade receivables.

As at March 31, 2017 the Corporation has made contractual commitments to purchase \$10.7 million of capital assets.

### Dividends

During the first quarter of 2017, the Corporation declared and paid quarterly cash dividends of \$0.065 per common share representing an aggregating dividend payment of \$3.8 million.

Subsequent to March 31, 2017 the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of \$0.065 per common share. The dividend will be payable on June 30, 2017 to shareholders of record at the close of business on June 9, 2017.

### Outstanding Share Information

The authorized capital of the Corporation consists of an unlimited number of Preference Shares, issuable in series, and an unlimited number of common shares. As at May 2, 2017, 58,209,001 common shares were outstanding and no preference shares were outstanding.

## 6. Financial Instruments

A summary of Magellan’s financial instruments

### Derivative Contracts

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders’ equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian dollar denominated financial statements of the Corporation’s subsidiaries may vary on consolidation into the reporting currency of Canadian dollars. The Corporation from time to time may use derivative financial instruments to help manage foreign exchange risk with the objective of reducing transaction exposures and the resulting volatility of the Corporation’s earnings. The Corporation does not trade in derivatives for speculative purposes. Under these contracts the Corporation is obligated to purchase specified amounts at predetermined dates and exchange rates. These contracts are matched with anticipated cash flows in United States dollars. The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. The Corporation had no material foreign exchange contracts outstanding as at March 31, 2017.

### 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 month period ended March 31, 2017, 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, 2016 and to the information under “Risks Inherent in Magellan’s Business” in the Corporation’s Annual Information Form for the year ended December 31, 2016, which have been filed with SEDAR at [www.sedar.com](http://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, 2017 and have been applied in preparing the consolidated interim financial statements.

### *Disclosure Initiative*

In 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows (“IAS 7”). The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). They are effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Corporation is not required to provide additional disclosures in its condensed interim consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended December 31, 2017.

## **10. Future Changes in Accounting Policies**

A description of new accounting standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the interim period ended March 31, 2017, 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 2016 audited annual consolidated financial statements.

- IFRS 15, *Revenue from Contracts with Customers*
- IFRS 9, *Financial Instruments*
- IFRS 16, *Leases*
- Amendments to IFRS 2, *Classification and Measurement of Share-based Payment Transactions*
- IFRIC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*

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 2016 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, 2016 for a discussion regarding the critical accounting estimates.

## **12. Controls and Procedures**

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

Based on the current Canadian Securities Administrators (the “CSA”) rules under National Instrument 52-109 Certification of Disclosure in Issuers’ Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at March 31, 2017 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 2017

Both Boeing and Airbus continue to support growth projections in the single aisle market place. Production rates for B737 and B737 MAX programs are expected to increase from the current 42 aircraft per month to 47 aircraft per month in the third quarter of 2017, 52 aircraft per month in 2018, and then 57 aircraft per month in 2019. Airbus’ rates for the A320 and the A330 NEO are expected to reach 55 aircraft per month by mid-2017 and will continually ramp up through 2018 to a peak rate of 60 aircraft per month in 2019. Both OEMs are monitoring these production rates to ensure that they will remain aligned with market demands.

The twin aisle market has leveled off as both Airbus and Boeing have adjusted production rates in this market. New programs, such as the Airbus A350 and Boeing’s B777X continue to progress in line with published schedules.

While production rates have declined in the large wide body market, recent market information and sales indicate that the Airbus A380 and Boeing’s B747-800 market will remain relatively stable at the lower rates of production.

The traditional regional aircraft market is not expected to change in 2017. Manufacturers were hoping an expansion of this market would come from the introduction of a new 90-seat class, but prolonged low fuel prices have triggered them to shelve any such plans. New large regional jet entrants such as Bombardier’s C-Series and Embraer’s E2 aircraft will on the other hand be the impetus for growth in this market.

In the business jet market, there have been occasional signs of recovery in one segment or another, however, the market is still struggling as it faces an oversupply of both new and used aircraft. The civil rotorcraft market remains significantly depressed, but on speculation that oil prices will rise, the industry is anticipating the start of recovery. OEM’s are also hoping to expand market applications through the commercialization of tilt-rotorcraft and compound helicopter technologies. These have the potential in the medium to long term to broaden the spectrum of applications across this segment.

Global defense spending rose in 2016 and it is expected to grow again in 2017. It is as yet unknown what impact the political movement towards nationalism in the United States and United Kingdom will have, but it is expected that United States defense procurement spending will rise under the new United States administration; as well most segments of the global defense market are forecasting growth.

## Magellan Aerospace Corporation – Management’s Discussion & Analysis

### March 31, 2017

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Military fixed-wing and military rotorcraft markets are predicted to be on the upswing, both of which have suffered through a period of significant downward budgetary pressures. An unpredictability factor exists in these segments in that worldwide defence acquisition decisions are becoming increasingly political and highly contested. The Canadian government’s recent decision to purchase 18 Boeing Super Hornets as an interim fleet solution and to run a five year competition to replace the existing CF-18 fleet is just one of a number of recent examples. Magellan currently participates in both the CF-18 and Super Hornet programs.

The largest fighter program in the world, Lockheed’s F-35 Lightning II, continues to ramp up production rates. The jet now operates in 12 countries worldwide. The program has logged over 75,000 flight hours while training more than 380 pilots and 3,700 maintainers. On January 11, 2017, the program delivered its 200th operational jet. Lockheed anticipates delivering 66 planes in 2017, up from the 46 delivered in 2016. The program has reported that costs are progressing down the cost affordability curve with the price of an F-35A expected to be less than \$100 million for aircraft ordered within the 10th annual lot. The program from its inception has been built upon achieving an affordability model. Magellan, along with other F-35 Canadian suppliers chosen to supply major components, remains confident in its continued participation on this program.

In summary, 2017 is predicted to be a year where the aerospace industry begins to approach peak demands. Commercial airliner production is still growing, but may be reaching the end of a “super cycle”. The commercial rotorcraft and business jets markets remain down and are not expected to change much in 2017, while regional markets are expected to grow due to the new larger aircraft entrants. It is expected that increasing global defense spending will partially offset any plateauing in the civil and commercial aircraft markets.