

MAGELLAN QUARTERLY REPORT

MARCH 31, 2013



This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Magellan Aerospace Corporation ("Magellan" or the "Corporation") has been prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements and the notes thereto for the three months ended March 31, 2013, and the audited annual consolidated financial statements for the year ended December 31, 2012 (available on SEDAR at www.sedar.com). 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, 2013 relative to the three month period ended March 31, 2012. The information contained in this report is as at May 8, 2013. 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 Generally Accepted Accounting Principles ("GAAP"). Throughout this discussion, reference is made to EBITDA (defined as net income before interest, income taxes, depreciation, amortization, dividends and stock based compensation), which the Corporation considers to be an indicative measure of operating performance and a metric to evaluate profitability. Reference is also made to gross profit which represents revenues less direct costs and expenses. Not included in the calculation of gross profit are administrative and general expenses, foreign exchange, gains or losses on the sale of assets, dividends, interest and income taxes. EBITDA and gross profit are not generally accepted earnings measures and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, the Corporation's EBITDA and gross profit 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

Magellan's positioning in its commercial aircraft business remains as a pillar in the performance of the Corporation. With additional participation on new platforms such as the A350 and B787, continuing sales growth is expected in future years.

On the defence side, the Corporation expects a modest reduction in revenues in 2013 due to the effects of sequestration in the United States and continued downturn in global defence spending. It is anticipated that growth in the Corporation's commercial revenues will absorb the impact of these adjustments in the defence market. Magellan continues with its involvement in the Joint Strike Fighter ("F-35") program; specifically the Corporation has supported Lockheed Martin as they have been conducting cross-Canada information sessions to inform the media and general public about the positive merits of the F-35 program. Magellan participated in the Winnipeg and Toronto sessions and in December 2012, celebrated the completion of the first completed



horizontal tail assembly for the F-35. Negotiations are currently under way for subsequent low rate initial production lots beyond those already secured by the Corporation.

The Corporation's Power Generation project in the Republic of Ghana has met and surpassed the contractual operational performance metrics and is proceeding through the final stages of completion and transfer to the customer. The Corporation remains actively engaged in discussions related to potential additional and complimentary opportunities.

Customer response towards Magellan Operating System's™ principles of standardization is positive throughout the Corporation's divisions. These disciplines have helped Magellan differentiate itself in a competitive environment where weaknesses have traditionally plagued certain markets. Measurable improvements compared to our competitors have been demonstrated and recognized by our customers.

Magellan is beginning preparations to participate in the 50th Paris International Air Show being held between June 17th and June 23rd.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2012 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan's operating results for first quarter ended March 31, 2013

The Corporation reported higher revenue in its Aerospace segment and lower revenue in its Power Generation Project segment in the first quarter of 2013 when compared to the first quarter of 2012. Gross profit and net income for the first quarter of 2013 were \$24.8 million and \$8.0 million, respectively, a decrease from the first quarter of 2012 gross profit of \$25.5 million and net income of \$11.5 million.

Consolidated Revenue

Overall, the Corporation's consolidated revenues remained stable when compared to the first quarter of 2012.

Expressed in thousands of dollars	Three month period ended March 31		
	2013	2012	Change
Aerospace	181,815	165,991	9.5%
Power Generation Project	3,478	20,856	(83.3%)
Total revenues	185,293	186,847	(0.8%)

Consolidated revenues of \$185.3 million for the first quarter ended March 31, 2013 were slightly lower than \$186.8 million in the first quarter of 2012. Higher volumes of production contributed to increased revenues in the Aerospace segment offset by the lower revenues earned in the Power Generation Project segment. As the Corporation moves through 2013, revenues earned from the Power Generation Project will continue to decrease on a year over year basis and are expected to be significantly lower than 2012 unless the Corporation receives further contracts in this area.

Aerospace Segment

Revenues for the Aerospace segment were as follows:

Expressed in thousands of dollars	Three month period ended March 31		
	2013	2012	Change
Canada	73,385	75,721	(3.1%)
United States	57,654	49,530	16.4%
Europe	50,776	40,740	24.6%
Total revenues	181,815	165,991	9.5%

Consolidated aerospace revenues for the first quarter of 2013 of \$181.8 million were 9.5% higher than revenues of \$166.0 million in the first quarter of 2012. Revenues in Canada in the first quarter of 2013 decreased 3.1% from the same period in 2012. The decrease was mainly attributed to the decline in volumes in the defence market, partially offset by increased volumes on proprietary products. Revenues increased by 16.4% in the United States in the first quarter of 2013 in comparison to the first quarter of 2012 primarily due to increased volumes on several of the Corporation's commercial aircraft programs and the movement of the stronger US dollar in comparison to the CDN dollar during the same periods in 2013 and 2012. Higher volumes of production and the business acquisition of John Huddleston Engineering Limited ("JHE") in the third quarter of 2012 contributed to the increase in revenues in Europe in the first quarter of 2013 over revenues in the same period in 2012.



Power Generation Project Segment

Revenues for the Power Generation Project segment were as follows:

	Three month period ended March 31		
Expressed in thousands of dollars	2013	2012	Change
Power Generation Project	3,478	20,856	(83.3%)
Total revenues	3,478	20,856	(83.3%)

Decreased revenues in first quarter of 2013 over the same period in 2012 represents the Corporation's reduced activity level on the Ghana Power Generation Project (the "Project") in the period in comparison to the activity level in the previous comparable quarter. The Corporation substantially completed the Project in the first quarter of 2013 and as the Corporation moves into 2013, revenue from the Power Generation Project segment will decrease on a year over year basis unless the Corporation receives further contracts in this area.

Gross Profit

	Three month period ended March 31		
Expressed in thousands of dollars	2013	2012	Change
Gross profit	24,812	25,537	(2.8%)
Percentage of revenues	13.4%	13.7%	

Gross profit of \$24.8 million (13.4% of revenues) was reported for the first quarter of 2013 compared to \$25.5 million (13.7% of revenues) during the same period in 2012. Gross profit varies from period to period and can be affected by a number of factors, including product mix, production efficiency, and new product introduction. Overall cost of revenues as a percentage of revenues increased in the three months ended March 31, 2013 to 86.6% compared to 86.3% in the same period last year, due to the impact of a change in product mix as the Corporation shipped product with slightly lower margins.

Administrative and General Expenses

	Three month period ended March 31	
Expressed in thousands of dollars	2013	2012
Administrative and general expenses	10,735	9,861
Percentage of revenues	5.8%	5.3%

Administrative and general expenses were \$10.7 million (5.8% of revenues) in the first quarter of 2013 compared to \$9.9 million (5.3% of revenues) in the first quarter of 2012. The increase is primarily a result of the acquisition of JHE in August 2012, which increased general and administrative expenses by approximately \$0.4 million for the three months ended March 31, 2013.

Other

	Three month period ended March 31	
Expressed in thousands of dollars	2013	2012
Foreign exchange loss (gain)	948	(146)
Loss on disposal of property, plant and equipment	32	3
Total other	980	(143)

Other expense of \$1.0 million in the first quarter of 2013 consisted of realized and unrealized foreign exchange losses and losses on the disposal of property, plant and equipment.

Interest Expense

	Three month period ended March 31	
Expressed in thousands of dollars	2013	2012
Interest on bank indebtedness and long-term debt	1,810	1,956
Convertible debenture interest	—	50
Accretion charge for convertible debenture, borrowings and long-term debt	154	150
Discount on sale of accounts receivable	160	139
Total interest expense	2,124	2,295

Interest expense of \$2.1 million in the first quarter of 2013 was lower than the first quarter of 2012 amount of \$2.3 million, as interest on bank indebtedness and long-term debt decreased mainly due to lower principal amounts outstanding during the first quarter of

2013 than those in the first quarter of 2012. Interest expense on convertible debentures was eliminated as the full amount of the \$2,000 principal amount outstanding at the end of the first quarter of 2012 was converted by the end of the second quarter of 2012. Sentence

Provision for Income Taxes

Expressed in thousands of dollars	Three month period ended March 31	
	2013	2012
Expense of current income taxes	1,204	913
Expense of deferred income taxes	1,754	1,100
Total expense of income taxes	2,958	2,013
Effective tax rate	27.0%	14.9%

The Corporation recorded an income tax expense of \$3.0 million in the first quarter of 2013 as compared to an income tax expense of \$2.0 million in the first quarter of 2012. The change in effective tax rates quarter over quarter is a result of a changing mix of income across the different jurisdictions in which the Corporation operates and the reduction in deferred income tax in the first quarter of 2012, due to the recognition of previously unrecognized deferred tax assets, which did not recur in the first quarter of 2013.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

Expressed in millions of dollars, except per share amounts	2013				2012 ¹				2011			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Revenues	185.3	186.4	161.4	169.3	186.8	173.3	161.6	186.0	186.8	173.3	161.6	186.0
Income before taxes	11.0	18.0	18.0	10.9	13.5	13.8	10.4	7.0	13.5	13.8	10.4	7.0
Net Income	8.0	21.8	14.9	8.9	11.5	16.6	8.6	4.9	11.5	16.6	8.6	4.9
Net Income per share												
Basic	0.14	0.37	0.26	0.15	0.20	0.90	0.47	0.27	0.20	0.90	0.47	0.27
Diluted	0.14	0.37	0.26	0.15	0.20	0.31	0.17	0.10	0.20	0.31	0.17	0.10
EBITDA	21.3	28.6	27.7	21.2	23.0	29.6	20.8	18.5	23.0	29.6	20.8	18.5

¹Certain 2012 figures have been restated due to the implementation of IFRS 11, *Joint Arrangements* and revised IAS 19, *Employee Benefits*. See the "Changes in Accounting Policies" section on page 9 of this report.

Revenues and net income reported in the quarterly information was impacted by the fluctuations in the Canadian dollar exchange rate in comparison to the US dollar and British Pound. The US dollar/Canadian dollar exchange rate in the first quarter of 2013 fluctuated reaching a low of 0.9835 and a high of 1.0309. During the first quarter of 2013, the British Pound relative to the Canadian dollar fluctuated reaching a low of 1.5286 and a high of 1.6156. The movement of exchange rates between the first quarter of 2013 and the first quarter of 2012 had minimal impact on revenues in the first quarter of 2013. Net income in the third quarter of 2012 was higher than the first two quarters of 2012 as the Corporation recognized an after tax gain on bargain purchase of \$7.4 million on the acquisition of JHE as the consideration paid was lower than the fair value of the identifiable tangible assets acquired at the time of purchase. Net income for the fourth quarter of 2012 and 2011 of \$21.8 million and \$16.6 million respectively was higher than other quarterly net income disclosed in the table above. In the fourth quarter of 2011 the Corporation recognized a reversal of previous impairment losses against intangible assets relating to various commercial aircraft programs. In addition, in both the fourth quarter of 2011 and 2012 the Corporation recognized previously unrecognized investment tax credits and other deferred tax assets as the Corporation determined that it will be able to benefit from these assets.

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 certain measures in this quarterly statement, including EBITDA (earnings before interest expense, dividends on preference shares, income taxes, depreciation, amortization and certain non-cash charges). The Corporation has provided these measures because it believes this information is used by certain investors to assess financial performance and 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 earnings as determined in accordance with IFRS or as an alternative to cash provided by or used in operations.

	Three month period ended March 31	
Expressed in thousands of dollars	2013	2012
Net income	8,015	11,511
Interest	2,124	2,295
Taxes	2,958	2,013
Stock-based compensation	-	6
Depreciation and amortization	8,174	7,189
EBITDA	21,271	23,014

EBITDA for the first quarter of 2013 was \$21.3 million, compared to \$23.0 million in the first quarter of 2012. As previously discussed, increased administrative and general expenses, unrealized losses on forward foreign exchange contracts and decreased gross profits resulted in decreased EBITDA for the current quarter when compared to the same period in 2012.

5. Liquidity and Capital Resources

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

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

Cash Flow from Operations

	Three month period ended March 31	
Expressed in thousands of dollars	2013	2012
Increase in accounts receivable	(21,534)	(23,894)
Increase in inventories	(840)	(10,294)
Increase in prepaid expenses and other	(2,032)	(1,241)
Increase in accounts payable, accrued liabilities and provisions	1,652	22,151
Changes to non-cash working capital balances	(22,754)	(13,279)
Cash (used) provided by operating activities	(5,998)	5,085

In the quarter ended March 31, 2013, the Corporation used \$6.0 million in cash in its operations, compared to \$5.1 million generated in the first quarter of 2012. Increased accounts receivable offset by a slight increase in accounts payable, accrued liabilities and provisions resulted in the usage of cash by operating activities.

Investing Activities

	Three month period ended March 31	
Expressed in thousands of dollars	2013	2012
Purchase of property, plant & equipment	(4,101)	(3,982)
Proceeds of disposals of property plant & equipment	46	3
Increase in intangibles and other assets	(2,712)	(5,166)
Cash used in investing activities	(6,767)	(9,145)

In the first quarter of 2013, the Corporation invested \$4.1 million in property, plant and equipment to upgrade and enhance capabilities for current and future programs and \$2.7 million in intangibles and other assets, largely related to deposits placed on new property, plant and equipment to be acquired.

Financing Activities

Expressed in thousands of dollars	Three month period ended March 31	
	2013	2012
Increase (decrease) in bank indebtedness	6,481	(5,691)
Increase in debt due within one year	499	15,751
Decrease in long-term debt	(2,435)	(2,124)
(Decrease) increase in long-term liabilities and provisions	(41)	148
Increase in borrowings	318	182
Cash provided by financing activities	4,822	8,266

On December 21, 2012, the Corporation amended its operating credit agreement with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was decreased to a Canadian dollar limit of \$115.0 million (down from \$125.0 million) plus a US dollar limit of \$35.0 million (down from US \$50.0 million), with a maturity date of December 21, 2014. The Bank Facility Agreement also includes a Cdn\$50 million uncommitted accordion provision which will provide Magellan with the option to increase the size of the operating credit facility to \$200 million. The facility is extendible for unlimited future one year renewal periods, subject to mutual consent of the syndicate of lenders and the Corporation. The operating credit facility continues to be fully guaranteed until December 21, 2014 by the Chairman of the Board of the Corporation in consideration of the continued payment by the Corporation of an annual fee, payable monthly, equal to 0.50% (down from 0.63%) of the loan amount.

On December 21, 2012, the Corporation also extended the 7.5% loan payable ("Original Loan") to Edco Capital Corporation ("Edco"), a corporation controlled by the Chairman of the Board of the Corporation to January 1, 2015 in consideration of the payment of a fee to Edco equal to 0.75% of the principal amount outstanding at the time of extension. The Corporation has the right to repay the Original Loan at any time without penalty.

The terms of the amended operating credit agreement continue to permit the Corporation to repay, in whole or in part, the Original Loan from Edco provided there is no current default or event of default under the operating credit facility and after the repayment of the loan the Corporation has at least \$25.0 million in availability under the operating credit facility.

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 8, 2013, 58,209,001 common 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 uses 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 US dollars.

The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. As at March 31, 2013 the Corporation had foreign exchange contracts outstanding as follows:

Foreign exchange forward contracts	Amount	Rate
Maturity – less than 1 year – US dollar	28,500	1.0150

The fair values of the Corporation's foreign exchange forward contracts are based on the current market values of similar contracts with the same remaining duration as if the contract had been entered into on March 31, 2013.

The mark-to-market on these financial instruments as at March 31, 2013 was an unrecognized loss of \$0.1 million which has been recorded in other expenses in the period.



Off Balance Sheet Arrangements

The Corporation does not have any off-balance sheet arrangements that have or reasonably are likely to have a material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. As a result, the Corporation is not exposed materially to any financing, liquidity, market or credit risk that could arise if it had engaged in these arrangements.

7. Related Party Transactions

A summary of Magellan's transactions with related parties

During the three month period ended March 31, 2013, the Corporation paid guarantee fees in the amount of \$0.2 million to the Chairman of the Board of the Corporation. During the three month period ended March 31, 2013, the Corporation incurred interest of \$0.6 million in relation to the Original Loan due to Edco, a corporation which is controlled by the Chairman of the Board of the Corporation which is due on January 1, 2015. At March 31, 2013, the Corporation owed Edco interest of \$0.2 million.

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, 2012 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2012, 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 Corporation has adopted the new and amended IFRS pronouncements listed below as at January 1, 2013, in accordance with the transitional provisions outlined in the respective standards.

Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements* ("IFRS 10") replaced portions of IAS 27, *Consolidated and Separate Financial Statements*, that addressed consolidation, and superseded SIC-12, *Consolidation – Special Purpose Entities* ("SPE"), in its entirety. IFRS 10 provides a single model to be applied in the analysis of control of all investees, including entities that currently are SPEs in the scope of SIC-12. An investor must possess the following three elements to conclude if it controls an investee: power over the investee's financial and operating decisions, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee and its exposure or rights to variable returns.

The adoption of IFRS 10 had no impact on the consolidated interim financial statements for the period or prior periods presented as the adoption did not result in a change in the consolidation status of any of our subsidiaries or investees or the identification of any subsidiaries.

Joint Arrangements

IFRS 11, *Joint Arrangements* ("IFRS 11") supersedes IAS 31, *Interest in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions*. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement, which are classified as either joint operations or joint ventures, and provides guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

In a joint operation, the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the arrangement, and recognize their share of the assets, liabilities, revenues and expenses in accordance with applicable IFRS. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement and account for their interest using the equity method of accounting under IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Corporation has concluded that its joint arrangement is a joint venture under IFRS 11 and, accordingly, has recorded its investment using the equity method of accounting whereas prior to adoption of IFRS 11, the proportionate consolidation method was used. The Corporation has applied the new policy retrospectively in accordance with the transitional provisions



of IFRS 11 and recognized the deemed cost of its investments in joint ventures at January 1, 2012, as the net of the carrying amounts of the assets and liabilities previously proportionately consolidated by the Corporation. Under the equity method, the Corporation's share of individual assets and liabilities are replaced with a net investment in joint ventures amount in the consolidated balance sheet and individual revenues and expenses are replaced with earnings from investment in joint ventures amount in the consolidated statement of income.

The Corporation has restated its consolidated interim financial statements for the comparative period to reflect the change in method of accounting for the joint venture. The Corporation's consolidated revenues and expenses are reduced and the geographic information no longer includes the financial information of the joint venture. There is no impact on net earnings or earnings per share and the disclosure requirements have been incorporated into the Corporation's condensed consolidated interim financial statements.

Disclosure of Interests in Other Entities

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), contains disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The requirements of IFRS 12 relate to disclosures only and are applicable for the first annual period after adoption, and, accordingly, the additional disclosures about interests in other entities will be included in the annual consolidated financial statements for the year ended December 31, 2013.

The Corporation's subsidiaries are all wholly owned and as such the determination of whether to consolidate these entities or the identification of any subsidiaries did not involve any significant judgments or assumptions. There are no significant restrictions on the ability of the Corporation to access or use the assets, and settle the liabilities of the Corporation and its subsidiaries except for customary limitations in the Corporation's credit facility.

Fair Value Measurement

IFRS 13, *Fair Value Measurement* ("IFRS 13") replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements.

The adoption of IFRS 13 did not have an effect on the required disclosures in the consolidated interim financial statements for the current period. The annual disclosure requirements will be incorporated in the annual consolidated financial statements for the year ended December 31, 2013.

Presentation of Financial Statements

IAS 1, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* ("IAS 1"), requires that a Corporation present separately the items of other comprehensive income ("OCI") that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss.

The Corporation has amended its consolidated interim statements of comprehensive income for all periods presented in these consolidated interim financial statements to reflect the presentation changes required under the amended IAS 1. As these changes are reclassifications within the statement of comprehensive income, there is no net impact on comprehensive income.

Employee Benefits

IAS 19 *Employee Benefits* ("IAS 19") was amended to eliminate the 'corridor approach' previously permitted and accelerate the recognition of past service costs. As part of its transition to IFRS, the Corporation elected to present remeasurements in OCI. The Corporation replaced interest costs on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability measured by applying the same discount rate used to measure the defined benefit obligation at the beginning of the annual period. Interest expense or interest income on net post-employment benefit liabilities and assets continue to be recognized in net income. IAS 19 requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw an offer of termination benefits or recognizes any restructuring costs.

The amended version of IAS 19 was adopted with retrospective application and, accordingly, the comparative periods presented have been adjusted to reflect the reversal of any unamortized past service costs and the application of one discount rate to the net defined benefit asset or liability to determine the interest element of the defined benefit cost. The retrospective application of this amendment increased employee benefits expense by \$422 for the three month period ended March 31, 2012. Net income for the three month period ended March 31, 2012 decreased by \$313, net of income taxes of \$109. Basic net income per share decreased by \$0.01 for the three month period ended March 31, 2012.

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, 2013, and have not been applied in preparing these condensed consolidated interim financial statements. The following standards and interpretations have been issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

Financial Instruments – Recognition and Measurement

In October 2010, the IASB published amendments to IFRS 9, *Financial Instruments* ("IFRS 9") which provides added guidance on the classification and measurement of financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Corporation intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

Financial Assets and Liabilities

In December 2011, the IASB published amendments to IAS 32, *Financial Instruments: Presentation* ("IAS 32") and issued new disclosure requirements in IFRS 7. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014 with retrospective application.

The amendments to IAS 32 clarify when an entity has a legally enforceable right to off-set as well as clarify, when a settlement mechanism provides for net settlement, or gross settlement that is equivalent to net settlement. The Corporation intends to adopt the amendments to IAS 32 in its consolidated financial statements for the annual period beginning January 1, 2014. The extent of the impact of adoption of the amendments to IAS 32 has not yet been determined.

11. Critical Accounting Estimates

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

In the 2012 annual audited 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 2 to the audited consolidated financial statements for the year ended December 31, 2012 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, 2013 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 2013

The strength of the global commercial market continues to be encouraging. With prolonged low interest rates and a growing demand for more fuel-efficient aircraft, the sales potential for commercial aircraft manufacturers remain positive. Boeing and Airbus are maintaining their forecasts for increased single aisle rates with the Boeing 737 program scheduled to increase to 38 aircraft per month in the second quarter of 2013 and the Airbus A320 program sustaining the current rate of 42 aircraft per month. With FAA



approval in hand for the B787 modifications, Boeing is expected to focus on efforts to ramp up the rate of production from 5 aircraft per month to 10 aircraft per month by the end of 2013. Airbus has a planned A350 ramp-up to build 9 aircraft in 2013 and 20 aircraft in 2014.

The global defence market did not experience significant change in the first quarter of 2013 as uncertainty continues to affect market outlook. In the US, sequestration has precipitated the first in a series of furlough notices being issued to government employees. The end result is unknown as agencies and manufacturers have yet to determine what the total effect on their operations will be. The European defence industry is facing declining budgets and an over-capacity situation where consolidation or increased partnering on programs may be the only solution.

All signs remain positive for the regional aircraft market primarily due to the expected replacement by airlines of 35 to 50 seat aircraft for higher capacity planes, and due to the high average age of the fleet. The in-service fleet comprises of 52% older aircraft averaging approximately 11 years. This market is expected to grow 9.4% from 2012 through 2016.

The business jet market is still waiting for recovery. Used bizjets as a percentage of the fleet stands at approximately 12% in April 2013 from a high of 17.6% in 2009. Analysts maintain this market will pick up in the second half of 2013 as equity markets stabilize and corporate profits are expected to continue to grow.

Although the global helicopter market is contracting at this time, the diversity of the markets it serves has helped its buoyancy throughout lean times. An industry analyst at the recent HeliExpo show in Las Vegas forecast 24,000 new helicopters to be delivered over the next 10 years, with 75% of these being for non-military use. Eurocopter, AgustaWestland and Sikorsky are all working on next generation high speed rotorcraft.

The continued upswing in the Corporations commercial programs is expected to provide the ability to mitigate any negative exposure associated with defence spending cutbacks. This situation is projected to remain relatively stable through 2014.

Additional information relating to Magellan Aerospace Corporation, including the Corporation's annual information form, can be found on the SEDAR web site at www.sedar.com.



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 March 31	
		2013	2012 (Restated - Note 3)
Revenues	10	185,293	186,847
Cost of revenues		160,481	161,310
Gross profit		24,812	25,537
Administrative and general expenses		10,735	9,861
Other		980	(143)
		13,097	15,819
Interest		2,124	2,295
Income before income taxes		10,973	13,524
Income taxes			
Current	6	1,204	913
Deferred	6	1,754	1,100
		2,958	2,013
Net income		8,015	11,511
Other comprehensive (loss) income			
Items that may be reclassified to profit			
Foreign currency translation		(384)	(1,815)
Comprehensive income		7,631	9,696
Net income per share			
Basic	7	0.14	0.20
Diluted	7	0.14	0.20

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	March 31 2013	December 31 2012 <small>(Restated - Note 3)</small>	January 1 2012 <small>(Restated - Note 3)</small>
Current assets				
Cash		14,346	22,423	26,502
Trade and other receivables		156,363	134,214	106,392
Inventories		148,222	147,329	127,434
Prepaid expenses and other		9,603	7,843	5,297
		328,534	311,809	265,625
Non-current assets				
Property, plant and equipment		313,034	315,484	288,763
Investment properties		2,843	2,875	3,041
Intangible assets		59,514	60,701	66,134
Other assets		14,938	13,097	8,783
Deferred tax assets		51,344	51,040	28,360
		441,673	443,197	395,081
Total assets		770,207	755,006	660,706
Current liabilities				
Accounts payable and accrued liabilities and provisions		122,189	121,161	105,551
Debt due within one year		32,973	32,256	12,297
		155,162	153,417	117,848
Non-current liabilities				
Bank indebtedness	4	119,581	112,666	120,674
Long-term debt	5	77,831	79,857	81,423
Borrowings subject to specific conditions		20,932	20,768	18,847
Other long-term liabilities and provisions		39,129	39,003	29,131
Deferred tax liabilities		15,407	14,761	10,088
		272,880	267,055	260,163
Equity				
Share capital		254,440	254,440	252,440
Contributed surplus		2,044	2,044	2,041
Other paid in capital		13,565	13,565	13,565
Retained earnings		79,697	71,682	20,747
Accumulated other comprehensive loss		(7,581)	(7,197)	(6,098)
		342,165	334,534	282,695
Total liabilities and equity		770,207	755,006	660,706

See accompanying Notes to Condensed Consolidated Interim Financial Statements



MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(unaudited) (expressed in thousands of Canadian dollars)	Share capital	Contributed surplus	Other paid in capital	Retained earnings <small>(Restated -Note 3)</small>	Foreign currency translation	Total equity <small>(Restated -Note 3)</small>
December 31, 2012	254,440	2,044	13,565	71,682	(7,197)	334,534
Net income for the period	—	—	—	8,015	—	8,015
Other comprehensive loss for the period	—	—	—	—	(384)	(384)
March 31, 2013	254,440	2,044	13,565	79,697	(7,581)	342,165
December 31, 2011	252,440	2,041	13,565	20,747	(6,098)	282,695
Net income for the period	—	—	—	11,511	—	11,511
Other comprehensive loss for the period	—	—	—	—	(1,815)	(1,815)
Stock-based compensation	—	6	—	—	—	6
March 31, 2012	252,440	2,047	13,565	32,258	(7,913)	292,397

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 2013	March 31 2012 (Restated - Note 3)
Cash flow from operating activities			
Net income		8,015	11,511
Amortization/depreciation of intangible assets and property, plant and equipment		8,174	7,189
Loss on disposal of property, plant and equipment		32	3
Decrease in defined benefit plans		(18)	(703)
Stock-based compensation		—	6
Accretion		153	150
Deferred taxes		400	208
Decrease in working capital		(22,754)	(13,279)
Net cash (used) provided by operating activities		(5,998)	5,085
Cash flow from investing activities			
Purchase of property, plant and equipment		(4,101)	(3,982)
Proceeds from disposal of property, plant and equipment		46	3
Increase in other assets		(2,712)	(5,166)
Net cash used in investing activities		(6,767)	(9,145)
Cash flow from financing activities			
Increase (decrease) in bank indebtedness	6	6,481	(5,691)
Increase in debt due within one year		499	15,751
Decrease in long-term debt	7	(2,435)	(2,124)
(Decrease) increase in long-term liabilities and provisions		(41)	148
Increase in borrowings		318	182
Net cash provided by financing activities		4,822	8,266
(Decrease) increase in cash during the period		(7,943)	4,206
Cash at beginning of the period		22,423	26,502
Effect of exchange rate differences		(134)	(225)
Cash at end of the period		14,346	30,483

See accompanying Notes to Condensed Consolidated Interim Financial Statements



MAGELLAN AEROSPACE CORPORATION NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, expressed in thousands of dollars except share and per share data)

NOTE 1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Magellan Aerospace Corporation (the "Corporation") is a publicly listed company incorporated in Ontario, Canada under the Ontario Business Corporations Act and its shares are listed on the Toronto Stock Exchange. The registered and head office of the Corporation is located at 3160 Derry Road East, Mississauga, Ontario, Canada, L4T 1A9.

The Corporation is a diversified supplier of components to the aerospace industry and in certain circumstances for power generation projects. Through its wholly owned subsidiaries, Magellan 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared in accordance with 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, 2012, except for the any new accounting pronouncements which have been adopted. Certain comparative figures have been reclassified to conform to the current presentation.

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, 2012, 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 May 8, 2013.

NOTE 3. ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS

The Corporation has adopted the new and amended IFRS pronouncements listed below as at January 1, 2013, in accordance with the transitional provisions outlined in the respective standards.

a) Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements* ("IFRS 10") replaced portions of IAS 27, *Consolidated and Separate Financial Statements*, that addressed consolidation, and superseded SIC-12, *Consolidation – Special Purpose Entities* ("SPE"), in its entirety. IFRS 10 provides a single model to be applied in the analysis of control of all investees, including entities that currently are SPEs in the scope of SIC-12. An investor must possess the following three elements to conclude if it controls an investee: power over the investee's financial and operating decisions, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee and its exposure or rights to variable returns.

The adoption of IFRS 10 had no impact on the consolidated interim financial statements for the period or prior periods presented as the adoption did not result in a change in the consolidation status of any of our subsidiaries or investees or the identification of any subsidiaries.

b) Joint Arrangements

IFRS 11, *Joint Arrangements* ("IFRS 11") supersedes IAS 31, *Interest in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions*. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement, which are classified as either joint operations or joint ventures, and provides guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

In a joint operation, the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the arrangement, and recognize their share of the assets, liabilities, revenues and expenses in accordance with applicable IFRS. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement and account for their interest using the equity method of accounting under IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 28 prescribes the

accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Corporation has concluded that its joint arrangement is a joint venture under IFRS 11 and, accordingly, has recorded its investment using the equity method of accounting whereas prior to adoption of IFRS 11, the proportionate consolidation method was used. The Corporation has applied the new policy retrospectively in accordance with the transitional provisions of IFRS 11 and recognized the deemed cost of its investments in joint ventures at January 1, 2012, as the net of the carrying amounts of the assets and liabilities previously proportionately consolidated by the Corporation. Under the equity method, the Corporation's share of individual assets and liabilities are replaced with a net investment in joint ventures amount in the consolidated balance sheet and individual revenues and expenses are replaced with earnings from investment in joint ventures amount in the consolidated statement of income. The Corporation has restated its consolidated interim financial statements for the comparative period to reflect the change in method of accounting for the joint venture.

c) Disclosure of Interests in Other Entities

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), contains disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The requirements of IFRS 12 relate to disclosures only and are applicable for the first annual period after adoption, and, accordingly, the additional disclosures about interests in other entities will be included in the annual consolidated financial statements for the year ended December 31, 2013.

The Corporation's subsidiaries are all wholly owned and as such the determination of whether to consolidate these entities or the identification of any subsidiaries did not involve any significant judgments or assumptions. There are no significant restrictions on the ability of the Corporation to access or use the assets, and settle the liabilities of the Corporation and its subsidiaries except for customary limitations in the Corporation's credit facility.

d) Fair Value Measurement

IFRS 13, *Fair Value Measurement* ("IFRS 13") replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements.

The adoption of IFRS 13 did not have an effect on the required disclosures in the consolidated interim financial statements for the current period. The annual disclosure requirements will be incorporated in the annual consolidated financial statements for the year ended December 31, 2013.

f) Presentation of Financial Statements

IAS 1, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* ("IAS 1"), requires that a Corporation present separately the items of other comprehensive income ("OCI") that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss.

The Corporation has amended its consolidated interim statements of comprehensive income for all periods presented in these consolidated interim financial statements to reflect the presentation changes required under the amended IAS 1. As these changes are reclassifications within the statement of comprehensive income, there is no net impact on comprehensive income.

e) Employee Benefits

IAS 19, *Employee Benefits* ("IAS 19") was amended to eliminate the 'corridor approach' previously permitted and accelerate the recognition of past service costs. As part of its transition to IFRS, the Corporation elected to present remeasurements in OCI. The Corporation replaced interest costs on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability measured by applying the same discount rate used to measure the defined benefit obligation at the beginning of the annual period. Interest expense or interest income on net post-employment benefit liabilities and assets continue to be recognized in net income. IAS 19 requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw an offer of termination benefits or recognizes any restructuring costs.

The amended version of IAS 19 was adopted with retrospective application and, accordingly, the comparative periods presented have been adjusted to reflect the reversal of any unamortized past service costs and the application of one discount rate to the net defined benefit asset or liability to determine the interest element of the defined benefit cost.

g) Prior Year Consolidated Financial Statements

For the quantitative impact of adopting IFRS 11 and IAS 19 on the prior year consolidated financial statements, reference is made to the following tables.

Adjustments to the consolidated statements of financial position:

As at January 1	2012 (previously stated)	Adjustments for changes in accounting policy		2012 (restated)
		IFRS 11	IAS 19	
Cash	26,520	(18)	—	26,502
Trade and other receivables	106,480	(88)	—	106,392
Inventories	127,473	(39)	—	127,434
Prepaid expenses and other	5,326	(29)	—	5,297
Property, plant and equipment	289,744	(981)	—	288,763
Other assets	8,660	123	—	8,783
Accounts payable, accrued liabilities and provisions	106,022	(471)	—	105,551
Debt due within one year	12,513	(216)	—	12,297
Long-term debt	81,768	(345)	—	81,423
Increase in net assets/shareholders' equity		—	—	

As at December 31	2012 (previously stated)	Adjustments for changes in accounting policy		2012 (restated)
		IFRS 11	IAS 19	
Cash	22,431	(8)	—	22,423
Trade and other receivables	134,361	(147)	—	134,214
Inventories	147,382	(53)	—	147,329
Prepaid expenses and other	7,879	(36)	—	7,843
Property, plant and equipment	316,441	(957)	—	315,484
Other assets	12,697	400	—	13,097
Accounts payable, accrued liabilities and provisions	121,644	(483)	—	121,161
Debt due within one year	32,425	(169)	—	32,256
Long-term debt	80,024	(167)	—	79,857
Increase in net assets/shareholders' equity		18	—	

Adjustments to the consolidated statements of income and comprehensive income:

For the three month period ended March 31	2012 (previously stated)	Adjustments for changes in accounting policy		2012 (restated)
		IFRS 11	IAS 19	
Revenues	186,992	(145)	—	186,847
Cost of revenues	160,985	(97)	422	161,310
Administrative and general expenses	9,928	(67)	—	9,861
Other	(176)	33	—	(143)
Interest	2,309	(14)	—	2,295
Income taxes	2,122	—	(109)	2,013
Decrease in net income		—	(313)	
Other comprehensive (loss) income, net of tax	(1,814)	(1)	—	(1,815)
Increase in comprehensive loss		(1)	(313)	

For the year ended December 31	2012 (previously stated)	Adjustments for changes in accounting policy		2012 (restated)
		IFRS 11	IAS 19	
Revenues	704,579	(539)	—	704,040
Cost of revenues	603,887	(332)	1,688	605,243
Administrative and general expenses	39,203	(231)	—	38,972
Other	(260)	83	—	(177)
Interest	9,237	(59)	—	9,178
Income taxes	3,814	—	(436)	3,378
Decrease in net income		—	(1,252)	
Other comprehensive (loss) income, net of tax	(8,477)	17	1,252	(7,208)
Decrease in comprehensive loss		17	—	

Adjustments to the consolidated statements of cash flow:

For the three month period ended March 31	2012 (previously stated)	Adjustments for changes in accounting policy		2012 (restated)
		IFRS 11	IAS 19	
Net income	11,824	—	(313)	11,511
Depreciation/amortization of intangible assets and property, plant and equipment	7,211	(22)	—	7,189
Decrease in defined benefit plans	(1,125)	—	422	(703)
Deferred taxes	317	—	(109)	208
Increase in non-cash working capital	(13,324)	45	—	(13,279)
Purchase of property, plant and equipment	(3,984)	2	—	(3,982)
Decrease in other assets	(5,037)	(129)	—	(5,166)
Decrease in long-term debt	(2,196)	72	—	(2,124)
		—	—	

For the year ended December 31	2012 (previously stated)	Adjustments for changes in accounting policy		2012 (restated)
		IFRS 11	IAS 19	
Net income	58,295	—	(1,252)	57,043
Depreciation/amortization of intangible assets and property, plant and equipment	31,029	(100)	—	30,929
Decrease in defined benefit plans	(4,767)	—	1,688	(3,079)
Deferred taxes	(14,419)	—	(436)	(14,855)
Increase in non-cash working capital	(25,355)	55	—	(25,300)
Purchase of property, plant and equipment	(33,829)	130	—	(33,699)
Decrease in other assets	(6,654)	(277)	—	(6,931)
Decrease in long-term debt	(8,849)	201	—	(8,648)
		—	—	

NOTE 4. BANK INDEBTEDNESS

During 2012, 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 \$115,000 plus a US dollar limit of US\$35,000 [\$150,560 at March 31, 2013]. Under the terms of the amended credit agreement, the operating credit facility expires on December 21, 2014 and is extendable for unlimited one-year periods subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a \$50,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility to \$200,000. Bank indebtedness as at March 31, 2013 of \$119,581 [December 31, 2012 - \$112,666] bears interest at the bankers' acceptance or LIBOR rates, plus 1.20% [2.15% at March 31, 2013 (2012 – bankers' acceptance or LIBOR rates plus 1.50% or 2.35%)]. Included in the amount outstanding at March 31, 2013 is US\$24,046 [December 31, 2012 - US\$18,358]. At March 31, 2013, the Corporation had drawn \$122,365 under the operating credit facility, including letters of credit totalling \$2,784, such that \$28,195 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. The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the operating credit facility.

NOTE 5. LONG-TERM DEBT

During 2012, the loan due on July 1, 2013 (the "Original Loan") to Edco Capital Corporation ("Edco") was extended to January 1, 2015 in consideration of the payment of a one-time extension fee of 0.75% of the principal amount outstanding as of December 21, 2012. The Corporation has the right to prepay the Original Loan at any time without penalty. During the three month period ended March 31, 2013, the Corporation prepaid the Original Loan by \$1,000 [three month period ended March 31, 2012 - \$1,000]. As at March 31, 2013, the principal amount outstanding was \$29,000 [December 31, 2012 - \$30,000].

NOTE 6. 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 month period ended March 31, 2013 was 27.0% [14.9% for the three month period ended March 31, 2012]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the impact of recognizing investment tax credits during the period.



NOTE 7. SHARE CAPITAL

Net income per share

	Three month period ended March 31					
	2013			2012		
	Amount	Weighted average no. of shares	Per share amount (\$)	Amount	Weighted average no. of shares	Per share amount (\$)
Basic net income per share	8,015	58,209	0.14	11,511	56,209	0.20
Effect of dilutive securities:						
Convertible debentures	—	—	—	61	2,000	—
At March 31	8,015	58,209	0.14	11,572	58,209	0.20

NOTE 8. FINANCIAL INSTRUMENTS

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, accounts receivable, 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 has entered into foreign forward exchange contracts to mitigate future cash flow exposures in US dollars. 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 US dollars. The Corporation has foreign exchange contracts outstanding as follows:

Foreign exchange forward contracts	Amount	Ceiling
Maturity – less than 1 year – US dollar	28,500	1.0150

The fair values of the Corporation's forward foreign exchange contracts are based on the current market values of similar contracts with the same remaining duration as if the contract had been entered into on March 31, 2013.

The mark-to-market on these financial instruments as at March 31, 2013 was an unrealized loss of \$113, which has been recorded in other expense for the period.

Long-term debt

The fair value of the Corporation's long-term debt, calculated by discounting the expected future cash flows based on current rates for debt with similar terms and maturities, is \$83,402 at March 31, 2013.

Collateral

As at March 31, 2013, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was \$170,709.

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 I are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level II 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 III 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.



The following table presents the fair value of the financial instruments that are carried at fair value classified using the fair value hierarchy:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total
Financial assets				
Forward foreign exchange contracts	–	113	–	113

NOTE 9. RELATED PARTY TRANSACTIONS

During the three month period ended March 31, 2013, the Corporation paid guarantee fees in the amount of \$188 [three month period ended March 31, 2012 - \$276] to the Chairman of the Board of the Corporation. During the three month period ended March 31, 2013, the Corporation incurred interest of \$550 [three month period ended March 31, 2011 - \$616] in relation to the Original Loan due to Edco, a corporation which is controlled by the Chairman of the Board of the Corporation which is due on January 1, 2015. At March 31, 2013, the Corporation owed Edco interest of \$187 [December 31, 2012 - \$191].

On April 30, 2012, Convertible Debentures in the principle amount of \$2,000 held by a director of the Corporation were converted into common shares of the Corporation. Interest incurred during the three month period ended March 31, 2013 was \$nil [three month period ended March 31, 2012 - \$50].

NOTE 10. SEGMENTED INFORMATION

Based on the nature of the Corporation's markets, two main operating segments were identified: Aerospace and Power Generation Project. The Aerospace segment includes the design, development, manufacture, repair and overhaul and sale of systems and components for defence and civil aviation, while the Power Generation Project segment includes the supply of gas turbine power generation units. Revenues in the Power Generation Project segment arise solely from the power generation project in Ghana and the revenue is included in Canada export revenue.

The Corporation evaluated the performance of its operating segments primarily based on income before interest expense and income tax expense.

The Corporation accounts for intersegment and related party sales and transfers, if any, at the exchange amount.

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

	Three month period ended March 31	
	2013	2012
Sale of goods	156,503	132,175
Construction contracts	6,625	27,946
Services	22,165	26,726
	185,293	186,847



The aggregate amount of revenue recognized to date for construction contracts in progress at March 31, 2013 was \$276,768 [December 31, 2012 - \$269,800]. Advance payments received for construction contracts in progress at March 31, 2013 was \$8,544 [December 31, 2012 - \$11,663]. Retention in connection with construction contracts at March 31, 2013 was \$1,016 [December 31, 2012 - \$995]. Advance payments and retentions are included in accounts payable, accrued liabilities and provisions.

Segmented information consists of the following:

Activity segments:

	2013			Three months ended March 31 2012		
	Aerospace	Power Generation Project	Total	Aerospace	Power Generation Project	Total
Revenues	181,815	3,478	185,293	165,991	20,856	186,847
Income (loss) before interest and income taxes	13,309	(212)	13,097	14,543	1,276	15,819
Interest expense			2,124			2,295
Income before income taxes			10,973			13,524
Total assets	735,496	34,711	770,207	664,489	35,825	700,314
Total liabilities	406,808	21,234	428,042	386,806	21,111	407,917
Additions to property, plant and equipment	4,101	—	4,101	3,982	—	3,982
Depreciation and amortization	8,174	—	8,174	7,189	—	7,189

Geographic segments:

	2013				Three month period ended March 31 2012			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	76,863	57,654	50,776	185,293	96,577	49,530	40,740	186,847
Export revenue ¹	55,462	15,187	4,073	74,722	73,850	10,168	2,031	86,049

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

	March 31, 2013				December 31, 2012			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment and intangible assets	192,582	121,260	58,706	372,548	195,379	118,945	61,861	376,185

The major customers for the Corporation are as follows:

	Three month period ended March 31	
	2013	2012
Major customers		
Canadian operations		
- Number of customers	2	1
- Percentage of total Canadian revenue	29%	22%
US operations		
- Number of customers	2	1
- Percentage of total US revenue	54%	39%
UK operations		
- Number of customers	2	2
- Percentage of total UK revenue	85%	90%



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 March 31, 2013 of \$572,550 is comprised of shareholders' equity of \$342,165 and interest-bearing debt of \$230,385.

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 LIABILITIES AND COMMITMENTS

In the ordinary course of business activities, the Corporation may be contingently liable for litigation and claims with, among other, 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 March 31, 2013 capital commitments in respect of purchase of property, plant and equipment totalled \$7,890, all of which had been ordered. There were no other material capital commitments at the end of the period.