MAGELLAN

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2014

MAGELLAN
AEROSPACE

MAGELLAN AEROSPACE

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(unaudited) **(expressed in thousands of Canadian dollars, except per share amounts)**	Notes	**Three month period ended June 30** **2014**	 2013	**Six month period ended June 30** **2014**	 2013
Revenues	10	**221,050**	189,863	**431,552**	375,156
Cost of revenues		**186,553**	161,093	**367,579**	321,574
Gross profit		**34,497**	28,770	**63,973**	53,582
Administrative and general expenses		**11,802**	11,329	**23,272**	22,064
Other		**1,421**	160	**1,078**	1,140
Income before interest and income taxes		**21,274**	17,281	**39,623**	30,378
Interest		**2,468**	1,732	**4,166**	3,856
Income before income taxes		**18,806**	15,549	**35,457**	26,522
Income taxes					
Current	6	**1,014**	1,337	**2,238**	2,541
Deferred	6	**4,186**	3,049	**7,534**	4,803
		5,200	4,386	**9,772**	7,344
Net income		**13,606**	11,163	**25,685**	19,178
Net income per share					
Basic and diluted	7	**0.23**	0.19	**0.44**	0.33

Net Income	**13,606**	11,163	**25,685**	19,178
Other comprehensive (loss) income that may be reclassified to profit and loss in subsequent periods:				
Foreign currency translation (loss) gain	**(6,079)**	6,804	**3,222**	6,420
Other comprehensive (loss) income that will not be reclassified to profit and loss in subsequent periods:				
Actuarial (loss) gain on defined benefit pension plans, net of tax	**(1,173)**	9,498	**(4,376)**	9,498
Total comprehensive income, net of tax	**6,354**	27,465	**24,531**	35,096

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited) **(expressed in thousands of Canadian dollars)**	Notes	**June 30 2014**	December 31 2013
Current assets			
Cash		**5,521**	7,760
Trade and other receivables		**163,452**	146,969
Inventories		**165,179**	160,269
Prepaid expenses and other		**13,115**	12,461
		347,267	327,459
Non-current assets			
Property, plant and equipment		**331,694**	331,940
Investment properties		**4,401**	4,663
Intangible assets		**59,233**	60,365
Other assets		**31,140**	24,472
Deferred tax assets		**42,480**	43,011
		468,948	464,451
Total assets		**816,215**	791,910
Current liabilities			
Bank indebtedness	4	**112,085**	115,930
Accounts payable and accrued liabilities and provisions		**134,301**	137,625
Debt due within one year		**36,378**	30,932
		282,764	284,487
Non-current liabilities			
Long-term debt	8	**44,627**	46,154
Borrowings subject to specific conditions	8	**18,087**	17,637
Other long-term liabilities and provisions		**19,533**	15,713
Deferred tax liabilities		**23,171**	19,761
		105,418	99,265
Equity			
Share capital		**254,440**	254,440
Contributed surplus		**2,044**	2,044
Other paid in capital		**13,565**	13,565
Retained earnings		**146,117**	129,464
Accumulated other comprehensive income		**11,867**	8,645
		428,033	408,158
Total liabilities and equity		**816,215**	791,910

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(unaudited) (expressed in thousands of Canadian dollars)	Share capital	Contributed surplus	Other paid in capital	Retained earnings	Foreign currency translation	Total equity
December 31, 2013	254,440	2,044	13,565	129,464	8,645	408,158
Net income for the period	–	–	–	25,685	–	25,685
Other comprehensive (loss) income for the period	–	–	–	(4,376)	3,222	(1,154)
Common share dividend	–	–	–	(4,656)	–	(4,656)
June 30, 2014	254,440	2,044	13,565	146,117	11,867	428,033
December 31, 2012	254,440	2,044	13,565	71,682	(7,197)	334,534
Net income for the period	–	–	–	19,178	–	19,178
Other comprehensive income for the period	–	–	–	9,498	6,420	15,918
June 30, 2013	254,440	2,044	13,565	100,358	(777)	369,630

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

(unaudited) (expressed in thousands of Canadian dollars)	Notes	Three month period ended June 30 **2014**	 2013	Six month period ended June 30 **2014**	 2013
Cash flow from operating activities					
Net income		**13,606**	11,163	**25,685**	19,178
Amortization/depreciation of intangible assets and property, plant and equipment		**8,917**	8,311	**17,698**	16,485
Loss on disposal of property, plant and equipment		**811**	182	**764**	214
Increase (decrease) in defined benefit plans		**934**	(283)	**513**	(301)
Accretion		**1,032**	(176)	**1,322**	(23)
Deferred taxes		**1,618**	2,122	**3,828**	2,522
(Gain) loss on investment in joint venture		**(36)**	30	**(116)**	30
Increase in non-cash working capital		**(5,173)**	(3,602)	**(26,035)**	(26,356)
Net cash provided by operating activities		**21,709**	17,747	**23,659**	11,749
Cash flow from investing activities					
Purchase of property, plant and equipment		**(4,966)**	(4,217)	**(11,530)**	(8,318)
Proceeds from disposal of property, plant and equipment		**259**	81	**330**	127
Increase in other assets		**(5,672)**	(1,731)	**(8,771)**	(4,443)
Net cash used in investing activities		**(10,379)**	(5,867)	**(19,971)**	(12,634)
Cash flow from financing activities					
Decrease in bank indebtedness	4	**(9,624)**	(11,342)	**(4,127)**	(4,861)
Increase in debt due within one year		**402**	280	**6,145**	779
Decrease in long-term debt		**(1,170)**	(2,914)	**(2,515)**	(5,349)
Decrease in long-term liabilities and provisions		**(536)**	(78)	**(429)**	(119)
(Decrease) increase in borrowings		**(534)**	268	**(534)**	586
Common share dividend	7	**(2,328)**	—	**(4,656)**	—
Net cash used in financing activities		**(13,790)**	(13,786)	**(6,116)**	(8,964)
Decrease in cash during the period		**(2,460)**	(1,906)	**(2,428)**	(9,849)
Cash at beginning of the period		**8,124**	14,346	**7,760**	22,423
Effect of exchange rate differences		**(143)**	330	**189**	196
Cash at end of the period		**5,521**	12,770	**5,521**	12,770

See accompanying notes to condensed consolidated interim financial statements

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 engineers and manufactures aeroengine and aerostructure components for aerospace markets, including advanced products for defence and space markets, and complementary specialty products. The Corporation also supports the aftermarket through supply of spare parts as well as through repair and overhaul services and supplies in certain circumstances parts and equipment for power generation projects.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") 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, 2013, except for the new accounting pronouncements which have been adopted (See Note 3). 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, 2013, which are available at www.sedar.com and on the Corporation's website at www.magellan.aero.

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

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors of the Corporation on August 12, 2014.

NOTE 3. ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS

The Corporation has adopted the new and amended International Financial Reporting Standards ("IFRS") pronouncements listed below as at January 1, 2014, in accordance with the transitional provisions outlined in the respective standards.

a) Financial Assets and Liabilities
In December 2011, amendments to IAS 32, *Financial Instruments: Presentation* were issued to clarify the existing requirements for offsetting financial assets and financial liabilities. The amendments specify that the right of set-off has to be legally enforceable even in the event of bankruptcy and that it must be available on the current date and cannot be contingent on a future date.

As at January 1, 2014, the Corporation adopted this pronouncement and there was no material impact on the condensed consolidated interim financial statements.

b) Levies
In May 2013, the IASB issued International Financial Reporting Interpretations Committee ("IFRIC") 21, *Levies*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is to be applied retrospectively. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs, which may be at a point in time or over a period of time.

As at January 1, 2014, the Corporation adopted this pronouncement and there was no material impact on the condensed consolidated interim financial statements.

c) Impairment of Assets
In May 29, 2013, the IASB published amendments to IAS 36, *Impairment of Assets* which reduce the circumstances in which the recoverable amount of a cash generating unit is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. As at January 1, 2014, the Corporation adopted the amendments and there was no material impact on the condensed consolidated interim financial statements.

d) New standards and interpretations not yet adopted
In November 2013, Defined Benefit Plans: Employee Contributions was issued to amend IAS 19, *Employee Benefits*. These narrow scope amendments simplify the accounting for contributions to defined benefit plans. These amendments are effective for annual periods beginning on or after July 1, 2014, with earlier application permitted. The Corporation is in the process of evaluating the impact the adoption of this standard may have on the Corporation's consolidated financial statements.

In May 2014, the IASB issued amendments to IFRS 11, *Joint Arrangements* ("IFRS 11") to address the accounting for acquisitions of interests in joint operations. The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11, as amended, now requires that such transactions shall be accounted for using the principles related to business combinations accounting as outlined in IFRS 3, *Business Combinations*. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Corporation is in the process of evaluating the impact of adopting this amendment may have on the Corporation's consolidated financial statements.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), which supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts* and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principle based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments and lease contracts, which fall in the scope of other IFRSs. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some nonfinancial assets that are not an output of the entity's ordinary activities. IFRS 15 is to be applied on either a full or modified retrospective approach and is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Corporation is in the process of evaluating the impact that IFRS 15 may have on the Corporation's consolidated financial statements.

In May 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* ("IFRS 16") and IAS 38, *Intangible Assets* ("IAS 38") to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Corporation is in the process of evaluating the impact of adopting these amendments on the Corporation's consolidated financial statements.

In July 2014, the IASB issued the final amendments to IFRS 9, *Financial Instruments* ("IFRS 9") which provides guidance on the classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. The classification and measurement portion of the standard determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. The amended IFRS 9 introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. In addition, the amended IFRS 9 includes a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Corporation is in the process of evaluating the impact of adopting these amendments on the Corporation's consolidated financial statements.

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 [$152,345 at June 30, 2014]. 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 CDN$50,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility. Bank indebtedness as at June 30, 2014 of $112,085 [December 31, 2013 - $115,930] bears interest at the bankers' acceptance or LIBOR rates plus 1.20% [2.13% at June 30, 2014 (2013 – bankers' acceptance or LIBOR rates plus 1.20% or 2.09%)]. Included in the amount outstanding at June 30, 2014 is US$24,039 [December 31, 2013 - US$26,797]. At June 30, 2014, the Corporation had drawn $115,031 under the operating credit facility, including letters of credit totalling $2,946 such that $37,314 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. EMPLOYEE FUTURE BENEFITS

The Corporation has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to substantially all of its employees. The employee benefit obligation reflected in the unaudited condensed consolidated interim financial statements is as follows:

	June 30 2014	December 31 2013
Pension Benefit Plan	10,403	5,513
Other Benefit Plan	994	966
	11,397	6,479

The discount rate assumption used in determining the obligation for pension and other benefit plans is selected based on a review of current market interest rates of high-quality, fixed rate debt securities adjusted to reflect the duration of the expected future cash outflows for pension benefit payments. During the quarter the Corporation changed the assumed discount rate of 4.75% used in the pension obligation calculation as at December 31, 2013 to a discount rate of 4.1% in the calculation of the pension obligation as at June 30, 2014 as current market interest rate of high-quality, fixed rate debt securities have decreased. The change in assumption resulted in an actuarial loss for the six month period of $5,897 net of taxes of $1,521 recorded in other comprehensive income.

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 and six month period ended June 30, 2014 was 27.7% and 27.6% respectively [28.2% and 27.7% respectively for the three and six month period ended June 30, 2013]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the change in mix of income across the different jurisdictions in which the Corporation operates.

NOTE 7. SHARE CAPITAL

Net income per share

	Three month period ended June 30		Six month period ended June 30	
	2014	2013	**2014**	2013
Net income	**13,606**	11,163	**25,685**	19,178
Weighted average number of shares	**58,209**	58,209	**58,209**	58,209
Basic and diluted net income per share	**0.23**	0.19	**0.44**	0.33

Dividends

On March 31, 2014 and June 30, 2014, the Corporation paid quarterly dividends on 58,209,001 common shares of $0.04 per common share, amounting to $4,656.

Subsequent to June 30, 2014, the Corporation declared dividends to holders of common shares in the amount of $0.04 per common share payable on September 30, 2014, for shareholders of record at the close of business on September 12, 2014.

NOTE 8. FINANCIAL INSTRUMENTS

Fair value hierarchy

The Corporation's financial assets and liabilities recorded at fair value on the consolidated statement of financial position have been categorized into three categories based on a fair value hierarchy. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Fair values

The Corporation has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgement is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described as follows:

Cash, 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 enters into foreign forward exchange contracts to mitigate future cash flow exposures in United States dollars and Euros. Under these contracts the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in United States dollars and Euros. The Corporation does not have any forward foreign exchange contracts outstanding as at June 30, 2014.

Long-term debt
The fair value of the Corporation's long-term debt is $48,589 at June 30, 2014. The fair value was determined by discounting the expected future cash flows based on current rates for debt with similar terms and maturities which is categorized as a Level 2 fair value measurement in the fair value hierarchy.

Borrowings subject to specific conditions
As at June 30, 2014, the Corporation has recognized $18,087 as the estimated fair value amount repayable to Canadian government agencies. The fair value was determined by discounting the expected future cash outflows based on current rates for debt with similar terms and maturities which is categorized as a Level 3 fair value measurement in the fair value hierarchy.

Collateral
As at June 30, 2014, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $168,973.

NOTE 9. RELATED PARTY TRANSACTIONS

During the three and six month period ended June 30, 2014, the Corporation paid guarantee fees in the amount of $191 and $383 respectively [three and six month period ended June 30, 2013 - $189 and $376 respectively] to the Chairman of the Board of the Corporation. During the three and six month period ended June 30, 2014, the Corporation incurred interest of $nil [three and six month period ended June 30, 2013 - $528 and $1,077 respectively] in relation to a loan provided by Edco Capital Corporation, a corporation which is controlled by the Chairman of the Board of the Corporation. The loan was fully repaid as at December 31, 2013.

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 June 30		Six month period ended June 30	
	2014	2013	2014	2013
Sale of goods	182,576	169,583	357,968	326,086
Construction contracts	20,246	5,654	38,275	12,279
Services	18,228	14,626	35,309	36,791
	221,050	189,863	431,552	375,156

At June 30, 2014, aggregate costs incurred under open construction contracts and recognized profits, net of recognized losses, amounted to $329,304 [December 31, 2013 - $292,465]. Advance payments received for construction contracts in progress at June 30, 2014 was $7,820 [December 31, 2013 - $19,073]. Retention in connection with construction contracts at June 30, 2014 was $1,067 [December 31, 2013 - $1,064]. Advance payments and retentions are included in accounts payable, accrued liabilities and provisions.

Segmented information consists of the following:

Activity segments:

						Three month period ended June 30
			2014			2013
	Aerospace	Power Generation Project	Total	Aerospace	Power Generation Project	Total
Revenues	219,461	1,589	221,050	189,863	—	189,863
Income (loss) before interest and income taxes	20,658	616	21,274	17,676	(395)	17,281
Interest expense			2,468			1,732
Income before income taxes			18,806			15,549
Additions to property, plant and equipment	4,966	—	4,966	4,217	—	4,217
Depreciation and amortization	8,917	—	8,917	8,311	—	8,311

						Six month period ended June 30
			2014			2013
	Aerospace	Power Generation Project	Total	Aerospace	Power Generation Project	Total
Revenues	429,827	1,725	431,552	371,678	3,478	375,156
Income (loss) before interest and income taxes	39,450	173	39,623	30,985	(607)	30,378
Interest expense			4,166			3,856
Income before income taxes			35,457			26,522
Total assets	799,056	17,159	816,215	756,248	25,722	781,970
Total liabilities	383,964	4,218	388,182	400,169	12,171	412,340
Additions to property, plant and equipment	11,530	—	11,530	8,318	—	8,318
Depreciation and amortization	17,698	—	17,698	16,485	—	16,485

Geographic segments:

								Three month period ended June 30
				2014				2013
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	92,204	68,109	60,737	221,050	73,388	60,395	56,080	189,863
Export revenue[1]	57,088	18,669	6,452	82,209	49,274	16,805	4,594	70,673

								Six month period ended June 30
				2014				2013
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	169,803	135,796	125,953	431,552	150,252	118,048	106,856	375,156
Export revenue[1]	101,169	35,683	12,950	149,802	104,737	31,992	8,667	145,396

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

	June 30, 2014				December 31, 2013			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment and intangible assets	180,429	131,242	79,256	390,927	185,818	131,043	75,444	392,305

The major customers for the Corporation are as follows:

	Three month period ended June 30		Six month period ended June 30	
	2014	2013	2014	2013
Major customers				
Canadian operations				
- Number of customers	2	3	2	2
- Percentage of total Canadian revenue	31%	35%	31%	27%
US operations				
- Number of customers	2	2	2	2
- Percentage of total US revenue	60%	56%	59%	55%
UK operations				
- Number of customers	2	2	2	2
- Percentage of total UK revenue	85%	85%	84%	84%

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 June 30, 2014 of $621,123 is comprised of shareholders' equity of $428,033 and interest-bearing debt of $193,090.

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

NOTE 12. CONTINGENT LIABILITES AND COMMITMENTS

In the ordinary course of business activities, the Corporation may be contingently liable for litigation and claims with, among others, customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although, it is not possible to accurately estimate the extent of the potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Corporation.

At June 30, 2014 capital commitments in respect of purchase of property, plant and equipment totalled $17,306, all of which had been ordered. There were no other material capital commitments at the end of the period.