MAGELLAN QUARTERLY REPORT

SEPTEMBER 30, 2014

MAGELLAN AEROSPACE

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Magellan Aerospace Corporation ("Magellan" or the "Corporation") should be read in conjunction with the unaudited condensed consolidated interim financial statements and the notes thereto for the three and nine months ended September 30, 2014, and the audited annual consolidated financial statements for the year ended December 31, 2013 (available on SEDAR at www.sedar.com). Unless otherwise noted, all financial information has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), specifically International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"), which is within the framework of International Financial Reporting Standards ("IFRS"). This MD&A provides a review of the significant developments that have impacted the Corporation's performance during the three month period ended September 30, 2014 relative to the three month period ended September 30, 2013. The information contained in this report is as at November 7, 2014. All financial references are in Canadian dollars unless otherwise noted.

The MD&A contains forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance. All statements other than statements of historical facts may be forward-looking statements. In particular and without limitation there are forward looking statements under the heading "Overview", "Results of Operations", "Liquidity and Capital Resources", "Future Changes in Accounting Policies" and "Outlook". In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", and similar expressions. The projections, estimates and beliefs contained in such forward-looking statements are based on management's assumptions relating to the production performance of Magellan's assets and competition throughout the aerospace industry and continuation of the current regulatory and tax regimes in the jurisdictions in which the Corporation operates, and necessarily involve known and unknown risks and uncertainties, including the business risks discussed in this MD&A, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Except as required by law, the Corporation does not undertake to update any forward-looking information in this document whether as to new information, future events or otherwise.

The MD&A presents certain non-IFRS financial measures to assist readers in understanding the Corporation's performance. Non-IFRS financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with GAAP. Throughout this discussion, reference is made to EBITDA (defined as net income before interest, income taxes, depreciation and amortization), which the Corporation considers to be an indicative measure of operating performance and a metric to evaluate profitability. EBITDA is not a generally accepted earnings measure and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating this measure, the Corporation's EBITDA may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA to net income (loss) reported in accordance with IFRS are included in this MD&A.

1. Overview

A summary of Magellan's business and significant updates

Magellan is a diversified supplier of components to the aerospace industry and in certain circumstances for power generation projects. Through its wholly owned subsidiaries, Magellan 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 participated, as it does every two years, with an exhibit at the Farnborough International Air Show from July 14th – 20th in Farnborough, UK. This event, which is held on alternate years to the Paris Air Show, is one of the key venues during the year where Magellan is able to meet with key customers to discuss the alignment of its business strategies. The Magellan exhibit theme was “Integrated Solutions For Future Platforms” emphasising the alignment of the Corporation’s strategies through its centres of excellence with those of its customers on major new programs.

On July 30th, 2014, the Corporation announced that it had been selected to provide landing gear kits to Boeing Commercial Airplanes for the new 737 MAX aircraft. The program is expected to generate revenues up to $50 million USD annually over the contract period with the manufacture and integration of the kits to be carried out at Magellan’s New York facilities.

On September 30th, 2014, Magellan also announced the successful launch of a Black Brant IX rocket from the NASA Wallops Flight Facility in Wallops Island, Virginia. The launch mission was a test of a new sub-payload deployment method for suborbital rockets and the release of vapor tracers to help measure the wind in the transition region between the Earth’s atmosphere and space. Magellan’s Winnipeg, Manitoba facility has been designing and manufacturing Black Brant rockets for more than 50 years.

The Power Generation Project segment is a specialty product complimentary to the Corporation’s principal business. The Corporation’s sole product in the Power Generation Project segment is an electric power generation project in the Republic of Ghana that was substantially completed in 2013. A number of power generation project opportunities are being considered as follow-on business.

For additional information, please refer to the “Management’s Discussion and Analysis” section of the Corporation’s 2013 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan’s operating results for third quarter ended September 30, 2014

The Corporation reported higher revenue in both its Aerospace segment and its Power Generation Project segment in the third quarter of 2014 when compared to the third quarter of 2013. Gross profit and net income for the third quarter of 2014 were $31.7 million and $13.0 million, respectively, an increase from the third quarter of 2013 gross profit and net income of $26.1 million and $9.6 million, respectively.

Consolidated Revenue

Overall, the Corporation’s consolidated revenues in the third quarter of 2014 increased by 11.9% when compared to the third quarter of 2013.

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2014**	2013	Change	**2014**	2013	Change
Aerospace	**202,297**	181,010	11.8%	**632,125**	552,688	14.4%
Power Generation Project	**245**	—	—	**1,969**	3,478	(43.4)%
Revenues	**202,542**	181,010	11.9%	**634,094**	556,166	14.0%

Consolidated revenues of $202.5 million for the third quarter ended September 30, 2014 were higher than the $181.0 million of revenue in the third quarter of 2013. Higher volumes of production on both new and legacy commercial aircraft platforms and the appreciation of the United States dollar and the British Pound against the Canadian dollar, when compared to the prior year quarter, increased revenues by 11.8% year over year in the Aerospace segment. The increase in the Power Generation Project segment represents revenue earned on the additional scope of work package signed in the second quarter of 2014 with the Republic of Ghana.

Aerospace Segment

Revenues for the Aerospace segment were as follows:

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2014**	2013	Change	**2014**	2013	Change
Canada	**73,549**	68,933	6.7%	**241,627**	215,706	12.0%
United States	**67,589**	56,484	19.7%	**203,385**	174,533	16.5%
Europe	**61,159**	55,593	10.0%	**187,113**	162,449	15.2%
Total revenues	**202,297**	181,010	11.8%	**632,125**	552,688	14.4%

Consolidated Aerospace revenues for the third quarter of 2014 of $202.3 million were 11.8% higher than revenues of $181.0 million in the third quarter of 2013. Revenues in Canada in the third quarter of 2014 increased 6.7% from the same period in 2013 primarily due to higher revenue earned on the Corporation's space programs, offset in part by reduced revenues earned on defence programs. The favourable movement in the United States dollar in comparison to the Canadian dollar also contributed to the increased revenues in Canada in the third quarter of 2014 when compared to the same period in 2013. Revenues increased by 19.7% in the United States in the third quarter of 2014 in comparison to the third quarter of 2013. The Corporation's continued participation on a number of single aisle and wide body commercial aircraft programs, that have increased in build rates when compared to the prior year and the strength in the United States dollar in comparison to the Canadian dollar during the same periods in 2014 versus 2013 were the primary contributors to the increased revenues quarter over quarter. European revenues in the third quarter of 2014 increased 10% over revenues in the same period in 2013 primarily due to the strength of the British Pound in comparison to the Canadian dollar.

Power Generation Project Segment

Revenues for the Power Generation Project segment were as follows:

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2014**	2013	Change	**2014**	2013	Change
Power Generation Project	**245**	—	—	**1,969**	3,478	(43.4)%
Total revenues	**245**	—		**1,969**	3,478	

The original statement of work on the Ghana Power Generation Project (the "Project") was substantially completed and all revenue related to the original statement of work was recognized as at March 31, 2013. In the second quarter of 2014, the Corporation signed an amendment to the original Project contract which increased the statement of work for the Project. Revenues recorded in the quarter represent the progress made to date on the additional statement of work.

Gross Profit

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2014**	2013	Change	**2014**	2013	Change
Gross profit	**31,651**	26,080	21.4%	**95,624**	79,662	20.0%
Percentage of revenues	**15.6%**	14.4%		**15.1%**	14.3%	

Gross profit of $31.7 million (15.6% of revenues) was reported for the third quarter of 2014 compared to $26.1 million (14.4% of revenues) during the same period in 2013. Increased gross profit in the third quarter of 2014 over the same period in 2013 resulted from a favourable mix of products, production efficiency gains, offset, in part, by new product introduction costs. The strengthening year over year of the United States dollar and British Pound against the Canadian dollar also contributed, in part, to increased margins quarter over quarter.

Administrative and General Expenses

Expressed in thousands of dollars	Three month period ended September 30 **2014**	2013	Change	Nine month period ended September 30 **2014**	2013	Change
Administrative and general expenses	**12,608**	11,544	9.2%	**35,880**	33,608	6.8%
Percentage of revenues	**6.2%**	6.4%		**5.7%**	6.0%	

As a percentage of revenues, administrative and general expenses decreased to 6.2% of revenues for the quarter ended September 30, 2014 from 6.4% for the quarter ended September 30, 2013. In absolute terms, administrative and general expenses increased during the current quarter relative to the same quarter of the prior year as a result of a one-time charge of $0.8 million incurred in the current quarter for a bad debt provision and the effect on translation of the strengthening United States dollar and British Pound exchange rates against the Canadian dollar.

Other

Expressed in thousands of dollars	Three month period ended September 30 **2014**	2013	Nine month period ended September 30 **2014**	2013
Foreign exchange (gain) loss	**(397)**	(538)	**(83)**	388
Loss on disposal of property, plant and equipment	**39**	48	**803**	262
Total other	**(358)**	(490)	**720**	650

Other income of $0.4 million in the third quarter of 2014 consisted of realized and unrealized foreign exchange losses and losses recorded on the retirement and disposal of property, plant and equipment.

Interest Expense

Expressed in thousands of dollars	Three month period ended September 30 **2014**	2013	Nine month period ended September 30 **2014**	2013
Interest on bank indebtedness and long-term debt	**1,273**	1,695	**3,704**	5,242
Accretion charge for borrowings and long-term debt	**203**	(95)	**1,563**	(117)
Discount on sale of accounts receivable	**183**	182	**558**	513
Total interest expense	**1,659**	1,782	**5,825**	5,638

Interest expense of $1.7 million in the third quarter of 2014 was slightly lower than the third quarter of 2013 amount of $1.8 million primarily as a result of a decrease in interest on bank indebtedness and long-term debt, offset in part by an increase in non-cash accretion expense in the current quarter due to changes in the long-term bond rate. The decrease in interest on bank indebtedness and long-term debt quarter over quarter is mainly due to the Corporation repaying a significant portion of its long-term debt in the last quarter of 2013.

Provision for Income Taxes

Expressed in thousands of dollars	Three month period ended September 30 **2014**	2013	Nine month period ended September 30 **2014**	2013
Expense of current income taxes	**1,355**	1,009	**3,593**	3,550
Expense of deferred income taxes	**3,355**	2,682	**10,889**	7,485
Total expense of income taxes	**4,710**	3,691	**14,482**	11,035
Effective tax rate	**26.6%**	27.9%	**27.2%**	27.7%

The Corporation recorded an income tax expense of $4.7 million in the third quarter of 2014 compared to an income tax expense of $3.7 million in the third quarter of 2013. Current income taxes for the third quarter of 2014 consisted primarily of the tax expense in jurisdictions with current taxes payable. Deferred income taxes for the third quarter of 2014 consisted primarily of net deferred income tax expense for changes in temporary differences in various jurisdictions.

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3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

	2014			2013				2012[1]
Expressed in millions of dollars, except per share amounts	**Sep 30**	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Revenues	**202.5**	221.0	210.5	195.9	181.0	189.9	185.3	186.4
Income before taxes	**17.7**	18.8	16.7	21.0	13.2	15.5	11.0	18.0
Net Income	**13.0**	13.6	12.1	16.8	9.5	11.2	8.0	21.8
Net Income per share								
Basic and diluted	**0.22**	0.23	0.21	0.29	0.16	0.19	0.14	0.37
EBITDA	**28.3**	30.2	27.1	31.0	22.9	25.6	21.3	28.9

[1]Certain 2012 figures have been restated due to the implementation of IFRS 11, *Joint Arrangements* and revised IAS 19, *Employee Benefits* in 2013. Please refer to note 2 to the 2013 audited consolidated financial statements.

The Corporation reported its highest quarterly revenues in its history in the second quarter of 2014. Revenues and net income reported in the third quarter of 2014 were impacted positively by the weakness in the Canadian dollar exchange rate in comparison to the United States dollar and British Pound. The United States dollar/Canadian dollar exchange rate in the third quarter of 2014 fluctuated reaching a low of 1.0640 and a high of 1.1156. During the third quarter of 2014, the British Pound relative to the Canadian dollar fluctuated reaching a low of 1.7637 and a high of 1.8461. Had the foreign exchange rates remained at levels experienced in the third quarter of 2013, reported revenues in the third quarter of 2014 would have been lower by $11.9 million.

Net income for the fourth quarter of 2013 and 2012 of $16.8 million and $21.8 million, respectively, was higher than all other quarterly net income disclosed in the table above. In the fourth quarter of 2013 and 2012 the Corporation recognized partial reversals of previous impairment losses against intangible assets relating to various commercial aircraft programs and in the fourth quarter of 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. Continued improvements in gross margin have contributed to higher net income in each of the quarters of 2014.

4. Reconciliation of Net Income to EBITDA

A description and reconciliation of certain non-IFRS measures used by management

In addition to the primary measures of earnings and earnings per share (basic and diluted) in accordance with IFRS, the Corporation includes EBITDA (earnings before interest expense, income taxes, depreciation and amortization) in this quarterly statement. The Corporation has provided this measure because it believes this information is used by certain investors to assess financial performance and that EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Corporation's principal business activities prior to consideration of how these activities are financed and how the results are taxed in the various jurisdictions. Each of the components of this measure are calculated in accordance with IFRS, but EBITDA is not a recognized measure under IFRS, and the Corporation's method of calculation may not be comparable with that of other companies. Accordingly, EBITDA should not be used as an alternative to net income as determined in accordance with IFRS or as an alternative to cash provided by or used in operations.

	Three month period ended September 30		**Nine month period ended September 30**	
Expressed in thousands of dollars	**2014**	2013	**2014**	2013
Net income	**13,032**	9,553	**38,717**	28,731
Interest	**1,659**	1,782	**5,825**	5,638
Taxes	**4,710**	3,691	**14,482**	11,035
Depreciation and amortization	**8,876**	7,821	**26,574**	24,306
EBITDA	**28,277**	22,847	**85,598**	69,710

EBITDA for the third quarter of 2014 was $28.3 million, compared to $22.8 million in the third quarter of 2013, an increase of 23.8% on a year-over-year basis. Increased revenue and gross profit for the third quarter of 2014 relative to the same quarter of 2013 is the primary cause for the current increase in EBITDA.

5. Liquidity and Capital Resources

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

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

Cash Flow from Operations

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2014**	2013	**2014**	2013
Decrease (increase) in accounts receivable	**299**	6,280	**(16,385)**	(16,367)
Increase in inventories	**(5,314)**	(5,011)	**(9,060)**	(12,475)
Increase in prepaid expenses and other	**(1,831)**	(925)	**(2,198)**	(3,188)
Increase (decrease) in accounts payable, accrued liabilities and provisions	**4,044**	1,659	**(1,194)**	7,677
Changes to non-cash working capital balances	**(2,802)**	2,003	**(28,837)**	(24,353)
Cash provided by operating activities	**20,284**	19,940	**43,943**	31,689

In the third quarter ended September 30, 2014, the Corporation generated $20.3 million in cash from operations, compared to $19.9 million generated in the third quarter of 2013. The increase in cash generated from operations was primarily due to increased gross profit in the third quarter of 2014 compared to the same period in 2013. Change in accounts payable and accrued liabilities was primarily driven by the timing of purchases and payments, and the change in inventories reflects increased inventory levels primarily to support forecasted customer volume increases.

Investing Activities

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2014**	2013	**2014**	2013
Investment in joint venture	–	(3,994)	–	(3,994)
Purchase of property, plant and equipment	**(7,252)**	(5,153)	**(18,782)**	(13,471)
Proceeds of disposals of property plant and equipment	**115**	237	**445**	364
Decrease (increase) in intangibles and other assets	**3,907**	(6,262)	**(4,864)**	(10,705)
Cash used in investing activities	**(3,230)**	(15,172)	**(23,201)**	(27,806)

The Corporation's capital expenditures for the third quarter of 2014 were $7.3 million compared to $5.2 million in the third quarter of 2013. The Corporation continues to invest in capital expenditures to enhance its manufacturing capabilities in various geographies and to support new customer programs. Lower deposits on property, plant and equipment plus a reduction in long-term receivables accounted for the majority of the decrease in intangibles and other assets.

Financing Activities

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2014**	2013	**2014**	2013
Decrease in bank indebtedness	**(10,030)**	(5,790)	**(14,157)**	(10,651)
Increase (decrease) in debt due within one year	**1,154**	(659)	**7,299**	120
Decrease in long-term debt	**(1,194)**	(1,430)	**(3,709)**	(6,779)
Increase (decrease) in long-term liabilities and provisions	**87**	(225)	**(342)**	(344)
Increase (decrease) in borrowings	**524**	210	**(10)**	796
Common share dividends	**(2,329)**	(1,746)	**(6,985)**	(1,746)
Cash used by financing activities	**(11,788)**	(9,640)	**(17,904)**	(18,604)

On September 30, 2014, the Corporation amended its operating credit agreement with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was amended to a Canadian dollar limit of $95.0 million (down from $115.0 million) plus a United States dollar limit of $35.0 million, and the addition of an £9,000 limit with a maturity date of September 30, 2018. The operating credit agreement also includes a Canadian $50.0 million uncommitted accordion provision which will provide Magellan with the option to increase the size of the operating credit facility to $200.0 million. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The guarantee of the facility by the Chairman of the Board of the Corporation, which has supported the Corporation since 2005, has now been released.

As at September 30, 2014 the Corporation has made contractual commitments to purchase $22.2 million of capital assets.

Dividends
During the third quarter of 2014, the Corporation declared and paid quarterly cash dividends of $0.04 per common share representing an aggregating dividend payment of $2.3 million.

On November 7th 2014, the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of $0.055 per common share. The dividend will be payable on December 31, 2014 to shareholders of record at the close of business on December 12, 2014.

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 October 31, 2014, 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 from time to time may use derivative financial instruments to help manage foreign exchange risk with the objective of reducing transaction exposures and the resulting volatility of the Corporation's earnings. The Corporation does not trade in derivatives for speculative purposes. Under these contracts the Corporation is obligated to purchase specified amounts at predetermined dates and exchange rates. These contracts are matched with anticipated cash flows in United States dollars. The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. The Corporation had no foreign exchange contracts outstanding as at September 30, 2014.

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 September 30, 2014, the Corporation paid guarantee fees, in respect to a guarantee of the Corporation's operating credit facility, in the amount of $0.2 million to the Chairman of the Board of the Corporation. Upon the renewal of the operating credit agreement on September 30, 2014, this guarantee provided by the Chairman of the Board of the Corporation was removed.

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, 2013 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2013, which have been filed with SEDAR at www.sedar.com.

9. Changes in Accounting Policies

A description of accounting standards adopted in the current year

The following new standards, and amendments to standards and interpretations, are effective for the first time for interim periods beginning on or after January 1, 2014 and have been applied in preparing the consolidated interim financial statements.

Financial Assets and Liabilities
In December 2011, amendments to IAS 32, *Financial Instruments: Presentation* were issued by the IASB 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. The adoption of this pronouncement had no material impact on the condensed consolidated interim financial statements.

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. The adoption of this pronouncement had no material impact on the condensed consolidated interim financial statements.

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. The adoption of the amendments had no material impact on the condensed consolidated interim financial statements.

10. Future Changes in Accounting Policies

A description of new accounting standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the interim period ended September 30, 2014, and have not been applied in preparing these condensed consolidated interim financial statements. The following standards have been issued by the IASB with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

Employee Benefits
In November 2013, Defined Benefit Plans: Employee Contributions was issued to amend IAS 19, Employee Benefits. These narrow scope amendments simplify the accounting for contributions to defined benefit plans. These amendments are effective for annual periods beginning on or after July 1, 2014, with earlier application permitted. The Corporation is in the process of evaluating the impact the adoption of this standard may have on the Corporation's consolidated financial statements.

Financial Instruments – Recognition and Measurement
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.

Joint Arrangements
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.

Revenue Recognition
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.

Depreciation and amortization
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.

11. Critical Accounting Estimates

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

In the 2013 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 1 to the audited consolidated financial statements for the year ended December 31, 2013 for a discussion regarding the critical accounting estimates.

12. Controls and Procedures

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

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at September 30, 2014 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 2014

The strength of the commercial aircraft market is holding. Boeing and Airbus maintain their positions that future demand for these aircraft is real. Boeing announced that it will increase 737 build rates to 52 per month in 2018 in response to strong global market demand. This is up from 42 per month currently and a planned rate of 47 per month in 2017. Comparatively, Airbus reaffirms its A320 production rate will increase to 46 per month from 42 per month by 2016 and, although it is considering potentially higher rates, there are presently no firm plans to move beyond this rate.

The engine manufacturers powering these new engine options, narrow-body aircraft are Pratt & Whitney with their PW1000G and CFM International with their LEAP X. The PW1000G engine holds a 34% market share while CFM's LEAP X holds 66%. Both organizations have targeted aggressive ramp ups in new engine build rates over the next 5 years to support this market.

In the wide-body market, Airbus is studying a planned rate increase on their A350 to 13 per month in 2018, while A380 rates remain at 30 per year. Boeing is ramping 787 rates to a planned 14 aircraft per month from the current 10 per month rate. Boeing's 777 build rate remains at 8.3 per month. Preparing for the A330NEO transition, Airbus announced it will reduce the rate for its A330 family from 10 to 9 per month in the fourth quarter of 2015.

In the business jet market, despite indicators suggesting that demand should be stronger, a lack of confidence in potential economic growth has been weighing on new aircraft purchases. Confidence now seems to be building as recent forecasts released by Textron and Honeywell suggest that operators plan to replace 23% of their fleets with new jets over the next five years. Recovery is now apparent in all segments of the market instead of just the large jets. The General Aviation Manufacturers Association reported that mid-year 2014 deliveries over mid-year 2013 were up 27% in the light segment, 17% in the medium segment and 3% in the large segment. Forecast International predicts a steady increase through 2020, but notes that it does not expect that previous peak 2008 production levels will be achieved in the period.

In the regional aircraft market, Mitsubishi recently rolled out its MRJ aircraft to begin its flight test program. It is powered by one of Pratt & Whitney's PW1000G models. To expand the market for its Q400 aircraft, Bombardier announced the building of an 86 passenger Q400 NextGen turboprop for Thailands's Nok Air. China's AVIC announced it was entering the regional turboprop market with its MA700 aircraft, designed to stretch to 90 passengers. This was an area of the market that both Bombardier and ATR have been considering but hesitating to enter.

The current rise in military activity in the Middle East to defeat Islamic State militants is not expected to have a near-term impact on defence programs. Of course, prolonged deployments of existing aircraft fleets can have an effect on spares and R&O activities. Of more specific interest will be the potential effect on extended service life and prolonged production of platforms due to be replaced in the near term horizon. While US forces await deliveries of new fifth generation F-35 aircraft, production of US-destined F-15 aircraft has ended and is scheduled to be ending for F-18 and F-16 platforms. Regardless of some negative sentiment expressed in the media over the Joint Strike Fighter program, the F-35 remains crucial to the United States' future air superiority, as well as allied international forces. Short term decisions will be driven by immediate operational needs and current budget constraints.

The F-35 program continues to advance towards achieving major program milestones, despite the setback of an engine fire in June. A permanent solution to address the problem has been developed and is being tested prior to incorporation into the fleet of delivered aircraft. Some flight testing, necessary to further validate software, has been delayed. International support remains strong with Korea announcing their intention to finalize a formal agreement with the United States Government to purchase 40 F-35As. The 8th Low Rate Initial Production contract did not get issued within the third quarter. It is expected to be issued at any time.

Defence helicopter manufacturers are battling for foreign market share as domestic budget constraints leave them with smaller order books. One current competition has Airbus, Sikorsky and AgustaWestland vying for a piece of Poland's increasing defence budget with their EC725, S-70i Black Hawk and AW149 rotorcraft respectively. This is one of Europe's largest procurement programs since the economic crisis with an estimated value of $3.0 billion. Further market expansion is forecast to come from China, India and Malaysia where "buy and make in-country" strategies are expected to influence final decisions. The civil rotorcraft market remains flat at this time.

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Notes	Three month period ended September 30 **2014**	 2013	Nine month period ended September 30 **2014**	 2013
Revenues	10	**202,542**	181,010	**634,094**	556,166
Cost of revenues		**170,891**	154,930	**538,470**	476,504
Gross profit		**31,651**	26,080	**95,624**	79,662
Administrative and general expenses		**12,608**	11,544	**35,880**	33,608
Other		**(358)**	(490)	**720**	650
Income before interest and income taxes		**19,401**	15,026	**59,024**	45,404
Interest		**1,659**	1,782	**5,825**	5,638
Income before income taxes		**17,742**	13,244	**53,199**	39,766
Income taxes					
Current	6	**1,355**	1,009	**3,593**	3,550
Deferred	6	**3,355**	2,682	**10,889**	7,485
		4,710	3,691	**14,482**	11,035
Net income		**13,032**	9,553	**38,717**	28,731
Net income per share					
Basic and diluted	7	**0.22**	0.16	**0.67**	0.49

Net Income	**13,032**	9,553	**38,717**	28,731
Other comprehensive income that may be reclassified to profit and loss in subsequent periods:				
Foreign currency translation gain	**6,398**	443	**9,620**	6,863
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	–	–	**(4,376)**	9,498
Total comprehensive income, net of tax	**19,430**	9,996	**43,961**	45,092

See accompanying notes to condensed consolidated interim financial staten

MAGELLAN AEROSPACE

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	Notes	**September 30 2014**	December 31 2013
Current assets			
Cash		**10,880**	7,760
Trade and other receivables		**166,734**	146,969
Inventories		**173,486**	160,269
Prepaid expenses and other		**14,953**	12,461
		366,053	327,459
Non-current assets			
Property, plant and equipment		**337,655**	331,940
Investment properties		**4,361**	4,663
Intangible assets		**59,318**	60,365
Other assets		**24,713**	24,472
Deferred tax assets		**41,777**	43,011
		467,824	464,451
Total assets		**833,877**	791,910
Current liabilities			
Bank indebtedness	4	–	115,930
Accounts payable and accrued liabilities and provisions		**139,673**	137,625
Debt due within one year		**38,329**	30,932
		178,002	284,487
Non-current liabilities			
Bank indebtedness	4	**102,875**	–
Long-term debt	8	**44,429**	46,154
Borrowings subject to specific conditions	8	**18,514**	17,637
Other long-term liabilities and provisions		**19,393**	15,713
Deferred tax liabilities		**25,530**	19,761
		210,741	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		**156,820**	129,464
Accumulated other comprehensive income		**18,265**	8,645
		445,134	408,158
Total liabilities and equity		**833,877**	791,910

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(unaudited) (expressed in thousands of Canadian dollars)	Share capital	Contributed surplus	Other paid in capital	Retained earnings	Foreign currency translation	Total equity
December 31, 2013	254,440	2,044	13,565	129,464	8,645	408,158
Net income for the period	–	–	–	38,717	–	38,717
Other comprehensive (loss) income for the period	–	–	–	(4,376)	9,620	5,244
Common share dividend	–	–	–	(6,985)	–	(6,985)
September 30, 2014	254,440	2,044	13,565	156,820	18,265	445,134

December 31, 2012	254,440	2,044	13,565	71,682	(7,197)	334,534
Net income for the period	–	–	–	28,731	–	28,731
Other comprehensive income for the period	–	–	–	9,498	6,863	16,361
Common share dividend	–	–	–	(1,746)	–	(1,746)
September 30, 2013	254,440	2,044	13,565	108,165	(334)	377,880

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

(unaudited) (expressed in thousands of Canadian dollars)	Notes	Three month period ended September 30 2014	 2013	Nine month period ended September 30 2014	 2013
Cash flow from operating activities					
Net income		**13,032**	9,553	**38,717**	28,731
Amortization/depreciation of intangible assets and property, plant and equipment		**8,876**	7,821	**26,574**	24,306
Loss on disposal of property, plant and equipment		**39**	74	**803**	288
Increase (decrease) in defined benefit plans		**336**	(945)	**849**	(1,246)
Accretion		**205**	(93)	**1,527**	(116)
Deferred taxes		**682**	1,541	**4,510**	4,063
(Gain) loss on investment in joint venture		**(84)**	(14)	**(200)**	16
(Increase) decrease in non-cash working capital		**(2,802)**	2,003	**(28,837)**	(24,353)
Net cash provided by operating activities		**20,284**	19,940	**43,943**	31,689
Cash flow from investing activities					
Investment in joint venture		–	(3,994)	–	(3,994)
Purchase of property, plant and equipment		**(7,252)**	(5,153)	**(18,782)**	(13,471)
Proceeds from disposal of property, plant and		**115**	237	**445**	364
Decrease (increase) in other assets		**3,907**	(6,262)	**(4,864)**	(10,705)
Net cash used in investing activities		**(3,230)**	(15,172)	**(23,201)**	(27,806)
Cash flow from financing activities					
Decrease in bank indebtedness	4	**(10,030)**	(5,790)	**(14,157)**	(10,651)
Increase (decrease) in debt due within one year		**1,154**	(659)	**7,299**	120
Decrease in long-term debt		**(1,194)**	(1,430)	**(3,709)**	(6,779)
Increase (decrease) in long-term liabilities and		**87**	(225)	**(342)**	(344)
Increase (decrease) in borrowings		**524**	210	**(10)**	796
Common share dividend	7	**(2,329)**	(1,746)	**(6,985)**	(1,746)
Net cash used in financing activities		**(11,788)**	(9,640)	**(17,904)**	(18,604)
Increase (decrease) in cash during the period		**5,266**	(4,872)	**2,838**	(14,721)
Cash at beginning of the period		**5,521**	12,770	**7,760**	22,423
Effect of exchange rate differences		**93**	314	**282**	510
Cash at end of the period		**10,880**	8,212	**10,880**	8,212

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE

MAGELLAN AEROSPACE CORPORATION
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited, expressed in thousands of dollars except share and per share data)

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 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 November 7, 2014.

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.

4. BANK INDEBTEDNESS

On September 30, 2014, the Corporation amended its credit agreement with its existing lenders. The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian dollar limit of $95,000, a US dollar limit of US$35,000 and a British Pound limit of £9,000 [$150,541 at September 30, 2014]. Under the terms of the amended credit agreement, the operating credit facility expires on September 30, 2018. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a CDN$50,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility. Bank indebtedness as at September 30, 2014 of $102,875 [December 31, 2013 - $115,930] bears interest at the bankers' acceptance or LIBOR rates plus 1.2% [1.83% at September 30, 2014 (2013 – bankers' acceptance or LIBOR rates plus 1.20% or 2.09%)], based on the rates included in the previous credit agreement. Interest under the terms of the amended credit agreement will initially be at bankers' acceptance or LIBOR rates plus 2.00%. Included in the amount outstanding at September 30, 2014 is US$20,010 [December 31, 2013 - US$26,797]. At September 30, 2014, the Corporation had drawn $105,924 under the operating credit facility, including letters of credit totalling $3,049 such that $44,617 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.

5. EMPLOYEE FUTURE BENEFITS

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

	September 30 **2014**	December 31 2013
Pension Benefit Plan	**9,319**	5,513
Other Benefit Plan	**1,043**	966
	10,362	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. As a result of a reduction in the market interest rate of high-quality, fixed rate debt securities during the second quarter of 2014 ,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% as at June 30, 2014. There were no further changes to the discount rate during the three month period ended September 30, 2014. The change in assumption resulted in an actuarial loss in the second quarter of 2014 and for the nine month period of $4,376 net of taxes of $1,521 recorded in other comprehensive income.

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 nine month period ended September 30, 2014 was 26.6% and 27.2% respectively [27.9% and 27.7% respectively for the three and nine month period ended September 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.

7. SHARE CAPITAL

Net income per share

	Three month period ended September 30		Nine month period ended September 30	
	2014	2013	**2014**	2013
Net income	**13,032**	9,553	**38,717**	28,731
Weighted average number of shares	**58,209**	58,209	**58,209**	58,209
Basic and diluted net income per share	**0.22**	0.16	**0.67**	0.49

Dividends

On March 31, 2014, June 30, 2014 and September 30, 2014 the Corporation paid quarterly dividends on 58,209,001 common shares of $0.04 per common share, amounting to $6,985.

Subsequent to September 30, 2014, the Corporation declared dividends to holders of common shares in the amount of $0.055 per common share payable on December 31, 2014, for shareholders of record at the close of business on December 12, 2014.

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 September 30, 2014.

Long-term debt
The fair value of the Corporation's long-term debt is $48,490 at September 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 September 30, 2014, the Corporation has recognized $18,514 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 September 30, 2014, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $177,614.

9. RELATED PARTY TRANSACTIONS

During the three and nine month period ended September 30, 2014, the Corporation paid guarantee fees in the amount of $191 and $575 respectively [three and nine month period ended September 30, 2013 - $189 and $565 respectively] to the Chairman of the Board of the Corporation. Upon the renewal of the operating credit facility on September 30, 2014, the guarantee provided by the Chairman of the Board of the Corporation was removed. During the three and nine month period ended September 30, 2014, the Corporation incurred interest of $nil [three and nine month period ended September 30, 2013 - $520 and $1,597 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.

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 September 30		Nine month period ended September 30	
	2014	2013	2014	2013
Sale of goods	175,609	148,606	533,576	474,692
Construction contracts	12,226	6,054	50,502	18,333
Services	14,707	26,350	50,016	63,141
	202,542	181,010	634,094	556,166

At September 30, 2014, aggregate costs incurred under open construction contracts and recognized profits, net of recognized losses, amounted to $342,161 [December 31, 2013 - $292,465]. Advance payments received for construction contracts in progress at September 30, 2014 was $11,191 [December 31, 2013 - $19,073]. Retention in connection with construction contracts at September 30, 2014 was $1,120 [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 September 30
			2014			2013
	Aerospace	Power Generation Project	Total	Aerospace	Power Generation Project	Total
Revenues	202,297	245	202,542	181,010	—	181,010
Income (loss) before interest and income taxes	19,768	(367)	19,401	15,007	19	15,026
Interest expense			1,659			1,782
Income before income taxes			17,742			13,244
Additions to property, plant and equipment	7,252	—	7,252	5,153	—	5,153
Depreciation and amortization	8,876	—	8,876	7,821	—	7,821

						Nine month period ended September 30
			2014			2013
	Aerospace	Power Generation Project	Total	Aerospace	Power Generation Project	Total
Revenues	632,125	1,969	634,094	552,688	3,478	556,166
Income (loss) before interest and income taxes	59,218	(194)	59,024	45,992	(588)	45,404
Interest expense			5,825			5,638
Income before income taxes			53,199			39,766
Total assets	815,625	18,252	833,877	759,213	24,612	783,825
Total liabilities	383,702	5,041	388,743	394,627	11,318	405,945
Additions to property, plant and equipment	18,782	—	18,782	13,471	—	13,471
Depreciation and amortization	26,574	—	26,574	24,306	—	24,306

Geographic segments:

								Three month period ended September 30
				2014				2013
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	73,794	67,589	61,159	202,542	68,933	56,484	55,593	181,010
Export revenue[1]	48,101	16,013	2,252	66,366	47,308	15,890	3,382	66,580

								Nine month period ended September 30
				2014				2013
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	243,596	203,385	187,113	634,094	219,184	174,533	162,449	556,166
Export revenue[1]	149,269	51,696	15,202	216,167	152,044	47,882	12,049	211,975

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

	September 30, 2014				December 31, 2013			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment and intangible assets	179,712	138,162	79,099	396,973	185,818	131,043	75,444	392,305

The major customers for the Corporation are as follows:

	Three month period ended September 30		Nine month period ended September 30	
	2014	2013	2014	2013
Major customers				
Canadian operations				
- Number of customers	3	3	2	2
- Percentage of total Canadian revenue	42%	30%	31%	28%
US operations				
- Number of customers	2	2	2	2
- Percentage of total US revenue	61%	56%	60%	55%
UK operations				
- Number of customers	2	2	2	2
- Percentage of total UK revenue	86%	85%	85%	85%

11. MANAGEMENT OF CAPITAL

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

Total managed capital as at September 30, 2014 of $630,767 is comprised of shareholders' equity of $445,134 and interest-bearing debt of $185,633.

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.

12. CONTINGENT LIABILITES AND COMMITMENTS

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

At September 30, 2014 capital commitments in respect of purchase of property, plant and equipment totalled $22,201, all of which had been ordered. There were no other material capital commitments at the end of the period.