

MAGELLAN QUARTERLY REPORT

MARCH 31, 2015



MAGELLAN
AEROSPACE

Magellan Aerospace Corporation – Management’s Discussion & Analysis

March 31, 2015

This Management’s Discussion and Analysis (“MD&A”) of the financial condition and results of operations of Magellan Aerospace Corporation (“Magellan” or the “Corporation”) should be read in conjunction with the unaudited condensed consolidated interim financial statements and the notes thereto for the three month period ended March 31, 2015, and the audited annual consolidated financial statements for the year ended December 31, 2014 (available on SEDAR at www.sedar.com). Unless otherwise noted, all financial information has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), specifically International Accounting Standard (“IAS”) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”), which is within the framework of International Financial Reporting Standards (“IFRS”). This MD&A provides a review of the significant developments that have impacted the Corporation’s performance during the three month period ended March 31, 2015 relative to the three month period ended March 31, 2014. The information contained in this report is as at May 12, 2015. 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 generally accepted earnings measures and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating this measure, the Corporation’s EBITDA may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA to net income (loss) reported in accordance with IFRS are included in this MD&A.

1. Overview

A summary of Magellan’s business and significant updates

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

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

Magellan Aerospace Corporation – Management’s Discussion & Analysis

March 31, 2015

Business Update

In the first quarter of 2015, the Corporation announced that a significant agreement had been reached with Pratt & Whitney Canada (“P&WC”), a United Technologies Company for the supply of complex magnesium and aluminum castings. This strategic contract is expected to generate CDN \$250 million in revenue for the Corporation through 2023. The long term agreement with P&WC reinforces the benefits of Magellan’s commitment to developing and implementing the latest in a variety of high technology initiatives at the Corporation’s castings facilities.

On March 4, 2015 Magellan, in partnership with The University of Manitoba, unveiled their new Advanced Satellite Integration Facility (or ASIF) at the Corporation’s Winnipeg facility. The ASIF is an International Organization for Standardization (“ISO”) class 8 clean room facility which can accommodate the assembly of up to three satellites at the same time in full support of current and future Canadian Government satellite programs.

On April 6, 2015 Magellan announced their intent to open a new advanced, precision machining facility in Mielec, Poland. The establishment of this machining facility is complimentary to the Corporation’s existing surface treatment facility in the same area in Poland. The expansion of the Corporation’s capabilities in Poland in conjunction with investments made in India strengthens the Corporation’s competitive advantage and provides direct support to its customers’ growing demand for globalization. It is expected that the Mielec facility will reach full operation capability in the second half of 2015.

For additional information, please refer to the “Management’s Discussion and Analysis” section of the Corporation’s 2014 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan’s operating results for first quarter ended March 31, 2015

The Corporation operates substantially all of its activities in one reportable segment, Aerospace, which include the design, development, manufacture, repair and overhaul and sale of systems and components for defence and civil aviation. The Corporation continues to provide services to the Power Generation segment, however the Corporation has removed the disclosure of this segment as the activity in relation to these services were not material in the current quarter and, at present, they are not expected to be material in future periods.

The Corporation reported higher revenue in the first quarter of 2015 when compared to the first quarter of 2014. Gross profit and net income for the first quarter of 2015 were \$39.2 million and \$19.2 million, respectively, an increase from the first quarter of 2014 gross profit of \$29.5 million and from the first quarter of 2014 net income of \$12.1 million.

Consolidated Revenue

Overall, the Corporation’s consolidated revenues grew by 8.4% when compared to the first quarter of 2014.

Expressed in thousands of dollars	Three month period ended March 31		
	2015	2014	Change
Canada	78,551	77,598	1.2%
United States	82,706	67,687	22.2%
Europe	66,996	65,217	2.7%
Total revenues	228,253	210,502	8.4%

Consolidated revenues for the first quarter of 2015 of \$228.3 million were 8.4% higher than revenues of \$210.5 million in the first quarter of 2014. Revenues in Canada were slightly higher in the first quarter of 2015 by 1.2% from the same period in 2014, primarily due to the appreciation of the US dollar in comparison to the Canadian dollar, and an increase in revenues earned in the defence market, offset in part by reduced revenues in the Corporation’s proprietary products, in particular space programs. On a constant currency basis, Canadian revenues decreased in the first quarter of 2015 by 5.2% over the same period of 2014 as a result of lower revenues earned on space programs as these programs progress towards completion. Increased revenues (in Canadian dollar equivalent) of 22.2% in the United States in the first quarter of 2015 in comparison to the first quarter of 2014 were primarily due the stronger United States dollar in comparison to the Canadian dollar during the same periods in 2015 and 2014, and higher production volumes on several of the Corporation’s single aisle and wide body commercial aircraft programs. On a constant currency basis, revenues in the United States increased by 7.4% in the first quarter of 2015 over the same period in 2014. European revenues in the first quarter of 2015 increased 2.7% over revenues in the same period in 2014 primarily due to the strength of the British pound in comparison to the

Magellan Aerospace Corporation – Management’s Discussion & Analysis

March 31, 2015

Canadian dollar. On a constant currency basis, revenues in the first quarter of 2015 in Europe were consistent with the revenues for the same period in 2014.

Gross Profit

Expressed in thousands of dollars	Three month period ended March 31		
	2015	2014	Change
Gross profit	39,195	29,476	32.9%
Percentage of revenues	17.2%	14.0%	

Gross profit of \$39.2 million (17.2% of revenues) was reported for the first quarter of 2015 compared to \$29.5 million (14.0% of revenues) during the same period in 2014. Increased gross profit in the first quarter of 2015 over the same period in 2014 was primarily due to the strengthening year over year of the United States dollar and British pound against the Canadian dollar, favourable product mix and lower costs experienced on new product introduction.

Administrative and General Expenses

Expressed in thousands of dollars	Three month period ended March 31		
	2015	2014	Change
Administrative and general expenses	13,115	11,470	14.3%
Percentage of revenues	5.7%	5.5%	

Administrative and general expenses were \$13.1 million (5.7% of revenues) in the first quarter of 2015 compared to \$11.5 million (5.5% of revenues) in the first quarter of 2014. In absolute terms, administrative and general expenses increased during the current quarter relative to the same quarter of the prior year largely as a result of 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 March 31	
	2015	2014
Foreign exchange gain	(2,179)	(296)
Loss (gain) on disposal of property, plant and equipment	101	(47)
Total other	(2,078)	(343)

Other income of \$2.1 million in the first quarter of 2015 consisted of realized and unrealized foreign exchange gains and losses recorded on the disposal of property, plant and equipment.

Interest Expense

Expressed in thousands of dollars	Three month period ended March 31	
	2015	2014
Interest on bank indebtedness and long-term debt	971	1,359
Accretion charge for borrowings and long-term debt	212	80
Discount on sale of accounts receivable	207	259
Total interest expense	1,390	1,698

Interest expense of \$1.4 million in the first quarter of 2015 was lower than the first quarter of 2014 amount of \$1.7 million, as interest on bank indebtedness and long term debt decreased mainly due to lower principal amounts outstanding during the first quarter of 2015 than those in the first quarter of 2014. In addition, the Corporation did not incur any guarantee fees for the operating credit facility during the first quarter of 2015.

Magellan Aerospace Corporation – Management’s Discussion & Analysis March 31, 2015

Provision for Income Taxes

Expressed in thousands of dollars	Three month period ended March 31	
	2015	2014
Expense of current income taxes	1,490	1,224
Expense of deferred income taxes	6,056	3,348
Total expense of income taxes	7,546	4,572
Effective tax rate	28.2%	27.5%

The Corporation recorded an income tax expense of \$7.5 million in the first quarter of 2015 as compared to an income tax expense of \$4.6 million in the first quarter of 2014. The change in effective tax rates quarter over quarter is a result of a changing mix of income across the different jurisdictions in which the Corporation operates. The increase in deferred income taxes in the first quarter of 2015 compared to the same period in 2014 consisted primarily of net deferred income tax recoveries for changes in temporary differences in various jurisdictions.

3. Selected Quarterly Financial Information

A summary view of Magellan’s quarterly financial performance

Expressed in millions of dollars, except per share amounts	2015			2014			2013		
	Mar 31	Mar 31	Jun 30	Sep 30	Dec 31	Jun 30	Sep 30	Dec 31	
Revenues	228.3	210.5	221.0	202.5	208.9	189.9	181.0	195.9	
Income before taxes	26.8	16.7	18.8	17.7	23.9	15.5	13.2	21.0	
Net Income	19.2	12.1	13.6	13.0	17.9	11.2	9.5	16.8	
Net Income per share									
Basic and diluted	0.33	0.21	0.23	0.22	0.31	0.19	0.16	0.29	
EBITDA	37.4	27.1	30.2	28.3	34.7	25.6	22.9	31.0	

The Corporation reported its highest quarterly revenues and net income in its history in the first quarter of 2015. Revenues and net income reported in the quarterly information were impacted positively by the fluctuations 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 first quarter of 2015 fluctuated reaching a low of 1.1599 and a high of 1.2783. During the first quarter of 2015, the British pound relative to the Canadian dollar fluctuated reaching a low of 1.7832 and a high of 1.9449. Had the foreign exchange rates remained at levels experienced in the first quarter of 2014, reported revenues in the first quarter of 2015 would have been lower by \$16.5 million.

Net income for the first quarter of 2015, and the fourth quarters of 2014 and 2013 of \$19.2 million, \$17.9 million and \$16.8 million, respectively, was higher than all other quarterly net income shown in the table above. In the first quarter of 2015, movements of the US dollar and British pound in relation to the Canadian dollar favourably impacted net income. In the fourth quarter of 2013 the Corporation recognized a reversal of previous impairment losses against intangible assets relating to various commercial aircraft programs and in the fourth quarter of 2013 and 2014 the Corporation recognized previously unrecognized investment tax credits.

4. Reconciliation of Net Income to EBITDA

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

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

Magellan Aerospace Corporation – Management’s Discussion & Analysis

March 31, 2015

	Three month period ended March 31	
	2015	2014
Expressed in thousands of dollars		
Net income	19,222	12,079
Interest	1,390	1,698
Taxes	7,546	4,572
Depreciation and amortization	9,194	8,781
EBITDA	37,352	27,130

EBITDA for the first quarter of 2015 was \$37.4 million, compared to \$27.1 million in the first quarter of 2014, an increase of 37.7% on a year-over-year basis. Increased gross profit and gains recognized on foreign exchange in the first quarter of 2015 resulted in higher EBITDA when compared to the first quarter of 2014.

5. Liquidity and Capital Resources

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

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

Cash Flow from Operations

	Three month period ended March 31	
	2015	2014
Expressed in thousands of dollars		
Increase in trade receivables	(26,659)	(13,478)
Increase in inventories	(6,817)	(4,002)
Decrease in prepaid expenses and other	833	293
Increase (decrease) in accounts payable, accrued liabilities and provisions	5,985	(3,675)
Changes to non-cash working capital balances	(26,658)	(20,862)
Cash provided by operating activities	6,962	1,950

In the quarter ended March 31, 2015, the Corporation generated \$6.9 million in cash from operations, compared to \$1.9 million in the first quarter of 2014. Cash was generated by an increase in net income and in accounts payable, accrued liabilities and provisions, offset in part by increases in accounts receivables, and an increase in inventory levels.

Investing Activities

	Three month period ended March 31	
	2015	2014
Expressed in thousands of dollars		
Purchase of property, plant and equipment	(6,059)	(6,564)
Proceeds of disposal of property plant and equipment	192	71
Increase in other assets	(2,612)	(3,099)
Cash used in investing activities	(8,479)	(9,592)

The Corporation’s capital expenditures for the first quarter of 2015 were \$6.1 million compared to \$6.6 million in the first quarter of 2014. The Corporation continues to invest in capital expenditures to enhance its manufacturing capabilities in various geographies and to support new customer programs.

Magellan Aerospace Corporation – Management’s Discussion & Analysis

March 31, 2015

Financing Activities

Expressed in thousands of dollars	Three month period ended March 31	
	2015	2014
Increase in bank indebtedness	1,367	5,497
Increase in debt due within one year	2,969	5,743
Decrease in long-term debt	(994)	(1,345)
Increase in long-term debt	276	—
Increase in long-term liabilities and provisions	740	107
Increase in borrowings subject to specific conditions	85	—
Common share dividend	(3,202)	(2,328)
Cash provided by financing activities	1,241	7,674

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 US dollar limit of US\$35.0 million, and the addition of a British pound limit of £11.0 million with a maturity date of September 30, 2018. The operating credit agreement also includes a Canadian \$50.0 million uncommitted accordion provision which provides the Corporation with the option to increase the size of the operating credit facility. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. Pursuant to the amendment of the operating credit agreement, the guarantee of the facility by the Chairman of the Board of the Corporation, which had supported the Corporation since 2005, was released.

As at March 31, 2015 the Corporation has made contractual commitments to purchase \$16.9 million of capital assets.

Dividends

During the first quarter of 2015, the Corporation declared and paid quarterly cash dividends of \$0.055 per common shares representing an aggregating dividend payment of \$3.2 million.

Subsequent to March 31, 2015 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 June 30, 2015 to shareholders of record at the close of business on June 12, 2015.

Outstanding Share Information

The authorized capital of the Corporation consists of an unlimited number of Preference Shares, issuable in series, and an unlimited number of common shares. As at May 1, 2015, 58,209,001 common shares were outstanding and no preference shares were outstanding.

6. Financial Instruments

A summary of Magellan’s financial instruments

Derivative Contracts

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders’ equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian dollar denominated financial statements of the Corporation’s subsidiaries may vary on consolidation into the reporting currency of Canadian dollars. The Corporation from time to time may use derivative financial instruments to help manage foreign exchange risk with the objective of reducing transaction exposures and the resulting volatility of the Corporation’s earnings. The Corporation does not trade in derivatives for speculative purposes. Under these contracts the Corporation is obligated to purchase specified amounts at predetermined dates and exchange rates. These contracts are matched with anticipated cash flows in United States dollars. The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. The Corporation had no material foreign exchange contracts outstanding as at March 31, 2015.

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.

Magellan Aerospace Corporation – Management’s Discussion & Analysis

March 31, 2015

7. Related Party Transactions

A summary of Magellan’s transactions with related parties

During the three month period ended March 31, 2014, the Corporation paid guarantee fees in the amount of \$0.2 million to the Chairman of the Board of the Corporation. Upon renewal of the operating credit facility on September 30, 2014, the guarantee provided by the Chairman of the Board of the Corporation was released.

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, 2014 and to the information under “Risks Inherent in Magellan’s Business” in the Corporation’s Annual Information Form for the year ended December 31, 2014, 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, 2015 and have been applied in preparing the consolidated interim financial statements.

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. As at January 1, 2015, the Corporation adopted the amendments and there was no material impact on the condensed interim financial statements.

Operating Segments

The Annual Improvements to IFRSs 2010-2012 included amendments to IFRS, *Operating Segments*. This standard has been amended to require (i) disclosure of judgements made by a company’s management in aggregating segments, and (ii) a reconciliation of segment assets to the entity’s assets when a measure of segment is reported to the Chief Operating Decision Maker. These amendments are effective for annual periods beginning on or after July 1, 2014. As at January 1, 2015, the Corporation adopted this pronouncement and there was no material impact on the condensed 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 March 31, 2015, and have not been applied in preparing these condensed consolidated interim financial statements. These changes are not yet adopted by the Corporation and could have an impact on future periods. These changes are described in detail in the Corporation’s 2014 audited annual consolidated financial statements.

- IFRS 15, *Revenue from Contracts with Customers*
- IFRS 9, *Financial Instruments*
- Amendments to IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets*
- Amendments to IFRS 11, *Joint Arrangements*
- Amendments to IFRS 10, *Consolidated Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures*

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

11. Critical Accounting Estimates

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

In the 2014 audited annual consolidated financial statements and management’s discussion and analysis, the Corporation identified the accounting policies and estimates that are critical to the understanding of the business and results of operations. Please refer to note 1 to the audited consolidated financial statements for the year ended December 31, 2014 for a discussion regarding the critical accounting estimates.

12. Controls and Procedures

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

Based on the current Canadian Securities Administrators (the “CSA”) rules under National Instrument 52-109 Certification of Disclosure in Issuers’ Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at March 31, 2015 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 2015

The Corporation expects that its position and participation in the commercial aircraft market, predominately in support of Airbus and Boeing platforms, will remain strong throughout 2015. Both Airbus and Boeing continue to track to their published production forecasts which reflect ongoing rate increases on the single aisle aircraft programs. Additional new product introductions, which Magellan supports, A320neo, A330neo, A350, B737max and the B787-9 are all developing along published projections. The Corporation anticipated a softening in the wide-body production rates specifically on the A380 and will experience no adverse financial impacts from the planned production rate reduction to twenty-four aircraft per year from thirty aircraft per year.

Within the business jet sector, Honeywell predicts in their annual forecast that large-cabin aircraft will represent 75% of business jets delivered by value through this decade. At the same time, Forecast International predicts solid recovery within the small to medium-cabin sector over the next several years. Airframers are positioning for the recovery in this segment with a number of new products expected to enter into service such as the HondaJet, Pilatus PC-24 and the SIRRUS SF-50. Magellan supports a number of programs within this sector through its aeroengine and casting capabilities.

The civil rotorcraft market and the military market that Magellan supports is expected to experience a much flatter sales landscape in 2015. Contributing to the reduction in demand for helicopters, is the current slowdown in oil and gas exploration market. In addition, the parapublic segment was originally hoped to bring a lift to the market, but the trimming of government budgets may curb potential opportunities. A number of new programs on the horizon are expected to offset these setbacks. The AgustaWestland’s AW169 and AW189, Bell Helicopter’s 505 Jet Ranger X and the 525 Relentless, Airbus’ EC175 and then finally their new X4 experimental helicopter represent potential market opportunities for Magellan.

Magellan Aerospace Corporation – Management’s Discussion & Analysis

March 31, 2015

US spending power will continue to dominate the military helicopter market as it prepares to map out the future modernization of its helicopter fleets. New programs such as the Joint Multi-Role Helicopter (JMR) competed between Boeing/Sikorsky’s Defiant helicopter and Bell Helicopter’s V-280 Valor tiltrotor is one example. In the heavy lift arena, development of the new Sikorsky CH53K heavy lift helicopter continues to make progress.

In the US defence market, the US government is focused on achieving a sequestration-compliant budget while insuring they have a sustainable capability to manage the current political unrest and the budget demands created by the need to manage new global threats such as ISIS. In the midst of this, there are new-start programs such as F-35 Joint Strike Fighter, KC-46 Tanker, Long Range Strike Bomber and helicopters that compete for budget priorities. The extending of out-of-service dates for existing fleets will be beneficial for defence contractors like Magellan who provide products for legacy platforms.

Of particular interest to the Corporation, the F-35 program continues to dominate the global fighter market. During the first quarter of 2015 the program has achieved a number of significant milestones including;

- The US Marine Corps declaration that initial operating capability has been achieved, the first for the program,
- The first rollout of a completed aircraft from Italy’s final assembly facility, and
- The on-time delivery of the 200th aircraft from Lockheed Martin’s Fort Worth factory.

Magellan’s annual revenues related to the F-35 program have been increasing steadily over the years and they have now exceeded \$165 million for the program to date. This growth trend has continued into 2015 with anticipated significant increases to annual production rates of the F-35 program going forward. A focus on driving costs down has been prominent for the program and this is expected to be maintained as international sales activities increase. The Canadian Government procurement decision for the next generation fighter continues to be addressed within the Government.



MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Notes	Three month period ended March 31	
		2015	2014
Revenues	10	228,253	210,502
Cost of revenues		189,058	181,026
Gross profit		39,195	29,476
Administrative and general expenses		13,115	11,470
Other		(2,078)	(343)
Income before interest and income taxes		28,158	18,349
Interest		1,390	1,698
Income before income taxes		26,768	16,651
Income taxes			
Current	6	1,490	1,224
Deferred	6	6,056	3,348
		7,546	4,572
Net income		19,222	12,079
Other comprehensive income			
Other comprehensive income that may be reclassified to profit and loss in subsequent periods:			
Foreign currency translation		17,819	9,301
Items not to be reclassified to profit and loss in subsequent periods:			
Actuarial losses on defined benefit pension plans, net of tax		(1,450)	(3,203)
Total comprehensive income, net of tax		35,591	18,177
Net income per share			
Basic and diluted	7	0.33	0.21

See accompanying notes to condensed consolidated interim financial statements



MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	Notes	March 31 2015	December 31 2014
Current assets			
Cash		2,608	2,645
Trade and other receivables		193,968	160,989
Inventories		191,164	176,870
Prepaid expenses and other		12,053	12,396
		399,793	352,900
Non-current assets			
Property, plant and equipment		364,961	351,057
Investment properties		4,366	4,370
Intangible assets		60,674	60,588
Other assets		25,436	23,139
Deferred tax assets		41,220	42,499
		496,657	481,653
Total assets		896,450	834,553
Current liabilities			
Accounts payable and accrued liabilities and provisions		148,391	136,976
Debt due within one year		45,260	40,016
		193,651	176,992
Non-current liabilities			
Bank indebtedness	4	85,023	81,442
Long-term debt		44,301	43,866
Borrowings subject to specific conditions		18,969	18,777
Other long-term liabilities and provisions	5	29,899	26,562
Deferred tax liabilities		32,622	27,318
		210,814	197,965
Equity			
Share capital		254,440	254,440
Contributed surplus		2,044	2,044
Other paid in capital		13,565	13,565
Retained earnings		180,968	166,398
Accumulated other comprehensive income		40,968	23,149
		491,985	459,596
Total liabilities and equity		896,450	834,553

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, 2014	254,440	2,044	13,565	166,398	23,149	459,596
Net income for the period	-	-	-	19,222	-	19,222
Other comprehensive (loss) income for the period	-	-	-	(1,450)	17,819	16,369
Common share dividend	-	-	-	(3,202)	-	(3,202)
March 31, 2015	254,440	2,044	13,565	180,968	40,968	491,985
December 31, 2013	254,440	2,044	13,565	129,464	8,645	408,158
Net income for the period	-	-	-	12,079	-	12,079
Other comprehensive (loss) income for the period	-	-	-	(3,203)	9,301	6,098
Common share dividend	-	-	-	(2,328)	-	(2,328)
March 31, 2014	254,440	2,044	13,565	136,012	17,946	424,007

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 March 31	
		2015	2014
Cash flow from operating activities			
Net income		19,222	12,079
Amortization/depreciation of intangible assets and property, plant and equipment		9,194	8,781
Loss (gain) on disposal of property, plant and equipment		101	(47)
Decrease in defined benefit plans		(156)	(421)
Accretion		212	290
Deferred taxes		4,906	2,210
Loss (income) on investments in joint ventures		141	(80)
Increase in non-cash working capital		(26,658)	(20,862)
Net cash provided by operating activities		6,962	1,950
Cash flow from investing activities			
Purchase of property, plant and equipment		(6,059)	(6,564)
Proceeds from disposal of property, plant and equipment		192	71
Increase in other assets		(2,612)	(3,099)
Net cash used in investing activities		(8,479)	(9,592)
Cash flow from financing activities			
Increase in bank indebtedness	4	1,367	5,497
Increase in debt due within one year		2,969	5,743
Decrease in long-term debt		(994)	(1,345)
Increase in long-term debt		276	–
Increase in long-term liabilities and provisions		740	107
Increase in borrowings subject to specific conditions		85	–
Common share dividend	7	(3,202)	(2,328)
Net cash provided by financing activities		1,241	7,674
(Decrease) increase in cash during the period		(276)	32
Cash at beginning of the period		2,645	7,760
Effect of exchange rate differences		239	332
Cash at end of the period		2,608	8,124

See accompanying notes to condensed consolidated interim financial statements



MAGELLAN AEROSPACE CORPORATION NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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 ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") and using the same accounting policies and methods as were used for the Corporation's consolidated financial statements and the notes thereto for the year ended December 31, 2014, 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, 2014, which are available at www.sedar.com and on the Corporation's website at www.magellan.aero.

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

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors of the Corporation on May 12, 2015.

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, 2015, in accordance with the transitional provisions outlined in the respective standards.

a) *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. As at January 1, 2015, the Corporation adopted the amendments and there was no material impact on the condensed consolidated interim financial statements.

b) *Operating Segments*

The Annual Improvements to IFRSs 2010-2012 included amendments to IFRS 8, *Operating Segments*. This standard has been amended to require (i) disclosure of judgements made by a company's management in aggregating segments, and (ii) a reconciliation of segment assets to the entity's assets when a measure of segment is reported to the Chief Operating Decisions Maker. These amendments are effective for annual periods beginning on or after July 1, 2014. As at January 1, 2015, the Corporation adopted this pronouncement and there was no material impact on the condensed consolidated interim financial statements.

c) *Recent accounting pronouncements not yet adopted*

The IASB has issued new standards and amendments to existing standards. These changes are not yet adopted by the Corporation and could have an impact on future periods. These changes are described in detail in the Corporation's 2014 consolidated financial statements.

- IFRS 15, *Revenue from Contracts with Customers*
- IFRS 9, *Financial Instruments*
- Amendments to IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets*
- Amendments to IFRS 11, *Joint Arrangements*



- Amendments to IFRS 10, *Consolidated Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures*

The Corporation is in the process of evaluating the impact of adopting these standards 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 £11,000 [\$160,002 at March 31, 2015]. 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 March 31, 2015 of \$85,023 [December 31, 2014 - \$81,442] bears interest at the bankers' acceptance or LIBOR rates plus 2.0% [2.68% at March 31, 2015 (2014 – bankers' acceptance or LIBOR rates plus 2.0% or 2.87%)]. Included in the amount outstanding at March 31, 2015 is US\$14,526 and £6,171 [December 31, 2014 - US\$15,946 and £6,820]. At March 31, 2015, the Corporation had drawn \$86,603 under the operating credit facility, including letters of credit totalling \$1,580 such that \$73,399 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	March 31 2015	December 31 2014
Pension Benefit Plans	17,976	15,989
Other Benefit Plan	1,472	1,346
	19,448	17,335

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 first quarter of 2015, the Corporation changed the assumed discount rate of 3.9% used in the pension obligation calculation as at December 31, 2014 to a discount rate of 3.5% as at March 31, 2015. The change in assumption resulted in an actuarial loss in the first quarter of 2015 of \$1,450, net of taxes of \$504 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 month period ended March 31, 2015 was 28.2% [27.5% for the three month period ended March 31, 2014]. 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 March 31	
	2015	2014
Net income	19,222	12,079
Weighted average number of shares	58,209	58,209
Basic and diluted net income per share	0.33	0.21

Dividends

On March 31, 2015, the Corporation paid quarterly dividends on 58,209,001 common shares of \$0.055 per common share, amounting to \$3,202.

Subsequent to March 31, 2015, the Corporation declared dividends to holders of common shares in the amount of \$0.055 per common share payable on June 30, 2015, for shareholders of record at the close of business on June 12, 2015.

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, trade receivables, bank indebtedness and accounts payable and accrued liabilities

Due to the short period to maturity of these instruments, the carrying values as presented in the consolidated statement of financial positions are reasonable estimates of their fair values.

Foreign exchange contracts

The Corporation enters into foreign forward exchange contracts to mitigate future cash flow exposures in United States dollars and Euros. Under these contracts the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in United States dollars and Euros. The Corporation does not have any material forward foreign exchange contracts outstanding as at March 31, 2015.

Long-term debt

The fair value of the Corporation's long-term debt is estimated at \$48,469 at March 31, 2015. 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 March 31, 2015, the Corporation has recognized \$18,969 as the amount repayable to Canadian government agencies. The contributions are repayable as future royalty payments; a liability is recorded for the amounts received that will be repaid based on future estimated sales.

Collateral

As at March 31, 2015, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was \$174,584.

9. RELATED PARTY TRANSACTIONS

During the three month period ended March 31, 2014, the Corporation paid guarantee fees in the amount of \$192 to the Chairman of the Board of the Corporation. Upon the renewal of the operating credit facility on September 20, 2014, the guarantee provided by the Chairman of the Board of the Corporation was released.

10. SEGMENTED INFORMATION

Operating segments are defined as components of the Corporation for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Corporation is the President and Chief Executive Officer. The Corporation operates substantially all of its activities in one reportable segment, Aerospace, which include the design, development, manufacture, repair and overhaul and sale of systems and components for defence and civil aviation. The Corporation continues to provide services to the Power Generation Segment disclosed in the notes to the 2014 consolidated financial statements, however the Corporation has removed the disclosure of this segment as activities in relation to these services were not material in the current quarter and they are not expected to be material in future periods.



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

	Three month period ended March 31	
	2015	2014
Sale of goods	196,947	175,392
Construction contracts	8,985	18,029
Services	22,321	17,081
	228,253	210,502

At March 31, 2015, aggregate costs incurred under open construction contracts and recognized profits, net of recognized losses, amounted to \$327,137 [December 31, 2014 - \$335,440]. Advance payments received for construction contracts in progress at March 31, 2015 was \$3,024 [December 31, 2014 - \$2,521]. Retention in connection with construction contracts at March 31, 2015 was \$1,267 [December 31, 2014 - \$1,160]. Advance payments and retentions are included in accounts payable, accrued liabilities and provisions.

Revenues from the Corporation's two largest customers accounted for 37.7% of total sales for the three month period ended March 31, 2015 [March 31, 2014 – two largest customers accounted for 35.9% of total sales in the three month period].

Geographic segments:

	2015				Three month period ended March 31 2014			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	78,551	82,706	66,996	228,253	77,598	67,687	65,217	210,502
Export revenue ¹	55,210	22,034	9,482	86,726	44,081	17,014	6,498	67,593

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

	March 31, 2015				December 31, 2014			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment and intangible assets	177,430	157,975	90,230	425,635	179,881	146,722	85,042	411,645

11. MANAGEMENT OF CAPITAL

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

Total managed capital as at March 31, 2015 of \$666,569 is comprised of shareholders' equity of \$491,985 and interest-bearing debt of \$174,584.

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 LIABILITIES 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 March 31, 2015 capital commitments in respect of purchase of property, plant and equipment totalled \$16,880, all of which had been ordered. There were no other material capital commitments at the end of the period.