MAGELLAN AEROSPACE

QUARTERLY REPORT

MARCH 31, 2016

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, 2016, and the audited annual consolidated financial statements for the year ended December 31, 2015 (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, 2016 relative to the three month period ended March 31, 2015. The information contained in this report is as at May 10, 2016. All financial references are in Canadian dollars unless otherwise noted.

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

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

1. Overview

A summary of Magellan's business and significant updates

Magellan is a diversified supplier of components to the aerospace industry and in certain circumstances for power generation projects. Through its wholly owned subsidiaries, Magellan designs, engineers, and manufactures aeroengine and aerostructure components for aerospace markets, advanced products for defence and space markets, and complementary specialty products. The Corporation also supports the aftermarket through supply of spare parts as well as performing repair and overhaul services 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 attended the HeliExpo show held in Louisville, Kentucky from February 29th through March 3rd , 2016. During the show the Corporation announced that a Wire Strike Protection System™ would soon be available for the Robinson R66 helicopter platform with the anticipated issuance of a Supplemental Type Certificate. The R66 kit is expected to be available for R66 helicopters commencing in the fall of 2016.

On May 2, 2016, Magellan announced a contract extension between Magellan and Airbus for the supply of aluminium and titanium structural wing components from Magellan's facilities located throughout Europe and its joint ventures in India. This contract, valued at approximately CDN $700 million, is comprised of precision machined details and assemblies for use on the A320Family, the A330Family, and the A380 program. In addition to the contract extension for the machined components, Magellan was awarded a contract to supply certain A380 wing ribs to Airbus valued at approximately CDN $20 million.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2015 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan's operating results for first quarter ended March 31, 2016

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 was not material in the current quarter and, at present, it is not expected to be material in future periods.

The Corporation reported higher revenue in the first quarter of 2016 when compared to the first quarter of 2015. Gross profit and net income for the first quarter of 2016 were $48.5 million and $23.4 million, respectively, an increase from the gross profit of $39.2 million and net income of $19.2 million for the first quarter of 2015.

Consolidated Revenue

Overall, the Corporation's consolidated revenues grew by 16.6% when compared to the first quarter of 2015.

	Three month period ended March 31		
Expressed in thousands of dollars	**2016**	2015	Change
Canada	**92,342**	78,551	17.6%
United States	**88,357**	82,706	6.8%
Europe	**85,359**	66,996	27.4%
Total revenues	**266,058**	228,253	16.6%

Consolidated revenues for the first quarter of 2016 were $266.1 million, $37.8 million or 16.6% higher than $228.3 million recorded for the first quarter of 2015. Revenues in Canada increased 17.6% in the first quarter of 2016 compared to the same period in 2015, primarily due to higher volume revenues in both aerospace and defense markets, and the strengthening, on a year over year basis, of the US dollar against the Canadian dollar, partially offset by lower revenues related to space programs. On a currency neutral basis, Canadian revenues increased in the first quarter of 2016 by 10.7% over the same period of 2015.

Revenues in United States increased 6.8% in the first quarter of 2016 in comparison to the first quarter of 2015 when measured in Canadian dollars mainly due to favourable foreign exchange impact. On a currency neutral basis, revenues in the United States decreased by 3.1% in the first quarter of 2016 over the same period in 2015 largely due to timing of orders and non-recurring revenues in the first quarter of 2015; partially offset by revenue contribution from Ripak Aerospace Processing ("Ripak"), which was acquired by the Corporation in the fourth quarter of 2015.

European revenues increased $18.4 million or 27.4% to $85.4 million in the first quarter of 2016 compared to $67.0 million during the same period in 2015, primarily due to higher sales as a result of increased production build rates, and the acquisition of Euravia Engineering & Supply Co. Limited ("Euravia"), which was acquired by the Corporation in the second quarter of 2015. In addition, the strengthening British pound in comparison to the Canadian dollar contributed favourably to revenues. On a constant currency basis, revenues in the first quarter of 2016 in Europe were up by 22.3% compared to the same period in 2015.

Gross Profit

Expressed in thousands of dollars	2016	2015	Change
	Three month period ended March 31		
Gross profit	**48,525**	39,195	23.8%
Percentage of revenues	**18.2%**	17.2%	

Gross profit increased $9.3 million to $48.5 million for the first quarter of 2016 compared to $39.2 million for the first quarter of 2015 and gross profit as a percentage of revenues increased to 18.2% for the first quarter of 2016 compared to 17.2% for the same period in 2015. Increase in gross profit 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 production efficiencies. The acquisitions of Euravia and Ripak also contributed to the increased gross profit in the first quarter of 2016 when compared to the same period in 2015.

Administrative and General Expenses

Expressed in thousands of dollars	2016	2015	Change
	Three month period ended March 31		
Administrative and general expenses	**15,199**	13,115	15.9%
Percentage of revenues	**5.7%**	5.7%	

Administrative and general expenses as a percentage of revenues were 5.7% for the first quarter of 2016, consistent with that in the corresponding period of 2015. Administrative and general expenses increased $2.0 million or 15.9% to $15.1 million in the first quarter of 2016 compared to $13.1 million in the first quarter of 2015 mainly due to the acquisitions of Euravia and Ripak in 2015.

Other

Expressed in thousands of dollars	2016	2015
	Three month period ended March 31	
Foreign exchange loss (gain)	**113**	(2,179)
Loss on disposal of property, plant and equipment	**124**	101
Total other expenses (income)	**237**	(2,078)

For the first quarter of 2016, the Corporation recorded an expense of $237 compared to income of $2.1 million in the corresponding period of 2015. The movements in balances denominated in the foreign currencies and the fluctuations of the foreign exchange rates impact the net foreign exchange loss or gain recorded in a quarter.

Interest Expense

Expressed in thousands of dollars	2016	2015
	Three month period ended March 31	
Interest on bank indebtedness and long-term debt	**1,281**	971
Accretion charge for borrowings and long-term debt	**207**	212
Discount on sale of accounts receivable	**331**	207
Total interest expense	**1,819**	1,390

Interest expense of $1.8 million in the first quarter of 2016 was $0.4 million higher than the first quarter of 2015 amount of $1.4 million. Higher principal amounts outstanding on bank indebtedness and long term debt during the first quarter of 2016 than those in the first quarter of 2015 resulted in increased interest expenses quarter over quarter.

Provision for Income Taxes

Expressed in thousands of dollars	Three month period ended March 31 **2016**	2015
Expense of current income taxes	**3,588**	1,490
Expense of deferred income taxes	**4,254**	6,056
Total expense of income taxes	**7,842**	7,546
Effective tax rate	**25.1%**	28.2%

Income tax expense for the first quarter ended March 31, 2016 was $7.8 million, representing an effective income tax rate of 25.1% compared to 28.2% for the first quarter of 2015. The decrease in effective tax rate quarter over quarter was primarily due to an adjustment in corporation taxation rates in the income tax jurisdictions in which the Corporation operates. The increase in current income taxes expense during the current quarter was mainly due to full utilization of the net operating loss carry-forwards and certain tax credits in the United States in the second quarter of 2015. This also impacted the change in deferred income taxes expense.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

	2016			2015				**2014**
Expressed in millions of dollars, except per share amounts	**Mar 31**	Mar 31	Jun 30	Sep 30	Dec 31	Jun 30	Sep 30	Dec 31
Revenues	**266.1**	228.4	234.4	236.2	252.6	221.0	202.5	208.9
Income before taxes	**31.3**	26.8	21.8	24.8	27.1	18.8	17.7	23.9
Net Income	**23.4**	19.2	16.2	18.5	25.5	13.6	13.0	17.9
Net Income per share								
Basic and diluted	**0.40**	0.33	0.28	0.32	0.44	0.23	0.22	0.31
EBITDA[1]	**45.8**	37.4	33.5	37.8	43.1	30.2	28.3	34.7

[1] EBITDA is not an IFRS financial measure. Please see the "Reconciliation of Net Income to EBITDA" section for more information.

The Corporation reported its highest quarterly revenues in its history in the first quarter of 2016. Revenues reported in the quarterly information were favourably impacted by a stronger United States dollar and British pound against the Canadian dollar. The average exchange rate of the United States dollar relative to the Canadian dollar in the first quarter of 2016 was 1.3749 versus 1.2412 in the same period of 2015. The average exchange rate of British pound relative to the Canadian dollar moved from 1.8792 in the first quarter of 2015 to 1.9675 during the current quarter. Had the foreign exchange rates remained at levels experienced in the first quarter of 2015, reported revenues in the first quarter of 2016 would have been lower by $17.0 million.

Net income for the first quarter of 2016 and fourth quarter of 2015 of $23.4 million and $25.5 million, respectively, was higher than all other quarterly net income shown in the table above. Favourable foreign exchange impact as discussed above contributed to higher net income for the first quarter of 2016 and all four quarters of 2015. The favourable foreign exchange impact in the current quarter was somewhat offset by higher income taxes expenses recorded. In the second quarter of 2015, the Corporation recorded a loss on translation of its foreign currency liabilities within Canada and Europe. In the fourth quarter of 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.

	Three month period ended March 31	
Expressed in thousands of dollars	**2016**	2015
Net income	**23,428**	19,222
Interest	**1,819**	1,390
Taxes	**7,842**	7,546
Depreciation and amortization	**12,737**	9,194
EBITDA	**45,826**	37,352

EBITDA increased $8.5 million or 22.7% to $45.8 million for the first quarter of 2016, compared to $37.4 million in the first quarter of 2015 primarily as a result of higher net income and higher add-back of depreciation and amortization expenses.

5. Liquidity and Capital Resources

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

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

Cash Flow from Operations

	Three month period ended March 31	
Expressed in thousands of dollars	**2016**	2015
Increase in trade receivables	**(18,436)**	(26,659)
Increase in inventories	**(2,319)**	(6,817)
Decrease in prepaid expenses and other	**639**	833
Increase in accounts payable, accrued liabilities and provisions	**7,049**	5,985
Changes to non-cash working capital balances	**(13,067)**	(26,658)
Cash provided by operating activities	**25,401**	6,962

For the first quarter ended March 31, 2016, the Corporation generated $25.4 million from operating activities, compared to $6.9 million in the first quarter of 2015. The increase in cash flow from operations was significantly impacted by higher net income and lower working capital investment in the first quarter of 2016.

Investing Activities

	Three month period ended March 31	
Expressed in thousands of dollars	**2016**	2015
Purchase of property, plant and equipment	**(3,634)**	(6,059)
Proceeds of disposal of property plant and equipment	**159**	192
Increase in other assets	**(4,645)**	(2,612)
Change in restricted cash	**776**	-
Cash used in investing activities	**(7,344)**	(8,479)

Cash used in investing activities for the first quarter of 2016 was $7.3 million compared to $8.5 million in the first quarter of 2015, primarily consisting of capital expenditures of $3.6 million, investments in other assets of $4.6 million and cash inflow of $0.8 million from changes in restricted cash. The Corporation continues to invest in capital expenditures to enhance its manufacturing capabilities in various geographies and to support new customer programs.

Financing Activities

Expressed in thousands of dollars	Three month period ended March 31 **2016**	2015
(Decrease) increase in bank indebtedness	**(10,704)**	1,367
(Decrease) increase in debt due within one year	**(2,217)**	2,969
Decrease in long-term debt	**(1,108)**	(994)
Increase in long-term debt	**-**	276
(Decrease) increase in long-term liabilities and provisions	**(253)**	740
Increase in borrowings subject to specific conditions	**110**	85
Common share dividend	**(3,347)**	(3,202)
Cash (used) provided by financing activities	**(17,519)**	1,241

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. Under the terms of the amended credit agreement, the operating credit facility expires on September 30, 2018. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a Canadian $50,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility. The credit agreement was amended on December 4, 2015 to include a short term bridge credit facility that increased the operating credit facility by a US dollar limit US$10,000, which expired on March 4, 2016.

The Corporation used $17.5 million in financing activities in the first quarter of 2016 mainly due to the repayment of the short term bridge credit facility.

As at March 31, 2016 the Corporation has made contractual commitments to purchase $15.3 million of capital assets.

Dividends

During the first quarter of 2016, the Corporation declared and paid quarterly cash dividends of $0.0575 per common shares representing an aggregating dividend payment of $3.3 million.

Subsequent to March 31, 2016 the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of $0.0575 per common share. The dividend will be payable on June 30, 2016 to shareholders of record at the close of business on June 10, 2016.

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 10, 2016, 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, 2016.

Off Balance Sheet Arrangements

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

7. Related Party Transactions

A summary of Magellan's transactions with related parties

For the three month period ended March 31, 2016, the Corporation had no material transactions with related parties as defined in IAS 24 - *Related Party Disclosures*.

8. Risk Factors

A summary of risks and uncertainties facing Magellan

The Corporation manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without hindering the ability to maximize returns. Management has procedures to help identify and manage significant operational and financial risks.

For more information in relation to the risks inherent in Magellan's business, reference is made to the information under "Risk Factors" in the Corporation's Management's Discussion and Analysis for the year ended December 31, 2015 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, 2016 and have been applied in preparing the consolidated interim financial statements.

Property, Plant and Equipment and Intangibles Assets
In 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* ("IAS 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. As at January 1, 2016, the Corporation adopted the amendments and there was no material impact on the condensed consolidated interim financial statements.

Joint Arrangements
In 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*. As at January 1, 2016, the Corporation adopted the amendments and there was no 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 March 31, 2016, 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 2015 audited annual consolidated financial statements.

- IFRS 15, *Revenue from Contracts with Customers*
- IFRS 9, *Financial Instruments*
- Amendments to IFRS 10, *Consolidated Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures*
- IFRS 16*, Leases*

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 2015 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, 2015 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, 2016 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 2016

The Corporation continues to benefit from its position and participation in the commercial aircraft market. It is expected that the positive trend set in 2015 will continue as commercial aircraft order backlogs remain at record levels. Magellan is contracted with both Boeing and Airbus on all their commercial programs, as such the Corporation is successfully supporting the production ramp up in the single aisle market. The current 2016 production rates for the single aisle models the A320 family (including the A320neo) and the B737 family (including the B737max) are at an average of 43 aircraft per month. Both Airbus and Boeing continue to project progressively increasing rates up to approximately 60 aircraft per month by 2019. As well, Magellan continues its participation on new platforms for Airbus's A330neo, A350XWB, and Boeing's family of B787 aircraft. These new programs are all maturing into production rates as projected by the OEM's. In the large aircraft products, specifically the Airbus A380 and the Boeing B747-8, the Corporation has planned for anticipated scheduled rate reductions. The impact will be partially offset by announced schedule rate increases on the A330 and B767 programs.

In the regional market, improving trends have been noted. Recent announcements by regional aircraft OEM's indicate a growing opportunity in the 90 to 100 seat marketplace. This is a potential market for the Corporation's existing Aero Engine and Castings products.

The defense aerospace market remains generally budget-constrained causing certain fleet modernizations programs to be delayed and certain legacy platforms to be life extended. Magellan is currently positioned in both segments. On legacy programs, the Corporation supports the GE F404/F414 engine programs, where Magellan manufactures major engine components, plus performs repair and overhaul of engines powering various Boeing F/A-18 fleets. On the new program side, Lockheed Martin's F-35 fighter program has matured to the point where previously projected production rates are being realized. Magellan is proceeding with plans to increase F-35 horizontal stabilizer production rate capability accordingly.

Helicopter sales both civil and military, light/medium and heavy airframes remain at very low levels. The market downturn in oil prices is expected to continue to suppress any recovery in this segment of the market in 2016.

At the HeliExpo show held in Louisville, KY, helicopter manufacturers displayed the new models and technologies they are developing to take advantage of the market rebound when it takes place. Being challenged today with weakness in both commercial and defense markets, manufacturers are developing new platforms to respond to the changing customer needs and market dynamics.

In Space Rockets and Communications the Corporation remains focussed on progressing our current programs to completions while exploring our business beyond our traditional customer base.

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 **2016**	 2015
Revenues	9	**266,058**	228,253
Cost of revenues		**217,533**	189,058
Gross profit		**48,525**	39,195
Administrative and general expenses		**15,199**	13,115
Other		**237**	(2,078)
Income before interest and income taxes		**33,089**	28,158
Interest		**1,819**	1,390
Income before income taxes		**31,270**	26,768
Income taxes			
Current	6	**3,588**	1,490
Deferred	6	**4,254**	6,056
		7,842	7,546
Net income		**23,428**	19,222
Other comprehensive (loss) income			
Other comprehensive (loss) income that may be reclassified to profit and loss in subsequent periods:			
Foreign currency translation		**(29,377)**	17,819
Items not to be reclassified to profit and loss in subsequent periods:			
Actuarial losses on defined benefit pension plans, net of tax		**(3,943)**	(1,450)
Total comprehensive (loss) income, net of tax		**(9,892)**	35,591
Net income per share			
Basic and diluted	7	**0.40**	0.33

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 2016	December 31 2015
Current assets			
Cash		**5,659**	5,538
Restricted cash		**11,887**	12,902
Trade and other receivables		**215,619**	207,074
Inventories		**207,987**	215,351
Prepaid expenses and other		**16,010**	17,914
		457,162	458,779
Non-current assets			
Property, plant and equipment		**382,404**	405,526
Investment properties		**4,617**	4,753
Intangible assets		**80,750**	87,844
Goodwill		**36,386**	39,439
Other assets		**26,492**	23,642
Deferred tax assets		**28,238**	30,070
		558,887	591,274
Total assets		**1,016,049**	1,050,053
Current liabilities			
Accounts payable and accrued liabilities and provisions		**157,979**	158,490
Debt due within one year		**51,019**	55,255
		208,998	213,745
Non-current liabilities			
Bank indebtedness	4	**121,132**	135,828
Long-term debt		**38,508**	40,402
Borrowings subject to specific conditions		**19,926**	19,751
Other long-term liabilities and provisions	5	**29,237**	26,047
Deferred tax liabilities		**34,142**	36,935
		242,945	258,963
Equity			
Share capital		**254,440**	254,440
Contributed surplus		**2,044**	2,044
Other paid in capital		**13,565**	13,565
Retained earnings		**251,839**	235,701
Accumulated other comprehensive income		**42,218**	71,595
		564,106	577,345
Total liabilities and equity		**1,016,049**	1,050,053

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, 2015	254,440	2,044	13,565	235,701	71,595	577,345
Net income for the period	-	-	-	23,428	-	23,428
Other comprehensive loss for the period	-	-	-	(3,943)	(29,377)	(33,320)
Common share dividend	-	-	-	(3,347)	-	(3,347)
March 31, 2016	254,440	2,044	13,565	251,839	42,218	564,106
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

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 March 31 2016	2015
Cash flow from operating activities			
Net income		**23,428**	19,222
Amortization/depreciation of intangible assets and property, plant and equipment		**12,737**	9,194
Loss on disposal of property, plant and equipment		**124**	101
Decrease in defined benefit plans		**(362)**	(156)
Accretion		**207**	212
Deferred taxes		**2,979**	4,906
(Income) loss on investments in joint ventures and other		**(645)**	141
Changes to non-cash working capital		**(13,067)**	(26,658)
Net cash provided by operating activities		**25,401**	6,962
Cash flow from investing activities			
Purchase of property, plant and equipment		**(3,634)**	(6,059)
Proceeds from disposal of property, plant and equipment		**159**	192
Increase in other assets		**(4,645)**	(2,612)
Change in restricted cash		**776**	–
Net cash used in investing activities		**(7,344)**	(8,479)
Cash flow from financing activities			
(Decrease) increase in bank indebtedness	4	**(10,704)**	1,367
(Decrease) increase in debt due within one year		**(2,217)**	2,969
Decrease in long-term debt		**(1,108)**	(994)
Increase in long-term debt		**–**	276
(Decrease) increase in long-term liabilities and provisions		**(253)**	740
Increase in borrowings subject to specific conditions		**110**	85
Common share dividend	7	**(3,347)**	(3,202)
Net cash (used) provided by financing activities		**(17,519)**	1,241
Increase (decrease) in cash during the period		**538**	(276)
Cash at beginning of the period		**5,538**	2,645
Effect of exchange rate differences		**(417)**	239
Cash at end of the period		**5,659**	2,608

See accompanying notes to condensed consolidated interim financial statements

NOTE 1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("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, 2015, except for the new accounting pronouncements which have been adopted as disclosed in Note 3.

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, 2015, 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 10, 2016.

NOTE 3. ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS

The Corporation has adopted the new and amended International Financial Reporting Standards ("IFRS") pronouncements listed below as at January 1, 2016, in accordance with the transitional provisions outlined in the respective standards.

a) Property, Plant and Equipment and Intangibles Assets
In 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* ("IAS 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. As at January 1, 2016, the Corporation adopted the amendments and there was no material impact on the condensed consolidated interim financial statements.

b) Joint Arrangements
In 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*. As at January 1, 2016, the Corporation adopted the amendments and there was no 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 2015 consolidated financial statements.

• IFRS 15, *Revenue from Contracts with Customers*
• IFRS 9, *Financial Instruments*
• Amendments to IFRS 10, *Consolidated Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures*
• IFRS 16*, Leases*

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

NOTE 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 [$160,974 at March 31, 2016]. 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. The credit agreement was amended on December 4, 2015 to include a short term bridge credit facility that increased the operating credit facility by a US dollar limit US$10,000 [$13,840 at December 31, 2015]. The bridge credit facility expired on March 4, 2016. Bank indebtedness as at March 31, 2016 of $121,132 [December 31, 2015 - $135,828] bears interest at the bankers' acceptance or LIBOR rates plus 1.875% [2.54% at March 31, 2016 (December 31, 2015 - 2.53%)]. Included in the amount outstanding at March 31, 2016 is US$27,887 and £9,277 [December 31, 2015 - US$32,524 and £9,861]. At March 31, 2016, the Corporation had drawn $124,982 under the operating credit facility, including letters of credit totalling $3,850 such that $35,992 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.

NOTE 5. EMPLOYEE FUTURE BENEFITS

The Corporation has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to substantially all of its employees.

The employee benefit obligation reflected in the unaudited condensed consolidated interim financial statements is as follows:

	March 31 2016	December 31 2015
Pension Benefit Plans	15,677	10,854
Other Benefit Plan	1,200	1,263
	16,877	12,117

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 2016, the Corporation changed the assumed discount rate of 4.0% used in the pension obligation calculation as at December 31, 2015 to a discount rate of 3.9% as at March 31, 2016. The change in the discount rate assumption and the difference between the actual and expected rate of return on the plan assets resulted in an actuarial loss of $3,943, net of taxes of $1,384 recorded in the first quarter of 2016 in other comprehensive income.

NOTE 6. TAXATION

The Corporation's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Corporation operates in, adjusted for the main permanent differences identified. The effective tax rate for the three month period ended March 31, 2016 was 25.1% [28.2% for the three month period ended March 31, 2015]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the change in mix of income across the different jurisdictions in which the Corporation operates.

NOTE 7. SHARE CAPITAL

Net income per share

	Three month period ended March 31	
	2016	2015
Net income	23,428	19,222
Weighted average number of shares	58,209	58,209
Basic and diluted net income per share	0.40	0.33

Dividends
On March 31, 2016, the Corporation paid quarterly dividends on 58,209,001 common shares of $0.0575 per common share, amounting to $3,347.

Subsequent to March 31, 2016, the Corporation declared dividends to holders of common shares in the amount of $0.0575 per common share payable on June 30, 2016, for shareholders of record at the close of business on June 10, 2016.

NOTE 8. FINANCIAL INSTRUMENTS

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The Corporation does not have any financial assets carried at fair value as at March 31, 2016.

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, 2016.

Borrowings subject to specific conditions
As at March 31, 2016, the Corporation has recognized $19,926 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.

Contingent considerations
The Corporation has recognized contingent considerations of $6,803 representing future amounts the Corporation may be required to pay in conjunction with various business combinations. The ultimate amount of future payments is based on specified future criteria, such as sales and earnings metrics. The Corporation estimates the fair value of the contingent consideration liabilities related to the achievement of these metrics by assigning an achievement probability to each potential milestone.

Collateral
As at March 31, 2016, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $210,659.

NOTE 9. 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’s primary sources of revenue are as follows:

	Three month period ended March 31 2016	2015
Sale of goods	220,890	196,947
Construction contracts	7,637	8,985
Services	37,531	22,321
	266,058	228,253

At March 31, 2016, aggregate costs incurred under open construction contracts and recognized profits, net of recognized losses, amounted to $355,159 [December 31, 2015 - $351,672]. Advance payments received for construction contracts in progress at March 31, 2016 was $1,676 [December 31, 2015 - $3,439]. Retention in connection with construction contracts at March 31, 2016 was $294 [December 31, 2015 - $313]. Advance payments and retentions are included in accounts payable, accrued liabilities and provisions.

Revenues from the Corporation’s two largest customers accounted for 38.0% of total sales for the three month period ended March 31, 2016 [March 31, 2015 – two largest customers accounted for 37.7% of total sales for the three month period].

Geographic segments:

	2016 Canada	2016 United States	2016 Europe	2016 Total	2015 Canada	2015 United States	2015 Europe	2015 Total
Three month period ended March 31								
Revenue	92,342	88,357	85,359	266,058	78,551	82,706	66,996	228,253
Export revenue[1]	69,351	20,677	26,799	116,827	55,210	22,034	9,482	86,726

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

	March 31, 2016 Canada	United States	Europe	Total	December 31, 2015 Canada	United States	Europe	Total
Property, plant and equipment intangible assets and goodwill	167,132	188,733	143,675	499,540	169,853	208,516	157,581	535,950

NOTE 10. 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, 2016 of $774,765 is comprised of shareholders’ equity of $564,106 and interest-bearing debt of $210,659.

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

NOTE 11. 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 March 31, 2016 capital commitments in respect of purchase of property, plant and equipment totalled $15,314, all of which had been ordered. There were no other material capital commitments at the end of the period.