



2016 FOURTH QUARTER REPORT

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'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

An announcement was made on October 31, 2016, of the successful launch, and return to earth, of three Canadian student space microgravity science experiments aboard Mission 8 of the U.S.-based Student Spaceflight Experiments Program ("SSEP"). The experiments were delivered to the International Space Station ("ISS") by the SpaceX CRS-9 mission. The SSEP is a unique, immersive program that gives students the ability to design and propose real microgravity experiments to fly in low earth orbit in the ISS. Two of the three participating Canadian school communities were sponsored by Magellan at the University of Toronto, Toronto District School Board, and Ryerson University, Toronto, Ontario. Magellan's national SSEP partnership serves to increase the opportunity for Canadian communities to participate in the SSEP. The program utilizes the funding provided by the Corporation to bridge funding shortfalls for student communities that would otherwise be unable to participate. The Corporation has been a supporter of the SSEP since it expanded into Canada in 2012. Since that time Magellan has sponsored school communities, and engaged over 1,225 Canadian secondary school students in microgravity science experiment design and resulted in more than 270 flight experiment proposals submitted to the SSEP.

On February 3, 2017, Magellan Aerospace announced a contract award from Public Services and Procurement Canada for engine repair and overhaul and fleet management services on the F404 engine that powers Canada's fleet of CF-188 Hornet aircraft. The contract commenced in January 2017 and work will be carried out until the terms expire at the end of March 2021. A preliminary funding amount of \$45 million has been approved to launch the multi-year agreement. The contract includes options to extend the duration of the agreement beyond 2021, based on performance. Magellan will service the F404 engines at its facility in Mississauga, Ontario and at Royal Canadian Air Force bases located in Bagotville, Quebec and Cold Lake, Alberta.

The Corporation announced on February 14, 2017 plans to construct a new manufacturing facility in India. The new 140,000 sq. ft. building will be constructed on seven acres in the Aerospace Special Economic Zone near the Bangalore International Airport. Magellan expects to break ground for the new facility in summer 2017. The Corporation will invest more than \$28 million in this state-of-the-art manufacturing and assembly plant, which will be constructed in three phases. When the first phase is commissioned near the end of 2017, it will employ approximately 120 engineers, machinists, procurement professionals, and quality and management personnel and be equipped with a full suite of 5-axis machining centres.

For additional information, please refer to the 2016 Management's Discussion and Analysis available on www.sedar.com.

Results of Operations

A discussion of Magellan's operating results for fourth quarter ended December 31, 2016

The Corporation operates substantially all of its activities in one reportable segment, Aerospace, which includes the design, development, manufacture, repair and overhaul and sale of systems and components for defence and civil aviation.

The Corporation reported revenue of \$247.1 million in the fourth quarter of 2016 as compared to \$252.6 million in the fourth quarter of 2015. Gross profit and net income for the fourth quarter of 2016 were \$45.6 million and \$24.0 million, respectively, in comparison to gross profit of \$44.8 million and net income of \$25.5 million for the fourth quarter of 2015.

Consolidated Revenue

Expressed in thousands of dollars	Three month period ended December 31			Twelve month period ended December 31		
	2016	2015	Change	2016	2015	Change
Canada	92,322	92,484	(0.2%)	341,006	330,444	3.2%
United States	76,846	81,717	(6.0%)	338,969	333,074	1.8%
Europe	77,904	78,366	(0.6%)	323,868	287,948	12.5%
Total revenues	247,072	252,567	(2.2%)	1,003,843	951,466	5.5%

Consolidated revenues for the three months ended December 31, 2016 were \$247.1 million, \$5.5 million or 2.2% lower than \$252.6 million recorded for the same period in 2015. Revenues in Canada were relatively consistent with the fourth quarter of 2015, impacted by combined factors such as production volume changes and progress in the construction contracts.

Revenues in the United States in the fourth quarter of 2016 decreased \$4.9 million or 6.0% when measured in Canadian dollars, mainly driven by volume reduction, offset by revenue contribution from Ripak Aerospace Processing ("Ripak"), which was acquired by the Corporation in mid-November of 2015.

Revenues in Europe at \$77.9 million were slightly softer in the fourth quarter of 2016 as compared to \$78.4 million during the same period in 2015 when measured in Canadian dollars. On a constant currency basis, revenues in the fourth quarter of 2016 in Europe increased by 1.7% as compared to the fourth quarter of 2015 primarily driven by increased production build rates.

Gross Profit

Expressed in thousands of dollars	Three month period ended December 31			Twelve month period ended December 31		
	2016	2015	Change	2016	2015	Change
Gross profit	45,552	44,834	1.6%	178,886	164,379	8.8%
Percentage of revenues	18.4%	17.8%		17.8%	17.3%	

Gross profit increased slightly by \$0.7 million to \$45.6 million for the fourth quarter of 2016 as compared to \$44.8 million for the fourth quarter of 2015, and gross profit as a percentage of revenues increased to 18.4% for the fourth quarter of 2016 as compared to 17.8% for the same quarter of 2015. Increase in gross profit was driven by the strengthening of the United States dollar relative to British pound, offset by volume decreases and the unfavourable foreign exchange due to the weakening British pound in comparison to the Canadian dollar.

Administrative and General Expenses

Expressed in thousands of dollars	Three month period ended December 31			Twelve month period ended December 31		
	2016	2015	Change	2016	2015	Change
Administrative and general expenses	14,778	15,413	(4.1%)	57,557	56,739	1.4%
Percentage of revenues	6.0%	6.1%		5.7%	6.0%	

Administrative and general expenses were \$14.8 million for the fourth quarter of 2016, slightly lower than \$15.4 million for the same quarter in the prior year mainly attributed to the weakening British pound against the Canadian dollar. Administrative and general expenses as a percentage of revenues were 6.0% for the fourth quarter of 2016 versus 6.1% in the corresponding period of 2015.

Other

Expressed in thousands of dollars	Three month period ended December 31		Twelve month period ended December 31	
	2016	2015	2016	2015
Foreign exchange gain	(1,894)	(827)	(4,630)	(977)
Business closure costs	(254)	—	1,954	—
Loss on disposal of property, plant and equipment	202	1,344	442	1,909
Total other expense	(1,946)	517	(2,234)	932

Other income of \$1.9 million in the fourth quarter of 2016 included a foreign exchange gain mainly resulted from the revaluation and settlement of the Corporation's United States dollar denominated monetary assets and liabilities in European operations due to the strengthening United States dollar relative to the British pound. Other loss of \$0.5 million in the fourth quarter of 2015 consisted of losses recorded on the retirement and disposal of property, plant and equipment offset in part by realized and unrealized foreign exchange gains.

Interest Expense

	Three month period ended December 31		Twelve month period ended December 31	
Expressed in thousands of dollars	2016	2015	2016	2015
Interest on bank indebtedness and long-term debt	1,103	1,365	4,249	4,456
Accretion charge for borrowings and long-term debt	166	154	842	876
Discount on sale of accounts receivable	103	269	1,058	928
Total interest expense	1,372	1,788	6,149	6,260

Total interest expense of \$1.4 million in the fourth quarter of 2016 decreased \$0.4 million from the fourth quarter of 2015. On a year over year basis, interest on bank indebtedness and long-term debt of \$1.1 million decreased \$0.3 million mainly as a result of lower principal amounts outstanding on bank indebtedness and long term debt during the fourth quarter of 2016 compared to the fourth quarter of 2015.

Provision for Income Taxes

	Three month period ended December 31		Twelve month period ended December 31	
Expressed in thousands of dollars	2016	2015	2016	2015
Expense of current income taxes	317	1,560	12,780	7,363
Expense of deferred income taxes	7,031	85	16,054	13,662
Total expense of income taxes	7,348	1,645	28,834	21,025
Effective tax rate	23.4%	6.1%	24.6%	20.9%

Income tax expense for the three months ended December 31, 2016 was \$7.3 million, representing an effective income tax rate of 23.4% as compared to 6.1% for the same quarter of 2015. The effective tax rate to 6.1% in the fourth quarter of 2015 was primarily due to an adjustment in corporate taxation rates in the income tax jurisdictions in which the Corporation operates, and the recognition of previously unrecognized deferred tax assets.

Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

	2016				2015			
Expressed in millions of dollars, except per share amounts	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
Revenues	266.1	252.7	238.0	247.1	228.3	234.4	236.2	252.6
Income before taxes	31.3	29.6	25.2	31.3	26.8	21.8	24.8	27.1
Net Income	23.4	22.3	18.8	24.0	19.2	16.2	18.5	25.5
Net Income per share								
Basic and diluted	0.40	0.38	0.32	0.41	0.33	0.28	0.32	0.44
EBITDA	45.8	44.7	38.4	45.3	37.4	33.5	37.8	43.1

The quarterly revenues reported in the table above reached a peak of \$266.1 million in the first quarter of 2016, and down to \$247.0 million in the fourth quarter of 2016. The quarterly revenues and net income reported were impacted by the movements in the Canadian dollar relative to the United States dollar and British pound when the Corporation translates its foreign operations to Canadian dollars. Further, the movements in the United States dollar relative to British pound impacts the Corporation's United States dollar denominated transactions in European operations. The average exchange rate of United States dollar relative to the Canadian dollar fluctuated between a high of 1.3748 in the first quarter of 2016 and a low of 1.2294 in the second quarter of 2015. The average exchange rate of British pound relative to the Canadian dollar fluctuated between a high of 2.0280 in the third quarter of 2015 and a low of 1.6564 in the fourth quarter of 2016. The average exchange rate of the British pound relative to the United States dollar fluctuated between a high of 1.5489 in the third quarter of 2015 and a low of 1.2418 in the fourth quarter of 2016. Had exchange rates remained at levels experienced in the fourth quarter of 2015, reported revenues in the fourth quarter of 2016 would have been higher by \$1.9 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. As discussed above, net income reported in the quarterly information was also impacted by the foreign exchange movements. During 2016, the Corporation recorded higher income taxes 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. The Corporation recorded business closure costs related to the closure of a small operating facility in the United States, and a margin adjustment related to one of its construction contracts in the second and third quarter of 2016,

respectively. In the fourth quarter of 2015, the Corporation recognized an adjustment in corporation taxation rates in the income tax jurisdictions in which the Corporation operates. In the second quarter of 2015, the Corporation recorded a loss on translation of its foreign currency liabilities within Canada and Europe.

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

Expressed in thousands of dollars	Three month period ended December 31		Twelve month period ended December 31	
	2016	2015	2016	2015
Net income	24,000	25,471	88,580	79,423
Interest	1,372	1,788	6,149	6,260
Taxes	7,348	1,645	28,834	21,025
Depreciation and amortization	12,595	14,175	50,713	45,007
EBITDA	45,315	43,079	174,276	151,715

EBITDA for the fourth quarter of 2016 was \$45.3 million, compared to \$43.1 million in the fourth quarter of 2015, an increase of \$2.2 million or 5.1%, primarily resulted from higher taxes offset by lower net income, interest and depreciation and amortization expenses.

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 to fund liabilities as they become due, finance capital expenditures, fund debt repayments, pay dividends and provide flexibility for new investment opportunities. 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

Expressed in thousands of dollars	Three month period ended December 31		Twelve month period ended December 31	
	2016	2015	2016	2015
Decrease (increase) in accounts receivable	8,539	1,961	(13,460)	(19,263)
Decrease (increase) in inventories	1,610	560	(7,548)	(11,991)
Increase in prepaid expenses and other	(1,294)	(1,252)	(2,762)	(3,943)
Increase (decrease) in accounts payable, accrued liabilities and provisions	30,917	(12,271)	30,427	(6,181)
Changes to non-cash working capital balances	39,772	(11,002)	6,657	(41,378)
Net cash provided by operating activities	81,710	28,676	155,001	94,115

In the fourth quarter ended December 31, 2016, the Corporation generated \$81.7 million in cash from operations, compared to \$28.7 million in the fourth quarter of 2015, an increase of \$53.0 million mainly driven by favourable changes in non-cash working capital balances and higher deferred income taxes recorded in the quarter.

Investing Activities

Expressed in thousands of dollars	Three month period ended December 31		Twelve month period ended December 31	
	2016	2015	2016	2015
Business combinations	—	(24,927)	—	(75,076)
Purchase of property, plant and equipment	(24,845)	(21,042)	(45,421)	(43,905)
Proceeds of disposals of property plant and equipment	537	161	760	621
Change in restricted cash	234	(3,969)	5,657	(12,902)
Decrease (increase) in intangible and other assets	1,445	6,239	(7,580)	(2,175)
Net cash used in investing activities	(22,629)	(43,538)	(46,584)	(133,437)

The Corporation's capital expenditures for the fourth quarter of 2016 were \$24.8 million compared to \$21.0 million in the fourth quarter of 2015. The Corporation continues to invest in capital expenditures to enhance its manufacturing capabilities in various geographies and to support new customer programs. The Corporation invested \$24.9 million in acquiring the assets of Ripak in the fourth quarter of 2015. The majority of the decrease in intangibles and other assets in the fourth quarter of 2015 is a result of deposits made on capital equipment in the prior periods being capitalized in the fourth quarter of 2015.

Financing Activities

Expressed in thousands of dollars	Three month period ended December 31		Twelve month period ended December 31	
	2016	2015	2016	2015
(Decrease) increase in bank indebtedness	(48,082)	8,612	(88,873)	46,967
(Decrease) increase in debt due within one year	(4,070)	8,155	(3,718)	10,134
Increase in long-term debt	—	—	—	276
Decrease in long-term debt	(1,119)	(1,122)	(4,526)	(6,112)
(Decrease) increase in long-term liabilities and provisions	(214)	1,582	(183)	1,406
Increase in borrowings	2,596	759	5,391	977
Common share dividend	(3,784)	(3,347)	(13,825)	(12,952)
Net cash (used in) provided by financing activities	(54,673)	14,639	(105,734)	40,696

The Corporation used \$54.7 million in the fourth quarter of 2016 mainly to repay bank indebtedness. The Corporation also received \$2.6 million proceeds, as compared to \$0.8 million in the fourth quarter of 2015, from Canadian Government agencies related to the development of its technologies and processes.

On September 30, 2014, the Corporation amended and restated its Bank Facility Agreement with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was amended to a Canadian dollar limit of \$95.0 million (down from \$115.0 million) plus a United States dollar limit of \$35.0 million, and the addition of a £9.0 million limit with a maturity date of September 30, 2018. The Bank Facility Agreement also includes a Canadian \$50.0 million uncommitted accordion provision which provides Magellan with the option to increase the size of the operating credit facility to \$200.0 million. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. Pursuant to the amendment of the Bank Facility Agreement, the guarantee of the facility by the Chairman of the Board of the Directors of the Corporation, which has supported the Corporation since 2005, was released. The credit agreement was amended on December 04, 2015 to include a short term bridge credit facility that increased the operating credit facility by US\$10 million (\$13.8 million at December 31, 2015). The bridge credit facility, which was arranged to enhance liquidity following the Ripak acquisition, expired on March 4, 2016.

As at December 31, 2016, the Corporation had made contractual commitments to purchase \$16.4 million of capital assets.

Dividends

During the fourth quarter of 2016, the Corporation declared and paid quarterly cash dividends of \$0.065 per common share representing an aggregated dividend payment of \$3.8 million.

In the first quarter of 2017, the Corporation declared cash dividends of \$0.065 per common share payable on March 31, 2017 to shareholders of record at the close of business on March 10, 2017.

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 March 3, 2017, 58,209,001 common shares were outstanding and no preference shares were outstanding.

Financial Instruments

A summary of Magellan's financial instruments

Derivative Contracts

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

Related Party Transactions

A summary of Magellan's transactions with related parties

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

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, 2016 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2016, which have been filed with SEDAR at www.sedar.com.

Outlook

The outlook for Magellan's business in 2017

Boeing last announced that cumulative production rates for B737 and B737 MAX programs are expected to increase from the current 42 aircraft per month, to 47 aircraft per month in the third quarter of 2017, to 52 aircraft per month in 2018, and then 57 aircraft per month in 2019. Airbus' rates for the A320 and the A330 NEO are expected to reach 55 aircraft per month by mid-2017, and will continually ramp up through 2018 to a peak rate of 60 aircraft per month in 2019. It has been suggested for some time now that both original equipment manufacturers ("OEMs") are monitoring these production rates to ensure that they will remain aligned with the market.

The twin aisle market has leveled off as both Airbus and Boeing have adjusted production rates in this market. New programs, such as the Airbus A350 and Boeing's B777X continue to progress in line with published schedules. While production rates have declined in the large wide body market, recent market information and sales indicate that the Airbus A380 and Boeing's B747-800 market will remain relatively stable at the lower rates of production.

The traditional regional aircraft market is not expected to change in 2017. Relatively low fuel prices have had a dampening effect on demand for new regional turboprop aircraft, however there still remains a niche for them in various regions and



applications. Manufacturers were hoping an expansion of this market would come from the introduction of a new 90-seat class, but prolonged low fuel prices have triggered them to shelve any such plans. New large regional jet entrants such as Bombardier's C-Series and Embraer's E2 aircraft will on the other hand be the impetus for growth in this market.

In the business jet market, there have been occasional signs of recovery in one segment or another, however, the market is still struggling as it faces an oversupply of both new and used aircraft. After almost a decade of downturn, manufacturers are now looking to create new models to stimulate growth. One new concept currently being tried is one where members pay an annual fee for aircraft service, thereby avoiding the capital outlay, a multi-year commitment, and any residual value risk of fractional ownership. Another model being discussed is a point-to-point charter type model, where customers pay an airfare for scheduled direct flights. The industry's goal in the end is to add customers, and change the perception of business jets as expensive assets for the wealthy.

The civil rotorcraft market remains significantly depressed, but on speculation that oil prices will rise, the industry is anticipating the start of recovery. OEM's are also hoping to expand market applications through the commercialization of tilt-rotorcraft and compound helicopter technologies. These have the potential in the medium to long term to broaden the spectrum of applications across this segment.

Global defense spending rose in 2015 and again in 2016. It is as yet unknown what impact the political movement towards nationalism in the US and UK will have, but many expect that US defense procurement spending will rise under the new US administration. Most segments of the global defense market are forecasting growth as extended life fleets are due for replacement and global threats are continuing to cause increasing unease.

Military fixed-wing and military rotorcraft markets are predicted to be on the upswing, both of which have suffered through a period of significant downward budgetary pressures. An unpredictability factor exists in these segments in that worldwide defence acquisition decisions are becoming increasingly political and highly contested. The Canadian government's recent decision to purchase 18 Boeing Super Hornets as an interim fleet solution and to run a five year competition to replace the existing CF-18 fleet is just one of a number of recent examples. Magellan currently participates in both the CF-18 and Super Hornet programs.

The largest fighter program in the world, Lockheed's F-35 Lightning II, continues to ramp up production rates. The jet now operates in 12 countries worldwide. The program has logged over 75,000 flight hours while training more than 380 pilots and 3,700 maintainers. On January 11, 2017 the program delivered its 200th operational jet. Lockheed anticipates delivering 66 planes in 2017, up from the 46 delivered in 2016. The program has reported that costs are progressing down the cost affordability curve with the price of an F-35A expected to be less than \$100 million for aircraft ordered within the 10th annual lot. The program from the inception has been built upon achieving an affordability model. Magellan, along with other F-35 Canadian suppliers chosen to supply major components, remains confident in its continued participation on this program.

In summary, 2017 is predicted to be a year where the aerospace industry begins to approach peak demands. Commercial airliner production is still growing, but may be reaching the end of a "super cycle". The commercial rotorcraft and business jets markets remain down and are not expected to change much in 2017, while regional markets are expected to grow due to the new larger aircraft entrants. It is expected that increasing global defense spending will partially offset any plateauing in the civil and commercial aircraft markets.

Additional Information

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

Forward Looking Statements

This news release contains certain forward-looking statements that reflect the current views and/or expectations of the Corporation with respect to its performance, business and future events. Such statements are subject to a number of uncertainties and assumptions, which may cause actual results to be materially different from those expressed or implied. These forward looking statements can be identified by the words such as "anticipate", "continue", "estimate", "forecast", "expect", "may", "project", "could", "plan", "intend", "should", "believe" and similar words suggesting future events or future performance. In particular there are forward looking statements contained under the heading "Overview" which outlines certain expectations for future operations. These statements assume the continuation of the current regulatory and legal environment; the continuation of trends for passenger airliner and defence production and are subject to the risks contained herein and outlined in our annual information form. The Corporation assumes no future obligation to update these forward-looking statements except as required by law.

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Three month period ended December 31		Twelve month period ended December 31	
	2016	2015	2016	2015
Revenues	247,072	252,567	1,003,843	951,466
Cost of revenues	201,520	207,733	824,957	787,087
Gross profit	45,552	44,834	178,886	164,379
Administrative and general expenses	14,778	15,413	57,557	56,739
Other	(1,946)	517	(2,234)	932
Income before interest and income taxes	32,720	28,904	123,563	106,708
Interest	1,372	1,788	6,149	6,260
Income before income taxes	31,348	27,116	117,414	100,448
Income taxes				
Current	317	1,560	12,780	7,363
Deferred	7,031	85	16,054	13,662
	7,348	1,645	28,834	21,025
Net income	24,000	25,471	88,580	79,423
Net income per share				
Basic and diluted	0.41	0.44	1.52	1.36
Net Income	24,000	25,471	88,580	79,423
Other comprehensive income that may be reclassified to profit and loss in subsequent periods:				
Foreign currency translation (loss) gain	(590)	8,609	(44,977)	48,446
Other comprehensive income (loss) that will not be reclassified to profit and loss in subsequent periods:				
Actuarial gain on defined benefit pension plans, net of tax	7,791	370	208	2,832
Total comprehensive income, net of tax	31,201	34,450	43,811	130,701

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	December 31 2016	December 31 2015
Current assets		
Cash	7,606	5,538
Restricted Cash	7,125	12,902
Trade and other receivables	205,609	207,189
Inventories	208,964	215,351
Prepaid expenses and other	18,007	17,914
	447,311	458,894
Non-current assets		
Property, plant and equipment	389,825	405,526
Investment properties	4,377	4,753
Intangible assets	67,443	87,844
Goodwill	33,797	39,020
Other assets	28,142	23,642
Deferred tax assets	22,007	30,070
	545,591	590,855
Total assets	992,902	1,049,749
Current liabilities		
Accounts payable and accrued liabilities and provisions	178,566	158,186
Debt due within one year	50,787	55,255
	229,353	213,441
Non-current liabilities		
Bank indebtedness	43,314	135,828
Long-term debt	35,364	40,402
Borrowings subject to specific conditions	22,867	19,751
Other long-term liabilities and provisions	18,617	26,047
Deferred tax liabilities	36,056	36,935
	156,218	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	310,664	235,701
Accumulated other comprehensive income	26,618	71,595
	607,331	577,345
Total liabilities and equity	992,902	1,049,749

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(unaudited) (expressed in thousands of Canadian dollars)	Three month period ended December 31		Twelve month period ended December 31	
	2016	2015	2016	2015
Cash flow from operating activities				
Net income	24,000	25,471	88,580	79,423
Amortization/depreciation of intangible assets and property, plant and equipment	12,595	14,175	50,713	45,007
Impairment of property, plant and equipment	(212)	–	923	–
Loss on disposal of property, plant and equipment	201	1,269	442	1,909
Decrease in defined benefit plans	(720)	(1,522)	(1,923)	(1,731)
Accretion	165	189	842	876
Deferred taxes	6,053	358	9,502	10,430
Income on investments in joint venture	(144)	(260)	(735)	(421)
Changes to non-cash working capital	39,772	(11,002)	6,657	(41,378)
Net cash provided by operating activities	81,710	28,678	155,001	94,115
Cash flow from investing activities				
Business combinations	–	(24,927)	–	(75,076)
Purchase of property, plant and equipment	(24,845)	(21,042)	(45,421)	(43,905)
Proceeds from disposal of property, plant and equipment	537	161	760	621
Change in restricted cash	234	(3,969)	5,657	(12,902)
Decrease (increase) in intangible and other assets	1,445	6,239	(7,580)	(2,175)
Net cash used in investing activities	(22,629)	(43,538)	(46,584)	(133,437)
Cash flow from financing activities				
(Decrease) increase in bank indebtedness	(48,082)	8,612	(88,873)	46,967
(Decrease) increase in debt due within one year	(4,070)	8,155	(3,718)	10,134
Increase in long-term debt	–	–	–	276
Decrease in long-term debt	(1,119)	(1,122)	(4,526)	(6,112)
(Decrease) increase in long-term liabilities and provisions	(214)	1,582	(183)	1,406
Increase in borrowings	2,596	759	5,391	977
Common share dividend	(3,784)	(3,347)	(13,825)	(12,952)
Net cash (used in) provided by financing activities	(54,673)	14,639	(105,734)	40,696
Increase (decrease) in cash during the period	4,408	(221)	2,683	1,374
Cash at beginning of the period	3,378	5,171	5,538	2,645
Effect of exchange rate differences	(180)	588	(615)	1,519
Cash at end of the period	7,606	5,538	7,606	5,538