MAGELLAN

MARCH 31, 2017

QUARTERLY REPORT

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, 2017, and the audited annual consolidated financial statements for the year ended December 31, 2016 (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, 2017 relative to the three month period ended March 31, 2016. The information contained in this report is as at May 2, 2017. 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.

During 2016 and the first quarter of 2017 the Corporation has been focusing on reorganization of the Business Development Organization. This completed reorganization provides the Corporation with capable resources leading pro-active sales capture strategies for Magellan's key commodity groups: Aerostructures, Aeroengine, Castings, Maintenance, Repair and Overhaul ("R&O"), and Proprietary Products. The rollout of Magellan's sales strategy has been aligned with its customers' needs and is fully integrated with its site operations. Recent program awards for contract extensions and new work announcements are solid indicators that this realigned business focus is helping to support Magellan's vision of continued profitable growth. As in the past year Magellan will continue to rely on the Magellan Operating System ("MOS™") to drive continuous improvements in cash generation and profitability.

Magellan operates substantially all of its activities in one reportable segment, Aerospace, which is viewed as one segment by the chief operating decision-makers for the purpose of resource allocations, assessing performance and strategic planning. The Aerospace segment includes the design, development, manufacture, repair and overhaul, and sale of systems and components for defence and civil aviation.

Business Update

On March 8, 2017, Magellan announced a contract extension with Airbus to supply A350 XWB Crown Module assemblies. The contract extension has an approximate value of CDN $140 million. In the future the Corporation intends to satisfy a portion of this contract with parts and assemblies produced in Magellan facilities located in India and Poland.

On April 3, 2017, Magellan announced the sale of the land and building of its Mississauga facility ("Mississauga Property") effective March 31, 2017. The sale generated net cash proceeds of approximately CDN $32.7 million. The Corporation intends to lease a new facility that will be constructed on the existing site by the new buyer.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2016 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan's operating results for first quarter ended March 31, 2017

The Corporation reported revenue of $247.2 million in the first quarter of 2017 as compared to $266.1 million in the first quarter of 2016. Gross profit and net income for the first quarter of 2017 were $43.2 million and $38.7 million, respectively, in comparison to gross profit of $48.5 million and net income of $23.4 million for the first quarter of 2016.

Consolidated Revenue

Overall, the Corporation's consolidated revenues decreased by 7.1% when compared to the first quarter of 2016.

	Three month period ended March 31		
Expressed in thousands of dollars	**2017**	2016	Change
Canada	**75,020**	92,342	(18.8%)
United States	**80,025**	88,357	(9.4%)
Europe	**92,165**	85,359	8.0%
Total revenues	**247,210**	266,058	(7.1%)

Consolidated revenues for the three month period ended March 31, 2017 were $247.2 million, $18.9 million or 7.1% lower than $266.1 million recorded for the same period in 2016. Revenues in Canada decreased 18.8% in the first quarter of 2017 compared to the first quarter of 2016, primarily due to lower production volume and timing of aftermarket sales as well as the weakening of the United States dollar relative to the Canadian dollar. On a currency neutral basis, Canadian revenues in the first quarter of 2017 decreased by 17.1% over the corresponding period of 2016.

Revenues in United States decreased 9.4% in the first quarter of 2017 in comparison to the first quarter of 2016 when measured in Canadian dollars mainly due to volume reduction and unfavourable foreign exchange impact due to the weakening United States dollar against the Canadian dollar. On a currency neutral basis, revenues in the United States decreased by 6.2% in the first quarter of 2017 over the first quarter of 2016.

European revenues increased $6.8 million or 8.0% to $92.2 million in the first quarter of 2017 compared to $85.4 million during the first quarter of 2016, primarily driven by increased production build rates offset by the unfavourable foreign exchange impact due to the weakening British pound relative to the Canadian dollar. On a constant currency basis, revenues in the first quarter of 2017 in Europe were up by 14.0% compared to the same period in 2016.

Gross Profit

	Three month period ended March 31		
Expressed in thousands of dollars	**2017**	2016	Change
Gross profit	**43,208**	48,525	(11.0%)
Percentage of revenues	**17.5%**	18.2%	

Gross profit decreased $5.3 million to $43.2 million for the first quarter of 2017 compared to $48.5 million for the first quarter of 2016 and gross profit as a percentage of revenues decreased to 17.5% for the first quarter of 2017 from 18.2% recorded in the same period in 2016. Decrease in gross profit was primarily due to volume decrease and unfavourable product mix, partially offset by the favourable foreign exchange impact primarily driven by the weakening British pound in comparison to the United States dollar.

Administrative and General Expenses

	Three month period ended March 31		
Expressed in thousands of dollars	**2017**	2016	Change
Administrative and general expenses	**15,087**	15,199	(0.7%)
Percentage of revenues	**6.1%**	5.7%	

Administrative and general expenses as a percentage of revenues were 6.1% for the first quarter of 2017, slightly higher on a percentage basis with that in the corresponding period of 2016. Administrative and general expenses were relatively flat quarter over quarter.

Other

	Three month period ended March 31	
Expressed in thousands of dollars	**2017**	2016
Foreign exchange loss	**876**	113
(Gain) loss on disposal of property, plant and equipment	**(26,593)**	124
Other	**4,010**	-
Total other (income) expenses	**(21,707)**	237

On March 31, 2017, the Corporation sold the Mississauga Property and recorded a gain of $26.6 million. In addition, the Corporation recorded $4.0 million of costs associated with the sale which was partially offset by $0.9 million foreign exchange loss recognized in the first quarter of 2017. Other expense of $0.2 million in the first quarter of 2016 consisted of foreign exchange loss and losses on the retirement and disposal of property, plant and equipment.

Interest Expense

	Three month period ended March 31	
Expressed in thousands of dollars	**2017**	2016
Interest on bank indebtedness and long-term debt	**869**	1,281
Accretion charge for borrowings and long-term debt	**234**	207
Discount on sale of accounts receivable	**252**	331
Total interest expense	**1,355**	1,819

Interest expense of $1.4 million in the first quarter of 2017 was $0.4 million lower than the first quarter of 2016 amount of $1.8 million, mainly due to lower interest on bank indebtedness and long-term debt. Lower principal amounts outstanding on bank indebtedness and long term debt during the first quarter of 2017 than the first quarter of 2016 contributed to the decrease in interest expenses quarter over quarter.

Provision for Income Taxes

	Three month period ended March 31	
Expressed in thousands of dollars	**2017**	2016
Expense of current income taxes	**4,562**	3,588
Expense of deferred income taxes	**4,498**	4,254
Total expense of income taxes	**9,060**	7,842
Effective tax rate	**18.7%**	25.1%

Income tax expense for the first quarter ended March 31, 2017 was $9.1 million, representing an effective income tax rate of 18.7% compared to 25.1% for the first quarter of 2016. The decrease in effective tax rate quarter over quarter was primarily due to the lower tax rate applicable to the capital gain on the sale of Mississauga Property in the current quarter. The increase in both current and deferred income taxes expense during the quarter was mainly attributed to higher taxable income in the first quarter of 2017 compared to the same quarter in the prior year.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

	2017			**2016**				**2015**
Expressed in millions of dollars, except per share amounts	**Mar 31**	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Revenues	**247.2**	247.1	238.0	252.7	266.1	252.6	236.2	234.4
Income before taxes	**48.5**	31.3	25.2	29.6	31.3	27.1	24.8	21.8
Net Income	**39.4**	24.0	18.8	22.3	23.4	25.5	18.5	16.2
Net Income per share								
Basic and diluted	**0.68**	0.41	0.32	0.38	0.40	0.44	0.32	0.28
EBITDA[1]	**62.3**	45.3	38.4	44.7	45.8	43.1	37.8	33.5

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

The quarterly revenues reported in the table above reached a peak of $266.1 million in the first quarter of 2016 as compared to $247.2 million in the first quarter of 2017. Revenues and net income reported in the quarterly information 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 impact the Corporation's United States dollar exposures in its European operations. The average exchange rate of the United States dollar relative to the Canadian dollar in the first quarter of 2017 was 1.3237 versus 1.3703 in the same period of 2016. The average exchange rate of British pound relative to the Canadian dollar moved from 1.9594 in the first quarter of 2016 to 1.6414 during the current quarter. The average exchange rate of the British pound relative to the United States dollar decreased from 1.4299 in the first quarter of 2016 to 1.2409 in the current quarter. Had the foreign exchange rates remained at levels experienced in the first quarter of 2016, reported revenues in the first quarter of 2017 would have been higher by $9.4 million.

The Corporation reported its highest net income in the first quarter of 2017 mainly driven by the recording of the gain on the sale of the Mississauga Property. As discussed above, net income reported in the quarterly information was also impacted by the foreign exchange movements. The Corporation fully utilized its net operating loss carry-forwards and certain tax credits in the United States in the second quarter of 2015, which resulted in higher income taxes thereon. The Corporation recorded business closure costs related to the closure of a small operating facility in the United States in the second quarter of 2016, and a margin adjustment related to one of its construction contracts in the 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.

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	**2017**	2016
Net income	**39,413**	23,428
Interest	**1,355**	1,819
Taxes	**9,060**	7,842
Depreciation and amortization	**12,471**	12,737
EBITDA	**62,299**	45,826

EBITDA increased $16.5 million or 35.9% to $62.3 million for the first quarter of 2017, compared to $45.8 million in the first quarter of 2016 primarily as a result of higher net income and income taxes expenses offset by lower interest and 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, capital expenditures and dividend payments. 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.

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Cash Flow from Operations

Expressed in thousands of dollars	Three month period ended March 31 2017	2016
Increase in trade receivables	**(27,478)**	(18,436)
Increase in inventories	**(4,790)**	(2,319)
Decrease in prepaid expenses and other	**861**	639
(Decrease) increase in accounts payable, accrued liabilities and provisions	**(10,403)**	7,049
Changes to non-cash working capital balances	**(41,810)**	(13,067)
Cash (used in) provided by operating activities	**(10,772)**	25,401

For the first quarter ended March 31, 2017, the Corporation used $10.8 million in operations, compared to $25.4 million cash generated from operations in the first quarter of 2016. The decrease in cash generation from operating activities was primarily driven by lower net income, adjusted for the impact of disposal of the Mississauga Property, and the unfavourable changes in non-cash working capital balances, largely as a result of increases in accounts receivables resulting from changes in payment terms and inventories and decreases in accounts payables, accrued liabilities and provisions.

Investing Activities

Expressed in thousands of dollars	Three month period ended March 31 2017	2016
Purchase of property, plant and equipment	**(16,592)**	(3,634)
Proceeds of disposal of property plant and equipment	**32,661**	159
Decrease (increase) in intangible and other assets	**3,120**	(4,645)
Change in restricted cash	**(21)**	776
Cash provided by (used in) investing activities	**19,168**	(7,344)

The Corporation's capital expenditures for the first quarter of 2017 were $16.6 million compared to $3.6 million in the first quarter of 2016. The Corporation continues to invest in capital expenditures to enhance its manufacturing capabilities in various geographies and to support new customer programs. The Corporation also sold its Mississauga Property and generated net cash proceeds of $32.7 million in the quarter. The decrease in intangibles and other assets in the first quarter of 2017 is a result of deposits made on capital equipment in the prior periods being capitalized.

Financing Activities

Expressed in thousands of dollars	Three month period ended March 31 2017	2016
Decrease in bank indebtedness	**(13,062)**	(10,704)
Increase (decrease) in debt due within one year	**5,361**	(2,217)
Decrease in long-term debt	**(1,114)**	(1,108)
Increase (decrease) in long-term liabilities and provisions	**1,054**	(253)
Increase in borrowings subject to specific conditions	**530**	110
Common share dividend	**(3,784)**	(3,347)
Cash used in financing activities	**(11,015)**	(17,519)

The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian dollar limit of $95.0 million, a US dollar limit of US$35.0 million and a British pound limit of £11.0 million. 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 $50.0 million 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 $11.0 million in the first quarter of 2017 mainly to repay bank indebtedness and pay dividends which was partially offset by the financing of trade receivables.

As at March 31, 2017 the Corporation has made contractual commitments to purchase $10.7 million of capital assets.

Dividends

During the first quarter of 2017, the Corporation declared and paid quarterly cash dividends of $0.065 per common share representing an aggregating dividend payment of $3.8 million.

Subsequent to March 31, 2017 the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of $0.065 per common share. The dividend will be payable on June 30, 2017 to shareholders of record at the close of business on June 9, 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 May 2, 2017, 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, 2017.

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, 2017, 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, 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.

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, 2017 and have been applied in preparing the consolidated interim financial statements.

Disclosure Initiative

In 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows ("IAS 7"). The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). They are effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Corporation is not required to provide additional disclosures in its condensed interim consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended December 31, 2017.

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, 2017, 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 2016 audited annual consolidated financial statements.

- IFRS 15, *Revenue from Contracts with Customers*
- IFRS 9, *Financial Instruments*
- IFRS 16*, Leases*
- Amendments to IFRS 2, *Classification and Measurement of Share-based Payment Transactions*
- IFRIC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*

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 2016 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, 2016 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, 2017 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 2017

Both Boeing and Airbus continue to support growth projections in the single aisle market place. 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, 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. Both OEMs are monitoring these production rates to ensure that they will remain aligned with market demands.

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. 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. 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 2016 and it is expected to grow again in 2017. It is as yet unknown what impact the political movement towards nationalism in the United States and United Kingdom will have, but it is expected that United States defense procurement spending will rise under the new United States administration; as well most segments of the global defense market are forecasting growth.

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 Lightening 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 its 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.

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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 **2017**	 2016
Revenues	8	**247,210**	266,058
Cost of revenues		**204,002**	217,533
Gross profit		**43,208**	48,525
Administrative and general expenses		**15,087**	15,199
Other	9	**(21,707)**	237
Income before interest and income taxes		**49,828**	33,089
Interest		**1,355**	1,819
Income before income taxes		**48,473**	31,270
Income taxes			
Current	10	**4,562**	3,588
Deferred	10	**4,498**	4,254
		9,060	7,842
Net income		**39,413**	23,428
Other comprehensive income (loss)			
Other comprehensive loss that may be reclassified to profit and loss in subsequent periods:			
Foreign currency translation		**(369)**	(29,377)
Items not to be reclassified to profit and loss in subsequent periods:			
Actuarial losses on defined benefit pension plans, net of taxes	5	**(1,159)**	(3,943)
Total comprehensive income (loss), net of taxes		**37,885**	(9,892)
Net income per share			
Basic and diluted	6	**0.68**	0.40

See accompanying notes to condensed consolidated interim financial statements

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CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited) **(expressed in thousands of Canadian dollars)**	Notes	**March 31 2017**	December 31 2016
Current assets			
Cash		**4,955**	7,606
Restricted cash		**7,114**	7,125
Trade and other receivables		**233,276**	205,609
Inventories		**213,424**	208,964
Prepaid expenses and other		**17,202**	18,007
		475,971	447,311
Non-current assets			
Property, plant and equipment	9	**388,203**	389,825
Investment properties		**4,300**	4,377
Intangible assets		**63,734**	67,443
Goodwill		**33,796**	33,797
Other assets		**24,503**	28,142
Deferred tax assets		**18,920**	22,007
		533,456	545,591
Total assets		**1,009,427**	992,902
Current liabilities			
Accounts payable and accrued liabilities and provisions		**168,426**	178,566
Debt due within one year		**56,072**	50,787
		224,498	229,353
Non-current liabilities			
Bank indebtedness	4	**30,348**	43,314
Long-term debt		**34,110**	35,364
Borrowings subject to specific conditions		**23,247**	22,867
Other long-term liabilities and provisions	5,9	**19,890**	18,617
Deferred tax liabilities		**35,902**	36,056
		143,497	156,218
Equity			
Share capital		**254,440**	254,440
Contributed surplus		**2,044**	2,044
Other paid in capital		**13,565**	13,565
Retained earnings		**345,134**	310,664
Accumulated other comprehensive income		**26,249**	26,618
		641,432	607,331
Total liabilities and equity		**1,009,427**	992,902

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, 2016	254,440	2,044	13,565	310,664	26,618	607,331
Net income for the period	-	-	-	39,413	-	39,413
Other comprehensive loss for the period	-	-	-	(1,159)	(369)	(1,528)
Common share dividend	-	-	-	(3,784)	-	(3,784)
March 31, 2017	254,440	2,044	13,565	345,134	26,249	641,432
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

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(unaudited) (expressed in thousands of Canadian dollars)	Notes	Three month period Ended March 31 2017	2016
Cash flow from operating activities			
Net income		**39,413**	23,428
Amortization/depreciation of intangible assets and property, plant and equipment		**12,471**	12,737
Impairment of property, plant and equipment	9	**2,900**	-
(Gain) loss on disposal of property, plant and equipment	9	**(26,593)**	124
Decrease in defined benefit plans		**(775)**	(362)
Accretion		**234**	207
Deferred taxes		**3,450**	2,979
Income on investments in joint ventures		**(62)**	(645)
Changes to non-cash working capital		**(41,810)**	(13,067)
Net cash (used in) provided by operating activities		**(10,772)**	25,401
Cash flow from investing activities			
Purchase of property, plant and equipment		**(16,592)**	(3,634)
Proceeds from disposal of property, plant and equipment	9	**32,661**	159
Decrease (increase) in intangible and other assets		**3,120**	(4,645)
Change in restricted cash		**(21)**	776
Net cash provided by (used in) investing activities		**19,168**	(7,344)
Cash flow from financing activities			
Decrease in bank indebtedness	4	**(13,062)**	(10,704)
Increase (decrease) in debt due within one year		**5,361**	(2,217)
Decrease in long-term debt		**(1,114)**	(1,108)
Increase (decrease) in long-term liabilities and provisions		**1,054**	(253)
Increase in borrowings subject to specific conditions		**530**	110
Common share dividend	6	**(3,784)**	(3,347)
Net cash used in financing activities		**(11,015)**	(17,519)
(Decrease) increase in cash during the period		**(2,619)**	538
Cash at beginning of the period		**7,606**	5,538
Effect of exchange rate differences		**(32)**	(417)
Cash at end of the period		**4,955**	5,659

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)

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..

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, 2016, 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, 2016, 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 2, 2017.

NOTE 3. ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS

The Corporation has adopted the new and amended pronouncements issued by International Financial Reporting Standards ("IFRS") and the International Financial Reporting Interpretations Committees ("IFRIC") as listed below as at January 1, 2017, in accordance with the transitional provisions outlined in the respective standards.

a) Disclosure Initiative
In 2016, the IASB issued amendments to IAS 7, *Statement of Cash Flows* ("IAS 7"). The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). They are effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Corporation is not required to provide additional disclosures in its condensed interim consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended December 31, 2017.

b) 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 2016 consolidated financial statements.

- IFRS 15, *Revenue from Contracts with Customers*
- IFRS 9, *Financial Instruments*
- IFRS 16*, Leases*
- Amendments to IFRS 2, *Classification and Measurement of Share-based Payment Transactions*
- IFRIC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*

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 [$159,875 at March 31, 2017]. 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, which expired on March 4, 2016. Bank indebtedness as at March 31, 2017 of $30,348 [December 31, 2016 - $43,314] bears interest at the bankers' acceptance or LIBOR rates plus 1.875% [2.46% at March 31, 2017 (December 31, 2016 - 2.61%)]. Included in the amount outstanding at March 31, 2017 is US$14,012 and £4,931 [December 31, 2016 - US$10,030]. At March 31, 2017, the Corporation had drawn $34,252 under the operating credit facility, including letters of credit totalling $3,904 such that $125,623 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 2017	December 2016
Pension Benefit Plans	9,272	8,591
Other Benefit Plan	1,126	1,139
	10,398	9,730

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, the Corporation changed the assumed discount rate for the Canadian pension plans as at March 31, 2017 to 3.6% from the 3.8% rate used in calculating the pension obligation as at December 31, 2016. The assumed discount rate for the U.S. pension plan as at March 31, 2017 stayed relatively consistent with the 3.9% rate used in the calculation as at December 31, 2016. In addition, the return on plan assets exceeded the expected return during the three month period ended March 31, 2017. The change in the discount rate assumptions and the difference between the actual and expected rate of return on the plan assets resulted in an actuarial loss of $1,473, net of taxes of $314 recorded in other comprehensive income in the first quarter of 2017.

NOTE 6. SHARE CAPITAL

Net income per share

	Three month period ended March 31	
	2017	2016
Net income	39,413	23,428
Weighted average number of shares	58,209	58,209
Basic and diluted net income per share	0.68	0.40

Dividends

On March 31, 2017, the Corporation paid quarterly dividends on 58,209,001 common shares of $0.065 per common share, amounting to $3,784.

Subsequent to March 31, 2017, the Corporation declared dividends to holders of common shares in the amount of $0.065 per common share payable on June 30, 2017, for shareholders of record at the close of business on June 9, 2017.

NOTE 7. 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, 2017.

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 and other 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 condensed consolidated interim statement of financial positions are reasonable estimates of their fair values.

Foreign exchange contracts
The Corporation enters into foreign forward exchange contracts to mitigate future cash flow exposures in United States dollars and Euros. Under these contracts the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in United States dollars and Euros. The Corporation does not have any forward foreign exchange contracts outstanding as at March 31, 2017.

Long-term debt
The carrying amount of the Corporation's long-term debt of $39,044 would approximate its fair value as at March 31, 2017.

Borrowings subject to specific conditions
As at March 31, 2017, the Corporation has recognized $23,247 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 contingent considerations recognized represent 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. As at March 31, 2017, the Corporation recognized $3,236 as a contingent liability.

Collateral
As at March 31, 2017, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $120,530.

NOTE 8. 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	
	2017	2016
Sale of goods	207,565	220,890
Construction contracts	10,036	7,637
Services	29,609	37,531
	247,210	266,058

At March 31, 2017, aggregate costs incurred under open construction contracts and recognized profits, net of recognized losses, amounted to $384,262 [December 31, 2016 - $374,917]. Advance payments received for construction contracts in progress at March 31, 2017 was $2,677 [December 31, 2016 - $6,115]. Retention in connection with construction contracts at March 31, 2017 was $301 [December 31, 2016 - $303]. Advance payments and retentions are included in accounts payable, accrued liabilities and provisions.

Revenues from the Corporation's two largest customers accounted for 42.9% of total sales for the three month period ended March 31, 2017 [March 31, 2016 – two largest customers accounted for 38.0% of total sales for the three month period ended].

Geographic segments:

							Three month period ended March 31	
				2017				2016
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	75,020	80,025	92,165	247,210	92,342	88,357	85,359	266,058
Export revenue[1]	54,368	18,790	30,996	104,154	69,351	20,677	26,799	116,827

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

				March 31, 2017				December 31, 2016
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment intangible assets and goodwill	173,851	183,903	127,979	485,733	173,724	188,828	128,513	491,065

NOTE 9. SALE OF PROPERTY

On March 31, 2017, the Corporation closed an agreement to sell its land and building (the "Property") located at 3160 Derry Road, Mississauga, Ontario, Canada to a third party and to lease the property for a two-year period. The Corporation has also agreed to lease a new facility for a 12-year period, with three renewal periods of five years each, which will be constructed by the buyer on the existing site. The facility rationalization was driven by the need to improve the Corporations manufacturing efficiencies, operational performance, profit margins and cash flow. The sale generated net cash proceeds of approximately $32.7 million and resulted in a gain of $26.6 million on sale of the Property recognized by the Corporation.

Costs associated with the sale are summarized below:

	2017
Disposal of non-current assets	8,968
Severance and other	990
	9,958

Write down of non-current assets consists of the derecognition of the Property of $6.1 million and equipment impairment charges of $2.9 million that reduced the carrying amount of the equipment to the recoverable amount, which is based on their fair value less costs of disposal. The fair value less costs of disposal was determined by reference to quoted prices in active markets for identical assets and liabilities, and therefore, was categorized within Level 1 of the fair value hierarchy.

Severance relates to severance and other termination benefits that are calculated based on long-standing benefit practices, local statutory requirement and, in certain cases, voluntary termination arrangements. Other relates to costs of dismantling equipment that is no longer intended for use. Severance and other costs have been recorded as long-term liabilities on the balance sheet.

NOTE 10. 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, 2017 was 18.7% [25.1% for the three month period ended March 31, 2016]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the lower tax rate applicable to the capital gain on the sale of the Corporation's Property as disclosed in note 9 above.

NOTE 11. MANAGEMENT OF CAPITAL

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

Total managed capital as at March 31, 2017 of $761,962 is comprised of shareholders' equity of $641,432 and interest-bearing debt of $120,530.

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

NOTE 12. CONTINGENT LIABILITES AND COMMITMENTS

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

At March 31, 2017 capital commitments in respect of purchase of property, plant and equipment totalled $10,658, all of which had been ordered. There were no other material capital commitments at the end of the period.