MAGELLAN

SEPTEMBER 30, 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 and nine month periods ended September 30, 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 September 30, 2017 relative to the three month period ended September 30, 2016. The information contained in this report is as at November 3, 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. 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.

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

In September 2017 Magellan announced that the Corporation was selected by Airbus to design and build exhaust systems for the A320neo Pratt & Whitney 1100G-JM engines Nacelle. The first production units will enter service in 2022 with design activities commencing in the fourth quarter of 2017. It is expected that this program will generate in excess of CDN $200 million in the first ten years of this "life of the program" contract. Magellan was successful in securing this contract based in large part on our technical expertise and our proven ability to manage the industrialization of complex assemblies.

Magellan has a long history working with Airbus suppling exhaust systems for both the A380 and A340 aircraft as well as a wide range of precision machined components and assemblies for the full range of Airbus aircraft including the A320, A330 and A350 families. This new project aligns with Magellan's strategy to invest in advanced technologies and manufacturing processes to support our customers' needs and requirements.

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 third quarter ended September 30, 2017

The Corporation reported revenue in the third quarter of 2017 of $232.6 million as compared to $238.0 million in the third quarter of 2016. Gross profit and net income for the third quarter of 2017 were $41.7 million and $19.3 million, respectively, increased from the gross profit of $38.9 million and net income of $18.8 million for the third quarter of 2016.

Consolidated Revenue

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2017**	2016	Change	**2017**	2016	Change
Canada	**77,083**	74,827	3.0%	**234,359**	248,684	(5.8%)
United States	**73,981**	84,590	(12.5%)	**236,037**	262,123	(10.0%)
Europe	**81,585**	78,625	3.8%	**262,923**	245,964	6.9%
Total revenues	**232,649**	238,042	(2.3%)	**733,319**	756,771	(3.1%)

Consolidated revenues for the three months ended September 30, 2017 were $232.6 million, a $5.4 million decrease from the $238.0 million recorded for the same period in 2016. Revenues in Canada increased 3.0% in the third quarter of 2017 as compared to the third quarter of 2016, primarily driven by increases in repair and overhaul services and construction contract revenues, offset by unfavourable foreign exchange impact due to the weakening of the United States dollar relative to the Canadian dollar. On a currency neutral basis, Canadian revenues in the third quarter of 2017 increased by 5.3% over the same period of 2016.

Revenues in United States declined by 12.5% in the third quarter of 2017 compared to the third quarter of 2016 when measured in Canadian dollars mainly due to volume decreases in wide body aircraft and rotorcraft market, and unfavourable foreign exchange impact due to the weakening of the United States dollar against the Canadian dollar. On a currency neutral basis, revenues in the United States decreased 8.7% in the third quarter of 2017 over the same period in 2016.

European revenues increased 3.8% in the third quarter of 2017 compared to the same period in 2016 primarily driven by increased production rates for both single and wide body aircraft offset by an unfavourable foreign exchange impact as the British pound weakened relative to the Canadian dollar. On a constant currency basis, revenues in the third quarter of 2017 in Europe went up by 8.3% compared to the same period in 2016.

Gross Profit

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2017**	2016	Change	**2017**	2016	Change
Gross profit	**41,338**	38,863	6.4%	**130,437**	133,334	(2.2 %)
Percentage of revenues	**17.8%**	16.3%		**17.8%**	17.6%	

Gross profit of $41.3 million for the third quarter of 2017 was 6.4% higher than the $38.9 million for the third quarter of 2016, and gross profit as a percentage of revenues was 17.8% for the third quarter of 2017, an increase from 16.3% for the same quarter in 2016. The gross profit in the current quarter was driven by higher repair and overhaul revenues and production volume increases offset by the unfavourable foreign exchange due to the weakening of the United States dollar and the British pound against the Canadian dollar year over year.

Administrative and General Expenses

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2017**	2016	Change	**2017**	2016	Change
Administrative and general expenses	**13,990**	13,997	–	**44,523**	42,779	5.6%
Percentage of revenues	**6.0%**	5.9%		**6.1%**	5.7%	

Administrative and general expenses as a percentage of revenues were 6.0% for the third quarter of 2017, slightly higher than 5.9% in the corresponding period of 2016. Administrative and general expenses of $14.0 million in the third quarter of 2017 were consistent with the third quarter of 2016.

Other

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2017	2016	**2017**	2016
Foreign exchange loss (gain)	**2,790**	(1,888)	**5,882**	(2,737)
Business closure costs	**–**	–	**–**	2,208
Loss (gain) on disposal of property, plant and equipment	**12**	56	**(26,576)**	241
Gain on disposition of investment property	**(2,183)**	–	**(2,183)**	–
Other	**–**	–	**4,010**	–
Total other	**619**	(1,832)	**(18,867)**	(288)

Other expense of $0.6 million for the third quarter of 2017 consisted of $2.8 million foreign exchange losses compared to a $1.9 million foreign exchange gains recorded in the corresponding period of 2016. The movements in balances denominated in foreign currencies and the fluctuations of the foreign exchange rates impact the net foreign exchange loss or gain recorded in a quarter. During the third quarter of 2017, the Corporation sold one of its investment properties for $3.9 million and recorded a $2.2 million gain.

Interest Expense

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2017	2016	**2017**	2016
Interest on bank indebtedness and long-term debt	**691**	974	**2,083**	3,144
Accretion charge on borrowings and long-term debt	**210**	210	**696**	678
Discount on sale of accounts receivable	**448**	308	**1,212**	955
Total interest expense	**1,349**	1,492	**3,991**	4,777

Total interest expense of $1.3 million in the third quarter of 2017 was slightly lower than the $1.5 million in the third quarter of 2016, mainly due to lower interest on bank indebtedness and long-term debt driven by lower principal amounts outstanding during the third quarter of 2017 than the same period in 2016, offset by a higher discount on sale of accounts receivables due to a larger volume of receivables sold under factoring programs for the third quarter of 2017 as compared to the same period in the prior year.

Provision for Income Taxes

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2017	2016	**2017**	2016
Current income tax expense	**3,407**	4,716	**12,039**	12,463
Deferred income tax expense	**2,629**	1,659	**9,623**	9,023
Income tax expense	**6,036**	6,375	**21,662**	21,486
Effective tax rate	**23.8%**	25.3%	**21.5%**	25.0%

Income tax expense for the three months ended September 30, 2017 was $6.0 million, representing an effective income tax rate of 23.8% compared to 25.3% for the same period of 2016. The effective tax rate and the changes to current and deferred income tax expenses year over year were primarily due to change in mix of income across the different jurisdictions in which the Corporation operates. In addition, the lower tax rate applicable to the capital gain on the sale of the investment property during the current quarter further decreased the effective tax rate.

MAGELLAN AEROSPACE

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	**Sep 30**	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Revenues	**232.6**	253.5	247.2	247.1	238.0	252.7	266.1	252.6
Income before taxes	**25.4**	26.9	48.5	31.3	25.2	29.6	31.3	27.1
Net Income	**19.3**	20.4	39.4	24.0	18.8	22.3	23.4	25.5
Net Income per share								
Basic and diluted	**0.33**	0.35	0.68	0.41	0.32	0.38	0.40	0.44
EBITDA[1]	**37.6**	40.4	62.3	45.3	38.4	44.7	45.8	43.1

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

Revenues and net income reported in the table above 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. During the periods reported, 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 1.2526 in the third quarter of 2017. The average exchange rate of British pound relative to the Canadian dollar moved from a high of 2.0253 in the fourth quarter of 2015 to a low of 1.6398 in the third quarter of 2017. The average exchange rate of the British pound relative to the United States dollar reached its high of 1.5168 in the fourth quarter of 2015 and hit a low of 1.2395 in the first quarter of 2017.

Revenue for the third quarter of 2017 of $232.6 million was $5.4 million lower than that in the third quarter of 2016. The average exchange rate of the United States dollar relative to the Canadian dollar in the third quarter of 2017 was 1.2501 versus 1.3053 in the same period of 2016. The average exchange rate of British pound relative to the Canadian dollar moved from 1.7135 in the third quarter of 2016 to 1.6397 during the current quarter. The average exchange rate of the British pound relative to the United States dollar was consistent in the third quarter of both years. Had the foreign exchange rates remained at levels experienced in the third quarter of 2016, reported revenues in the third quarter of 2017 would have been higher by $8.6 million.

As discussed above, net income reported in the quarterly information was also impacted by the foreign exchange movements. 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 land and building of its Mississauga facility. In the third quarter of 2017, the Corporation recorded a gain of $2.2 million on the disposition of an investment property. 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. 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.

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 September 30		**Nine month period ended September 30**	
Expressed in thousands of dollars	**2017**	2016	**2017**	2016
Net income	**19,344**	18,831	**79,128**	64,580
Interest	**1,349**	1,492	**3,991**	4,777
Taxes	**6,036**	6,375	**21,662**	21,486
Depreciation and amortization	**10,862**	11,695	**35,554**	38,118
EBITDA	**37,591**	38,393	**140,335**	128,961

EBITDA decreased slightly by 2.1% to $37.6 million for the third quarter of 2017 from the $38.4 million in the third quarter of 2016 as a result of lower interest, taxes and depreciation and amortization expenses, offset by higher net income.

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.

Cash Flow from Operations

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2017**	2016	**2017**	2016
Decrease (increase) in accounts receivable	**10,822**	(3,856)	**(9,537)**	(21,999)
(Increase) decrease in inventories	**(1,268)**	959	**(4,380)**	(9,158)
Decrease (increase) in prepaid expenses and other	**969**	(1,974)	**1,202**	(1,468)
Increase (decrease) in accounts payable, accrued liabilities and provisions	**1,409**	1	**(18,993)**	(490)
Changes to non-cash working capital	**11,932**	(4,870)	**(31,708)**	(33,115)
Cash provided by operating activities	**41,460**	25,530	**62,049**	73,291

The Corporation generated $41.5 million during the third quarter of 2017 from operating activities, compared to $25.5 million in the third quarter of 2016. The increase in cash flow from operations was primarily impacted by the favourable movement in non-cash working capital balances resulting from the sale of receivables under a new program during the third quarter of 2017.

Investing Activities

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2017**	2016	**2017**	2016
Purchase of property, plant and equipment	**(11,330)**	(8,986)	**(37,472)**	(20,576)
Proceeds of disposals of property, plant and equipment	**43**	60	**32,721**	223
Proceeds on disposition of investment property	**3,900**	–	**3,900**	–
Increase in intangible and other assets	**(660)**	(1,970)	**(6,553)**	(9,025)
Change in restricted cash	**(3,900)**	198	**(235)**	5,423
Cash used in investing activities	**(11,947)**	(10,698)	**(7,639)**	(23,955)

Cash used in investing activities for the third quarter of 2017 was $11.9 million compared to $10.7 million in the same quarter of 2016, an increase of $1.2 million primarily attributed to higher investment in property, plant and equipment. The Corporation continues to invest in capital expenditures to enhance its manufacturing capabilities in various geographies and to support new customer programs. During the quarter, the Corporation sold one of its investment properties for proceeds of $3.9 million, which was placed in an escrow account as at September 30, 2016 and subsequently released from escrow in early October 2017. This was reflected as a change in restricted cash during the quarter.

Financing Activities

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2017**	2016	**2017**	2016
Decrease in bank indebtedness	**(5,357)**	(11,578)	**(24,522)**	(40,791)
(Decrease) increase in debt due within one year	**(8,802)**	(2,354)	**(3,995)**	352
Decrease in long-term debt	**(10,580)**	(1,156)	**(12,909)**	(3,407)
Increase (decrease) in long-term liabilities and provisions	**101**	(177)	**1,241**	31
Increase in borrowings subject to specific conditions	**411**	1,988	**2,962**	2,795
Common share dividend	**(3,784)**	(3,347)	**(11,351)**	(10,041)
Cash used in financing activities	**(28,011)**	(16,624)	**(48,574)**	(51,061)

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 provides the Corporation with the option to increase the size of the operating credit facility.

The Corporation used $28.0 million in the third quarter of 2017 mainly to repay bank indebtedness, debt due within one year, and long-term debt, and to pay dividends.

As at September 30, 2017 the Corporation has made contractual commitments to purchase $25.2 million of capital assets.

Dividends

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

Subsequent to September 30, 2017, the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of $0.085 per common share. The dividend will be payable on December 29, 2017 to shareholders of record at the close of business on December 15, 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 November 3, 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 foreign exchange contracts outstanding as at September 30, 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 and nine month periods ended September 30, 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 September 30, 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 15")
- 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*
- IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23")

In June 2017, IASB issued IFRIC 23 which clarifies application of recognition and measurement requirements in IAS 12, Income Taxes when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

The Corporation is in the process of evaluating the impact of adopting these standards on the Corporation's consolidated financial statements. Specifically, IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Corporation is required to retrospectively apply IFRS 15 to all contracts that are not complete on the date of initial application. The Corporation intends to make a policy choice to restate each prior period presented and recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at the beginning of the earliest period presented, subject to certain practical expedients the Corporation anticipates adopting.

The Corporation has undertaken a project to assess the impact of IFRS 15 and ensure the Corporation's compliance with IFRS 15. The Corporation has collected an inventory of significant contracts with customers in scope for IFRS 15 assessment and identified preliminary accounting topics that may impact the Corporation's reported results based on the review of a sample of contracts from each revenue stream. The Corporation is in the process of reviewing contracts with customers to ensure revenue recognition practices are in accordance with IFRS 15 and evaluating potential changes to revenue processes and systems. The Corporation has identified contracts in which performance obligations are satisfied over time as control transfers during production. For these contracts, the revenue recognition pattern will change with revenue being recognized earlier in the year of adoption as compared to under the legacy accounting policy. Contracts that do not meet the criteria for over time recognition will continue to be recognized at a point in time. The Corporation continues to assess the impact of this standard on the consolidated financial statements and it is not yet in a position to make a reliable estimate of its impact. The Corporation plans to disclose the estimated financial effects of the adoption of IFRS 15 in its 2017 annual 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 September 30, 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

The commercial aircraft industry is maintaining its upward trend with more than 12,000 jetliners on order at Airbus and Boeing. It is expected that this prolonged growth will continue through to the end of the decade when forecasters predict demands will reach a peak. However, it has become evident that there is a shift taking place in the industry where Original Equipment Manufacturers ("OEMs") are attempting to increase their margins through increasing vertical integration, the repatriation of work packages in-house, including higher margin maintenance, repair and overhaul work, and by continuing to pressure suppliers to reduce prices. Tier I suppliers are reacting with similar or counter strategies to preserve their margins as in the recent announcement by UTC to acquire Rockwell Collins. Such reorganizations will challenge lower tier II and III suppliers to realign their strategies to fit into this new model. The recent award of the A320 NEO (PW1100) Exhaust system by Airbus to Magellan is a successful example of Magellan realigning its strategy with that of the OEMs.

Commercial aircraft build rates remain largely unchanged from the second quarter of 2017. Boeing's 737 build rate is currently at 47 aircraft ("A/C") per month, with 52 A/C per month planned for 2018 and 58 A/C per month in 2019. Although production mix changes between Airbus' A320ceo and A320neo were required in 2017, the overall program build rate remains at 55 A/C per month with expectations that this production rate will peak at 60 A/C per month in 2019. There remains some supply chain challenges that both Boeing and Airbus are managing as they continue to ramp up production rates.

In the wide body market, Boeing's 777 build rate has reduced to 5 A/C per month from 7 A/C per month. The 787 build rate is holding at 12 A/C per month and the 747-8 freighter is at 0.5 A/C per month. Boeing's 767 build rate has stepped up to 2.5 A/C per month from 2 A/C per month in support of the KC-46 tanker program. Airbus announced the A380 build rate will drop in the fourth quarter of 2017 from 1.06 A/C per month to 0.71 A/C per month, which is slightly lower than previously forecasted. A330 rates are holding at 7 A/C per month as the A350XWB continues its production ramp-up to 13 A/C per month by 2020.

There have been no significant changes in the regional turboprop market and the current view is that the market is not large enough for three manufacturers to maintain volume production. Additional market dilution is a possibility with the new entrants from Russia and China. ATR and Bombardier currently dominate this comparatively small market.

The business jet market is forecasting to remain flat until 2019 as a generous supply of used aircraft continues to limit demand for new aircraft. The market has not appreciably recovered since the 2008 recession. Traditional market trend indicators such as increased corporate profits, no longer seem to have the same influence as they did prior to the recession. Magellan supports the turboprop and business jet market predominately through its castings and aerostructure commodity groups.

There are indications that the global rotorcraft market is starting to recover partially fueled by the development of new commercial products as OEM's attempt to stimulate the market. A number of new helicopters such as the Airbus' H160, Bell's 525 Relentless, 505 Jet Ranger X, and Leonardo's AW189 and AW609 are a few of the new products. There are also new market entrants such as Turkey's TAI T625 and the Marenco Swisshelicopter SH09. Additionally the market is seeing strong indications that major defence procurement initiatives are now anticipated in the defence sector which will have a positive effect on existing legacy programs and new program variants which are planned for the mid 2020's.

In the defense market, of specific interest to Magellan, over 240 Lockheed Martin F-35 Lightening II aircraft have been delivered since the start of the program, with 150 aircraft currently in the production flow. Lockheed is expecting to exceed 60 aircraft delivered in 2017 as rates continue to increase year over year. Integral to the program's affordability agenda, the next procurement tranche is being planned around anticipated cost efficiencies associated with combining a three year buy of approximately 440 aircraft. The U.S. Government budgeting process has progressed beyond the Armed Services Committees with both the Senate and House committees adding more aircraft to the Bill. Increased levels of potential program sales have also been anticipated from countries where fighter replacement programs have been announced or are imminent.

In summary, except for the continued strength of the commercial aircraft market, other aerospace markets remain stable but relatively flat. Defence markets anticipate future opportunities from a number of current platform replacement programs that are on the horizon. In today's market, one of the key growth strategies for Magellan is to insure that we stay in constant alignment with our customer's procurement strategies.

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Notes	Three month period ended September 30 2017	 2016	Nine month period ended September 30 2017	 2016
Revenues	8	**232,649**	238,042	**733,319**	756,771
Cost of revenues		**191,311**	199,179	**602,882**	623,437
Gross profit		**41,338**	38,863	**130,437**	133,334
Administrative and general expenses		**13,990**	13,997	**44,523**	42,779
Other	9	**619**	(1,832)	**(18,867)**	(288)
Income before interest and income taxes		**26,729**	26,698	**104,781**	90,843
Interest		**1,349**	1,492	**3,991**	4,777
Income before income taxes		**25,380**	25,206	**100,790**	86,066
Income taxes					
Current	10	**3,407**	4,716	**12,039**	12,463
Deferred	10	**2,629**	1,659	**9,623**	9,023
		6,036	6,375	**21,662**	21,486
Net income		**19,344**	18,831	**79,128**	64,580
Other comprehensive (loss) income					
Other comprehensive (loss) income that may be reclassified to profit and loss in subsequent periods:					
Foreign currency translation (loss) income		**(9,805)**	1,085	**(13,087)**	(44,387)
Items not to be reclassified to profit and loss in subsequent periods:					
Actuarial gain (loss) on defined benefit pension plans, net of taxes	5	**5,708**	888	**1,684**	(7,583)
Total comprehensive income		**15,247**	20,804	**67,725**	12,610
Net income per share					
Basic and diluted	6	**0.33**	0.32	**1.36**	1.11

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	Notes	September 30 2017	December 31 2016
Current assets			
Cash		**13,253**	7,606
Restricted cash	9	**7,116**	7,125
Trade and other receivables		**211,221**	205,609
Inventories		**208,973**	208,964
Prepaid expenses and other		**16,766**	18,007
		457,329	447,311
Non-current assets			
Property, plant and equipment	9	**381,781**	389,825
Investment properties	9	**2,445**	4,377
Intangible assets		**63,144**	67,443
Goodwill		**33,070**	33,797
Other assets		**28,391**	28,142
Deferred tax assets		**14,907**	22,007
		523,738	545,591
Total assets		**981,067**	992,902
Current liabilities			
Bank indebtedness	4	**18,292**	–
Accounts payable and accrued liabilities and provisions		**157,682**	178,566
Debt due within one year		**43,156**	50,787
		219,130	229,353
Non-current liabilities			
Bank indebtedness	4	–	43,314
Long-term debt		**24,248**	35,364
Borrowings subject to specific conditions		**24,604**	22,867
Other long-term liabilities and provisions	5, 9	**15,685**	18,617
Deferred tax liabilities		**33,695**	36,056
		98,232	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		**380,125**	310,664
Accumulated other comprehensive income		**13,531**	26,618
		663,705	607,331
Total liabilities and equity		**981,067**	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	–	–	–	79,128	–	79,128
Other comprehensive income (loss) for the period	–	–	–	1,684	(13,087)	(11,403)
Common share dividend	–	–	–	(11,351)	–	(11,351)
September 30, 2017	254,440	2,044	13,565	380,125	13,531	663,705
December 31, 2015	254,440	2,044	13,565	235,701	71,595	577,345
Net income for the period	–	–	–	64,580	–	64,580
Other comprehensive loss for the period	–	–	–	(7,583)	(44,387)	(51,970)
Common share dividend	–	–	–	(10,041)	–	(10,041)
September 30, 2016	254,440	2,044	13,565	282,657	27,208	579,914

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(unaudited) (expressed in thousands of Canadian dollars)	Notes	Three month period ended September 30 **2017**	 2016	Nine month period ended September 30 **2017**	 2016
Cash flow from operating activities					
Net income		**19,344**	18,831	**79,128**	64,580
Amortization/depreciation of intangible assets and property, plant and equipment		**10,862**	11,695	**35,554**	38,118
Impairment of property, plant and equipment	9	**–**	–	**2,900**	1,135
Loss (gain) on disposal of property, plant and equipment	9	**12**	56	**(26,576)**	241
Gain on sale of investment property	9	**(2,183)**	–	**(2,183)**	–
Decrease in defined benefit plans		**(374)**	(445)	**(1,503)**	(1,203)
Accretion		**210**	210	**696**	677
Deferred taxes		**1,687**	334	**5,917**	3,449
Income on investments in joint ventures		**(30)**	(281)	**(176)**	(591)
Changes to non-cash working capital		**11,932**	(4,870)	**(31,708)**	(33,115)
Net cash provided by operating activities		**41,460**	25,530	**62,049**	73,291
Cash flow from investing activities					
Purchase of property, plant and equipment		**(11,330)**	(8,986)	**(37,472)**	(20,576)
Proceeds from disposal of property, plant and equipment	9	**43**	60	**32,721**	223
Proceeds on disposition of investment property	9	**3,900**	–	**3,900**	–
Increase in intangible and other assets		**(660)**	(1,970)	**(6,553)**	(9,025)
Change in restricted cash	9	**(3,900)**	198	**(235)**	5,423
Net cash used in investing activities		**(11,947)**	(10,698)	**(7,639)**	(23,955)
Cash flow from financing activities					
Decrease in bank indebtedness	4	**(5,357)**	(11,578)	**(24,522)**	(40,791)
(Decrease) increase in debt due within one year		**(8,802)**	(2,354)	**(3,995)**	352
Decrease in long-term debt		**(10,580)**	(1,156)	**(12,909)**	(3,407)
Increase (decrease) in long-term liabilities and provisions		**101**	(177)	**1,241**	31
Increase in borrowings subject to specific conditions		**411**	1,988	**2,962**	2,795
Common share dividend	6	**(3,784)**	(3,347)	**(11,351)**	(10,041)
Net cash used in financing activities		**(28,011)**	(16,624)	**(48,574)**	(51,061)
Increase (decrease) in cash during the period		**1,502**	(1,792)	**5,836**	(1,725)
Cash at beginning of the period		**11,871**	5,018	**7,606**	5,538
Effect of exchange rate differences		**(120)**	152	**(189)**	(435)
Cash at end of the period		**13,253**	3,378	**13,253**	3,378

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE

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

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. 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 November 3, 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 15")
- 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*
- IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23")

In June 2017, IASB issued IFRIC 23 which clarifies application of recognition and measurement requirements in IAS 12, *Income Taxes* when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

The Corporation is in the process of evaluating the impact of adopting these standards on the Corporation's consolidated financial statements. Specifically, IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Corporation is required to retrospectively apply IFRS 15 to all contracts that are not complete on the date of initial application. The Corporation intends to make a policy choice to restate each prior period presented and recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at the beginning of the earliest period presented, subject to certain practical expedients the Corporation anticipates adopting.

The Corporation has undertaken a project to assess the impact of IFRS 15 and ensure the Corporation's compliance with IFRS 15. The Corporation has collected an inventory of significant contracts with customers in scope for IFRS 15 assessment and identified preliminary accounting topics that may impact the Corporation's reported results based on the review of a sample of contracts from each revenue stream. The Corporation is in the process of reviewing contracts with customers to ensure revenue recognition practices are in accordance with IFRS 15 and evaluating potential changes to revenue processes and systems. The Corporation has identified contracts in which performance obligations are satisfied over time as control transfers during production. For these contracts, the revenue recognition pattern will change with revenue being recognized earlier in the year of adoption as compared to under the legacy accounting policy. Contracts that do not meet the criteria for over time recognition will continue to be recognized at a point in time. The Corporation continues to assess the impact of this standard on the consolidated financial statements and it is not yet in a position to make a reliable estimate of its impact. The Corporation plans to disclose the estimated financial effects of the adoption of IFRS 15 in its 2017 annual consolidated financial statements.

NOTE 4. BANK INDEBTEDNESS

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 [$157,068 at September 30, 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. Bank indebtedness as at September 30, 2017 of $18,292 [December 31, 2016 - $43,314] bears interest at the bankers' acceptance or LIBOR rates plus 1.75% [2.95% at September 30, 2017 (December 31, 2016 - 2.61% - bankers' acceptance or LIBOR rates plus 1.875%)]. Included in the amount outstanding at September 30, 2017 is US$6,146 [December 31, 2016 - US$10,030]. At September 30, 2017, the Corporation had drawn $22,054 under the operating credit facility, including letters of credit totalling $3,762 such that $135,014 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:

	September 30 2017	December 31 2016
Pension Benefit Plans	4,712	8,591
Other Benefit Plan	1,078	1,139
	5,790	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 at September 30, 2017, the Corporation changed the assumed discount rate used in calculating the pension obligation for the Canadian pension plans from the 3.4% rate as at June 30, 2017 to the 3.8% rate, the same as determined as at December 31, 2016, as a result of change in the market interest rates of high-quality, fixed rate debt securities. The assumed discount rate for the U.S. pension plan as at September 30, 2017 remained at the 3.6% rate used in the calculation as at June 30, 2017, and decreased from 3.9% determined as at December 31, 2016. In addition, the return on plan assets was slightly less than the expected return during the three month periods ended September 30, 2017, but exceeded the expected return during the nine month periods ended September 30, 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 gain of $7,692 and $2,330, net of taxes of $1,984 and $646, respectively, recorded in other comprehensive income in the three and nine month periods ended September 30, 2017.

NOTE 6. SHARE CAPITAL

Net income per share

	Three month period ended September 30		Nine month period ended September 30	
	2017	2016	2017	2016
Net income	19,344	18,831	79,128	64,580
Weighted average number of shares	58,209	58,209	58,209	58,209
Basic and diluted net income per share	0.33	0.32	1.36	1.11

Dividends

On March 31, 2017, June 30, 2017 and September 30, 2017, the Corporation paid quarterly dividends on 58,209,001 common shares of $0.065 per common share, amounting to $11,351.

Subsequent to September 30, 2017, the Corporation declared dividends to holders of common shares in the amount of $0.085 per common share payable on December 29, 2017, for shareholders of record at the close of business on December 15, 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 September 30, 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.

Long-term debt

The carrying amount of the Corporation's long-term debt of $27,198 would approximate its fair value as at September 30, 2017.

Borrowings subject to specific conditions

As at September 30, 2017, the Corporation has recognized $24,604 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. During the second quarter of 2017, the Corporation settled $2,764 of its contingent liabilities, and as at September 30, 2017 a balance of $443 remained.

Collateral

As at September 30, 2017, the carrying amount of the financial assets that the Corporation has pledged as collateral for its bank indebtedness and long-term debt facilities was $85,696.

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 September 30		Nine month period ended September 30	
	2017	2016	2017	2016
Sale of goods	190,343	205,358	612,479	646,622
Construction contracts	10,939	4,392	27,817	20,172
Services	31,367	28,292	93,023	89,977
	232,649	238,042	733,319	756,771

As at September 30, 2017, aggregate costs incurred under open construction contracts and recognized profits, net of recognized losses, amounted to $402,734 [December 31, 2016 - $374,917]. Advance payments received for construction contracts in progress at September 30, 2017 was $3,006 [December 31, 2016 - $6,115]. Retention in connection with construction contracts as at September 30, 2017 was $282 [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 41.5% and 42.3% respectively of total sales for the three and nine month periods ended September 30, 2017 [September 30, 2016 – two largest customers accounted for 40.7% and 39.2% respectively of total sales in the three and nine month periods].

Geographic segments:

	Three month period ended September 30							
	2017				2016			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	77,083	73,981	81,585	232,649	74,827	84,590	78,625	238,042
Export revenue[1]	46,111	16,633	24,512	87,256	57,751	21,525	25,851	105,127

	Nine month period ended September 30							
	2017				2016			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	234,359	236,037	262,923	733,319	248,684	262,123	245,964	756,771
Export revenue[1]	161,385	54,664	84,648	300,697	185,419	68,913	76,756	331,088

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

	September 30, 2017				December 31, 2016			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment, intangible assets and goodwill	180,838	168,486	128,671	477,995	173,724	188,828	128,513	491,065

NOTE 9. SALE OF PROPERTIES

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 Corporation's manufacturing efficiencies, operational performance, profit margins and cash flow. The sale generated net cash proceeds of approximately $32,662 and resulted in a gain of $26,593 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

Disposal of non-current assets consists of the derecognition of the Property of $6,068 and equipment impairment charges of $2,900 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.

On September 29, 2017, the Corporation sold one of its investment properties located in Winnipeg, Manitoba for proceeds of $3,900 and recorded a gain of $2,183 on disposal of the asset. The proceeds were placed in an escrow account as at September 30, 2017 and subsequently released from escrow in early October 2017. The proceeds were recorded as restricted cash on the consolidated interim statements of financial position at the end of the period.

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 and nine month periods ended September 30, 2017 was 23.8% and 21.5% respectively [25.3% and 25.0% respectively for the three and nine month periods ended September 30, 2016]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the change in mix of income across the different jurisdictions in which the Corporation operates, and 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 September 30, 2017 of $749,401 is comprised of shareholders' equity of $663,705 and interest-bearing debt of $85,696.

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 September 30, 2017 capital commitments in respect of purchase of property, plant and equipment totalled $25,178, all of which had been ordered. There were no other material capital commitments at the end of the period.