MAGELLAN AEROSPACE

QUARTERLY REPORT

DECEMBER 31, 2018

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

On November 5, 2018 Magellan announced it had extended its agreement with Airbus for a further six years for the manufacture of A350 XWB centre wing box and keel beam detail parts. It is estimated that revenue generated from this work package will exceed $140 million dollars over the term of the contract. The package consists of a number of large structural, machined components, and will be manufactured by Magellan in the United Kingdom and supplied to the Airbus assembly facility in Nantes, France.

The Corporation announced on February 19, 2019 the opening of its new manufacturing and assembly facility in India. The 100,000 square foot Magellan Aerospace (India) Pvt. Ltd. facility, constructed on seven acres in Hitech Defence and Aerospace Park (Aerospace SEZ Sector) in Devanahalli, India, near the Bangalore International Airport, was completed at the end of 2018 and the process of installing and commissioning of high speed machining centres is underway. Magellan's new cellular machining and assembly plant will specialize in high speed milling and turning of aerostructure and aeroengine components produced from both aluminium and hard metal materials. Combined with comprehensive processing and hard metal machining capabilities from Magellan's two longstanding joint ventures in India, API Surface Treatments and Triveni Aeronautics Pvt. Ltd. ("Triveni"), Magellan will be one of the largest suppliers of "Make in India" manufactured commercial aircraft components.

On February 20, 2019 Magellan announced it has increased its investment in Triveni to 75%. Triveni specializes in hard metal machining of aeroengine and aerostructure components. Magellan's investment in Triveni commenced in 2013 when it acquired a 49% share of the business. Since then Triveni has grown, prospered and played a major role in Magellan's overall strategy in India.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2018 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan's operating results for fourth quarter ended December 31, 2018

The Corporation reported revenue in the fourth quarter of 2018 of $254.4 million as compared to $232.6 million in the fourth quarter of 2017. Gross profit and net income for the fourth quarter of 2018 were $43.9 million and $29.6 million, respectively, in comparison to the gross profit of $44.4 million and net income of $31.9 million for the fourth quarter of 2017.

Consolidated Revenue

		Three month period ended December 31			**Twelve month period ended December 31**	
Expressed in thousands of dollars	**2018**	2017 (restated)	Change	**2018**	2017 (restated)	Change
Canada	**90,205**	80,375	12.2%	**320,838**	305,466	5.0%
United States	**81,109**	77,377	4.8%	**325,739**	311,315	4.6%
Europe	**83,070**	74,880	10.9%	**320,176**	338,680	(5.5%)
Total revenues	**254,384**	232,632	9.4%	**966,753**	955,461	1.2%

Consolidated revenues for the three months ended December 31, 2018 were $254.4 million, a $21.8 million increase from the $232.6 million recorded for the same period in 2017. Revenues in Canada increased 12.2% in the fourth quarter of 2018 as compared to the fourth quarter of 2017, primarily driven by increases in production volume and repair and overhaul services and favorable foreign exchange impact due to the strengthening of the United States dollar relative to the Canadian dollar. On a currency neutral basis, Canadian revenues in the fourth quarter of 2018 increased by 10.4% over the same period of 2017.

Revenues in United States increased by 4.8% in the fourth quarter of 2018 compared to the corresponding period in 2017 when measured in Canadian dollars mainly due to favorable foreign exchange impact as a result of the strengthening of the United States dollar against the Canadian dollar. On a currency neutral basis, revenues in the United States increased 0.7% in the fourth quarter of 2018 over the same period in 2017.

European revenues increased 10.9% in the fourth quarter of 2018 compared to the same period in 2017 primarily driven by increased production volumes for single aisle aircraft and favourable foreign exchange impact as a result of the strengthening of the British pound relative to the Canadian dollar, and the strengthening of the United States dollar relative to the British pound. On a constant currency basis, revenues in the fourth quarter of 2018 in Europe increased by 7.5% compared to the same period in 2017.

Gross Profit

	Three month period ended December 31			Twelve month period ended December 31		
Expressed in thousands of dollars	**2018**	2017 (restated)	Change	**2018**	2017 (restated)	Change
Gross profit	**43,882**	44,411	(1.2%)	**163,275**	172,707	(5.5%)
Percentage of revenues	**17.3%**	19.1%		**16.9%**	18.1%	

Gross profit of $43.9 million for the fourth quarter of 2018 was lower than the $44.4 million for the fourth quarter of 2017, while gross profit as a percentage of revenues was 17.3% for the fourth quarter of 2018, a decrease from 19.1% for the same quarter in 2017. The gross profit in the current quarter was mainly driven by unfavourable product mix, offset by the favourable foreign exchange due to the strengthening of the United States dollar against the British pound and the Canadian dollar year over year.

Administrative and General Expenses

	Three month period ended December 31			Twelve month period ended December 31		
Expressed in thousands of dollars	**2018**	2017	Change	**2018**	2017	Change
Administrative and general expenses	**14,343**	15,026	(4.5%)	**57,337**	59,549	(3.7%)
Percentage of revenues	**5.6%**	6.5%		**5.9%**	6.2%	

Administrative and general expenses as a percentage of revenues were 5.6% for the fourth quarter of 2018, lower than 6.5% in the corresponding period of 2017. Administrative and general expenses of $14.3 million in the fourth quarter of 2018 were lower by $0.7 million as compared to the fourth quarter of 2017 due to lower employee expenses.

Other

	Three month period ended December 31		Twelve month period ended December 31	
Expressed in thousands of dollars	**2018**	2017	**2018**	2017
Foreign exchange (gain) loss	**(481)**	152	**(2,993)**	6,034
Loss (gain) on disposal of property, plant and equipment	**185**	43	**313**	(26,533)
Gain on disposition of investment property	**—**	—	**—**	(2,183)
Other	**(9,676)**	—	**(9,676)**	4,010
Total other	**(9,972)**	195	**(12,356)**	(18,672)

Other income of $10.0 million for the fourth quarter of 2018 consisted of a net gain of $9.7 million related to prior acquisitions and a $0.5 million foreign exchange gain compared to a $0.2 million foreign exchange loss recorded in the corresponding period of 2017. 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.

Interest Expense

	Three month period ended December 31		Twelve month period ended December 31	
Expressed in thousands of dollars	**2018**	2017	**2018**	2017
Interest on bank indebtedness and long-term debt	**2**	352	**884**	2,435
Accretion charge on borrowings and long-term debt	**292**	(85)	**1,006**	611
Discount on sale of accounts receivable	**668**	453	**2,224**	1,665
Total interest expense	**962**	720	**4,114**	4,711

Total interest expense of $1.0 million in the fourth quarter of 2018 was higher than the $0.7 million in the fourth quarter of 2017 mainly due to higher accretion interest and discount on the sale of accounts receivable. These increases were partially offset by lower interest on bank indebtedness and long-term debt driven by lower principal amounts outstanding during the fourth quarter of 2018 than the same period in 2017.

Provision for Income Taxes

	Three month period ended December 31		Twelve month period ended December 31	
Expressed in thousands of dollars	**2018**	2017	**2018**	2017
Current income tax (recovery) expense	**(1,573)**	3,518	**9,402**	15,557
Deferred income tax expense (recovery)	**10,542**	(6,921)	**15,658**	2,074
Income tax expense (recovery)	**8,969**	(3,403)	**25,060**	17,631
Effective tax rate	**23.3%**	(12.0%)	**21.9%**	13.9%

Income tax expense for the three months ended December 31, 2018 was $9.0 million in comparison to $3.4 million income tax recovery for the same period of 2017. The decrease in the effective tax rate in the fourth quarter of 2017 was primarily attributed to the reduction in the deferred tax liability in the United States as a result of new legislation which lowered the United States federal corporate income tax rate. The change in mix of income across the different jurisdictions in which the Corporation operates also impacts the change in the effective tax rate and the current and deferred income taxes expenses.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

Expressed in millions of dollars except per share information	2018				2017			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31[2]	Sep 30[2]	Jun 30[2]	Mar 31[2]
Revenues	**254.5**	226.5	241.2	244.6	232.7	222.6	252.0	248.2
Income before taxes	**38.5**	23.4	29.8	22.5	28.4	23.6	26.3	48.8
Net income	**29.5**	18.6	23.5	17.5	31.9	18.1	19.9	39.6
Net income per common share								
Basic and Diluted	**0.51**	0.32	0.40	0.30	0.55	0.31	0.34	0.68
EBITDA [1]	**50.7**	35.5	41.8	34.1	40.1	35.8	39.8	62.6

[1] EBITDA is not an IFRS financial measure. Please see the "Reconciliation of Net Income to EBITDA" section for more information.
[2] Restated using revenue recognition policies in accordance with IFRS 15, *Revenue from Contracts with Customers*

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 1.3448 in the second quarter of 2017 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 1.7607 in the first quarter of 2018 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 1.3920 in the first quarter of 2018 and hit a low of 1.2395 in the first quarter of 2017. Revenue for the fourth quarter of 2018 of $254.5 million was $21.8 million higher than the fourth quarter of 2017. Had the foreign exchange rates remained at levels experienced in the fourth quarter of 2017, reported revenues in the fourth quarter of 2018 would have been lower by $7.3 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 recognition 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. In the fourth quarter of 2017, the Corporation recognized the future tax benefit attributable to a reduction in the United States federal corporate income tax as a result of new legislation. In the fourth quarter of 2018, the Corporation recorded a net gain of $9.7 million related to prior acquisitions.

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 December 31		**Twelve month period ended December 31**	
Expressed in thousands of dollars	**2018**	2017 (restated)	**2018**	2017 (restated)
Net income	**29,580**	31,873	**89,120**	109,488
Interest	**962**	720	**4,114**	4,711
Taxes	**8,969**	(3,403)	**25,060**	17,631
Depreciation and amortization	**11,206**	10,962	**43,809**	46,516
EBITDA	**50,717**	40,152	**162,103**	178,346

EBITDA increased $10.6 million or 26.3% to $50.7 million for the fourth quarter of 2018, compared to $40.2 million in the fourth quarter of 2017 mainly as a result of higher interest, taxes and depreciation and amortization expenses, offset by lower 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 December 31		**Twelve month period ended December 31**	
Expressed in thousands of dollars	**2018**	2017 (restated)	**2018**	2017 (restated)
(Increase) decrease in accounts receivable	**(9,258)**	(4,847)	**(13,224)**	6,766
Decrease (increase) in contract assets	**2,280**	23,949	**(18,335)**	15,791
Decrease in inventories	**9,015**	15,387	**1,868**	2,658
Decrease (increase) in prepaid expenses and other	**2,169**	2,790	**(5,412)**	3,992
Increase (decrease) in accounts payable, accrued liabilities and provisions	**9,476**	(3,123)	**(6,046)**	(24,618)
Changes in non-cash working capital balances	**13,682**	34,156	**(41,149)**	4,589
Cash provided by operating activities	**60,812**	67,900	**99,997**	129,949

The Corporation generated $60.8 million in cash during the fourth quarter of 2018 from operating activities, compared to $67.9 million in the fourth quarter of 2017. The decrease in cash flow from operations was mainly impacted by the unfavourable change in non-cash working capital balances, largely resulted from the unfavourable change year over year in contract assets resulted from timing of production and billing related to products transferred over time and increase in accounts receivable as a result of higher sales. This was offset by the increase in accounts payable, accrued liabilities and provisions due to timing of purchases and payments.

Investing Activities

	Three month period ended December 31		Twelve month period ended December 31	
Expressed in thousands of dollars	**2018**	2017	**2018**	2017
Purchase of property, plant and equipment	**(26,827)**	(26,679)	**(48,346)**	(64,151)
Proceeds of disposals of property, plant and equipment	**208**	21	**411**	32,742
Proceeds on disposition of investment property	–	–	–	3,900
Decrease (increase) in intangible and other assets	**1,134**	9,658	**(2,728)**	3,105
Change in restricted cash	**3,329**	3,900	**3,329**	3,665
Cash used in investing activities	**(22,156)**	(13,100)	**(47,334)**	(20,739)

Cash used in investing activities for the fourth quarter of 2018 was $22.2 million compared to $13.1 million in the same quarter of 2017, a decrease of $9.1 million primarily attributed to lower deposits recorded in other assets. The Corporation continues to invest in capital expenditures to enhance its manufacturing capabilities in various geographies and to support new customer programs.

Financing Activities

	Three month period ended December 31		Twelve month period ended December 31	
Expressed in thousands of dollars	**2018**	2017	**2018**	2017
Decrease in bank indebtedness	**(43)**	(18,637)	**(264)**	(43,159)
Increase (decrease) in debt due within one year	**7,414**	(3,956)	**3,892**	(7,951)
Decrease in long-term debt	**(645)**	(611)	**(15,165)**	(13,520)
(Decrease) increase in long-term liabilities and provisions	**(901)**	(170)	**(945)**	1,071
(Decrease) increase in borrowings, net	**(188)**	531	**1,302**	3,493
Common share dividend	**(5,821)**	(4,948)	**(20,664)**	(16,299)
Cash used in financing activities	**(184)**	(27,791)	**(31,844)**	(76,365)

On September 13, 2018, the Corporation amended its credit agreement with its existing lenders. The Corporation has a multi-currency operating credit facility with a syndicate of banks, with a Canadian dollar limit of $75 million. Under the terms of the amended credit agreement, the operating credit facility expires on September 13, 2020. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a $75 million uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility.

The Corporation used $0.2 million in the fourth quarter of 2018 mainly from the payment of common share dividends and repayment of long term debt offset by higher sale of accounts receivables through the securitization programs.

As at December 31, 2018 the Corporation has made contractual commitments to purchase $6.4 million of capital assets.

Dividends

During the fourth quarter of 2018, the Corporation declared and paid quarterly cash dividends of $0.10 per common shares representing an aggregating dividend payment of $5.8 million.

Subsequent to December 31, 2018, the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of $0.10 per common share. The dividend will be payable on March 29, 2019 to shareholders of record at the close of business on March 22, 2019.

Outstanding Share Information

The authorized capital of the Corporation consists of an unlimited number of Preference Shares, issuable in series, and an unlimited number of common shares. As at March 8, 2019, 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. As at December 31, 2018, the Corporation had $41.0 million USD/CAD foreign exchange contracts outstanding with a fair value liability of $0.8 million, expiring monthly until January 2020.

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 twelve month periods ended December 31, 2018, 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, 2018 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2018, which have been filed with SEDAR at www.sedar.com.

9. Outlook

The outlook for Magellan's business in 2019

After an unprecedented 14 years of growth, the commercial aerospace market is expected to continue growing in 2019. Industry experts suggest that subject to any significant economic factors such as a global recession, this market will maintain its strength until at least 2022 considering current order backlogs. As of December 31, 2018, Airbus set a new all-time order backlog record with 7,577 jets on order, representing 9.5 years at 2018 rates. Boeing set its all-time high order backlog in August 2018 when it recorded 5,964 aircraft or 7.4 years of production at 2018 rates. Market analysts believe the probability is high that these aircraft orders will be delivered, particularly while global airlines remain profitable.

Boeing ended 2018 with the 737 production rate at 52 aircraft per month and with plans to reach 57.7 aircraft per month in the second half of 2019. They have been considering potentially higher rates for 2020. Airbus ended 2018 with the A320 build rate at 56 aircraft per month and with plans to reach 63 aircraft per month by September 2019. Supply chain issues plagued both single-aisle programs throughout 2018 which resulted in a number of incomplete aircraft being parked at the original equipment manufacturers' ("OEMs") assembly lines. With supply issues materially resolved by the end of the year, both OEM's met their 2018 delivery targets.

In the large commercial aircraft market, Boeing's 787 program build rates are expected to increase from 12 aircraft per month to 14 aircraft per month by the second quarter of 2019. The 777 program rate remains steady at 5 aircraft per month. Boeing plans to build six 747's in 2019. The A350XWB rate increased from 8.8 aircraft per month to 9.8 aircraft per month in late 2018. Consideration is being made to hit 13 aircraft per month in 2020. Boeing delivered 3 777X's in 2018 and is expected to deliver 3 in 2019. The 777X production ramp up begins in 2020. Airbus' A330 build rate is at a stable 4.5 per month.

On February 14, 2019 Airbus announced that it will wind down the A380 program following the cancelation of 39 aircraft orders by the program's largest customer, Emirates. Emirates will take delivery of only 14 more aircraft over the next two years and will instead order 40 of the A330-900 and 30 of the A350-900 twin-engine widebody aircraft. Airbus stated that the final program deliveries will be in 2021. Airbus' remaining order backlog for the A380 is between 17 and 20 aircraft. The

Corporation has participation in the aircraft at a shipset value of approximately $2.3 million and is currently assessing the impact of the A380 program termination.

The competitive landscape within the commercial aircraft industry has been changing as vertical integration strategies and mergers and acquisitions shift market advantage. With UTC's recent acquisition of Collins Aerospace, UTC is now capable of supplying all major aircraft systems except for the airframe. UTC could effectively compete with the OEMs by partnering with an independent airframe supplier to build an aircraft. It is said that Boeing's outsourcing strategy on the 787 program seeded this new type of super Tier I. Boeing is moving away from that strategy on the 777X program in favour of in-sourcing and using non-Tier I suppliers. Boeing also made a vertical integration move by forming a joint venture with Safran that will see them compete with UTC and Honeywell in the auxilliary power unit market. Finally, the Airbus/Bombardier and Boeing/Embraer deals have reaffirmed the duopoly in the commercial aircraft market. These deals not only serve to expand market share for Airbus and Boeing, but they also strengthen their ability to leverage the supply base when competing a program.

Persistently low fuel prices have been a disruptive factor in the regional turboprop market. However, according to ATR's market outlook, 30% of future traffic will come from routes that do not exist today. They predict there will be 2,770 new turboprop routes created primarily in emerging markets. ATR is the leader in this market. While Bombardier held second place, that position was transferred to Canadian-based Viking Air ("Viking") following Bombardier's 2018 sale of the Dash 8 program to Viking. The transition of ownership is expected to help improve market share opportunities for the Dash 8 as it is felt that Viking can provide a renewed and undistracted focus to the program. The current build rate for the Q400 turboprop is 2 per month.

It has now been a decade since the business jet market peaked. For several years the industry has been predicting a market recovery based on various leading indicators, the latest being a strong United States economy and the lowest inventory of used jets for sale as a percentage of the total fleet in 19 years. Based on these indicators the industry is predicting several years of growth.

In the defence market, the United States defence priorities have been focused primarily on the Middle East and Afghanistan since 9/11. Resurging threats from Russia and China are now causing the United States to shift priorities from ground forces to higher end capabilities. Experts are calling this an era of "Great Power Competition". In this environment, past underinvestment in fleet modernization is considered a liability in the United States' ability to maintain defence superiority, especially as technology advancements are being made by both Russia and China. The fiscal year 2020 United States defence budget is expected to rise over the next two years, which will secure growth for the United States defence prime contractors through at least 2023.

In Canada, the Future Fighter Replacement Program is progressing with four of the original five aircraft continuing in the competition, Lockheed Martin's F-35, Boeing's Super Hornet, the Eurofighter Typhoon, and Saab's Gripen. Dassault dropped out. A draft request for proposal ("RFP") was issued to the bidders for review and comment in 2018 with a final RFP expected to come in the second quarter of 2019. Bid responses will be requested for the fourth quarter of 2019, with a down select expected 2020/2021 followed by a contract award in 2022. The first aircraft delivery would be sometime in 2025.

Regarding the F-35 Lightening II program, Lockheed Martin announced that it had met its 2018 target by delivering 91 F-35 aircraft last year. This represented a 40% increase over 2017 deliveries and 100% over 2016. For 2019, Lockheed is set to deliver over 130 planes. Lockheed also announced that it delivered targeted cost reductions across all three variants of the aircraft. They continue to record new orders for the F-35 with Japan announcing at the end of 2018, a commitment to acquire 105 additional aircraft beyond the 42 F-35's already approved. Singapore also announced in January 2019 a decision to select the F-35 as a successor to their fleet of F-16's. A final decision will not be reached until later in the year.

Magellan is performing final modifications to its facilities to accommodate increased F-35 production rates. By the end of 2019, Magellan will be capable of supporting 60 shipsets of horizontal tails per year.

The global helicopter industry expects to see some growth in 2019. The largest growth is forecasted to come from the Emergency Medical Services ("EMS") segment which could account for 18 to 20 percent of global demand. China in particular is expected to generate a significant portion of this new demand for EMS helicopters. The oil and gas helicopter market remains flat as it is still dealing with an underutilized fleet. On the defence helicopter side, the United States Army continues its work on Future Vertical Lift ("FVL") and Future Attack ("FA") programs as well as the Improved Turbine Engine Program ("ITEP"), which is meant to re-engine the Boeing AH64 and Sikorsky UH-60 helicopters. A decision is expected soon regarding the ITEP competition between General Electric's T901 engine and the Pratt & Whitney/Honeywell's T900 engine. The FVL and FA program decisions are further out in the future. Increased defence spending in other countries is not expected to generate many orders for new helicopter platforms in the near term as most are focusing on operations, maintenance and readiness. However, it is recognized that half of the world's military helicopters in operation are over 20 years old, meaning that replacement programs will be required.

Additional Information

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

Forward Looking Statements

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

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MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Three month period ended December 31 2018	 (Restated) 2017	Twelve month period ended December 31 2018	 (Restated) 2017
Revenues	**254,384**	232,632	**966,753**	955,461
Cost of revenues	**210,502**	188,221	**803,478**	782,754
Gross profit	**43,882**	44,411	**163,275**	172,707
Administrative and general expenses	**14,343**	15,026	**57,337**	59,549
Other	**(9,972)**	195	**(12,356)**	(18,672)
Income before interest and income taxes	**39,511**	29,190	**118,294**	131,830
Interest	**962**	720	**4,114**	4,711
Income before income taxes	**38,549**	28,470	**114,180**	127,119
Income taxes				
Current	**(1,573)**	3,518	**9,402**	15,557
Deferred	**10,542**	(6,921)	**15,658**	2,074
	8,969	(3,403)	**25,060**	17,631
Net income	**29,580**	31,873	**89,120**	109,488
Other comprehensive income (loss)				
Other comprehensive income (loss) that may be reclassified to profit and loss in subsequent periods:				
Foreign currency translation	**21,905**	4,676	**26,171**	(8,411)
Items not to be reclassified to profit and loss in subsequent periods:				
Actuarial (loss) gain on defined benefit pension plans, net of taxes	**(10,163)**	(1,350)	**(5,203)**	334
Total comprehensive income, net of taxes	**41,322**	35,199	**110,088**	101,411
Net income per share				
Basic and diluted	**0.51**	0.55	**1.53**	1.88

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	**December 31 2018**	December 31 2017 (Restated)	January 1 2017 (Restated)
Current assets			
Cash	**63,316**	40,394	7,606
Restricted cash	**—**	3,233	7,125
Trade and other receivables	**187,897**	169,693	196,756
Contract assets	**66,436**	46,196	44,426
Inventories	**175,082**	171,054	176,808
Prepaid expenses and other	**20,058**	14,155	18,007
	512,789	444,725	450,728
Non-current assets			
Property, plant and equipment	**428,878**	401,855	389,825
Investment properties	**2,305**	2,414	4,377
Intangible assets	**62,745**	61,495	67,443
Goodwill	**35,104**	33,441	33,797
Other assets	**19,666**	24,908	28,142
Deferred tax assets	**11,393**	13,823	20,941
	560,091	537,936	544,525
Total assets	**1,072,880**	982,661	995,253
Current liabilities			
Accounts payable and accrued liabilities and provisions	**154,407**	154,277	172,326
Debt due within one year	**44,393**	51,834	50,787
	198,800	206,111	223,113
Non-current liabilities			
Bank indebtedness	**—**	—	43,314
Long-term debt	**9,064**	11,202	35,364
Borrowings subject to specific conditions	**24,510**	23,866	22,867
Other long-term liabilities and provisions	**19,668**	15,153	18,617
Deferred tax liabilities	**33,165**	27,081	37,842
	86,407	77,302	158,004
Equity			
Share capital	**254,440**	254,440	254,440
Contributed surplus	**2,044**	2,044	2,044
Other paid in capital	**13,565**	13,565	13,565
Retained earnings	**473,246**	410,992	317,469
Accumulated other comprehensive income	**44,378**	18,207	26,618
	787,673	699,248	614,136
Total liabilities and equity	**1,072,880**	982,661	995,253

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

	Three month period ended December 31		Twelve month period ended December 31	
(unaudited) (expressed in thousands of Canadian dollars)	**2018**	(Restated) 2017	**2018**	(Restated) 2017
Cash flow from operating activities				
Net income	**29,580**	31,873	**89,120**	109,488
Amortization/depreciation of intangible assets and property, plant and equipment	**11,206**	10,962	**43,809**	46,516
Impairment of property, plant and equipment	**—**	—	**—**	2,900
Loss (gain) on disposal of property, plant and equipment	**186**	43	**313**	(26,533)
Gain on disposal of investment property	**—**	—	**—**	(2,183)
Increase (decrease) in defined benefit plans	**187**	(1,120)	**(597)**	(2,623)
Accretion	**292**	(85)	**1,006**	611
Deferred taxes	**5,944**	(7,774)	**8,164**	(2,485)
Income on investments in joint ventures	**(265)**	(155)	**(669)**	(331)
Changes to non-cash working capital	**13,682**	34,156	**(41,149)**	4,589
Net cash provided by operating activities	**60,812**	67,900	**99,997**	129,949
Cash flow from investing activities				
Purchase of property, plant and equipment	**(26,827)**	(26,679)	**(48,346)**	(64,151)
Proceeds from disposal of property, plant and equipment	**208**	21	**411**	32,742
Proceeds from disposal of investment property	**—**	—	**—**	3,900
Decrease (increase) in intangible and other assets	**1,134**	9,658	**(2,728)**	3,105
Change in restricted cash	**3,329**	3,900	**3,329**	3,665
Net cash used in investing activities	**(22,156)**	(13,100)	**(47,334)**	(20,739)
Cash flow from financing activities				
Decrease in bank indebtedness	**(43)**	(18,637)	**(264)**	(43,159)
Increase (decrease) in debt due within one year	**7,414**	(3,956)	**3,892**	(7,951)
Decrease in long-term debt	**(645)**	(611)	**(15,165)**	(13,520)
(Decrease) increase in long-term liabilities and provisions	**(901)**	(170)	**(945)**	1,071
(Decrease) increase in borrowings, net	**(188)**	531	**1,302**	3,493
Common share dividend	**(5,821)**	(4,948)	**(20,664)**	(16,299)
Net cash used in financing activities	**(184)**	(27,791)	**(31,844)**	(76,365)
Increase in cash during the period	**38,472**	27,009	**20,819**	32,845
Cash at beginning of the period	**22,943**	13,253	**40,394**	7,606
Effect of exchange rate differences	**1,901**	132	**2,103**	(57)
Cash at end of the period	**63,316**	40,394	**63,316**	40,394