MAGELLAN
AEROSPACE

QUARTERLY REPORT

MARCH 31, 2019

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Magellan Aerospace Corporation ("Magellan" or the "Corporation") should be read in conjunction with the unaudited condensed consolidated interim financial statements and the notes thereto for the three month period ended March 31, 2019, and the audited annual consolidated financial statements for the year ended December 31, 2018 (available on SEDAR at www.sedar.com). Unless otherwise noted, all financial information has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), specifically International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"), which is within the framework of International Financial Reporting Standards ("IFRS"). This MD&A provides a review of the significant developments that have impacted the Corporation's performance during the three month period ended March 31, 2019 relative to the three month period ended March 31, 2018. The information contained in this report is as at May 7, 2019. 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

On February 20, 2019, Magellan announced it has increased its investment in Triveni Aeronautics Private Limited ("Triveni"), an aerospace parts manufacture located in Tumkur, Karnataka, India to 75%. Magellan's investment in Triveni commenced in 2013 when it acquired a 49% share of the business.

On March 15, 2019, Magellan announced agreements valued at $48 million with the Canadian government to perform the licensed manufacture of LUU-2 Illumination flares for the Royal Canadian Air Force. Magellan-produced flares will be delivered from the Magellan's propellant plant, located near Winnipeg, Manitoba, Canada. The term of the contract is five years.

On April 12, 2019, Magellan announced an agreement with Atlas Elektronik Canada for the design and development phase of the SeaSpider® Anti Torpedo Torpedo (ATT) program. The initial $19 million phase of the program was launched in January 2019 and is expected to conclude in 2023. Magellan will lead the design and development of the SeaSpider® ATT rocket motor and warhead section of the torpedo that includes design, build, test and production qualification.

On April 24, 2019, Magellan announced it has reached a multi-year agreement with The Boeing Company ("Boeing") to manufacture 777X control surface ribs in support of Boeing's Focused Factory initiative. Magellan will provide internal dual source capability for risk mitigation and business continuity. Work will begin at its United Kingdom facility and later transition to a new factory in Bangalore, India. Boeing's Focused Factory initiative is the aggregation of products grouped by commonality and forecasted demand. The product groups utilize similar technologies and aggregating the products creates economies of scale that deliver lower cost, improved quality, and delivery efficiencies.

On April 29, 2019, Magellan announced agreements with an undisclosed customer for the supply of complex fabricated engine front frames for a commercial platform, to be manufactured at Magellan's facility in Winnipeg, Manitoba, Canada, and critical rotating engine shafts for a dual use platform, to be manufactured at Magellan's facility in Haverhill, Massachusetts, USA. These agreements are valued at approximately $45 million and will be delivered starting in 2019 through 2022.

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 the first quarter ended March 31, 2019

The Corporation reported revenue in the first quarter of 2019 of $269.9 million, a $25.3 million increase from the first quarter of 2018 of $244.6 million. Gross profit and net income for the first quarter of 2019 were $42.8 million and $20.4 million, respectively, in comparison to gross profit of $40.4 million and net income of $17.5 million for the first quarter of 2018.

Consolidated Revenue

	Three month period ended March 31		
Expressed in thousands of dollars	**2019**	2018	Change
Canada	**90,701**	78,656	15.3%
United States	**84,819**	79,576	6.6%
Europe	**94,364**	86,393	9.2%
Total revenues	**269,884**	244,625	10.3%

Consolidated revenues for the three month period ended March 31, 2019 were $269.9 million, an increase of $25.3 million from $244.6 million recorded for the same period in 2018. Revenues in Canada increased 15.3% in the first quarter of 2019 compared to the corresponding period in 2018, primarily due to volume increases, new contract awards, and the strengthening of the United States dollar relative to the Canadian dollar when compared to the prior period. On a currency neutral basis, Canadian revenues in the first quarter of 2019 increased by 11.9% over the same period of 2018.

Revenues in the United States increased by 6.6% in the first quarter of 2019 when compared to the first quarter of 2018 mainly due to volume increases in wide body aircraft and favourable foreign exchange impact due to the strengthening of the United States dollar against the Canadian dollar. On a currency neutral basis, 2019 first quarter revenues in the United States increased 1.6% over the same period in 2018.

European revenues in the first quarter of 2019 increased 9.2% when compared to the corresponding period in 2018 primarily driven by increased production rates for single aisle and wide body aircraft, as well as the strengthening of the United States dollar relative to the British pound, offset in part by an unfavourable foreign exchange impact as a result of the weakening of the British pound relative to the Canadian dollar. On a constant currency basis, revenues in the first quarter of 2019 in Europe increased 5.0% compared to the same period in 2018.

Gross Profit

	Three month period ended March 31		
Expressed in thousands of dollars	**2019**	2018	Change
Gross profit	**42,821**	40,428	5.9%
Percentage of revenues	**15.9%**	16.5%	

Gross profit of $42.8 million for the first quarter of 2019 was $2.4 million higher than the $40.4 million gross profit for the first quarter of 2018, and gross profit as a percentage of revenues of 15.9% for the first quarter of 2019 decreased from 16.5% recorded in the same period in 2018. The gross profit in the current quarter was primarily impacted by unfavourable product mix, production inefficiencies and the recording of an impairment charge of $1.1 million on intangible assets offset partially by a favourable foreign exchange impact due to the strengthening of the United States dollar relative to the British pound.

Administrative and General Expenses

	Three month period ended March 31		
Expressed in thousands of dollars	**2019**	2018	Change
Administrative and general expenses	**15,300**	14,628	4.6%
Percentage of revenues	**5.7%**	6.0%	

Administrative and general expenses as a percentage of revenues of 5.7% for the first quarter of 2019 were slightly lower than the same period of 2018. Administrative and general expenses increased slightly by $0.7 million or 4.6% to $15.3 million in the first quarter of 2018 compared to $14.6 million in the corresponding quarter of 2018 mainly due to expenses incurred for the phased implementation of a new ERP system.

Other

	Three month period ended March 31	
Expressed in thousands of dollars	**2019**	2018
Foreign exchange loss	**453**	2,170
(Gain) loss on disposal of property, plant and equipment	**(85)**	88
Other	**190**	-
Total other expenses	**558**	2,258

Other for the first quarter of 2019 included a $0.5 million foreign exchange loss compared to a $2.2 million loss in the first quarter of the prior year. The movements in balances denominated in the foreign currencies and the fluctuations of the foreign exchange rates impact the net foreign exchange gain or loss recorded in a quarter. In addition, a $0.9 million gain recorded in relation to the step acquisition of Triveni was offset by relocation expenses incurred in relation to the Corporation's Mississauga facility.

Interest Expense

	Three month period ended March 31	
Expressed in thousands of dollars	**2019**	2018
Interest on bank indebtedness and long-term debt	**(40)**	388
Accretion charge for borrowings, lease liabilities and long-term debt	**545**	262
Discount on sale of accounts receivable	**563**	428
Total interest expense	**1,068**	1,078

Total interest expense of $1.1 million in the first quarter of 2019 was consistent with the first quarter of 2018 amount. Accretion charge was higher than the prior year due to adoption of IFRS 16, *Leases* effective January 1, 2019, offset by decreased interest on bank indebtedness and long-term debt as principal amounts were lower during the quarter.

Provision for Income Taxes

	Three month period ended March 31	
Expressed in thousands of dollars	**2019**	2018
Expense of current income taxes	**2,805**	3,878
Expense of deferred income taxes	**2,681**	1,122
Total expense of income taxes	**5,486**	5,000
Effective tax rate	**21.2%**	22.3%

Income tax expense for the three months ended March 31, 2019 was $5.5 million, representing an effective income tax rate of 21.2% compared to 22.3% for the same period of 2018. The change in effective tax rate and current and deferred income tax expenses year over year was primarily due to the change in mix of income across the different jurisdictions in which the Corporation operates.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

	2019	2018						2017
Expressed in millions of dollars, except per share amounts	**Mar 31**	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31[2]	Sep 30[2]	Jun 30[2]
Revenues	**269.9**	254.4	226.5	241.2	244.6	232.7	222.6	252.0
Income before taxes	**25.9**	38.5	23.4	29.8	22.5	28.4	23.6	26.3
Net Income	**20.4**	29.5	18.6	23.5	17.5	31.9	18.1	19.9
Net Income per share								
Basic and diluted	**0.35**	0.51	0.32	0.40	0.30	0.55	0.31	0.34
EBITDA[1]	**40.5**	50.7	35.5	41.8	34.1	40.1	35.8	39.5

[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 quarterly financial information were impacted by the movements in the Canadian dollar relative to the United States dollar and British pound when the Corporation translates its foreign operations to Canadian dollars. Further, the movements in the United States dollar relative to the British pound impact the Corporation's United States dollar exposures in its European operations. During the periods reported, the average exchange rate of the 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 the 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 1.2791 in the second quarter of 2017.

Revenue for the first quarter of 2019 of $269.9 million was higher than that in the first quarter of 2018. The average exchange rate of the United States dollar relative to the Canadian dollar in the first quarter of 2019 was 1.3292 versus 1.2648 in the same period of 2018. The average exchange rate of the British pound relative to the Canadian dollar moved from 1.7607 in the first quarter of 2018 to 1.7315 during the current quarter. The average exchange rate of the British pound relative to the United States dollar decreased from 1.3920 in the first quarter of 2018 to 1.3027 in the current quarter. Had the foreign exchange rates remained at levels experienced in the first quarter of 2018, reported revenues in the first quarter of 2019 would have been lower by $4.0 million.

As discussed above, net income reported in the quarterly information was also impacted by the foreign exchange movements. 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.

Expressed in thousands of dollars	Three month period ended March 31 2019	2018
Net income	**20,409**	17,464
Interest	**1,068**	1,078
Taxes	**5,486**	5,000
Depreciation and amortization	**13,530**	10,596
EBITDA	**40,493**	34,138

EBITDA in the first quarter of 2019 increased $6.4 million or 18.8% to $40.5 million, in comparison to $34.1 million in the same quarter of 2018 mainly as a result of higher net income and an increase in depreciation and amortization expense mainly due to the implementation of new accounting standard.

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

Expressed in thousands of dollars	Three month period ended March 31 2019	2018
Increase in trade receivables	**(22,706)**	(16,203)
Increase in contract assets	**(11,736)**	(6,799)
(Increase) decrease in inventories	**(2,062)**	3,864
Increase in prepaid expenses and other	**(2,826)**	(3,062)
Increase (decrease) in accounts payable, accrued liabilities and provisions	**12,416**	(14,327)
Changes to non-cash working capital balances	**(26,914)**	(36,527)
Cash provided by (used in) operating activities	**8,098**	(8,595)

For the three months ended March 31, 2019, the Corporation generated $8.1 million from operating activities, compared to $8.6 million used in the first quarter of 2018. The increase in cash flow from operations was mainly impacted by the favourable change in non-cash working capital balances, largely resulted from the favourable change year over year in accounts payable, accrued liabilities and provisions due to the nature of purchases and timing of payments. This was offset by the increases in trade receivables and contract assets, which resulted from higher sales and timing of production and billing related to products transferred over time, and higher inventories due to higher production demand.

Investing Activities

Expressed in thousands of dollars	Three month period ended March 31 2019	2018
Business combination, net of cash acquired	**(2,661)**	-
Purchase of property, plant and equipment	**(9,507)**	(7,566)
Proceeds of disposal of property plant and equipment	**235**	21
Increase in intangible and other assets	**(6,066)**	(754)
Change in restricted cash	**-**	(2,714)
Cash used in investing activities	**(17,999)**	(11,013)

Investing activities used $18.0 million cash for the first quarter of 2019 compared to $11.0 million cash used in the same quarter of the prior year, an increase of $7.0 million primarily due to the step acquisition of Triveni, higher level of investment in property, plant and equipment, an investment in a new ERP system and higher 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

Expressed in thousands of dollars	Three month period ended March 31 2019	2018
(Decrease) increase in bank indebtedness	**(42)**	15,446
Decrease in debt due within one year	**(6,884)**	(7,033)
Decrease in long-term debt	**(647)**	(13,266)
Decrease in lease liabilities	**(901)**	-
Decrease in long-term liabilities and provisions	**(35)**	(74)
Increase in borrowings subject to specific conditions	**-**	25
Common share dividend	**(5,821)**	(4,948)
Cash used in financing activities	**(14,330)**	(9,850)

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 $14.3 million in the first quarter of 2019 mainly to repay debt due within one year, long-term debt and lease liabilities, and to pay dividends.

As at March 31, 2019, the Corporation had made contractual commitments to purchase $7.2 million of capital assets.

Dividends

During the first quarter of 2019, 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 March 31, 2019, 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 June 28, 2019 to shareholders of record at the close of business on June 14, 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 May 7, 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 March 31, 2019, the Corporation had $30.0 million USD/CAD foreign exchange contracts outstanding with a fair value liability of $0.3 million, expiring monthly until December 2019.

Off Balance Sheet Arrangements

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

7. Related Party Transactions

A summary of Magellan's transactions with related parties

For the three month period ended March 31, 2019, 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. 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, 2019 and have been applied in preparing the consolidated interim financial statements.

Leases

Effective January 1, 2019, the Corporation adopted IFRS 16, *Leases* ("IFRS 16"), replacing IAS 17, *Leases* ("IAS 17"), IFRIC 4, *Determining whether an Arrangement contains a Lease* ("IFRIC 4"), SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 introduced a single on-balance sheet model for lessees unless the underlying asset is of low value and recognition exemption applied. A lessee is required to recognize, on its statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. As a result of adopting IFRS 16, the Corporation recognized a $24.2 million increase to assets and liabilities, respectively, on the condensed consolidated interim statement of financial position. Subsequent to the adoption, operating costs decrease due to the removal of rent expense for leases, depreciation and amortization expense increases due to depreciation of right-of-use assets, and finance costs increase due to accretion of the lease liability. The accounting treatment for lessors remains largely the same as under IAS 17.

The Corporation adopted IFRS 16 under the modified retrospective approach and did not restate the comparatives for 2018. At transition, the Corporation applied the practical expedient available to the Corporation as lessee that allows the continuation of the lease assessments under IAS 17 and IFRIC 4 for existing contracts. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed after January 1, 2019.

For leases that were classified as operating leases under IAS 17, lease liabilities at transition have been measured at the present value of remaining lease payments, discounted at the incremental borrowing rate as at January 1, 2019. Right-of-use assets at transition have been measured at an amount equal to the corresponding lease liabilities, adjusted for any prepaid or accrued rent relating to that lease.

When applying IFRS 16 to leases previously classified as operating leases, the following practical expedients were applied:

- a single discount rate to a portfolio of leases with similar characteristics;
- used hindsight in determining the lease term where the contract contains purchase, extension, or termination options;
- relied upon our assessment of whether leases are onerous under the requirements of IAS 37, *Provisions, contingent liabilities and contingent assets* as at December 31, 2018 as an alternative to reviewing our right-of-use assets for impairment; and
- excluded short-term leases or low-value leases.

There was no significant impact for contracts in which the Corporation is the lessor.

Prior to adopting IFRS 16, the total minimum operating lease commitments as at December 31, 2018 were $37.9 million. The weighted average discount rate applied to the total lease liabilities recognized on transition was 3.82%. The difference between the total of the minimum lease payments set out in Note 21 to the 2018 annual consolidated financial statements and the total lease liabilities recognized on transition was a result of:

- the effect of discounting on the minimum lease payments;
- the exclusion of lease payments related to reasonably certain termination options that have not yet been exercised as at December 31, 2018; and
- the exclusion of short-term leases.

Accounting pronouncements adopted

The following pronouncements were adopted by the Corporation as of January 1, 2019 and do not have an impact on the Corporation's condensed consolidated interim financial statements. These changes are described in detail in the Corporation's 2018 consolidated financial statements.

- IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to IAS 19, *Plan Amendment, Curtailment or Settlement*
- Annual Improvements to IFRS Standards 2015 – 2017: IFRS 3, *Business Combination*
- Annual Improvements to IFRS Standards 2015 – 2017: IAS 12, *Income Taxes*

10. Critical Accounting Estimates

A description of accounting estimates that are critical to determining Magellan's financial results

In the 2018 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, 2018 for a discussion regarding the critical accounting estimates.

11. Controls and Procedures

A description of Magellan's disclosure controls and internal controls over financial reporting

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at March 31, 2019 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.

12. Outlook

The outlook for Magellan's business in 2019

The commercial aerospace market is expected to continue to grow in 2019. Industry experts suggest that this market will maintain its strength until at least 2022 considering current order backlogs. As of March 31, 2019, Airbus' record backlog was at 7,357 jets on order, representing 9.2 years at 2018 rates. Boeing's record backlog in 2018 reached 5,893 aircraft or 7.3 years of production at 2018 rates.

In the single aisle market and following the recent incident involving a 737 MAX 8 aircraft, Boeing announced they would temporarily reduce the 737 production rate from 52 aircraft per month to 42 per month. It is expected this lower rate will continue through the second quarter of 2019 and is expected to resume at the higher rate sometime in the third quarter of 2019. The impact of the lower production rate continues to be assessed by the Corporation as additional information is obtained. Airbus is currently producing the A320 at a rate of 56 aircraft per month, with plans to reach 63 aircraft per month by September 2019.

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 end of the second quarter of 2019. The 777 program rate remains steady at 5 aircraft per month, and Boeing plans to build six 747 aircraft in 2019. Boeing delivered three 777X's in 2018 and is expected to deliver three in 2019. The 777X production ramp up begins in 2020. Airbus' A330 build rate is at a stable 4.5 per month. 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.

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 A380 program deliveries will be in 2021. Airbus' remaining order backlog for the A380 is at 17 aircraft. The Corporation's participation on this aircraft platform is valued at approximately $2.3 million per shipset. The impact of the program wind down continues to be assessed, however the Corporation recorded a provision in the first quarter of 2019.

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 acquisition of Collins Aerospace, UTC is now capable of supplying all major aircraft systems except for the airframe and could effectively compete with the original equipment manufacturers by partnering with an independent airframe supplier to build an aircraft. Industry experts suggest 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. Magellan has recently benefited from this strategy change through the award of a new multi-year agreement to manufacture 777X control surface ribs in support of Boeing's Focused Factory initiative.

The helicopter industry expects to see growth 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 natural gas helicopter market remains flat as it is still dealing with an underutilized fleet. On the defence helicopter side, the United States Army continues development on the 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. General Electric's T901 engine recently won the ITEP engine competition beating out Pratt & Whitney/Honeywell's T900 engine. The FVL and FA program platform decisions are further out in the future.

In the defence market, resurging threats from Russia and China are causing NATO countries to shift budget priorities toward fleet modernization. Past underinvestment in these areas is considered a liability in the ability to maintain defence superiority, especially as technology advancements are being made by both Russia and China. The fiscal 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. A draft request for proposal ("RFP") was issued to the bidders for review and comment in 2018 with a final RFP expected to be issued in the second quarter of 2019. Bid responses will be requested for the fourth quarter of 2019, with a down selection expected in 2020 /2021 followed by a contract award in 2022. The first aircraft delivery is expected to be 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 aircraft. 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 announced in January 2019 a decision to select the F-35 as a successor to their fleet of F-16's with a final decision expected later in the year.

Magellan is currently optimizing 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 for the F-35.

MAGELLAN AEROSPACE

MAGELLAN AEROSPACE CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Notes	Three month period ended March 31 **2019**	 2018
Revenues	10	**269,884**	244,625
Cost of revenues		**227,063**	204,197
Gross profit		**42,821**	40,428
Administrative and general expenses		**15,300**	14,628
Other	4	**558**	2,258
Income before interest and income taxes		**26,963**	23,542
Interest		**1,068**	1,078
Income before income taxes		**25,895**	22,464
Income taxes			
Current	11	**2,805**	3,878
Deferred	11	**2,681**	1,122
		5,486	5,000
Net income		**20,409**	17,464
Other comprehensive (loss) income			
Other comprehensive (loss) income that may be reclassified to profit and loss in subsequent periods:			
Foreign currency translation		**(6,710)**	20,982
Items not to be reclassified to profit and loss in subsequent periods:			
Actuarial income (loss) on defined benefit pension plans, net of taxes	7	**239**	(645)
Total comprehensive income, net of taxes		**13,938**	37,801
Basic and diluted	8	**0.35**	0.30

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE

MAGELLAN AEROSPACE CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	Notes	March 31 2019	December 31 2018
Current assets			
Cash		**38,463**	63,316
Trade and other receivables		**209,711**	187,897
Contract assets		**77,697**	66,436
Inventories		**177,329**	175,082
Prepaid expenses and other		**23,220**	20,058
		526,420	512,789
Non-current assets			
Property, plant and equipment		**429,655**	428,878
Right-of-use assets	3, 6	**23,554**	—
Investment properties		**2,256**	2,305
Intangible assets		**65,181**	62,745
Goodwill		**34,807**	35,104
Other assets		**17,994**	19,666
Deferred tax assets		**9,446**	11,393
		582,893	560,091
Total assets		**1,109,313**	1,072,880
Current liabilities			
Accounts payable and accrued liabilities and provisions	10	**165,743**	154,407
Debt due within one year		**40,613**	44,393
		206,356	198,800
Non-current liabilities			
Long-term debt		**8,740**	9,064
Lease liabilities	3, 6	**19,801**	—
Borrowings subject to specific conditions		**24,696**	24,510
Other long-term liabilities and provisions	7	**19,051**	19,668
Deferred tax liabilities		**32,535**	33,165
		104,823	86,407
Equity			
Share capital		**254,440**	254,440
Contributed surplus		**2,044**	2,044
Other paid in capital		**13,565**	13,565
Retained earnings		**488,073**	473,246
Accumulated other comprehensive income		**37,668**	44,378
Equity attributable to equity holder of the Corporation		**795,790**	787,673
Non-controlling interest	4	**2,344**	—
Total equity		**798,134**	787,673
Total liabilities and equity		**1,109,313**	1,072,880

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)	Attributable to equity holder of the Corporation Share capital	Contributed surplus	Other paid in capital	Retained earnings	Foreign currency translation	Total	Non-controlling interest	Total equity
December 31, 2018	254,440	2,044	13,565	473,246	44,378	787,673	—	787,673
Business combination	—	—	—	—	—	—	2,344	2,344
Net income for the period	—	—	—	20,409	—	20,409	—	20,409
Other comprehensive income (loss) for the period	—	—	—	239	(6,710)	(6,471)	—	(6,471)
Common share dividend	—	—	—	(5,821)	—	(5,821)	—	(5,821)
March 31, 2019	254,440	2,044	13,565	488,073	37,668	795,790	2,344	798,134
December 31, 2017	254,440	2,044	13,565	410,992	18,207	699,248	—	699,248
IFRS 9 adjustment, net of tax	—	—	—	(999)	—	(999)	—	(999)
January 1, 2018 Adjusted	254,440	2,044	13,565	409,993	18,207	698,249	—	698,249
Net income for the period	—	—	—	17,464	—	17,464	—	17,464
Other comprehensive loss (loss) for the period	—	—	—	(645)	20,982	20,337	—	20,337
Common share dividend	—	—	—	(4,948)	—	(4,948)	—	(4,948)
March 31, 2018	254,440	2,044	13,565	421,864	39,189	731,102	—	731,102

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE

MAGELLAN AEROSPACE CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(unaudited) (expressed in thousands of Canadian dollars)	Notes	Three month period ended March 31 **2019**	 2018
Cash flow from operating activities			
Net income		**20,409**	17,464
Amortization/depreciation of intangible assets, right-of-use assets and property, plant and equipment		**13,530**	10,596
(Gain) loss on disposal of property, plant and equipment		**(85)**	88
Gain on disposal of joint venture investment	4	**(881)**	—
Decrease in defined benefit plans		**(154)**	(529)
Accretion		**545**	262
Deferred taxes		**1,818**	167
Income on investments in joint ventures		**(170)**	(116)
Changes to non-cash working capital		**(26,914)**	(36,527)
Net cash provided by (used in) operating activities		**8,098**	(8,595)
Cash flow from investing activities			
Business combination, net of cash acquired	4	**(2,661)**	—
Purchase of property, plant and equipment		**(9,507)**	(7,566)
Proceeds from disposal of property, plant and equipment		**235**	21
Increase in intangible and other assets		**(6,066)**	(754)
Change in restricted cash		**—**	(2,714)
Net cash used in investing activities		**(17,999)**	(11,013)
Cash flow from financing activities			
(Decrease) increase in bank indebtedness	5	**(42)**	15,446
Decrease in debt due within one year		**(6,884)**	(7,033)
Decrease in long-term debt		**(647)**	(13,266)
Decrease in lease liabilities		**(901)**	—
Decrease in long-term liabilities and provisions		**(35)**	(74)
Increase in borrowings subject to specific conditions		**—**	25
Common share dividend	8	**(5,821)**	(4,948)
Net cash used in financing activities		**(14,330)**	(9,850)
Decrease in cash during the period		**(24,231)**	(29,458)
Cash at beginning of the period		**63,316**	40,394
Effect of exchange rate differences		**(622)**	1,144
Cash at end of the period		**38,463**	12,080

See accompanying notes to condensed consolidated interim financial statements

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

NOTE 1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

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

The Corporation is a diversified supplier of components to the aerospace industry. 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 the supply of spare parts as well as through repair and overhaul services.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

These unaudited 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, 2018, except for the new accounting pronouncements which have been adopted as disclosed in note 3.

These unaudited 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, 2018, which are available at www.sedar.com and on the Corporation's website at www.magellan.aero.

The timely preparation of the condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the condensed consolidated interim financial statements.

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors of the Corporation on May 7, 2019.

NOTE 3. ADOPTION OF NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

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, 2019, in accordance with the transitional provisions outlined in the respective standards.

Leases

Effective January 1, 2019, the Corporation adopted IFRS 16, *Leases* ("IFRS 16"), replacing IAS 17, *Leases* ("IAS 17"), IFRIC 4, *Determining whether an Arrangement contains a Lease* ("IFRIC 4"), SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 introduced a single on-balance sheet model for lessees unless the underlying asset is of low value and recognition exemption applied. A lessee is required to recognize, on its statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. As a result of adopting IFRS 16, the Corporation recognized a $24.2 million increase to assets and liabilities, respectively, on the condensed consolidated interim statement of financial position. Subsequent to the adoption, operating costs decrease due to the removal of rent expense for leases, depreciation and amortization expense increases due to depreciation of right-of-use assets, and finance costs increase due to accretion of the lease liability. The accounting treatment for lessors remains largely the same as under IAS 17.

The Corporation adopted IFRS 16 under the modified retrospective approach and did not restate the comparatives for 2018. At transition, the Corporation applied the practical expedient available to the Corporation as lessee that allows the continuation of the lease assessments under IAS 17 and IFRIC 4 for existing contracts. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed after January 1, 2019.

For leases that were classified as operating leases under IAS 17, lease liabilities at transition have been measured at the present value of remaining lease payments, discounted at the incremental borrowing rate as at January 1, 2019. Right-of-use assets at transition have been measured at an amount equal to the corresponding lease liabilities, adjusted for any prepaid or accrued rent relating to that lease.

When applying IFRS 16 to leases previously classified as operating leases, the following practical expedients were applied:

- a single discount rate to a portfolio of leases with similar characteristics;
- used hindsight in determining the lease term where the contract contains purchase, extension, or termination options;
- relied upon our assessment of whether leases are onerous under the requirements of IAS 37, *Provisions, contingent liabilities and contingent assets* as at December 31, 2018 as an alternative to reviewing our right-of-use assets for impairment; and
- excluded short-term leases or low-value leases.

There was no significant impact for contracts in which the Corporation is the lessor.

Prior to adopting IFRS 16, the total minimum operating lease commitments as at December 31, 2018 were $37.9 million. The weighted average discount rate applied to the total lease liabilities recognized on transition was 3.82%. The difference between the total of the minimum lease payments set out in Note 21 to the 2018 annual consolidated financial statements and the total lease liabilities recognized on transition was a result of:

- the effect of discounting on the minimum lease payments;
- the exclusion of lease payments related to reasonably certain termination options that have not yet been exercised as at December 31, 2018; and
- the exclusion of short-term leases.

Accounting pronouncements adopted

The following pronouncements were adopted by the Corporation as of January 1, 2019 and do not have an impact on the Corporation's condensed consolidated interim financial statements. These changes are described in detail in the Corporation's 2018 consolidated financial statements.

- IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to IAS 19, *Plan Amendment, Curtailment or Settlement*
- Annual Improvements to IFRS Standards 2015 – 2017: IFRS 3, *Business Combination*
- Annual Improvements to IFRS Standards 2015 – 2017: IAS 12, *Income Taxes*

NOTE 4. BUSINESS COMBINATION

In line with the Corporation's low cost sourcing strategy, during the quarter, the Corporation acquired an additional 26% of the issued and outstanding shares of the capital stock of Triveni Aeronautics Private Limited ("Triveni") for $3,780 to obtain a 75% controlling interest.

Prior to the effective date February 28, 2019, the Corporation accounted for its previously held 49% interest in Triveni as joint venture using the equity method with a carrying value of $5,498. As at February 28, 2019, the Corporation remeasured its previously held equity interest at fair value and recognized the resulting gain of $881 in Other in the condensed consolidated interim statement of income.

At February 28, 2019, the Corporation recognized $4,765 current assets, $5,208 non-current assets, $3,126 intangible assets and goodwill, $596 current liabilities and $2,344 non-controlling interest based on the provisional fair value of the identifiable assets and liabilities. The Corporation is in the process of obtaining information to assist in determining the fair value of the net assets acquired at the acquisition date and expects to finalize the purchase price allocation for the step acquisition during the measurement period. The net income recorded in the quarter includes immaterial amount attributable to the non-controlling interest.

NOTE 5. BANK INDEBTEDNESS

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 $75,000. 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 $75,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility. As at March 31, 2019, the Corporation was debt-free under its credit facility. Bank indebtedness bears interest at the bankers' acceptance or LIBOR rates plus 1.20%. At March 31, 2019, the Corporation had letters of credit outstanding totalling $5,764 such that $69,236 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 6. LEASES

Accounting policy

At inception of a contract, the Corporation assesses whether the contract is, or contains, a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset. The Corporation assesses whether:

- the contract involves the use of an identified asset;

- it has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use; and
- it has the right to direct the use of the asset.

Lease accounting

The Corporation records a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at costs, consisting of:

- the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date; plus
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset or restore the site on which it is located, less
- any lease incentives received.

The right-of-use asset is typically depreciated on a straight-line basis over the lease term, unless the Corporation expects to obtain ownership of the leased asset at the end of the lease. The lease term consists of:

- the non-cancellable period of the lease;
- periods covered by options to extend the lease, where it is reasonably certain to exercise the option; and
- periods covered by options to terminate the lease, where it is reasonably certain not to exercise the option.

If the Corporation expects to obtain ownership of the leased asset at the end of the lease, the right-of-use asset will be depreciated over the underlying asset's estimated useful life. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method.

Lease payments included in the measurement of the lease liability include:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or rate;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that is reasonably certain to be exercised, lease payments in an optional renewal period if they are reasonably certain to be exercised as an extension option, and penalties for early termination of a lease unless it is reasonably certain that the lease will not be terminated early.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee, or if there is a change in the assessment of whether or not the purchase, extension or termination option will be exercised. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The lease liability is also remeasured when the underlying lease contract is amended. When there is a decrease in contract scope, the lease liability and right-of-use asset will decrease relative to this change with the difference recorded in net income prior to the remeasurement of the lease liability.

Variable lease payments

Certain leases contain provisions that result in differing lease payments over the term as a result of market rate reviews or changes in the Consumer Price Index (CPI) or other similar indices. The Corporation reassess the lease liabilities related to these leases when the index or other data is available to calculate the change in lease payments.

Certain leases require us to make payments that relate to property taxes, insurance, and other non-rental costs. These non-rental costs are typically variable and not dependent on index and rate and are not included in the calculation of the right-of-use asset or lease liability.

Lessor accounting

When the Corporation acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

In order to classify each lease as either finance or operating, the Corporation makes an overall assessment of whether the lease transfers to the leasee substantially all of the risks and rewards incidental to ownership of the underlying asset. If it does, the lease is a finance lease, if not, it is an operating lease.

Significant estimates and judgements

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend or terminate the lease. The lease term is estimated by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise the termination option. Both qualitative and quantitative assumptions are considered when deriving the value of the economic incentive.

The Corporation makes judgments in determining whether a contract contains an identified asset. The identified asset should be physically distinct or represent substantially all of the capacity of the asset, and should provide the Corporation with the right to substantially all of the economic benefits from the use of the asset.

Judgments are made by the Corporation in determining the incremental borrowing rate used to measure the lease liability for each lease contract, including an estimate of the asset-specific security impact. The incremental borrowing rate should reflect the interest rate that the Corporation would have to pay to borrow at a similar term and with a similar security.

Certain of the Corporation's leases contain extension or renewal options. At lease commencement, the Corporation assesses whether it will be reasonably certain to exercise any of the extension options based on its expected economic return from the lease. The Corporation periodically reassesses whether it will be reasonably certain to exercise the options and accounts for any changes at the date of the reassessment.

The majority of the Corporation's leases relate to the rental of land and buildings. Below is a summary of the activity related to the Corporation's lease liabilities for the three months ended March 31, 2019.

	Lease liabilities
At January 1, 2019	24,338
Net additions	358
Interest on lease liabilities	259
Payments	(901)
Foreign exchange and other	(527)
At March 31, 2019	23,527
Less current portion	(3,726)
	19,801

NOTE 7. 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 condensed consolidated interim statement of financial position is as follows:

	March 31 2019	December 31 2018
Pension Benefit Plans	11,376	11,850
Other Benefit Plan	958	976
	12,334	12,826

The discount rate assumption used in determining the obligation for pension and other benefit plans is selected based on a review of current market interest rates of high-quality, fixed rate debt securities adjusted to reflect the duration of the expected future cash outflows for pension benefit payments. As a result of a decrease in the market interest rate of high-quality, fixed rate debt securities, the Corporation changed the assumed discount rate for the Canadian and U.S. pension plans as at March 31, 2019 to 3.3% and 3.6% from the 3.8% and 4.1% rates used in calculating the pension obligation as at December 31, 2018, respectively. In addition, the return on plan assets has exceeded the expected return during the three month period ended March 31, 2019. 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 $239, net of taxes of $62 recorded in other comprehensive income in the first quarter of 2019.

NOTE 8. SHARE CAPITAL

Net income per share

	Three month period ended March 31 2019	Three month period ended March 31 2018
Net income	20,409	17,464
Weighted average number of shares	58,209	58,209
Basic and diluted net income per share	0.35	0.30

Dividends

On March 29, 2019, the Corporation paid quarterly dividends on 58,209,001 common shares of $0.10 per common share, amounting to $5,821 in the aggregate.

Subsequent to March 31, 2019, the Corporation declared dividends to holders of common shares in the amount of $0.10 per common share payable on June 28, 2019, for shareholders of record at the close of business on June 14, 2019.

NOTE 9. FINANCIAL INSTRUMENTS

Fair value hierarchy

The Corporation's financial assets and liabilities recorded at fair value on the condensed consolidated interim 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.

Fair values

The Corporation has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgement is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described as follows:

Cash, trade and other receivables, bank indebtedness and accounts payable and accrued liabilities

Due to the short period to maturity of these instruments, the carrying values as presented in the condensed consolidated interim statement of financial positions are reasonable estimates of their fair values.

Foreign exchange contracts

The Corporation enters into foreign forward exchange contracts to mitigate future cash flow exposures in United States dollars and Euros. Under these contracts the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in United States dollars and Euros.

The Company had forward foreign exchange contracts outstanding as at March 31, 2019 as follows:

	Amount	Floor	Ceiling
Maturity – 1 to 2 years – US dollar	30,000	1.2850	1.3263

As at March 31, 2019, the fair value of the outstanding foreign exchange contracts financial liabilities was $251, which was categorized within Level 2 of the fair value hierarchy. The corresponding unrealized loss was recorded in Other in the condensed consolidated interim statement of income.

Long-term debt

The carrying amount of the Corporation's long-term debt of $10,997 would approximate its fair value as at March 31, 2019.

Borrowings subject to specific conditions

As at March 31, 2019, the Corporation has recognized $24,696 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.

Collateral

As at March 31, 2019, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $45,627.

NOTE 10. 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 includes the design, development, manufacture, repair and overhaul and sale of systems and components for defence and civil aviation.

The Corporation's primary sources of revenue are as follows:

	Three month period ended March 31 2019	2018
Sale of goods	229,271	209,638
Services	40,613	34,987
	269,884	244,625

Timing of revenue recognition based on transfer of control is as follows:

	Three month period ended March 31 2019	2018
At a point of time	173,059	151,714
Over time	96,825	92,911
	269,884	244,625

Advance payments received for contracts in progress in excess of revenue recognized were recorded as contract liabilities and included in accounts payable, accrued liabilities and provisions on the condensed consolidated interim statement of financial position. As at March 31, 2019 contract liabilities were $8,029 [December 31, 2018 - $9,029].

Revenues from the Corporation's two largest customers accounted for 42.0% of total sales for the three month period ended March 31, 2019 [March 31, 2018 – two largest customers accounted for 41.8% of total sales for the three month period ended].

Geographic segments:

	Three month period ended March 31 2019				2018			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	90,701	84,819	94,364	269,884	78,656	79,576	86,393	244,625
Export revenue[1]	62,655	17,212	31,395	111,262	57,452	16,272	29,072	102,796

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

	March 31, 2019				December 31, 2018			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment, right-of-use assets, intangible assets and goodwill	194,968	202,425	155,804	553,197	189,294	185,032	152,401	526,727

NOTE 11. TAXATION

The Corporation's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Corporation operates in, adjusted for the main permanent differences identified. The effective tax rate for the three month period ended March 31, 2019 was 21.2% [22.3% for the three month period ended March 31, 2018]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the change in mix of income across the different jurisdictions in which the Corporation operates.

NOTE 12. MANAGEMENT OF CAPITAL

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

Total managed capital as at March 31, 2019 of $841,417 is comprised of shareholders' equity attributable to equity holder of the Corporation of $795,790 and interest-bearing debt of $45,627.

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 13. CONTINGENT LIABILITES AND COMMITMENTS

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

At March 31, 2019 capital commitments in respect of purchase of property, plant and equipment totalled $7,183, all of which had been ordered. There were no other material capital commitments at the end of the period.