2013

ANNUAL REPORT

MAGELLAN™
AEROSPACE

Magellan recognizes that the accomplishments over the past year would not have been achieved without the contributions of our stakeholders, including shareholders, employees and customers.

Whether you recently acquired your shares of Magellan Aerospace Corporation ("Magellan" or the "Corporation") or have held the Corporation's shares for a number of years, we offer sincere thanks for your support. Magellan recognizes that the accomplishments over the past year would not have been achieved without the contributions of our stakeholders, including shareholders, employees and customers. Magellan is pleased to have this opportunity to provide an overview of the past year's activities, including progress made on significant programs and fundamental practices that Magellan applied to conduct its business and deliver value to shareholders.

Magellan remains committed to continuous improvement through efforts consistently applied to production methodologies as well as the supporting business systems. These improvement initiatives impact positively the ability to meet customer requirements, maximize efficiencies in processes and increase the Corporation's profitability. Following a sustained period of profitability and a strengthening of the Corporation's balance sheet, Magellan commenced payment of a quarterly dividend on its common shares in the third quarter of 2013, reflecting the confidence of Magellan's Board of Directors in the Corporation's current business operations.

During 2013, Magellan solidified its participation on new, major aircraft platforms that align with the Corporation's core capabilities. Boeing, Airbus, and Lockheed Martin, three of the world's largest prime contractors of commercial and defence aircraft ("OEMs"), are each launching new products to the global market and Magellan is providing integrated solutions for complex assemblies and systems on each of their new platforms. Magellan is investing in technology, equipment, and know-how to support these programs through the development stage and as they evolve and mature into full production.

Magellan's core business lies within the global aircraft market and is diversified by participation in new space programs and also in industrial power generation markets. In September 2013, Magellan announced the award of a Cdn $110 million contract from MacDonald, Dettwiler and Associates Ltd. of Richmond, British Columbia for the manufacture of the satellite bus for and the RADARSAT Constellation Mission ("RCM") Satellite. The RCM contract is the Corporation's largest space contract to date for and which Magellan will design and produce three low earth orbit spacecraft buses.

Additionally, Magellan has established and maintained a competitive and viable supply chain which serves as a critical support element to the Corporation's core business and long term global growth strategy. Where there is an opportunity to support value-added requirements of its customers, Magellan will continue to develop and maintain its robust and reliable supply base. In this regard, in 2013, Magellan acquired a 49% ownership in Triveni Aeronautics PVT Ltd. based in southern India. Triveni is an established and high quality supplier of metallic components to the global aerospace market. Following the completion of the transaction, Magellan further invested in this enterprise by strengthening the local management team and adding machining capabilities to ensure support of the needs of our customers in this emerging market.

In 2013, Magellan's key financial indicators continued to show positive trends. Magellan's balance sheet strengthened year over year as the Corporation maintained a focus on debt retirement. Through the application of industry best practices as well as our own Magellan Operating System™ (MOS™), the Corporation continues to focus on optimizing performance in support of profitable growth and future business development.

MOS™ is the foundation for sustaining our operational excellence across all business units of the Corporation. Over the past year, Magellan noted measurable progress in the maturing of the MOS™ principles at our operational facilities, demonstrating that these principles are being adopted and put into practice by our employees. Additionally, a Magellan team has been working closely with the most recently acquired European facilities in Greyabbey and Blackpool in the United Kingdom and Mielec, Poland to standardize their processes utilizing the MOS™ methodologies and these efforts will continue in the coming year.

Magellan has been growing, largely through acquisition, since the mid 1990's, adding targeted aerospace capacity and capabilities that either improved the organizations' core efficiencies or offered opportunities for strategic growth. The Corporation will continue to assess the marketplace to identify business opportunities which would support and complement present operations. By applying the standardized processes of MOS™, the Corporation can hopefully migrate the risk of integrating new businesses into the Corporation and can accelerate the value-added contributions provided to customers.

Over the last number of years, Magellan has undertaken a comprehensive rationalization of the collective capabilities of our business. Magellan identified the core strengths of the organization where the market showed the business to be potentially world caliber in operation. Making the right investments in technology and capabili-

Through the application of industry best practices as well as our own Magellan Operating System™ (MOS™), the Corporation continues to focus on optimizing performance in support of profitable growth and future business development.

ties are essential to Magellan's ability to provide cost effective solutions for customer needs across product groups. In this direction Magellan has demonstrated industry-leading expertise in the areas of sand and magnesium castings, aeroengine shafts, hard metal machining, composites and assembly, metallic ribs and spars, power generation, and rockets and space. These core competencies are optimized to provide integrated and innovative solutions for complex customer requirements. The embedded technology and business disciplines provide customers with sustainable quality and delivery performance at a competitive cost.

An example is castings, where Magellan is known by its customers for its core competency to cast some of the most complex geometries in the industry. By combining our knowledge of emerging technologies, and 60-years of experience in applying casting technologies, Magellan has identified opportunities to transform and introduce step-change improvements in the business of manufacturing precision magnesium and aluminum castings. The investments and technologies we are applying to the casting process will bring significant change that will break through the traditional limitations of the casting process. The innovative application of technologies such as 3D sand printing, robotics, scanning and other improvements to conventional production processes will change the way a sand casting is produced. We intend to lead the industry in delivering new standards of quality, delivery and cost. Value to customers can be enhanced by utilizing Magellan's complimentary core capabilities to further process these cast parts into machined and kitted subassemblies.

Global demands in the aerospace sector today are stable. Challenges for the industry are to meet demanding production schedules, stay innovative, and adopt the new technologies required to support aerospace market demands of tomorrow. Magellan's experienced and professional team is enthusiastic as they face these challenges and as they offer their contributions to the evolving industry technologies that could only be dreamed of a generation ago.

JSButyniec

James S. Butyniec
President and Chief Executive Officer

March 21, 2014

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 audited consolidated financial statements and the notes thereto for the years ended December 31, 2013 and 2012, and the Annual Information Form for the year ended December 31, 2013 (available on SEDAR at www.sedar.com). This MD&A provides a review of the significant developments that have impacted the Corporation's performance during the year ended December 31, 2013 relative to the year ended December 31, 2012. The information contained in this report is as at March 21, 2014. 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", "2013 and Recent Updates", "Outlook", "Consolidated Revenues", "Liquidity and Capital Resources", "Risk Factors" and "Future Changes in Accounting Policies". 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 in 2013 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 a result of 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 Generally Accepted Accounting Principles ("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 2013 events

Magellan is a diversified supplier of components to the aerospace industry and in certain applications for power generation projects. Through its wholly owned subsidiaries, Magellan engineers and manufactures aeroengine and aerostructure components for aerospace markets, including advanced products for defence and space markets and complementary specialty products. The Corporation also supports the aftermarket through the supply of spare parts as well as through repair and overhaul services and in certain circumstances parts and equipment for power generation projects.

The Corporation has focused on improving operations, improving its balance sheet and on leveraging core competencies in its strategic business development activities. During 2013, key performance indicators reflected the success of the Corporation's MOS™ program. MOS™ is the Magellan Operating System adopted in 2007 which standardizes and instills best practices in the Corporation's divisions. This program and its policies and procedures have been firmly embedded in daily operations and continue to produce positive results. Through cash generation from improved operating performance, the balance sheet has improved year over year. Management, in utilizing the positive cash generation, has maintained a year over year focus on debt retirement. Recent new program awards have confirmed the value of the Corporation's core competency strategy as it pursues new work opportunities.

Magellan is organized and managed as two business segments and is viewed as two operating segments by the chief operating decision-makers, for the purpose of resource allocations, assessing performance, and strategic planning. These two segments are: Aerospace and Power Generation Project. The Corporation supplies both the commercial and defence sectors of the Aerospace segment. In the commercial sector, the Corporation is active in the large commercial jet, business jet, regional aircraft and helicopter markets. On the defence side, the Corporation provides parts and services for major military aircraft. Magellan's sole product for the Power Generation Project segment is an electric power generation project in the Republic of Ghana.

The Corporation's percentages of revenues by segment are as follows:

	2013	2012
Aerospace	**99.7%**	94%
Power Generation Project	**0.3%**	6%
	100%	100%

Within the Aerospace segment, the Corporation has two major product groupings: aerostructures and aeroengines. Aerostructure and aeroengine products are used both in new aircraft and for spares and replacement parts.

The Corporation supplies aerostructure products to an international customer base in the commercial and defence markets. Components are produced to aerospace tolerances using conventional and high-speed automated machining centres. Capabilities include precision casting of airframe-mounted components. Management believes that Magellan's dedication to technological innovation combined with low cost sourcing from emerging markets will position the Corporation to capture targeted complex assembly programs.

Within the aeroengines product grouping, the Corporation manufactures complex cast, fabricated and machined gas turbine engine components, both static and rotating, and integrated nacelle components, flow paths and engine exhaust systems for the world's leading aeroengine manufacturers. The Corporation also performs repair and overhaul services for jet engines and related components.

The Power Generation Project segment is a specialty product complementary to the Corporation's principal business. The Corporation's sole product in the Power Generation Project segment is an electric power generation project in the Republic of Ghana that was substantially completed in 2013. While a number of power generation project opportunities are being considered, at this time the Corporation does not have any other committed projects.

The Corporation serves both the commercial and defence markets. In 2013, for the Aerospace segment, 73% of revenues were derived from commercial markets (2012 – 70%, 2011 – 67%) while 27% of revenues related to defence markets (2012 – 30%, 2011 – 33%).

2013 and Recent Updates

- On June 17, 2013, Magellan announced that it had signed a Memorandum of Agreement ("MOA") with BAE Systems for work on the F-35 Lightning II program ("F-35 program"). Under the agreement Magellan will produce more than 1,000 sets of horizontal tails for the Conventional Take Off and Landing ("CTOL") variant of the F-35 program over a 20-year period. The agreement formalizes the continuation of the strategic relationship between BAE Systems and Magellan. Magellan will produce F-35A horizontal tail assemblies using components that require advanced composite manufacturing, machining capabilities, and strict quality standards. The majority of the components used for the assembly are produced at various Magellan facilities. The F-35A horizontal tail production under the MOA has a potential value of over Cdn$1.2 billion over the life of the program. Magellan has achieved sales of more than Cdn$121M on the F-35 as at December 31, 2013.

- Magellan announced on September 4, 2013 the award of a Cdn$110 million contract from MacDonald, Dettwiler and Associates Ltd. of Richmond, British Columbia for the RADARSAT Constellation Mission ("RCM") satellite bus manufacture. The RCM is comprised of three low earth orbit spacecraft, each carrying a C-band Synthetic Aperture Radar payload. RCM is a Canadian Space Agency mission that will provide twenty-four-hour-a-day C-Band data to augment and extend the data that RADARSAT-2 users currently rely on. The mission will support maritime surveillance (ship detection, ice monitoring and oil spill detection), disaster management and ecosystem monitoring. The primary areas of coverage are Canada and its surrounding Arctic, Pacific and Atlantic maritime areas. The launch is planned in 2018.

- On September 30, 2013, Magellan announced the first launch of its MAC-200 Bus on the Cascade SmallSat and IOnospheric Polar Explorer ("CASSIOPE") satellite from the Vandenberg Air Force Base, California on a Falcon 9 launch vehicle. CASSIOPE is a multi-purpose mission carrying 8 unique instruments to conduct space environment research (collectively called e-POP) and advanced telecommunications technology demonstration (termed Cascade).

- Magellan announced on October 16, 2013, that the first complete ship set of F-35A horizontal tail assemblies produced at its Winnipeg manufacturing division was successfully installed onto the aircraft at Lockheed Martin's final assembly line in Fort Worth, Texas. This successful installation of Magellan's F-35A horizontal tail assemblies was a key program milestone for the Corporation and demonstrated the many contributions being made by Canadian aerospace companies in the early stages of the F-35 program.

- An announcement was made on November 8, 2013 that an agreement had been reached between Airbus and Magellan securing a major work package on the Airbus A350 XWB. The package, which is in addition to other supply contracts Magellan has on the A350 XWB, consists of a series of machined and assembled structural components for the fuselage structure in this aircraft which supports the cabin storage bins and aircraft systems and is worth approximately United States $45 million over the next 4 years.

- The Corporation announced on January 22, 2014 that an agreement had been reached between Airbus and Magellan securing a significant work package to manufacture and supply complex, 5-axis machined wing ribs for Airbus' single aisle A320 product family including the A320neo. This additional work package complements the existing A320 wing ribs manufactured by Magellan. The work package is expected to generate revenues of approximately United States $20 million over the next 5 years. Magellan will invest in a new high-speed, 5-axis machining centre to be located in its facility in Greyabbey, Northern Ireland, enhancing the capabilities of the existing machining facilities.

- On March 3, 2014, Magellan announced that the first Magellan-manufactured horizontal tail assembly installed on an F-35A Lightning II aircraft was successfully flown for the first time on February 26, 2014. The Magellan horizontal tail assembly flew on aircraft AF-46, an F-35A CTOL variant, from Lockheed Martin's final assembly line in Fort Worth, Texas. The first flight of this Canadian-manufactured tail assembly marks an important milestone for Magellan as a major Canadian supplier to the international F-35 program.

Labour Matters
Labour agreements at five of the Corporation's facilities expired during the year ended December 31, 2013. Three of those labour agreements were successfully re-negotiated with new contract periods ending in 2016. The Corporation is currently in negotiations on the two remaining labour agreements that expired on December 31, 2013. Three labour agreements at two of the Corporation's facilities expire in 2014. The Corporation has commenced negotiation at one facility as the agreement expires March 31, 2014.

Financing Matters
On December 21, 2012, the Corporation extended the 7.5% loan payable ("Original Loan") to Edco Capital Corporation ("Edco"), a corporation controlled by the Chairman of the Board of Directors of the Corporation (the "Board") to January 1, 2015 in consideration of the payment of a fee to Edco equal to 0.75% of the principal amount outstanding at the time of extension. During 2013, the Corporation fully repaid the Original Loan.

On December 21, 2012, the Corporation also amended its credit agreement with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was decreased to a Canadian dollar limit of $115.0 million (down from $125.0 million) plus a United States dollar limit of $35.0 million (down from United States $50.0 million), with a maturity date of December 21, 2014. The credit agreement also includes a Cdn$50 million uncommitted accordion provision which will provide Magellan with the option to increase the size of the operating credit facility to $200 million. The facility is extendible for unlimited one year renewal periods, subject to mutual consent of the syndicate of lenders and the Corporation. The operating credit facility continues to be fully guaranteed until December 21, 2014 by Mr. Edwards, the Chairman of the Board, in consideration of the continued payment by the Corporation of an annual fee, payable monthly, equal to 0.50% (down from 0.63%) of the loan amount.

The terms of the operating credit facility continue to permit the Corporation to repay, in whole or in part, the Original Loan from Edco provided there is no current default or event of default under the operating credit facility and after the repayment of the Original Loan the Corporation has at least $25.0 million in availability under the operating credit facility.

On April 30, 2012, $2 million Convertible Debentures then outstanding and held by a director of the Corporation were converted into 2,000,000 Common Shares of the Corporation.

2. OUTLOOK

The outlook for Magellan's business in 2014

The Corporation remains confident in the strength of its present market position and is encouraged by the market trends observed in 2013. Magellan's participation on new platforms such as the A320neo and the A350, the B737 MAX and the B787 and the F-35 are providing good counterbalance to maturing legacy programs. Ongoing efforts to secure further work on next generation aircraft platforms are achieving success, as evidenced by a recent announcement awarding Magellan additional wing ribs on the A320neo platform.

Boeing's single aisle aircraft production rates continue to be strong with B737 production now at 42 aircraft per month with a plan to increase to 45 aircraft per month by late 2015. Airbus expects to maintain their A320 production rate at 42 aircraft per month through 2014 and then increase to 44 aircraft per month by March 2015. Magellan's participation on these platforms bodes well for the foreseeable future.

Wide-body aircraft rates remain strong with Boeing's B787 now achieving a production rate of 10 aircraft per month. Boeing is presently forecasting an increase to 12 aircraft per month in 2016 and possibly 14 aircraft per month later in the decade. Airbus has also reached its planned A380 steady-state production rate of 30 aircraft per year. The A350 is scheduled to ramp up in 2014 starting with an annual production rate of 16 aircraft per year, going to 36 aircraft in 2015, 70 aircraft in 2016 and reaching an expected peak rate of 156 aircraft per year by 2018.

With continuing weak demand for small to medium business jets, the prevailing opinion is that this market will not achieve previous peak production levels in the next 10-year period. Since the market peak of 2008, larger, longer-range business jet models have outperformed their smaller counterparts. Magellan participates on some of the newer and more successful platforms in this global market.

In the regional jet and turboprop marketplace, there is significant competition. Bombardier and ATR have continued to work in a contracting turboprop market. Production rates for Magellan supported product are expected to remain at approximately 24 – 30 aircraft per year. In the regional jet market, Embraer and Bombardier are both developing programs to compete in the "100" seat class of the small single aisle commercial marketplace. Magellan provides some support in this sector primarily through its production of aero-engine castings.

Visibility in the United States defence market improved during 2013 as the United States government approved the 2014/2015 budget that permits the Pentagon to prioritize programs rather than have them cut indiscriminately by sequestration. As the conflict between budget capacity and operational capability has not been eliminated, fewer orders for more highly capable platforms remain a possible outcome. The Corporation, through a number of its divisions, continues to support some United States and Canadian legacy products in the defence market.

The Corporation continues to invest in technology and resources in support of Lockheed Martin's F-35 Strategic Fighter Program ("F-35 program"). This past year's successful completion of major program milestones by Lockheed and their partners is encouraging to the F-35 program's customers and the supply base. The Corporation will benefit from recently announced foreign military sales as they solidify the F-35 program's backlog. The Canadian government procurement decision for the next generation fighter is still under consideration and review. Magellan continues on track to mature its capabilities in support of the F-35 program requirements.

The North American helicopter market remains driven primarily by United States defence spending. The United States Army is planning to consolidate its helicopter force with a net effect of removing approximately 540 ageing aircraft from service. Including a few other rotorcraft retirements, the overall move is expected to save the United States military some $1 billion annually in direct operating costs and sustainment costs. Defence budget cuts are also being made by reducing the quantities in multi-year procurement agreements. On a positive note, Sikorsky/Boeing, Bell Helicopter and other helicopter manufacturers are encouraged that funding is still slated for the United States Army's Joint Multi Role technology demonstration program. This will be the precursor to the Future Vertical Lift program which is to replace H-60 Blackhawk and AH-64 Apache platforms beginning in 2035. Magellan's support to the helicopter marketplace comes primarily from its aeroengine and casting capabilities. In February 2014, the Canadian federal government released Canada's Space Policy Framework, a guide for the Canadian space program's future priorities and activities. By releasing this framework, the government has acknowledged the importance of Canadian innovation and industry. This type of government commitment is fundamental to supporting the domestic space industry and programs in which Magellan invests and participates.

In conclusion, the Corporation anticipates that 2014 will continue to exhibit results reflective of the strong backlogs in the commercial aerospace part of the business. The current market, which is supported by the continued development of a number of new programs, is expected to remain strong in the coming year. Magellan's activity in support of legacy defence work has stabilized and this stability, complimented by the continued maturing of the F-35 program, should assist the Corporation in managing risk in this market place. The Corporation continues to assess the marketplace to identify complimentary opportunities which are in line with its core competencies.

3. SELECTED ANNUAL INFORMATION

A summary of selected annual financial information for 2013, 2012 and 2011

Restatement of Comparatives

Effective January 1, 2013, the Corporation implemented the new IFRS 11, Joint Arrangements and the amended IAS 19, Employee Benefits. Certain comparative figures provided for the year ended December 31, 2012 have been restated to reflect the adoption of these accounting standards. The adjustments to the consolidated statements of financial position, net income, comprehensive income and cash flows as a result of the changes are discussed further in "Changes in Accounting Policies".

Expressed in millions of dollars, except per share information	2013	2012	2011
Revenues	**752.1**	704.0	691.4
Net income for the year	**45.5**	57.0	37.4
Net income per common share – Basic	**0.78**	0.99	2.04
Net income per common share – Diluted	**0.78**	0.98	0.73
EBITDA	**100.8**	100.8	91.6
EBITDA per common share – Diluted	**1.73**	1.73	1.57
Total assets	**791.9**	755.0	661.7
Total long-term liabilities	**99.3**	267.0	260.5

Revenues for the year ended December 31, 2013 increased from 2012 and 2011 levels. The increase in revenues from 2012 is largely attributable to increased delivery of new aircraft for the global commercial aerospace market. Net income decreased in 2013 from 2012 due to an after tax gain on bargain purchase of $7.4 million recognized in 2012 on the purchase of John Huddleston Engineering Limited ("JHE") as the consideration paid was lower than the fair value of the identifiable tangible assets acquired and the recognition in 2012 of previously non-recurring unrecognized investment tax credits (see "Results of Operations – Gross Profit") and deferred tax assets (see "Results of Operations – Income Taxes"). During 2013, the Corporation paid quarterly dividends on common shares of $0.03 per share in both the third and fourth quarter, amounting to $3.5 million. During 2011, the Corporation redeemed all of the outstanding Preference Shares Series A and declared dividends thereon at an annual rate of $0.80 per share.

4. RESULTS OF OPERATIONS

A discussion of Magellan's operating results for 2013 and 2012

The Corporation's revenues by segment were as follows:

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012	Change
Aerospace	**749,934**	658,762	13.8%
Power Generation Project	**2,192**	45,278	(95.2)%
Total revenues	**752,126**	704,040	6.8%

Consolidated Revenues

Consolidated revenues for the year ended December 31, 2013 increased 6.8% to $752.1 million from $704.0 million last year, due mainly to increased revenues earned in the Corporation's Aerospace segment offset, in part, by reduced revenues in the Corporation's Power Generation Project segment. Record backlogs and increased volumes experienced by the original equipment manufacturers ("OEM's") in the global commercial aerospace market contributed to the increased revenues in the Aerospace segment.

Aerospace Segment

Revenues for the Aerospace segment were as follows:

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012	Change
Canada	**299,297**	292,215	2.4%
United States	**232,260**	199,917	16.2%
Europe	**218,377**	166,630	31.1%
Total revenues	**749,934**	658,762	13.8%

Aerospace revenues for the year ended December 31, 2013 were $749.9 million, an increase of $91.2 million or 13.8% over the previous year. Increased revenues in Canada in 2013 of 2.4% in comparison to revenues earned in 2012 resulted from higher volumes experienced in the year for proprietary products offset in part by lower revenues in repair and overhaul. Revenues in the United States, in native currency, were higher in 2013 when compared to 2012 as the Corporation's volumes increased on several single aisle aircraft programs as well as on new programs introduced over the last few years. Revenues in Europe increased in 2013 in comparison to 2012 revenues mainly due to higher production levels resulting from increased order intake and the business acquisition of JHE in the third quarter of 2012.

Revenues increases in both the United States and in Europe were also attributed to the favourable foreign exchange impact on the translation of foreign operations to Canadian dollars resulting from a stronger United States dollar and British pound in 2013 against the Canadian dollar when compared to 2012 and higher revenue generated in United States and Europe in 2013. If average exchange rates for both the United States dollar and British Pound experienced in 2012 remained constant in 2013, consolidated revenues for 2013 would have been approximately $734.4 million or approximately $15.5 million lower than actually realized in 2013.

Power Generation Project Segment

Revenues for the Power Generation Project segment were as follows:

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012	Change
Power Generation Project	**2,192**	45,278	(95.2)%
Total revenues	**2,192**	45,278	

Revenues earned in 2013 and 2012 are from the Corporation's Ghana electric power generation project. The Ghana Power Generation Project ("the Project") was substantially completed as at March 31, 2013. During 2013, the Corporation was notified of the mechanical breakdown of the turbines in the Project. The Corporation and Ghana have contracted with an independent arbitrator to assess the cause of the damage and are awaiting a final report of the findings. Repairs of the equipment are currently underway. Based on internal assessments of the cause of the failure, the Corporation has not recorded any provisions in 2013. Additional revenues may be recorded as the Corporation continues to support the commercial operation of the Project; however, revenues from the Power Generation Project segment will continue to decrease unless the Corporation receives further contracts in this area.

Gross Profit

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012	Change
Gross Profit	**112,327**	98,798	13.7%
Percentage of revenue	**14.9%**	14.0%	

Gross profit increased by $13.5 million from 2012 levels of $98.8 million to $112.3 million in 2013. Gross profit, as a percentage of revenues, was higher in 2013 at 14.9% versus 14.0% in 2012. Increased gross profit in 2013 was attributed to improved efficiencies, product mix and increased volumes experienced at a number of the Corporations locations. Higher costs associated with the work stoppage at one location and higher start-up costs associated with new programs in 2012 was somewhat offset by the recognition of non-recurring unrecognized investment tax credits from previous fiscal years of $10.4 million.

Administrative and General Expenses

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012	Change
Administrative and general expenses	**45,481**	38,972	16.7%
Percentage of revenue	**6.0%**	5.5%	

Administrative and general expenses increased to $45.5 million in 2013 from $39.0 million in 2012. Administrative and general expenses increased to support services and as a result of the acquisition of JHE in the third quarter of 2012.

Other

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012
Foreign exchange gain	**(142)**	(540)
Gain on settlement of long-term liabilities	**(1,031)**	–
Loss on disposal of property, plant and equipment	**576**	363
Other	**(597)**	(177)

Included in other income is a foreign exchange gain of $0.1 million in 2013 compared to a gain of $0.6 million in 2012, resulting from the change in foreign exchange rates on the Corporation's United States dollar denominated working capital balances and debt in Canada, and foreign exchange contracts. The Corporation reached a favourable agreement in 2013 on the settlement of its borrowings subject to specific conditions and recorded a gain of $1.0 million. In 2013 and 2012, the Corporation retired assets for a loss on disposal of approximately $0.6 million and $0.4 million, respectively.

Gain on Bargain Purchase

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012
Gain on bargain purchase	**–**	(9,597)
Gain on bargain purchase	**–**	(9,597)

On August 31, 2012, the Corporation purchased all of the issued and outstanding shares of the capital stock of JHE. As the result of such purchase, the Corporation recognized a gain on bargain purchase in 2012 of $9.6 million on such acquisition of JHE as the consideration paid for the identifiable tangible assets acquired was lower than the fair value, as determined by an independent valuation specialist.

Interest Expense

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012
Interest on bank indebtedness and long-term debt	**6,935**	7,923
Convertible debenture interest	**–**	66
Accretion charge on long-term debt and borrowings	**(916)**	541
Discount on sale of accounts receivable	**702**	648
Interest expense	**6,721**	9,178

Interest costs for 2013 were $6.7 million, a decrease of $2.5 million from 2012 levels. Interest on bank indebtedness and long-term debt in 2013 decreased as principal amounts outstanding during 2013 were lower than 2012 levels. Lower interest rate spreads on bank indebtedness also contributed to the reduction in interest expense in 2013 when compared to 2012. Increased long-term bond rates resulted in a recovery of previously recorded accretion charge in 2013 when compared to 2012. During 2013, the Corporation sold $256.2 million of accounts receivable at an annualized interest rate of 1.73% compared to the sale of $227.7 million of receivables in 2012 at an annualized interest rate of 1.83%.

Income Taxes

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012
Current income tax expense	**3,893**	2,925
Deferred income tax expense	**11,346**	453
Income tax expense	**15,239**	3,378
Effective tax rate	**25.1%**	5.6%

The Corporation recorded an income tax expense in 2013 of $15.2 million on pre-tax income of $60.7 million, representing an effective tax rate of 25.1%, compared to an income tax expense of $3.4 million on a pre-tax income of $60.4 million in 2012 for an effective tax rate of 5.6%.

During each of 2013 and 2012, the Corporation recognized investment tax credits in Canada totalling $7.4 million and $16.4 million, respectively, as a reduction of cost of revenues, as the Corporation has determined that it will be able to benefit from these investment tax credits. The increase in the effective tax rate to 25.1% in 2013 when compared to 5.6% in 2012 was attributed to the recognition of an additional $13.0 million of non-recurring deferred tax assets in Canada as a reduction of the 2012 deferred income tax expense as the benefit from previously unrecorded loss carry forwards and other deferred tax assets were assessed as recoverable.

5. 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 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 component of this measure is 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.

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012
Net income	**45,483**	57,044
Interest	**6,721**	9,178
Taxes	**15,239**	3,378
Depreciation and amortization	**33,309**	31,227
EBITDA	**100,752**	100,827

EBITDA for the year ended 2013 was consistent with 2012 at $100.8 million. Increased revenue levels and improved margins in 2013 over 2012 were partially offset by the gain on bargain purchase of JHE of $9.6 million and the recognition of approximately $10.4 million of additional non-recurring unrecognized investment tax credits recorded in 2012.

6. SELECTED QUARTERLY FINANCIAL INFORMATION

A summary view of Magellan's quarterly financial performance

Expressed in millions of dollars except per share information				2013				2012
	Mar 31	**Jun 30**	**Sep 30**	**Dec 31**	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**
Revenues	**185.3**	**189.9**	**181.0**	**195.9**	186.8	169.3	161.4	186.4
Income before taxes	**11.0**	**15.5**	**13.2**	**21.0**	13.5	10.9	18.0	18.0
Net income	**8.0**	**11.2**	**9.5**	**16.8**	11.5	8.9	14.9	21.8
Net income per common share								
Diluted	**0.14**	**0.19**	**0.16**	**0.29**	0.20	0.15	0.26	0.37
EBITDA[1]	**21.3**	**25.6**	**22.9**	**31.0**	23.0	21.2	27.7	28.9

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

The Corporation recorded its highest quarterly revenue in the fourth quarter of 2013. Revenues and net income reported in the quarterly information was impacted favourably by the fluctuations in the Canadian dollar exchange rate in comparison to the United States dollar and British Pound. The United States dollar/Canadian dollar exchange rate in 2013 fluctuated reaching a low of 0.9837 and a high of 1.0711. During 2013, the United States dollar relative to the Canadian dollar moved from an exchange rate of 0.9949 at the start of the 2013 calendar year to an exchange rate of 1.0636 by December 31, 2013. The British Pound/Canadian dollar exchange rate in 2013 fluctuated reaching a low of 1.5291 and a high of 1.7986. During 2013, the British Pound relative to the Canadian dollar moved from an exchange rate of 1.6178 at the start of the 2013 calendar year to an exchange rate of 1.7627 by December 31, 2013. Had exchange rates remained at levels experienced in 2012, reported revenues in 2013 would have been impacted minimally in the first and second quarter and would have been lower by $5.5 million in the third quarter and $9.2 million in the fourth quarter.

Net income in the third quarter of 2012 was higher than each of the first two quarters of 2012 as the Corporation recognized an after tax gain on bargain purchase of $7.4 million on the acquisition of JHE as the consideration paid was lower than the fair value of the identifiable tangible assets acquired at the time of purchase. Net income for the fourth quarters of 2013 and 2012 of $16.8 million and $21.8 million, respectively, was higher than all other quarterly net income shown in the table above. In the fourth quarter of 2013 and 2012 the Corporation recognized a reversal of previous impairment losses against intangible assets relating to various commercial aircraft programs and in the fourth quarter of 2012 the Corporation recognized previously unrecognized investment tax credits as discussed above in "Results of Operations – Gross Profit", and recognized other deferred tax assets as discussed above in "Results of Operations – Income Taxes" as the Corporation determined that it will be able to benefit from these assets.

7. 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 and capital expenditures. 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 costs for 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.

In 2013, $69.8 million of cash was generated by operations, $44.4 million was used in investing activities and $41.2 million was used in financing activities. Cash decreased by $14.6 million in the year from $22.4 million to $7.8 million.

Cash Flow from Operating Activities

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012
Increase in accounts receivable	**(8,126)**	(20,048)
Increase in inventories	**(6,698)**	(17,293)
Increase in prepaid expenses and other	**(5,886)**	(502)
Increase in accounts payable, accrued liabilities and provisions	**10,412**	14,872
Net change in non-cash working capital items	**(10,298)**	(22,971)
Cash provided by operating activities	**69,819**	38,473

Operating activities for 2013 generated cash of $69.8 million compared to $38.5 million in the prior year. Changes in non-cash working capital items used cash of $10.3 million as a result of increases in accounts receivable, inventories and prepaid expenses offset in part by an increase in accounts payable, accrued liabilities and provisions. The increase in accounts receivable during the year is attributed primarily to the movement in accrued receivables. Increased inventory levels in 2013 were to support higher production volumes on a number of programs. In 2012, changes in non-cash working capital of $23.0 million were principally a result of an increase in accounts receivable and inventories, offset by an increase in accounts payable, accrued liabilities and provisions.

Cash Flow from Investing Activities

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012
Acquisition of JHE	**–**	(13,641)
Investment in joint venture	**(3,994)**	–
Purchase of property, plant and equipment	**(31,299)**	(33,699)
Proceeds from disposals of property, plant and equipment	**486**	187
Increase in other assets	**(9,582)**	(8,510)
Cash used in investing activities	**(44,389)**	(55,663)

The Corporation invested $31.3 million in capital assets during the year in comparison to $33.7 million in 2012. The Corporation continues to invest in advanced technology production equipment and information technology systems, both designed to increase productivity, reduce cycle time and improve technology capability.

In the third quarter of 2013, the Corporation invested $4.0 million in acquiring a 49% interest in Triveni Aeronautics Private Limited, an aerospace components manufacturing company based in India. In August 2012, the Corporation completed the acquisition of JHE. The final purchase price was $13.7 million, net of cash acquired. Investments made in both companies were financed from the Corporation's operating credit facility.

Contractual Obligations

As at December 31, 2013, expressed in thousands of dollars	Less than 1 year	1-3 Years	4-5 Years	After 5 Years	Total
Bank indebtedness	115,930	–	–	–	115,930
Long-term debt[1]	30,932	7,651	9,270	31,445	79,298
Equipment leases	397	700	319	101	1,517
Facility leases	1,691	3,146	2,449	5,338	12,624
Other long-term liabilities	1,565	1,484	1,268	1,887	6,204
Borrowings subject to specific conditions	1,711	2,310	1,716	13,610	19,347
Total Contractual Obligations	**152,226**	**15,291**	**15,022**	**52,381**	**234,920**

[1] The Corporation's accounts receivable securitization program is included in long-term debt in the less than 1 year category

Major cash flow requirements for 2013 include the repayment of long-term debt of $30.9 million of which $26.0 million is expected to be refinanced, payments of equipment and facility leases of $2.1 million and other long-term liabilities of $1.6 million.

On December 21, 2012, the Corporation amended its credit agreement with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was decreased to a Canadian dollar limit of $115.0 million (down from $125.0 million) plus a United States dollar limit of $35.0 million (down from United States $50.0 million), with a maturity date of December 21, 2014. The credit agreement also includes a Cdn$50.0 million uncommitted accordion provision which provides the Corporation with the option to increase the size of the operating credit facility to $200.0 million. The facility is extendible for unlimited future one year renewal periods, subject to mutual consent of the syndicate of lenders and the Corporation. The operating credit facility continues to be fully guaranteed until December 21, 2014 by the Chairman of the Board of the Corporation in consideration of the continued payment by the Corporation of an annual fee, payable monthly, equal to 0.50% (down from 0.63%) of the loan amount.

As at December 31, 2013 the Corporation has made contractual commitments to purchase $11.9 million of capital assets. In addition, the Corporation also has purchase commitments, largely for materials required for the normal course of operations, of $299.3 million as at December 31, 2013. The Corporation plans to fund all of these capital commitments with operating cash flow and the existing credit facility.

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 21, 2014, 58,209,001 common shares were outstanding. More information on the Corporation's share capital is provided in Note 16 of the consolidated financial statements.

In each of the third and fourth quarter of 2013, the Corporation declared and paid quarterly cash dividends of $0.03 per common share representing an aggregate dividend payment of $3.5 million (2012 – $nil).

In the first quarter of 2014, the Corporation declared cash dividends of $0.04 per common share payable on March 31, 2014 to shareholders of record at the close of business on March 14, 2014.

8. FINANCIAL INSTRUMENTS

A summary of Magellan's financial instruments

Derivative Contracts

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian dollar denominated financial statements of the Corporation's subsidiaries may vary on consolidation into the reporting currency of Canadian dollars. The Corporation from time to time may use derivative financial instruments to help manage foreign exchange risk with the objective of reducing transaction exposures and the resulting volatility of the Corporation's earnings. The Corporation does not trade in derivatives for speculative purposes. Under these contracts the Corporation is obligated to purchase specified amounts at predetermined dates and exchange rates. These contracts are matched with anticipated cash flows in United States dollars.

The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. The Corporation had no foreign exchange contracts outstanding as at December 31, 2013.

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.

9. RELATED PARTY TRANSACTIONS

A summary of Magellan's transactions with related parties

On December 21, 2012, the Original Loan was extended to January 1, 2015. During 2013, the Corporation incurred interest of $2.0 million [2012 – $2.3 million] in relation to the Original Loan and prepaid the balance of the Original Loan in the amount of $30.0 million [2012 – $3.5 million]. At December 31, 2013, the Corporation owed Edco interest of $nil [2012 – $0.2 million].

On April 30, 2012, Convertible Debentures in the principal amount of $2.0 million held by a director of the Corporation were converted into 2,000,000 common shares of the Corporation. Interest incurred during the year ended December 31, 2012 on the Convertible Debentures was $0.1 million.

The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the Corporation's operating credit facility. An annual fee averaging 0.5% [2012 – 0.63%] of the guaranteed amount or $0.8 million [2012 – $1.1 million] was paid in consideration for the guarantee.

During the year, the Corporation incurred consulting costs of $0.1 million [2012 – $0.1 million] payable to a corporation controlled by the Chairman of the Board of the Corporation.

10. RISK FACTORS

A summary of risks and uncertainties facing Magellan

The Corporation's performance may be affected by a number of risks and uncertainties. Magellan's senior management identifies key risks and has processes in place to help monitor, manage and mitigate these risks. Additional risks and uncertainties not presently known by the Corporation, or that the Corporation does not currently anticipate may be material and may impair the Corporation's performance.

The following risks and uncertainties apply to the Corporation. Additional information relating to risks and uncertainties are set forth in the Corporation's Annual Information Form on SEDAR at www.sedar.com.

The Corporation faces risks from downturns in the domestic and global economies

Potential loss due to unfavourable economic conditions, such as a macroeconomic downturn in key markets, could result in potential buyers postponing the purchase of the Corporation's products or services, lower order intake, order cancellations or deferral of deliveries, lower availability of customer financing, downward pressure on selling prices, increased inventory levels, decreased level of customer advances, slower collection of receivables, reduction in production activities, discontinued production of certain products, termination of employees and adverse impacts on the Corporation's suppliers.

The Corporation cannot predict the depth or duration of downturns in the domestic and global economies nor the effects on markets that the Corporation serves, particularly the airline industry. The Corporation's ability to increase or maintain its revenues and operating results may be impaired as a result of negative general economic conditions. The recent economic uncertainty renders estimates of future revenues and expenditures even more difficult than usual to formulate. The future direction of the overall domestic and global economies could have a significant impact on the Corporation's overall financial performance and may impact the value of its Common Shares.

Factors that have an adverse impact on the aerospace industry may adversely affect the Corporation's results of operations.
The majority of the Corporation's gross profit is derived from the aerospace industry. The Corporation's aerospace operations are focused on engineering and manufacturing aircraft components on new aircraft, selling spare parts and performing repair and overhaul services on existing aircraft and aircraft components. Therefore, the Corporation's business is directly affected by economic factors and other trends that affect the Corporation's customers in the aerospace industry, including a possible decrease in outsourcing by aircraft operators and OEM's, decreased demand for air travel or projected market growth that may not materialize or be sustainable. The price of fuel in the past has increased the pressure on the operating margins of aircraft companies which reduces their ability to finance capital expenditures. Constraints in the credit market may reduce the ability of airlines and others to purchase new aircraft, negatively affecting the demand for the Corporation's products. When these economic and other factors adversely affect the aerospace industry, they tend to reduce the overall customer demand for the Corporation's products and services, which decreases the Corporation's operating income.

Economic and other factors both internal and external to the aerospace industry might affect the aerospace industry and may have an adverse impact on the Corporation's results of operations. More specifically, a number of additional external risk factors may include the financial condition of the airline industry, commercial aerospace customers and government aerospace customers; government policies related to import and export restrictions and business acquisition; changing priorities and possible spending cuts by government agencies; government support for export sales; world trade policies; increased competition from other businesses, including new entrants in market segments in which we compete. In addition, acts of terrorism, natural disasters, global health risks, political instability or the outbreak of war or continued hostilities in certain regions of the world could result in lower orders or the rescheduling or cancellation of part of the existing order backlog for some of the Corporation's products.

Cancellations, reductions or delays in customer orders may adversely affect the Corporation's results of operations.
The Corporation's overall operating results are affected by many factors, including the timing of orders from large customers and the timing of expenditures to manufacture parts and purchase inventory in anticipation of future sales of products and services. A large portion of the Corporation's operating expenses is relatively fixed. Because several of the Corporation's operating locations typically do not obtain long-term purchase orders or commitments from customers, the Corporation must anticipate the future volume of orders based upon the historic purchasing patterns of customers and upon discussions with customers as to their anticipated future requirements. These historic patterns may be disrupted by many factors, including changing economic conditions, inventory adjustments, work stoppages or labour disruptions. Cancellations, reductions or delays in orders by a customer or group of customers could have a material adverse effect on the Corporation's business, financial condition and results of operations.

A reduction in defence spending by the United States or other countries could result in a decrease in revenue.
Over the last several years, heightened sovereign debt issues in the European Union have created instability and volatility in the international credit and financial markets and have caused a number of countries in the European Union to focus on their respective recurring yearly deficit budgeting practices, resultant aggregate debt levels and to implement austerity measures. Likewise concerns about the national debt issue in the United States and actions taken by the government of the United States has led to reductions in spending, including defence spending. The United States defence budget for 2014 has reduced spending by 15% over the previous year resulting in the elimination and/or reduction in some new defence programs. In addition, the governments in Canada and other countries have recognized the need to reduce budget deficits.

The United States is the principal purchaser under the F-35 program which represents a significant item in their budget. Canada is also a participant in the F-35 program and has invested in an Advanced Composite Manufacturing Facility at Magellan's Winnipeg facility, primarily in support of the F-35 program. The Canadian government has also announced plans to consider other options for replacing its aging CF-18 fighter jets. In addition, other countries who are part of the F-35 program have announced plans to delay orders for the F-35 aircraft. This is somewhat balanced by recent announcements of new foreign military sales.

The Corporation relies on sales to defence customers particularly in the United States. A significant reduction in defence expenditures by the United States or other countries with which the Corporation has material contracts, such as the F-35 program, could materially adversely affect the Corporation's business and financial condition. The loss or significant reduction in government funding of a large program in which the Corporation participates, such as the F-35 program, could also materially adversely affect sales and earnings.

The Corporation may be unable to successfully achieve "key supplier" status with OEM's, and may be required to risk capital to achieve key supplier status.

Many OEM's are moving toward developing strategic partnerships with their key suppliers. Each key supplier provides an array of integrated services including purchasing, warehousing and assembly for OEM customers. The Corporation has been designated as a key supplier by some OEM's and is striving to achieve a higher level of integrated supply with other OEM's. In order to achieve key status, the Corporation may need to expand the Corporation's existing capacities or capabilities, and there is no assurance that the Corporation will be able to do so.

Many new aircraft and aircraft engine programs require that major suppliers become risk-sharing partners, meaning that the cost of design, development and engineering work associated with the development of the aircraft or the aircraft engine is partially born by the supplier, usually in exchange for a life-time agreement to supply those critical parts once the aircraft or the aircraft engine is in production. In the event that the aircraft or the aircraft engine fails to reach the production stage, inadequate number of units is produced, or actual sales otherwise do not meet projections, the Corporation may incur significant costs without any corresponding revenues.

11. CRITICAL ACCOUNTING ESTIMATES

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

The preparation of financial statements requires management to make critical judgements, estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses recorded during the reporting period. The critical estimates and judgements utilized in preparing the Corporation's financial statements affect the assessment of net recoverable amounts, net realizable values and fair values, depreciation and amortization rates and useful lives, value of intangible assets, ability to utilize tax losses and other tax measurements, determination of functional currency, determination of the degree of control that exists in determining the corresponding accounting basis, and the selection of accounting policies. Any changes in estimates and assumptions could have a material impact on the Corporation's future earnings and/or the amounts reported in its statement of financial position. The Corporation reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgement in making these estimates and assumptions.

The main assumptions and estimates that were used in preparing the Corporation's consolidated financial statements relate to:

Financial instruments

The valuation of the Corporation's derivative instruments and certain other financial instruments requires estimation of the fair value of each instrument at the reporting date. Details of the basis on which fair value estimated are provided in Note 18 of the consolidated financial statements.

Impairments
The recoverable amount of intangible assets and property, plant and equipment is based on estimates and assumptions regarding the expected market outlook and cash flows from each cash-generating unit.

Deferred taxes
Income taxes are determined based on estimates of the Corporation's current income taxes and estimates of deferred income taxes resulting from temporary differences. Deferred tax assets are assessed to determine the likelihood that they will be realized from future taxable income before they expire.

Government assistance
Investment tax credits and scientific research and experimental development tax credits are determined based on estimates of the Corporation's current year expenditures on qualifying programs. The investment tax credits are assessed to determine the likelihood that they will be applied against federal income tax.

Capitalization of development costs
When capitalizing development costs the Corporation must assess the technical and commercial feasibility of the projects and estimate the useful lives of resulting products. Determining whether future economic benefits will flow from the assets and therefore the estimates and assumptions associated with these calculations are instrumental in (i) deciding whether project costs can be capitalized, and (ii) accurately calculating the useful life of the projects for the Corporation.

Income (loss) on completion of contracts accounted for under the percentage-of-completion method
To estimate income (loss) on completion, the Corporation takes into account factors inherent to the contract by using historical and/or forecast data. When total contract costs are likely to exceed total contract revenue, the expected loss is recognized within cost of revenues.

Repayable government grants
The forecast repayment of grants received from government authorities is based on income from future sales. As the forecast repayments are closely related to forecasts of future sales set out in business plans prepared by the operating divisions, the estimates and assumptions (as regards programs and fluctuations in exchange rates, particularly the United States dollar) underlying these business plans are instrumental in determining the timing of these repayments.

Employee benefits
The Corporation considers a number of factors in developing the pension assumptions, including an evaluation of relevant discount rates, plan asset allocations, mortality, expected changes in wages and retirement benefits, analysis of current market conditions, economic benefits available and input from actuaries and other consultants. Costs of the programs are based on actuarially determined amounts and are accrued over the period from the date of hire to the full eligibility date of employees who are expected to qualify for these benefits.

12. CHANGES IN ACCOUNTING POLICIES

A description of accounting standards adopted in the current year

Financial Assets and Liabilities
In December 2011, the International Accounting Standards Board ("IASB") published amendments to IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7") which require additional disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar arrangements. The new disclosures will require entities to disclose gross amounts subject to rights of set off, amounts set off, and the related net credit exposure. The disclosures are intended to help investors understand the effect or potential effect of offsetting arrangements on a company's financial position. The new disclosures are effective for annual periods beginning on or after January 1, 2013. As the Corporation is not offsetting financial instruments and does not have relevant offsetting arrangements, the retrospective adoption of these amendments to IFRS 7 did not have any impact on the disclosures of the Corporation.

Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements* ("IFRS 10"). IFRS 10 replaced portions of IAS 27, Consolidated and Separate Financial Statements, that addressed consolidation, and superseded SIC-12, *Consolidation – Special Purpose Entities* ("SPE"), in its entirety. IFRS 10 provides a single model to be applied in the analysis of control of all investees, including entities that currently are SPEs in the scope of SIC-12. An investor must possess the following three elements to conclude if it controls an investee: power over the investee's financial and operating decisions, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee and its exposure or rights to variable returns.

The adoption of IFRS 10 had no impact on the consolidated financial statements for the period or prior periods presented as the adoption did not result in a change in the consolidation status of any of the Corporation's subsidiaries or investees or the identification of any subsidiaries.

Joint Arrangements

In May 2011, the IASB issued IFRS 11, *Joint Arrangements* ("IFRS 11"). IFRS 11 supersedes IAS 31, *Interest in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions*. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement, which are classified as either joint operations or joint ventures, and provides guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

In a joint operation, the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the arrangement, and recognize their share of the assets, liabilities, revenues and expenses in accordance with applicable IFRS. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement and account for their interest using the equity method of accounting under IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Corporation has concluded that its joint arrangements are joint ventures under IFRS 11 and, accordingly, has recorded its investments using the equity method of accounting whereas prior to adoption of IFRS 11, the proportionate consolidation method was used. The Corporation has applied the new policy retrospectively in accordance with the transitional provisions of IFRS 11 and recognized the deemed cost of its investments in joint ventures at January 1, 2012, as the net of the carrying amounts of the assets and liabilities previously proportionately consolidated by the Corporation. Under the equity method, the Corporation's share of individual assets and liabilities are replaced with a net investment in joint ventures amount in the consolidated balance sheet and individual revenues and expenses are replaced with earnings from investment in joint ventures amount in the consolidated statement of income. More information on the impact of the adoption of IFRS 11 is provided in Note 2 of the consolidated financial statements.

Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), which contains disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The requirements of IFRS 12 relate to disclosures only and are applicable for the first annual period after adoption, and, accordingly, the additional disclosures about interests in other entities have been included in the consolidated financial statements.

The Corporation's subsidiaries are all wholly owned and as such the determination of whether to consolidate these entities or the identification of any subsidiaries did not involve any significant judgments or assumptions. There are no significant restrictions on the ability of the Corporation to access or use the assets, and settle the liabilities of the Corporation and its subsidiaries except for customary limitations in the Corporation's credit facility.

Fair Value Measurement
In May 2011, the IASB published IFRS 13, *Fair Value Measurement* ("IFRS 13"), which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out additional disclosure requirements for fair value measurements. The standard did not have a material measurement impact on the consolidated financial statements.

Presentation of Financial Statements
In June 2011, the IASB published amendments to IAS 1, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*, which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. These amendments require that a Corporation present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The Corporation has adopted the presentation amendments in its 2013 consolidated financial statements.

Employee Benefits
In June 2011, the IASB published an amended version of IAS 19, *Employee Benefits* ("IAS 19"). Adoption of the amendment is required for annual periods beginning on or after January 1, 2013. IAS 19 was amended to eliminate the 'corridor approach' previously permitted and accelerate the recognition of past service costs. As part of its transition to IFRS, the Corporation elected to present remeasurements in other comprehensive income. The Corporation replaced interest costs on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability measured by applying the same discount rate used to measure the defined benefit obligation at the beginning of the annual period. Interest expense or interest income on net post-employment benefit liabilities and assets continue to be recognized in net income. IAS 19 requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw an offer of termination benefits or recognizes any restructuring costs.

The amended version of IAS 19 was adopted with retrospective application and, accordingly, the comparative periods presented have been adjusted to reflect the reversal of any unamortized past service costs and the application of one discount rate to the net defined benefit asset or liability to determine the interest element of the defined benefit cost. More information on the impact of the adoption of IAS 19 is provided in Note 2 of the consolidated financial statements.

13. FUTURE CHANGES IN ACCOUNTING POLICIES

A description of new accounting standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2013, and have not been applied in preparing these consolidated financial statements. The following standards and interpretations have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

Financial Instruments – Recognition and Measurement
In October 2010, the IASB published amendments to IFRS 9, *Financial Instruments* ("IFRS 9") which provides added guidance on the classification and measurement of financial liabilities. IFRS 9 will replace IAS 39 and will be completed in three phases: classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. This was the first phase of the project on classification and measurement of financial assets and liabilities. The IASB is discussing proposed limited amendments related to this phase of the project. The standard on general hedge accounting was issued and included as part of IFRS 9 in November 2013. The accounting for macro hedging is expected to be issued as a separate standard outside of IFRS 9. The impairment of financial assets phase of the project is currently in development. In November 2013, the mandatory effective date of IFRS 9 of January 1, 2015 was removed and the effective date will be determined when the

remaining phases of IFRS 9 are finalized. The Corporation is currently monitoring the developments of this standard and assessing the impact that the adoption of this standard may have on the consolidated financial statements.

Financial Assets and Liabilities

In December 2011, amendments to IAS 32, *Financial Instruments: Presentation* were issued to clarify the existing requirements for offsetting financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2014. The Corporation does not expect the adoption of these amendments to have a material impact on the consolidated financial statements.

Levies

In May 2013, International Financial Reporting Standards Interpretations Committee Interpretation 21, *Levies* ("IFRIC 21") was issued. IFRIC 21 addresses various accounting issues relating to levies imposed by a government. This interpretation is effective for annual periods beginning on or after January 1, 2014. The Corporation is currently assessing the impact the adoption of this interpretation may have on the consolidated financial statements.

Employee Benefits

In November 2013, Defined Benefit Plans: Employee Contributions was issued to amend IAS 19, *Employee Benefits*. These narrow scope amendments simplify the accounting for contributions to defined benefit plans. These amendments are effective for annual periods beginning on or after July 1, 2014, with earlier application permitted. The Corporation is currently assessing the impact the adoption of this standard may have on the consolidated financial statements

Impairment of Assets

In May 29, 2013, the IASB published amendments to IAS 36, *Impairment of Assets* which reduce the circumstances in which the recoverable amount of the cash-generating unit is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. This amendment is effective for annual periods beginning on or after January 1, 2014. The Corporation does not expect the adoption of this amendment to have a material impact on its consolidated financial statements.

14. 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 are required to certify as at December 31, 2013 that they are responsible for establishing and maintaining, and have assessed the design and operating effectiveness of 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 judgments 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.

In preparation for this certification, Magellan has dedicated resources in place to document and evaluate the design and operating effectiveness of disclosure controls and procedures and internal control over financial reporting. As of December 31, 2013, an evaluation was carried out, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer and Corporate Secretary, of the effectiveness of the Corporation's disclosure controls and internal controls over financial reporting, as those terms are defined in National Instrument 52-109. Based on that evaluation, the Corporation's management concluded that the Corporation's design and operating disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2013.

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.

Additional information relating to Magellan Aerospace Corporation, including the Corporation's Annual Information Form is on SEDAR at www.sedar.com.

To the Shareholders of Magellan Aerospace Corporation

The consolidated financial statements of Magellan Aerospace Corporation were prepared by management in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this report is consistent with that shown in the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information. External auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, consisting of non-management directors, has reviewed these consolidated financial statements with management and the auditors and has reported to the Board of Directors. The Board of Directors approved the consolidated financial statements.

James S. Butyniec
President and Chief Executive Officer
March 21, 2014

John B. Dekker
Chief Financial Officer and
Corporate Secretary

To the Shareholders of Magellan Aerospace Corporation

We have audited the accompanying consolidated financial statements of Magellan Aerospace Corporation, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and January 1, 2012, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Magellan Aerospace Corporation as at December 31, 2013 and 2012, and January 1, 2012 and its financial performance and its cash flows for the years ended December 31, 2013 and 2012 in accordance with International Financial Reporting Standards.

Ernst + Young LLP

March 21, 2014

Chartered Accountants
Licensed Public Accountants

Expressed in thousands of Canadian dollars	Notes	December 31 2013	December 31 2012	January 1 2012
			(Restated - Note 2)	(Restated - Note 2)
Current assets				
Cash		**7,760**	22,423	26,502
Trade and other receivables	4	**146,969**	134,214	106,392
Inventories	5	**160,269**	147,329	127,434
Prepaid expenses and other		**12,461**	5,889	4,589
		327,459	309,855	264,917
Non-current assets				
Property, plant and equipment	6	**331,940**	315,484	288,763
Investment properties	7	**4,663**	2,875	3,041
Intangible assets	8	**60,365**	62,655	66,842
Other assets	9	**24,472**	13,097	8,783
Deferred tax assets	15	**43,011**	51,040	28,360
		464,451	445,151	395,789
Total assets		**791,910**	755,006	660,706
Current liabilities				
Bank indebtedness	10	**115,930**	–	–
Accounts payable and accrued liabilities and provisions	11	**137,625**	121,161	105,551
Debt due within one year	12,18	**30,932**	32,256	12,297
		284,487	153,417	117,848
Non-current liabilities				
Bank indebtedness	10	**–**	112,666	120,674
Long-term debt	12	**46,154**	79,857	81,423
Borrowings subject to specific conditions	13	**17,637**	20,768	18,847
Other long-term liabilities and provisions	14	**15,713**	39,003	29,131
Deferred tax liabilities	15	**19,761**	14,761	10,088
		99,265	267,055	260,163
Equity				
Share capital	16	**254,440**	254,440	252,440
Contributed surplus		**2,044**	2,044	2,041
Other paid in capital		**13,565**	13,565	13,565
Retained earnings		**129,464**	71,682	20,747
Accumulated other comprehensive income (loss)	24	**8,645**	(7,197)	(6,098)
		408,158	334,534	282,695
Total liabilities and equity		**791,910**	755,006	660,706

See accompanying notes to the consolidated financial statements

Expressed in thousands of Canadian dollars, except per share amounts	Notes	Years ended December 31 2013	2012 (Restated - Note 2)
Revenues	20	**752,126**	704,040
Cost of revenues	21	**639,799**	605,242
Gross profit		**112,327**	98,798
Administrative and general expenses	22	**45,481**	38,972
Other	13, 27	**(597)**	(177)
Gain on bargain purchase	3	**–**	(9,597)
		67,443	69,600
Interest	23	**6,721**	9,178
Income before income taxes		**60,722**	60,422
Income taxes			
Current	15	**3,893**	2,925
Deferred	15	**11,346**	453
		15,239	3,378
Net income		**45,483**	57,044
Other comprehensive income (loss)			
Other comprehensive income (loss) that may be reclassified to profit and loss in subsequent periods:			
Foreign currency translation	24	**15,842**	(1,099)
Other comprehensive income (loss) not to be reclassified to profit and loss in subsequent periods:			
Actuarial income (losses) on defined benefit pension plans, net of tax	14,19	**15,792**	(6,109)
Comprehensive income		**77,117**	49,836
Net income per share			
Basic	16	**0.78**	0.99
Diluted	16	**0.78**	0.98

See accompanying notes to the consolidated financial statements

Expressed in thousands of Canadian dollars	Share capital	Contributed surplus	Other paid in capital	Retained earnings	Foreign currency translation	Total equity
				(Restated - Note 2)		(Restated - Note 2)
January 1, 2012	252,440	2,041	13,565	20,747	(6,098)	282,695
Net income	–	–	–	57,044	–	57,044
Other comprehensive loss	–	–	–	(6,109)	(1,099)	(7,208)
Stock-based compensation	–	3	–	–	–	3
Convertible debentures	2,000	–	–	–	–	2,000
December 31, 2012	254,440	2,044	13,565	71,682	(7,197)	334,534
Net income	–	–	–	45,483	–	45,483
Other comprehensive income	–	–	–	15,792	15,842	31,634
Common share dividend	–	–	–	(3,493)	–	(3,493)
December 31, 2013	**254,440**	**2,044**	**13,565**	**129,464**	**8,645**	**408,158**

See accompanying notes to the consolidated financial statements

Expressed in thousands of Canadian dollars	Notes	Years ended December 31 2013	2012
			(Restated - Note 2)
Cash flow from operating activities			
Net income		**45,483**	57,044
Amortization/depreciation of intangible assets and property, plant and equipment	6,8	**33,309**	31,227
Net loss on disposal of assets		**576**	430
Decrease in defined benefit plans	19	**(2,046)**	(3,079)
Impairment reversal, net	8	**(1,312)**	(270)
Gain on bargain purchase	3	**–**	(9,597)
Stock-based compensation		**–**	3
Accretion		**(916)**	541
Deferred taxes	15	**5,036**	(14,855)
Income on investment in joint venture	9	**(13)**	–
Increase in non-cash working capital	26	**(10,298)**	(22,971)
Net cash from operating activities		**69,819**	38,473
Cash flow from investing activities			
Acquisition of JHE	3	**–**	(13,641)
Investment in joint venture	9	**(3,994)**	–
Purchase of property, plant and equipment	6	**(31,299)**	(33,699)
Proceeds from disposal of property, plant and equipment		**486**	187
Increase in other assets		**(9,582)**	(8,510)
Net cash used in investing activities		**(44,389)**	(55,663)
Cash flow from financing activities			
Increase (decrease) in bank indebtedness	10	**1,830**	(7,812)
(Decrease) increase in debt due within one year		**(1,444)**	20,604
Decrease in long-term debt	12	**(35,745)**	(8,648)
Increase in long-term debt	12	**–**	6,334
(Decrease) increase in long-term liabilities and provisions		**(581)**	497
(Decrease) increase in borrowings		**(1,796)**	2,174
Common share dividend		**(3,493)**	–
Net cash (used) generated in financing activities		**(41,229)**	13,149
Decrease in cash during the year		**(15,799)**	(4,041)
Cash at beginning of the year		**22,423**	26,502
Effect of exchange rate differences		**1,136**	(38)
Cash at end of the year		**7,760**	22,423

See accompanying notes to the consolidated financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

The Corporation is a diversified supplier of components to the aerospace industry and in certain circumstances for power generation projects. Through its wholly owned subsidiaries, Magellan engineers and manufactures aeroengine and aerostructure components for aerospace markets, including advanced products for defence and space markets, and complementary specialty products. The Corporation also supports the aftermarket through the supply of spare parts as well as through repair and overhaul services and in certain circumstances parts and equipment for power generation projects.

Statement of Compliance

These consolidated financial statements are prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on March 21, 2014.

Basis of Presentation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. These consolidated financial statements have been prepared using IFRS principles applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due. All amounts are presented in Canadian dollars, unless otherwise indicated.

The Corporation's significant accounting policies are set out below. These accounting policies have been applied consistently to all periods presented in these consolidated financial statements and by all entities.

Basis of Consolidation

The consolidated financial statements of the Corporation include the assets and liabilities, and the results of operations and cash flows, of the Corporation and its subsidiaries and the Corporation's share of the results and net assets of jointly controlled entities. The financial statements of entities consolidated have a reporting date of December 31. Entities over which the Corporation has control are accounted for as subsidiaries. Control is achieved when the Corporation is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Where the Corporation has the ability to exercise joint control, the entities are accounted for as jointly controlled entities. The results and assets and liabilities of jointly controlled entities are incorporated into the consolidated financial statements using the equity method of accounting. Interests acquired in entities are consolidated from the date the Corporation acquires control and interests sold are de-consolidated from the date control ceases. Wholly owned operating subsidiaries of the Corporation are:

- Magellan Aerospace Limited
- Magellan Aerospace (UK) Limited
- Magellan Aerospace USA, Inc.

The effects of intragroup transactions are eliminated. Accounts receivable and accounts payable as well as expenses and income between the consolidated entities are netted. Internal sales are transacted on the basis of market prices and intergroup profits and losses are eliminated.

Determination of Fair Value

Fair value is determined based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using the assumptions that market participants would use when pricing an asset or liability. Fair value is determined by using quoted prices in active markets for identical or similar assets or liabilities. When quoted prices in active markets are not available, fair value is determined using valuation techniques that maximize the use of observable inputs.

When observable valuation inputs are not available, significant judgment is required to determine fair value by assessing the valuation techniques and valuation inputs. The use of alternative valuation techniques or valuation inputs may result in a different fair value.

Foreign Currency Translation

The consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional and presentation currency.

Foreign currency denominated monetary assets and liabilities are translated at the rates of exchange at the statement of financial position date. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at that date, whereas non-monetary items measured at historic cost, are translated using the exchange rate prevailing on the transaction date. Translation gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in income.

Assets and liabilities of foreign operations that have a functional currency different from the presentation currency are translated using the closing exchange rate prevailing at the reporting date and revenues and expenses at average exchange rates during the period. Translation gains and losses on currency translation are recognized as a separate component of equity in other comprehensive income and do not have any impact on the net income (loss) for the year.

Segment Reporting

Management has determined the operating segments based on information regularly reviewed for the purposes of decision making, allocating resources and assessing performance by the Corporation's chief operating decision maker. The Corporation evaluates the financial performance of its operating segments primarily based on net income before interest and income taxes.

Revenue Recognition

Revenue is comprised of all sales of goods and rendering of services at the fair value of consideration received or receivable after the deduction of any trade discounts and excluding sales taxes. The Corporation's revenue recognition methodology is determined on a contract-by-contract basis. Revenue is recognized when it can be measured reliably, the significant risks and rewards of ownership are transferred to the customer, and it is probable that future economic benefits will flow to the Corporation.

Sales of goods are recognized when the goods are dispatched or made available to the customer, except for the sale of consignment products located at customers' premises where revenue is recognized on notification that the product has been used.

Rendering of services and on certain long-term contracts for the sale of goods revenue is recognized using the percentage-of-completion method, which recognizes revenue as performance of the contract progresses. The contract progress is determined based on the percentage of costs incurred to date to total estimated cost for each contract after giving effect to the most recent estimates of total cost. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Provided that the outcome of construction contracts can be assessed with reasonable certainty, the revenues and costs on such contracts are recognized based on stage of completion and the overall contract profitability. If the outcome of a contract cannot be estimated reliably, the zero-profit method is applied, whereby revenues are only recognized to the extent that contract costs have been incurred and it is probable that those costs will be recovered.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The Corporation enters into transactions that represent multiple-element arrangements. These multiple-element arrangements are assessed to determine whether they can be separated into more than one unit of accounting or element for the purpose of revenue recognition. When the appropriate criteria for separating revenue into more than one unit of accounting is met and there is vendor specific objective evidence of fair value for all units of accounting or elements in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements based on each unit's relative fair value. This vendor specific objective evidence of fair value is established through prices charged for each revenue element when that element is sold separately. The revenue recognition policies described above are then applied to each unit of accounting.

Advances and progress billings received on long-term contracts are deducted from related costs in inventories. Advances and progress billings in excess of related costs are classified as deferred revenue.

Cost of Revenues

Cost of revenues consists of production-related manufacturing costs of products sold, development services paid, and the cost of products purchased for resale. In addition to the direct material cost and production costs, it also comprises of systematically allocated overheads, including depreciation of production-related intangible assets, write-downs on inventories and an appropriate portion of production-related administrative overheads.

Government Grants

Government grants are recognized at their fair value in the period when there is reasonable assurance that the conditions attaching to the grant will be met and that the grant will be received. Grants are recognized as income over the periods necessary to match them with the related costs that they are intended to compensate. Grants relating to expenditure on property, plant and equipment and on intangible assets are deducted from the carrying amount of the asset. The grant is therefore recognized as income over the life of the depreciable asset by way of a reduced depreciation charge. Repayable grants are treated as sources of financing and are recognized in borrowings subject to specific conditions in the consolidated statement of financial position. Repayments made are recorded as a reduction of the liability. A revision to the estimate of amounts to be repaid results in an increase or decrease in the liability and the related asset or expense, and a cumulative adjustment to amortization is recognized immediately in income.

Government Assistance

Government assistance is comprised of investment tax credits and scientific research and experimental development tax credits. These credits are recognized when there is reasonable assurance of their recovery using the cost reduction method. Investment tax credits are subject to the customary approvals by the pertinent tax authorities. Adjustments required, if any, are reflected in the year when such assessments are received.

Employee Benefits

Defined benefit plans

The Corporation's obligation in respect of defined benefit plans is determined periodically by independent actuaries using the projected unit credit method in accordance with IAS 19R, *Employee Benefits*. Actuarial gains and losses are recognized in full in the period in which they occur, and are recognized in retained earnings and included in other comprehensive income. Past service cost is recognized immediately to the extent the benefits are already vested, or otherwise is recognized on a straight-line basis over the average period until the benefits become vested. Curtailments due to the significant reduction of the expected years of future services of current employees or the elimination of the accrual of defined benefits for some or all of the future services for a significant number of employees are recognized immediately as a gain or loss in the income statement.

The defined benefit surplus or deficit represents the fair value of the plan assets less the present value of the defined benefit obligations. A surplus is recognized in the statement of financial position to the extent that the Corporation has an unconditional right to the surplus, either through a refund or reduction in future contributions. A deficit is recognized in full.

Defined contribution plans

Obligations for contributions to defined contribution plans are recognized as an expense in the income statement as incurred.

Share-based compensation

The fair value of awards made under share-based compensation plans is measured at the grant date and allocated over the vesting period, based on the best available estimate of the number of share options expected to vest, in the income statement with a corresponding increase in equity. The fair value is measured using an appropriate valuation model taking into account the terms and conditions of the individual plans. The amount recognized as an expense is adjusted to reflect the actual awards vesting except where any change in the awards vesting relates only to market-based criteria not being achieved.

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model, taking into account the terms and conditions upon which the share awards were granted. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in the income statement.

Taxation

The tax charge for the period is comprised of both current and deferred income tax. Taxation is recognized as a charge or credit in the income statement except to the extent that it relates to items recognized directly to equity in which case the related tax is also recognized in equity.

Current income tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are established using the balance sheet liability method, providing for temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible timing differences can be utilized.

Deferred tax liabilities are not recognized for temporary differences arising on investment in subsidiaries where the Corporation is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is calculated at the enacted or substantively enacted tax rates that are expected to apply in the period when the liability is settled or the asset is realized.

Deferred income tax assets and liabilities are only offset where they arise within the same entity and tax jurisdiction.

Deferred income tax assets and liabilities are presented as non-current.

Net Income per Share

Net income per share is calculated based on the profit for the financial year and the weighted average number of common shares outstanding during the year. Diluted net income per share is calculated using the profit for the financial year and the weighted average diluted number of shares (ignoring any potential issue of common shares which would be anti-dilutive) during the year.

Inventories

Inventory is stated at the lower of average cost and net realizable value.

The unit cost method is the prescribed cost method under which the actual production costs are charged to each unit produced and recognized to income as the unit is sold.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment in value. Cost includes the purchase price (after deducting trade discounts and rebates), any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the estimate of the present value of the costs of dismantling and removing the item and restoring the site. Subsequent costs are included in the assets carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognized. The cost of the day-to-day servicing of property, plant and equipment are recognized in the income statement as incurred.

Depreciation is calculated using the straight-line method to allocate the cost of property, plant and equipment to their residual values over their estimated useful lives.

Scheduled depreciation is based on the following useful lives:

Assets	in years
Buildings	40
Machinery and equipment	10-20
Tooling	5-7
Leasehold improvements	term of lease

The residual values, useful lives and depreciation methods pertaining to property, plant and equipment are regularly assessed for relevance, at least at every statement of financial position date, and adjustments are made when necessary to estimates used when compiling the consolidated financial statements. An asset's carrying value is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. These impairment losses are recognized in the income statement. Following the recognition of an impairment loss, the depreciation charge applicable to the asset is adjusted prospectively in order to systematically allocate the revised carrying amount, net of any residual value, over the remaining useful life.

Investment Properties
Investment property is property held to earn rental income and/or for capital appreciation rather than for the purpose of the Corporation's operating activities. Investment property assets are carried at cost less accumulated depreciation and any recognized impairment in value. The depreciation policies for investment property are consistent with those described for owner-occupied property.

Intangible Assets
In accordance with IAS 38, *Intangible Assets*, expenditure on research activities is recognized as an expense in the period in which it is incurred. Externally acquired and internally generated intangible assets are recognized only if they meet strict criteria, relating in particular to technical feasibility, probability that a future economic benefit associated with the asset will flow to the entity and the cost of the asset can be measured reliably.

Intangible assets with a finite useful life are stated at cost and amortized on a unit of production basis. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the income statement when the asset is de-recognized.

Impairment of Non-Financial Assets
Impairment of non-financial assets is considered in accordance with IAS 36, *Impairment of Assets*. Where the asset does not generate cash inflows that are independent of other assets, impairment is considered for the cash-generating unit ("CGU") to which the asset belongs.

Two types of CGUs are defined within the Corporation:
- CGUs corresponding to programs, projects, or product families associated with specific assets;
- CGUs corresponding to the business units monitored by management and relating chiefly to the Corporation's main subsidiaries.

Intangible assets not yet available for use are tested for impairment annually. Other intangible assets and property, plant and equipment are assessed for any indications of impairment annually. If any indication of impairment is identified, an impairment test is performed to estimate the recoverable amount.

An impairment loss is recognized in the income statement whenever the carrying amount of the individual asset or the CGU exceeds its recoverable amount. Recoverable amount is the higher of value in use or fair value less costs to sell, if this is readily available. The value in use is the present value of future cash flows using a pre-tax discount rate that reflects the time value of money and the risk specific to the asset.

An impairment loss for an individual asset or CGU shall be reversed if there has been a change in estimates used to determine the recoverable amount since the last impairment loss was recognized and is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Leases
A lease is defined as an agreement whereby the lessor conveys to the lessee, in return for payment or a series of payments, the right to use a specific asset for an agreed period of time. If substantially all the risks and rewards associated with ownership of the leased asset are transferred to the lessee (finance lease for the lessee), the leased asset is recognized in the lessee's statement of financial position. The leased asset is recognized at its fair value as measured at the date of acquisition, or at the present value of the minimum lease payments if lower. Assets held under finance leases are depreciated on a basis consistent with similar owned assets or the lease term if shorter. Payments made under finance leases are apportioned between capital repayments and interest expense charged to the income statement.

If the lessor retains the substantial risks and rewards (operating lease for the lessee), the leased asset is recognized in the lessor's statement of financial position. Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease.

Financial Instruments

Financial assets

Financial assets include, in particular, cash and cash equivalents, trade receivables, loans and other receivables, financial investments held to maturity, and non-derivative and derivative financial assets held for trading.

Financial assets are recognized at the contract date and initially measured in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. The measurement of financial assets subsequent to initial recognition depends on whether the financial instrument is held for trading, held to maturity, available-for-sale, or whether it falls in the loans and receivables category. The assignment of an asset to a measurement category is performed at the time of acquisition and is primarily determined by the purpose for which the financial asset is held.

Held for trading instruments are held at fair value. Changes in fair value are included in the income statement unless the instrument is included in a cash flow hedge. If the instruments are included in a cash flow hedging relationships, which are effective, changes in value are taken to equity. When the hedged forecast transaction occurs, amounts previously recorded in equity are recognized in the income statement.

Held to maturity instruments are measured at amortized cost using the effective interest method.

Available-for-sale assets are held at fair value. Changes in fair value arising from changes in exchange rates are included in the income statement. All other changes in fair value are taken to equity. On disposal, the accumulated changes in value recorded in equity are included in the gain or loss recorded in the income statement.

Loans and receivables are held at amortized cost and not revalued (except for changes in exchange rates which are included in the income statement) unless they are included in a fair value hedge accounting relationship. Where such a relationship exists, the instruments are revalued in respect of the risk being hedged. If instruments held at amortized cost are hedged, generally by interest rate swaps, and the hedges are effective, the carrying values are adjusted for changes in fair value, which are included in the income statement.

At each statement of financial position date, the carrying amounts of financial assets that are not measured at fair value through profit or loss are assessed to determine whether there is any substantial objective indication of impairment. The amount of impairment loss is recognized in the income statement. If impairment is indicated for available-for-sale financial assets, the amounts previously recognized in equity are eliminated from other comprehensive income up to the amount of the assessed impairment loss and recognized in the income statement.

Derecognition of financial assets

Transfers of receivables in securitization transactions are recognized as sales when the contractual right to receive cash flows from the assets has expired; or when the Corporation has transferred its contractual right to receive the cash flows of the financial assets, and either: substantially all the risks and rewards of ownership have been transferred; or the Corporation has neither retained nor transferred substantially all the risks and rewards, but has not retained control.

Financial liabilities

Financial liabilities often entitle the holder to return the instrument to the issuer in return for cash or another financial asset. These include, in particular, debentures and other debt evidenced by certificates, trade payables, liabilities to banks, finance lease liabilities, loans and derivative financial liabilities.

Financial liabilities are measured at their fair value at the time of acquisition, which is normally equivalent to the net loan proceeds. Transaction costs directly attributable to the acquisition are deducted from the amount of all financial liabilities that are not measured at fair value through profit or loss subsequent to initial recognition. If a financial liability is interest free or bears interest at below the market rate, it is recognized at an amount below the settlement price or nominal value. The financial liability initially recognized at fair value is amortized subsequent to initial recognition using the effective interest method.

Convertible debentures
Convertible debentures are classified according to their liability and equity elements using the residual approach, whereby the Corporation estimates the fair value of the liability element and assigns the residual value of the convertible debentures to the equity element. The liability element is classified as long-term debt and the equity element is classified as a conversion option and recorded in the contributed surplus component of equity. Upon conversion of debentures to common shares, a pro rata portion of the long-term debt, conversion option, unamortized discount and debt issue costs, as well as accrued but unpaid interest, will be transferred to share capital. If any convertible debentures mature without being converted, the remaining conversion option balance will remain in contributed surplus. The discount is amortized using the effective interest rate method over the term of the related debt. The unamortized discount is included in long-term debt and the amortization of the discount is included in interest expense.

Derivative financial instruments
The Corporation manages its foreign currency and interest rate exposures through the use of derivative financial instruments. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Corporation's derivative contracts are not designated as hedges and as a result are recorded on the consolidated statement of financial position at their fair value. Any changes in fair value during the year are reported in other expenses in the consolidated statement of income. Transaction costs incurred to acquire financial instruments are included in the underlying balance.

Provisions
A provision is recognized when there is a present legal or constructive obligation, as a result of a past event, which is more likely than not to result in an outflow of economic benefits and where a reliable estimate of the amount of the obligation can be made. If the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax risk-free rate and, where appropriate, the risks specific to the liability. A provision for onerous contracts is recognized when the expected benefits to be derived from the contracts are less than the related unavoidable costs of meeting its obligations under the contract. Such provisions are recorded as write-downs of work-in-progress for that portion of the work which has already been completed, and as liability provisions for the remainder.

Share Capital
Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any income tax.

Estimates, Assumptions and Judgements
The preparation of consolidated financial statements requires management to make critical judgements, estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses recorded during the reporting period. The critical estimates and judgements utilized in preparing the Corporation's consolidated financial statements affect the assessment of net recoverable amounts, net realizable values and fair values, depreciation and amortization rates and useful lives, value of intangible assets, ability to utilize tax losses and other tax measurements, determination of functional currency, determination of the degree of control that exists in determining the corresponding accounting basis, and the selection of accounting policies. Any changes in estimates and assumptions could have a material impact on the Corporation's future income and/or the amounts reported in its statement of financial position. The Corporation reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgement in making these estimates and assumptions.

The main assumptions and estimates that were used in preparing the Corporation's consolidated financial statements relate to:

Financial instruments
The valuation of the Corporation's derivative instruments and certain other financial instruments requires estimation of the fair value of each instrument at the reporting date. Details of the basis on which fair value estimated are provided in Note 18.

Impairments
The recoverable amount of intangible assets and property, plant and equipment is based on estimates and assumptions regarding the expected market outlook and cash flows from each CGU.

Deferred taxes
Income taxes are determined based on estimates of the Corporation's current income taxes and estimates of deferred income taxes resulting from temporary differences. Deferred tax assets are assessed to determine the likelihood that they will be realized from future taxable income before they expire.

Government assistance
Investment tax credits and scientific research and experimental development tax credits are determined based on estimates of the Corporation's current year expenditures on qualifying programs. The investment tax credits are assessed to determine the likelihood that they will be applied against federal income tax.

Capitalization of development costs
When capitalizing development costs the Corporation must assess the technical and commercial feasibility of the projects and estimate the useful lives of resulting products. Determining whether future economic benefits will flow from the assets and therefore the estimates and assumptions associated with these calculations are instrumental in (i) deciding whether project costs can be capitalized, and (ii) accurately calculating the useful life of the projects for the Corporation.

Income (loss) on completion of contracts accounted for under the percentage-of-completion method
To estimate income (loss) on completion, the Corporation takes into account factors inherent to the contract by using historical and/or forecast data. When total contract costs are likely to exceed total contract revenue, the expected loss is recognized within cost of revenues.

Repayable government grants
The forecast repayment of grants received from government authorities is based on income from future sales. As the forecast repayments are closely related to forecasts of future sales set out in business plans prepared by the operating divisions, the estimates and assumptions (as regards programs and fluctuations in exchange rates, particularly the United States dollar) underlying these business plans are instrumental in determining the timing of these repayments.

Employee benefits
The Corporation considers a number of factors in developing the pension assumptions, including an evaluation of relevant discount rates, plan asset allocations, mortality, expected changes in wages and retirement benefits, analysis of current market conditions, economic benefits available and input from actuaries and other consultants. Costs of the programs are based on actuarially determined amounts and are accrued over the period from the date of hire to the full eligibility date of employees who are expected to qualify for these benefits.

2. NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

New and Amended International Financial Reporting Standards Adopted in 2013

The Corporation has adopted the following new and amended standards in the current year.

Financial Assets and Liabilities

In December 2011, the IASB published amendments to IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7") which require additional disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar arrangements. The new disclosures will require entities to disclose gross amounts subject to rights of set off, amounts set off, and the related net credit exposure. The disclosures are intended to help investors understand the effect or potential effect of offsetting arrangements on a company's financial position. The new disclosures are effective for annual periods beginning on or after January 1, 2013. As the Corporation is not offsetting financial instruments and does not have relevant offsetting arrangements, the retrospective adoption of these amendments to IFRS 7 did not have any impact on the disclosures of the Corporation.

Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements* ("IFRS 10"). IFRS 10 replaced portions of IAS 27, *Consolidated and Separate Financial Statements*, that addressed consolidation, and superseded SIC-12, *Consolidation – Special Purpose Entities* ("SPE"), in its entirety. IFRS 10 provides a single model to be applied in the analysis of control of all investees, including entities that currently are SPEs in the scope of SIC-12. An investor must possess the following three elements to conclude if it controls an investee: power over the investee's financial and operating decisions, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee and its exposure or rights to variable returns.

The adoption of IFRS 10 had no impact on the consolidated financial statements for the period or prior periods presented as the adoption did not result in a change in the consolidation status of any of the Corporation's subsidiaries or investees or the identification of any subsidiaries.

Joint Arrangements

In May 2011, the IASB issued IFRS 11, *Joint Arrangements* ("IFRS 11"). IFRS 11 supersedes IAS 31, *Interest in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions*. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement, which are classified as either joint operations or joint ventures, and provides guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

In a joint operation, the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the arrangement, and recognize their share of the assets, liabilities, revenues and expenses in accordance with applicable IFRS. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement and account for their interest using the equity method of accounting under IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Corporation has concluded that its joint arrangements are joint ventures under IFRS 11 and, accordingly, has recorded its investments using the equity method of accounting whereas prior to adoption of IFRS 11, the proportionate consolidation method was used. The Corporation has applied the new policy retrospectively in accordance with the transitional provisions of IFRS 11 and recognized the deemed cost of its investments in joint ventures at January 1, 2012, as the net of the carrying amounts of the assets and liabilities previously proportionately consolidated by the Corporation.

Under the equity method, the Corporation's share of individual assets and liabilities are replaced with a net investment in joint ventures amount in the consolidated balance sheet and individual revenues and expenses are replaced with earnings from investment in joint ventures amount in the consolidated statement of income. The impact of adoption on the consolidated financial statements for prior periods is shown in the table included later in this note.

Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), which contains disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The requirements of IFRS 12 relate to disclosures only and are applicable for the first annual period after adoption, and, accordingly, the additional disclosures about interests in other entities have been included in the consolidated financial statements.

The Corporation's subsidiaries are all wholly owned and as such the determination of whether to consolidate these entities or the identification of any subsidiaries did not involve any significant judgments or assumptions. There are no significant restrictions on the ability of the Corporation to access or use the assets, and settle the liabilities of the Corporation and its subsidiaries except for customary limitations in the Corporation's credit facility.

Fair Value Measurement

In May 2011, the IASB published IFRS 13, *Fair Value Measurement* ("IFRS 13"), which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out additional disclosure requirements for fair value measurements. The standard did not have a material measurement impact on the consolidated financial statements.

Presentation of Financial Statements

In June 2011, the IASB published amendments to IAS 1, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*, which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. These amendments require that a Corporation present separately the items of other comprehensive income ("OCI") that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The Corporation has adopted the presentation amendments in its 2013 consolidated financial statements.

Employee Benefits

In June 2011, the IASB published an amended version of IAS 19, *Employee Benefits* ("IAS 19"). Adoption of the amendment is required for annual periods beginning on or after January 1, 2013. IAS 19 was amended to eliminate the 'corridor approach' previously permitted and accelerate the recognition of past service costs. As part of its transition to IFRS, the Corporation elected to present remeasurements in OCI. The Corporation replaced interest costs on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability measured by applying the same discount rate used to measure the defined benefit obligation at the beginning of the annual period. Interest expense or interest income on net post-employment benefit liabilities and assets continue to be recognized in net income. IAS 19 requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw an offer of termination benefits or recognizes any restructuring costs.

The amended version of IAS 19 was adopted with retrospective application and, accordingly, the comparative periods presented have been adjusted to reflect the reversal of any unamortized past service costs and the application of one discount rate to the net defined benefit asset or liability to determine the interest element of the defined benefit cost. The impact of adoption on the consolidated financial statements for prior periods is shown in the table included later in this note.

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

Summary of Impact Upon Adoption of Changes in IFRS

The following tables summarize the impact of adoption of these changes in accounting policies in the consolidated financial statements of:

Adjustments to the consolidated statements of financial position

As at January 1, 2012	Previously Reported	IFRS 11	IAS 19	Restated
Cash	26,520	(18)	–	26,502
Trade and other receivables	106,480	(88)	–	106,392
Inventories	127,473	(39)	–	127,434
Prepaid expenses and other	5,326	(29)	–	5,297
Property, plant and equipment	289,744	(981)	–	288,763
Other assets	8,660	123	–	8,783
Accounts payable, accrued liabilities and provisions	106,022	(471)	–	105,551
Debt due within one year	12,513	(216)	–	12,297
Long-term debt	81,768	(345)	–	81,423
Increase in net assets/shareholders' equity		–	–	

As at December 31, 2012	Previously Reported	IFRS 11	IAS 19	Restated
Cash	22,431	(8)	–	22,423
Trade and other receivables	134,361	(147)	–	134,214
Inventories	147,382	(53)	–	147,329
Prepaid expenses and other	7,879	(36)	–	7,843
Property, plant and equipment	316,441	(957)	–	315,484
Other assets	12,697	400	–	13,097
Accounts payable, accrued liabilities and provisions	121,644	(483)	–	121,161
Debt due within one year	32,425	(169)	–	32,256
Long-term debt	80,024	(167)	–	79,857
Increase in net assets/shareholders' equity		18	–	

Adjustments to the consolidated statements of income and comprehensive income

For the year ended December 31, 2012	Previously Reported	IFRS 11	IAS 19	Restated
Revenues	704,579	(539)	–	704,040
Cost of revenues	603,887	(333)	1,688	605,242
Administrative and general expenses	39,203	(231)	–	38,972
Other	(260)	83	–	(177)
Interest	9,237	(59)	–	9,178
Income taxes	3,814	–	(436)	3,378
Increase (decrease) in net income		1	(1,252)	
Other comprehensive (loss) income, net of tax	(8,477)	17	1,252	(7,208)
Decrease in comprehensive loss		18	–	

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

Adjustments to the consolidated statements of cash flow

For the year ended December 31, 2012	Previously Reported	IFRS 11	IAS 19	Restated
Net income	58,295	1	(1,252)	57,044
Depreciation/amortization of intangible assets and property, plant and equipment	31,029	(100)	–	30,929
Decrease in defined benefit plans	(4,767)	–	1,688	(3,079)
Deferred taxes	(14,419)	–	(436)	(14,855)
Increase in non-cash working capital	(25,355)	54	–	(25,301)
Purchase of property, plant and equipment	(33,829)	130	–	(33,699)
Increase in other assets	(6,654)	(277)	–	(6,931)
Decrease in long-term debt	(8,849)	201	–	(8,648)
Effect of exchange rate differences	(39)	1	–	(38)
		10	–	

New and Amended International Financial Reporting Standards to be Adopted in 2014 or Later

The following new standards and amendments to existing standards were issued by the IASB and are expected to be adopted by the Corporation in 2014 or later.

Financial Instruments – Recognition and Measurement

In October 2010, the IASB published amendments to IFRS 9, *Financial Instruments* ("IFRS 9") which provides added guidance on the classification and measurement of financial liabilities. IFRS 9 will replace IAS 39 and will be completed in three phases: classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. This was the first phase of the project on classification and measurement of financial assets and liabilities. The IASB is discussing proposed limited amendments related to this phase of the project. The standard on general hedge accounting was issued and included as part of IFRS 9 in November 2013. The accounting for macro hedging is expected to be issued as a separate standard outside of IFRS 9. The impairment of financial assets phase of the project is currently in development. In November 2013, the mandatory effective date of IFRS 9 of January 1, 2015 was removed and the effective date will be determined when the remaining phases of IFRS 9 are finalized. The Corporation is currently monitoring the developments of this standard and assessing the impact that the adoption of this standard may have on the consolidated financial statements.

Financial Assets and Liabilities

In December 2011, amendments to IAS 32, *Financial Instruments: Presentation* were issued to clarify the existing requirements for offsetting financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2014. The Corporation does not expect the adoption of these amendments to have a material impact on the consolidated financial statements.

Levies

In May 2013, International Financial Reporting Standards Interpretations Committee Interpretation 21, *Levies* ("IFRIC 21") was issued. IFRIC 21 addresses various accounting issues relating to levies imposed by a government. This interpretation is effective for annual periods beginning on or after January 1, 2014. The Corporation is currently assessing the impact the adoption of this interpretation may have on the consolidated financial statements.

Employee Benefits

In November 2013, Defined Benefit Plans: Employee Contributions was issued to amend IAS 19, *Employee Benefits*. These narrow scope amendments simplify the accounting for contributions to defined benefit plans. These amendments are effective for annual periods beginning on or after July 1, 2014, with earlier application permitted. The Corporation is currently assessing the impact the adoption of this standard may have on the consolidated financial statements.

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

Impairment of Assets

In May 29, 2013, the IASB published amendments to IAS 36, *Impairment of Assets* which reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. This amendment is effective for annual periods beginning on or after January 1, 2014. The Corporation does not expect the adoption of these amendments to have a material impact on its consolidated financial statements.

3. BUSINESS COMBINATION

On August 31, 2012, the Corporation purchased all of the issued and outstanding shares of the capital stock of John Huddleston Engineering Limited ("JHE"), a European supplier of precision machined aerospace components with facilities in Great Britain, Northern Ireland and Poland. The acquisition allows the Corporation to strengthen and enhance its core manufacturing capabilities and further expand its European operations.

The total consideration paid to the seller at closing was $15,671 in cash, or $13,641 net of cash acquired of $2,030.

Accounting guidance requires that identifiable assets acquired and liabilities assumed be reported at fair value as of the acquisition date of a business combination. During the fourth quarter of 2012, final valuations of the identifiable assets acquired and liabilities assumed were completed. The adjustments to the preliminary purchase price allocation resulted in a gain on bargain purchase of $7,410 (net of deferred income tax of $2,187) from the amount previously reported as the consideration paid for the identifiable tangible assets acquired was lower than their fair value, as determined by an independent valuation specialist. The gain on bargain purchase was due to the fact that the Corporation was one of a limited number of purchasers well positioned to rapidly utilize the excess capacity and employ the specialized equipment so as to preserve its significant value.

The following table presents the final allocation of purchase price related to the business as of the date of the acquisition:

	Final
Current assets	10,757
Non-current assets	19,412
Current liabilities	(5,732)
Non-current liabilities	(1,120)
Deferred tax liabilities	(2,266)
Fair value of the net assets acquired, excluding cash position at acquisition	21,051
Gain on bargain purchase, net of deferred tax	(7,410)
Cash in subsidiary acquired	2,030
Total purchase consideration, settled in cash[1]	15,671

[1] Total purchase consideration of $15,671 includes an amount of $9,212 to repay debt to a former shareholder of JHE

The Corporation incurred acquisition-related costs of $428 relating to external legal fees, consulting fees and due diligence costs that are included in administration and general expenses.

The fair value of trade receivables and other receivables is $7,039 and includes trade receivables with a fair value of $6,906 which represents the gross contractual amount for trade receivables due.

The amounts of JHE's revenue and net income included in the Corporation's consolidated statements of income for the year ended December 31, 2012 was $5,597 and $297, respectively. If the acquisition had occurred on January 1, 2012, management estimates that the Corporation's consolidated revenue would have been approximately $722,039 and consolidated net income would have been approximately $59,113 for the year ended December 31, 2012. In determining these amounts, management has assumed the fair value adjustments which arose on the date of acquisition, would have been the same as if the acquisition would have occurred on January 1, 2012. This pro forma information is for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated at that time, nor is it intended to be a projection of future results.

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

4. TRADE AND OTHER RECEIVABLES

	December 31 2013	December 31 2012
Total trade accounts receivable	**109,970**	97,163
Less allowance for doubtful accounts	**279**	1,924
Net trade receivables	**109,691**	95,239
Other receivables	**37,278**	38,975
	146,969	134,214

Included in the above amounts are accrued receivables for construction contracts in progress at December 31, 2013 of $13,635 [December 31, 2012 – $12,560].

The following table presents the aging of gross trade accounts receivable:

	Current	Less than 90 days	91-181 days	182-365 days	More than 365 days	Total
December 31, 2012	86,814	7,185	2,194	166	804	97,163
December 31, 2013	**97,836**	**11,304**	**714**	**66**	**50**	**109,970**

5. INVENTORIES

	Raw materials	Work in progress	Finished goods	Total
At December 31, 2012	37,685	94,376	15,268	147,329
At December 31, 2013	**42,742**	**98,224**	**19,303**	**160,269**

The cost of inventories recognized as expense and included in cost of sales for the year ended December 31, 2013 amounted to $638,152 [2012 – $610,378].

During the year ended December 31, 2013, the Corporation recorded an impairment expense related to the write-down of inventory in the amount of $1,869 [2012 – $473]. The Corporation also recorded reversals of previous write-downs of inventory in the amount of $1,355 [2012 – $624] due to the sale of inventory previously provided for. The carrying amount of inventory recorded at net realizable value was $25,016 as at December 31, 2013 [2012 – $21,165], with the remaining inventory recorded at cost.

Due to the long-term contractual period of the Corporation's contracts, the Corporation may be in negotiations with its customers over amendments to pricing or other terms. Management's assessment of the recoverability of amounts capitalized in inventory may be based on judgments with respect to the outcome of these negotiations. If the negotiations are not successful or the final terms differ from what the Corporation expects, the Corporation may be required to record a loss provision on this contract. The amount of such provision, if any, cannot be reasonably estimated until such amendments are finalized.

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Tooling	Total
Cost					
At December 31, 2011	12,831	111,110	355,333	42,515	521,788
Additions	–	1,267	27,744	1,881	30,893
Acquisition of JHE [Note 3]	–	3,264	16,148	–	19,412
Disposals and other	–	(25)	(2,176)	–	(2,201)
Foreign currency translation	(66)	(394)	(1,698)	(780)	(2,938)
At December 31, 2012	12,765	115,222	395,351	43,616	566,954
Additions	–	1,275	26,728	2,146	30,149
Disposals and other	–	(56)	(4,464)	(173)	(4,693)
Reclassified to investment property	–	(3,353)	–	–	(3,353)
Foreign currency translation	551	2,603	17,559	2,553	23,266
At December 31, 2013	**13,316**	**115,691**	**435,174**	**48,142**	**612,323**
Accumulated depreciation and impairment					
At December 31, 2011	–	(29,838)	(170,946)	(32,243)	(233,027)
Depreciation	–	(3,255)	(16,245)	(2,610)	(22,110)
Disposal and other	–	6	1,492	–	1,498
Foreign currency translation	–	133	1,420	616	2,169
At December 31, 2012	–	(32,954)	(184,279)	(34,237)	(251,470)
Depreciation	–	(3,671)	(18,082)	(2,537)	(24,290)
Disposal and other	–	25	3,622	88	3,735
Reclassified to investment property	–	1,419	–	–	1,419
Foreign currency translation	–	(562)	(7,127)	(2,088)	(9,777)
At December 31, 2013	–	**(35,743)**	**(205,866)**	**(38,774)**	**(280,383)**
Net book value					
At December 31, 2012	12,765	82,268	211,072	9,379	315,484
At December 31, 2013	**13,316**	**79,948**	**229,308**	**9,368**	**331,940**

As at December 31, 2012 and 2013, the Corporation did not have any assets under finance lease.

Included in the above are assets under construction in the amount of $10,348 [December 31, 2012 – $6,364], which as at December 31, 2013 are not amortized.

7. INVESTMENT PROPERTIES

	Cost	Accumulated depreciation and impairment	Net book value
At December 31, 2012	9,277	(6,402)	2,875
At December 31, 2013	**11,246**	**(6,583)**	**4,663**

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

The Corporation's investment properties consist of land and building. In 2013 the Corporation reclassified $1,934 from property plant and equipment primarily as a result of the change in use of the related asset. Depreciation expense recognized in relation to the buildings in 2013 was $169 [2012 – $158].

The fair value of the Corporation's investment properties was $11,868 at December 31, 2013. The fair value was determined through the use of the market comparable approach and discounted cash flows approach which are categorized as a Level 3 in the fair value hierarchy. In 2013, the Corporation obtained an opinion by an external valuator, with experience in the real estate market, on the fair value of $4,900 of the total fair values of the Corporation's investment properties. For one other investment property, the Corporation used the fair value obtained in 2012 by an external valuator as the market conditions in which the property is held did not change materially. For all other investment properties, the Corporation internally determined the fair value using the discounted cash flow approach.

8. INTANGIBLE ASSETS

	Technology rights	Development costs	Total
Cost			
At December 31, 2011	38,939	91,985	130,924
Additions	–	3,799	3,799
Disposals	–	(1,324)	(1,324)
Foreign currency translation	(34)	(453)	(487)
At December 31, 2012	38,905	94,007	132,912
Additions	–	6,120	6,120
Disposals	–	(2,815)	(2,815)
Foreign currency translation	103	2,245	2,348
At December 31, 2013	**39,008**	**99,557**	**138,565**
Depreciation and impairment			
At December 31, 2011	(15,855)	(48,305)	(64,160)
Depreciation	(3,153)	(4,943)	(8,096)
Disposals	–	1,392	1,392
Impairment reversal	–	270	270
Foreign currency translation	10	327	337
At December 31, 2012	(18,998)	(51,259)	(70,257)
Depreciation	(2,687)	(5,198)	(7,885)
Disposals	–	241	241
Impairment reversal	–	1,312	1,312
Foreign currency translation	(39)	(1,572)	(1,611)
At December 31, 2013	**(21,724)**	**(56,476)**	**(78,200)**
Net book value			
At December 31, 2012	19,907	42,748	62,655
At December 31, 2013	**17,284**	**43,081**	**60,365**

Technology rights relate to an agreement which permits the Corporation to manufacture aerospace engine components and share in the revenue generated by the final sale of the engine.

The Corporation has certain programs that meet the criteria for deferral and amortization of development costs. Development costs are capitalized for clearly defined, technically feasible technologies which management intends to produce and promote to an identified future market, and for which resources exist or are expected to be available to complete the project. The Corporation records amortization in arriving at the carrying value of deferred development costs once the development activities have been completed and sales of the related product have commenced. The Corporation estimates the intangible assets to be amortized over a period of 5 to 13 years based on units of production.

The recoverable amount of programs, projects and product families is determined based on estimated future cash flows for the term over which the program is expected to be marketed, which may span several decades.

Impairments

At the end of each reporting period, the Corporation assesses whether there are events or circumstances indicating that an asset may be impaired. Such events or circumstances notably include material adverse changes which in the long-term impact the economic environment (commercial prospects, procurement sources, index or cost movements, etc.) or the Corporation's assumptions or objectives (medium-term plan, profitability analyses, market share, backlog, regulations, etc.).

The main assumptions used to determine the recoverable amount of intangible assets relating to programs, projects and product families are as follows:

- The discounted cash flow approach used to estimate the value in use of the CGU's incorporated market participant assumptions. Expected future cash flows are calculated based on the medium-term plans established for the next five years and estimated cash flows for years 6 to 22 [2012 – years 6 to 23].
- Growth rates of 1-2% [2012 – 1-2%] were used to extrapolate cash flow projections beyond the five year period covered by the long-term plan and did not exceed the long-term average growth rate of the industry.
- The average United States exchange rate adopted is 1.04 [2012 – 0.98].
- The pre-tax discount rates used reflect the current market assessment of the risks specific to each CGU. The discount rate was estimated based on the average percentage of weighted average cost of capital for the industry. A discount rate of 12.5% was applied to the cash flow projections determined in the year end testing of recoverable amounts [2012 – 12.5%].

As a result of the impairment tests performed in 2013, the Corporation recognized a reversal of previous impairment losses of $1,884 against development costs relating to a commercial aircraft program as the Corporation was able to negotiate additional favourable contract terms. In addition, the Corporation recognized impairment losses of $572 against development costs relating to a separate commercial aircraft program as the Corporation has revised its estimated number of units, due to changes in market outlook, resulting in movements to the timing of cash flows. The impairment reversal and charge were recorded against recurring costs of revenues.

In 2012, the Corporation recognized a reversal of previous impairment losses of $2,138 against development costs relating to a commercial aircraft program as the Corporation was able to obtain an offer with more favourable contract terms. In addition, the Corporation recognized impairment losses of $1,868 against development costs relating to a separate commercial aircraft program as the Corporation has revised its estimated number of units due to changes in the market outlook for the program. The impairment reversal and charge were recorded against recurring costs of revenues.

9. INVESTMENTS IN JOINT VENTURES

The Corporation has interests in a number of individually immaterial joint ventures. The Corporation's joint ventures are private entities that are not listed on any public exchange. All operations are continuing. The Corporation has no share of any contingent liabilities or capital commitments in its joint ventures as at December 31, 2013 and December 31, 2012.

On July 10, 2013, the Corporation invested $3,994 in a 49% interest in Triveni Aeronautics Private Limited ("Triveni") located in India which was funded through working capital. Triveni is an aerospace components manufacturing company which offers critical parts and sub-assemblies to aero-engines and aero-structures industries, and as such the

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

Corporation views the acquisition as a strategic fit. The Corporation has accounted for its interest in Triveni as a joint venture and recorded the investment at the amount of consideration paid of $3,994, which included the Corporation's share of the net fair value of assets and liabilities of $3,090 and goodwill of $904 identified on acquisition.

	December 31 2013	**December 31 2012**
Balance, beginning of the year	**400**	123
Equity contribution	**4,283**	200
Share of total comprehensive income	**13**	77
Balance, end of the year	**4,696**	400

To support the activities of certain joint ventures, the Corporation and the other investors in the joint ventures have agreed to make additional contributions, in proportion to their interests, to make up any losses, if required. In addition, profits of the joint ventures are not distributed until the parties to the arrangement provide consent for distribution.

10. BANK INDEBTEDNESS

On December 21, 2012, the Corporation amended its credit agreement with its existing lenders. The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian dollar limit of $115,000 plus a United States dollar limit of US$35,000 [$152,226 at December 31, 2013]. Under the terms of the amended credit agreement, the operating credit facility expires on December 21, 2014 and is extendable for unlimited one-year periods subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a Cdn$50,000 uncommitted accordion provision which provides the Corporation with the option to increase the size of the operating credit facility to $200,000. Bank indebtedness as at December 31, 2013 of $115,930 [December 31, 2012 – $112,666] bears interest at the bankers' acceptance or LIBOR rates, plus 1.20% [2.09% at December 31, 2013 (2012 – bankers' acceptance or LIBOR rates plus 1.20% or 2.35%)]. Included in the amount outstanding at December 31, 2013 is US$26,797 [December 31, 2012 – US$18,358]. At December 31, 2013, the Corporation had drawn $118,667 under the operating credit facility, including letters of credit totalling $2,737 such that $33,559 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. The Chairman of the Board of Directors of the Corporation (the "Board") has provided a guarantee for the full amount of the operating credit facility.

11. ACCOUNTS PAYABLE, ACCRUED LIABILITIES AND PROVISIONS

	December 31 2013	**December 31 2012**
Accounts payables	**61,327**	58,271
Accrued liabilities	**74,291**	60,331
Provisions [Note 14]	**2,007**	2,559
	137,625	121,161

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

12. LONG-TERM DEBT

	December 31 2013	December 31 2012
Property mortgages [a]	**17,427**	18,036
Other loans [b]	**33,637**	37,886
Related party loans [c]	**–**	29,670
	51,064	85,592
Less current portion	**4,910**	5,735
	46,154	79,857

[a] Property mortgages include $2,307 (£1,309) [2012 – $2,387 (£1,475)] of financing of certain land acquired in 2006. This same land is collateral for this mortgage and the mortgage bears interest at bank rate plus 0.90%, which at December 31, 2013 was 1.4% [2012 – 1.4%]. The property mortgage requires scheduled monthly repayments of accrued interest and principal and matures in June 2021.

The Corporation has a five year variable rate term mortgage, under which interest is charged at a margin of 1.75% over the lender's prime lending rate of 3.0% as at December 31, 2013. The mortgage is due in July 2016, with accrued interest and principal paid monthly. The mortgage is secured by certain land and building. The principal amount outstanding at December 31, 2013 was $15,122 [2012 – $15,649].

[b] Other loans include loans of $17,718 [2012 – $19,191] provided by governmental authorities ("Government Loans") that bear interest of approximately 1.75% to 3.82% [2012 – 1.75% to 3.82%] of which a loan in the amount of $1,931 provides for a five year interest free period if certain job criteria has been met. The Government Loans mature during the period of March 2014 and January 2022 with accrued interest and principal repayable monthly.

Included in other loans are bank loans aggregating $15,406 (US$14,485) [2012 – $17,081 (US$17,169)] ("Commercial Loans") to finance equipment over a ten year period maturing between December 2020 and December 2022 and leasehold improvements over a three year period maturing in December 2014. The Commercial Loans require scheduled monthly repayments of accrued interest and principal. The same equipment is collateral for the Commercial Loans which bears interest at LIBOR plus 2.75%, which at December 31, 2013 was 2.96% [2012 – 2.96%].

As at December 31, 2013, the Corporation has the availability to draw an additional $8,444 against the Government Loans.

[c] On January 31, 2008, Edco Capital Corporation ("Edco"), a corporation controlled by the Chairman of the Board, provided a $50,000 loan due July 1, 2009 (the "Original Loan") to the Corporation. The Original Loan originally had an interest rate of 10% per annum calculated and payable monthly, collateralized and subordinated to the Corporation's existing operating credit facility. The Original Loan was secured by subordinated mortgages on two of the Corporation's real properties. The Original Loan was subsequently amended in 2009, 2010 and 2011 in which certain terms of the agreement were restated resulting in a reduction in the interest rate to 7.5% per annum and the extension of the maturity date to July 1, 2013. On December 21, 2012, the Original Loan was extended to January 1, 2015 on the same terms and conditions in consideration of the payment of a one time extension fee of 0.75% of the principal amount outstanding as of December 21, 2012 of $30,000.

During the twelve month period ended December 31, 2013, the Corporation repaid the Original Loan by $30,000 [2012 – $3,500] resulting in an ending balance of $nil [2012 – $30,000].

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

13. BORROWINGS SUBJECT TO SPECIFIC CONDITIONS

The Corporation has received contributions related to the development of its technologies and processes from Canadian government agencies. The contributions have been deducted in calculating the Corporation's investment in intangible assets, property plant and equipment or from the expense to which they relate. These amounts, plus, in certain cases, an implied return on the investment, are repayable as a percentage of the Corporation's revenues. The Corporation has included in borrowings subject to specific conditions the estimated amount of repayments in relation to the contributions received.

The Corporation received contributions from the Canadian Government's Strategic Aerospace and Defence Initiative Program ("SADI") and Technology Partnerships Canada Program ("TPC") for technology and process development. The SADI participation supports the development of new manufacturing and process technology for composite and metallic materials for the multi-national Joint Strike Fighter F-35 Lightning II aircraft and under SADI, the Corporation is to receive repayable cash flow support of up to $43,400. During 2013, the Corporation received $1,063 [2012 – $3,688] of government contributions under SADI, of which $252 [2012 – $795] has been credited to the related assets, $137 [2012 – $562] has been credited to the related expense and $674 [2012 – $2,331] has been recorded in borrowings subject to specific conditions. The Corporation received contributions from TPC in years prior to 2010, and no additional funding has been received. In 2013, the Corporation reached an agreement with TPC settling one of the grants received which resulted in the recognition of a gain of $1,031, included in other income in the consolidated statements of income. The contributions are repayable as future royalty payments when it is probable that all or part of the amounts received will be repaid based on future estimated sales. During 2013, the Corporation repaid $1,196 [2012 – $1,049] in government contributions.

As at December 31, 2013, the Corporation has recognized $19,348 [2012 – $21,440] as the estimated fair value amount repayable to SADI and TPC. The fair value was determined by discounting the expected future cash outflows based on current rates for debt with similar terms and maturities which is categorized as a Level 3 in the fair value hierarchy. Fluctuations in the discount rate in the year resulted in the reversal of previously recorded accretion expense in the amount of $1,151, included in interest expense in the consolidated statements of income. The Corporation is eligible for additional government contributions of $21,533 in 2014 based on approved expenditures.

14. OTHER LONG-TERM LIABILITIES AND PROVISIONS

	December 31 2013	**December 31 2012**
Net defined benefit plan deficits [Note 19]	**6,640**	28,739
Provisions	**4,316**	5,219
Other	**6,764**	7,604
	17,720	41,562
Less current portion included in accounts payable,accrued liabilities and provisions	**2,007**	2,559
	15,713	39,003

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

The following table presents the movement in provisions:

	Warranty	Environmental	Other provisions	Total
At December 31, 2011	1,884	2,865	3,447	8,196
Additional provisions	260	276	590	1,126
Amount used	(311)	(15)	(1,573)	(1,899)
Unused amounts reversed	(125)	–	(2,054)	(2,179)
Unwind of discount	–	14	–	14
Foreign currency	(44)	(1)	6	(39)
At December 31, 2012	1,664	3,139	416	5,219
Additional provisions	753	4	94	851
Amount used	(1,085)	(72)	(154)	(1,311)
Unused amounts reversed	(258)	(220)	–	(478)
Unwind of discount	–	(163)	–	(163)
Foreign currency	170	8	20	198
At December 31, 2013	**1,244**	**2,696**	**376**	**4,316**

Warranty

During the normal course of its business, the Corporation assumes the cost of certain components under warranties offered on its products. This provision for a warranty is based on historical data associated with similar products and is recorded as a current liability. Nevertheless, conditions may change and a significant amount may need to be recorded.

Environmental

Provisions for environment liabilities have been recorded for costs related to site restoration obligations. Due to the long-term nature of the liability, the related long-term portion of the liability is included in long-term liabilities.

Other

This category of provisions includes provisions related to legal, onerous contracts, and other contract related liabilities. The provisions are based on the Corporation's best estimate of the amount of the expenditure required to address the matters.

15. INCOME TAXES

The following are the major components of income tax expense:

	2013	2012
Current income tax expense		
Current tax expense for the year	**3,837**	2,925
Adjustments of previous year's tax expense	**56**	–
	3,893	2,925
Deferred income tax expense		
Origination and reversal of temporary differences	**11,291**	677
Impact of tax law changes	**55**	(224)
	11,346	453
Total income tax expense	**15,239**	3,378

The Corporation's consolidated effective tax rate for the year ended December 31, 2013 was 25.1% [2012 – 5.6%].

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

The difference in the effective tax rates compared to the Corporations' statutory income tax rates were mainly caused by the following:

	2013	2012
Income before income taxes	**60,722**	60,422
Income taxes based on the applicable tax rate of 25.8% in 2013 and 2012	**15,678**	15,601
Adjustment to income taxes resulting from:		
Benefit of previously unrecognized tax assets	**(8)**	(12,957)
Adjustments in respect of prior years	**(1,458)**	149
Permanent differences and other	**928**	86
Higher income tax rates on income of foreign operations	**402**	723
Changes in income tax rates	**(303)**	(224)
Income tax expense	**15,239**	3,378

Changes in the deferred tax components are adjusted through deferred income tax expense except for $7,379 [2012 – $16,395] of investment tax credits which is adjusted through cost of revenues and $5,400 [2012 – $2,560] for employee future benefits which is adjusted through other comprehensive income.

The following are the major components of deferred tax assets and liabilities:

	December 31 2013	December 31 2012
Operating loss carry forwards	**11,976**	12,712
Investment tax credits	**44,646**	42,093
Employee future benefits	**(216)**	5,967
Property, plant and equipment and intangibles	**(48,591)**	(43,383)
Other	**15,435**	18,890
Deferred tax assets	**23,250**	36,279

For the purposes of the above table, deferred tax assets are shown net of offsetting deferred tax liabilities where these occur in the same entity and jurisdiction, as follows.

	December 31 2013	December 31 2012
Deferred tax assets	**43,011**	51,040
Deferred tax liabilities	**(19,761)**	(14,761)

The temporary difference associated with investments in subsidiaries and joint ventures, for which a deferred tax liability has not been recognized aggregates to $225,550 [2012 – $180,825].

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

16. SHARE CAPITAL

The authorized capital of the Corporation consists of an unlimited number of preference shares, issuable in series, and an unlimited number of common shares, with no par value.

Common shares

	Number	Amount
Issued and fully paid:		
Outstanding at December 31, 2011	56,209,001	252,440
Issued upon conversion of convertible debentures	2,000,000	2,000
Outstanding at December 31, 2012 and December 31, 2013	**58,209,001**	**254,440**

On April 30, 2012, the $2,000 10% convertible secured debentures were converted into 2,000,000 common shares of the Corporation.

Net income per share

			2013			2012
	Amount	Weighted average no. of shares	Per share amount ($)	Amount	Weighted average no. of shares	Per share amount ($)
Basic	**45,483**	**58,209,001**	**0.78**	57,044	57,553,263	0.99
Effect of dilutive securities:						
Convertible debentures	–	–	–	80	655,738	(0.01)
Diluted	**45,483**	**58,209,001**	**0.78**	57,124	58,209,001	0.98

Dividends declared

For the year ended December 31, 2013, the Corporation declared and paid quarterly dividends on common shares on September 30, 2013 and December 31, 2013 of $0.03 per share totalling $3,493.

17. STOCK-BASED COMPENSATION PLAN

The Corporation has an incentive stock option plan, which provides for the granting of options for the benefit of employees and directors. The options include a cash option feature that allows option holders to elect to receive an amount in cash equal to the intrinsic value, being the excess market price of the common share over the exercise price of the option, instead of exercising the option and acquiring the common shares. Options are granted at an exercise price equal to the market price of the Corporation's common shares at the time of granting. Options normally have a life of five years with vesting at 20.0% at the end of the first, second, third, fourth and fifth years from the date of the grant. In addition, certain business unit income tests must be met in order for the option holder's entitlement to fully vest. As at December 31, 2013 and December 31, 2012, there were no options granted and outstanding. The maximum number of options for common shares that is available to be granted under this plan is 1,673,341.

The Corporation has a deferred share unit plan ("DSU Plan") for certain executive officers ("Officers") which provides a structure for Officers to accumulate equity-like holdings in the Corporation. The DSU Plan allows certain Officers to participate in the growth of the Corporation by providing a deferred payment based on the value of a common share at the time of redemption. Each Officer receives deferred share units ("Units") based on their annual management incentive compensation. The Units are issued based on the Corporation's common share price at the time of issue. A third of the Units are paid upon issuance and the remaining Units are paid out equally on the anniversary date of issuance in the following two year period or upon retiring. The cash value is equal to the common share price at the date of redemption, adjusted by any dividends paid on the common shares. As at December 31, 2013, 82,098 Units were outstanding at an accrued value of $535 [December 31, 2012 – $250].

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

The Corporation recorded compensation expense in relation to the plans during the year of $427 [2012 – $171].

18. FINANCIAL INSTRUMENTS

Categories of financial instruments

Under IFRS, financial instruments are classified into one of the following four categories: financial assets at fair value through profit or loss, loans and receivables, financial liabilities at fair value through profit or loss, and other financial liabilities at amortized cost.

All financial instruments, including derivatives, are included on the consolidated statement of financial position, which are measured at fair value except for loans and receivables and other financial liabilities, which are measured at amortized costs. Held for trading financial investments are subsequently measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instruments are derecognized or impaired.

The carrying values of the Corporation's financial instruments are classified as follows:

	Fair value through profit or loss: Held for trading[1]	Loans and receivables[2]	Total financial assets	Other financial liabilities (at amortized cost)[3]	Total financial liabilities
December 31, 2012	22,423	134,214	156,637	364,149	364,149
December 31, 2013	**7,760**	**146,969**	**154,729**	**346,271**	**346,271**

[1] Includes cash and cash equivalents and forward foreign exchange contracts included in prepaid expenses and other
[2] Includes accounts receivables and loan receivables
[3] Includes bank indebtedness, accounts payable and accrued liabilities, long-term debt, borrowings subject to specific conditions and accounts receivable securitization transactions

The Corporation has exposure to the following risks from its use of financial instruments:
- Market risk
- Credit risk
- Liquidity risk

This note presents information about the Corporation's risks to each of the above risks, its objectives, policies and processes for measuring and managing risk.

Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Corporation's income or the value of its holdings of financial instruments. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Corporation may utilize derivative instruments in the management of its foreign currency and interest rate exposures.

The Corporation thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include currency risk, interest rate risk, credit risk and liquidity risk. Where material, these risks are reviewed and monitored by the Board of the Corporation.

Currency risk

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 rate. 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 rate ("transaction exposures") 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 ("translation exposures"). The Corporation uses derivative financial instruments to manage foreign exchange risk with the objective of minimizing transaction exposures and the resulting volatility of the Corporation's net income.

The most significant transaction exposures arise in the Canadian operations where significant portions of the revenues are transacted in U.S. dollars. As a result, the Corporation may experience transaction exposures because of the volatility in the exchange rate between the Canadian and U.S. dollar. Based on the Corporation's current U.S. denominated net inflows, as of December 31, 2013, fluctuations of +/- 1% would, everything else being equal, have an effect on net income and on other comprehensive income for the year ended December 31, 2013 of approximately +/- $98 and $1,356 respectively.

Interest rate risk

The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. At December 31, 2013, $164,193 of the Corporation's total debt portfolio is subject to movements in floating interest rates. In addition, a portion of the Corporation's accounts receivable securitization programs are exposed to interest rate fluctuations. The objective of the Corporation's interest rate management activities is to minimize the volatility of the Corporation's income. The Corporation monitors its exposure to interest rates and has not entered into any derivative contracts to manage this risk. A fluctuation in interest rates of 100 basis points (1 percent) would have impacted the amount of interest charged to net income during the year ended December 31, 2013 by approximately +/- $1,423.

Credit risk

Credit risk arises from cash and cash equivalents held with banks and financial institutions as well as credit exposure to clients, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing credit risk is to prevent losses in financial assets. The Corporation is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts. The Corporation mitigates this credit risk by dealing with counterparties who are major financial institutions that the Corporation anticipates will satisfy their obligations under the contracts.

The Corporation, in the normal course of business, is exposed to credit risk from its customers, substantially all of which are in the aerospace industry. The Corporation sells the majority of its products to large international organizations with strong credit ratings. Therefore, the Corporation is not exposed to significant credit risk and overall the Corporation's credit risk has not changed significantly from the prior year.

The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of income within administrative and general expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off are credited against administrative and general expenses.

Derecognition of financial assets

The Corporation sells a portion of its accounts receivables through securitization programs or factoring transactions. During 2013, the Corporation sold receivables to various financial institutions in the amount of $256,150 [2012 – $227,699] for a discount of $698 [2012 – $648] representing an annualized interest rate of 1.73% [2012 – 1.83%].

As at December 31, 2013, accounts receivables include receivables sold and financed through securitization transactions of $26,022 [2012 – $26,521] which do not meet the IAS 39 derecognition requirements as the Corporation continues to be exposed to credit risk. These receivables are recognized as such in the consolidated financial statements even though they have been legally sold; a corresponding financial liability is recorded in the consolidated statement of financial position under debt due within one year.

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

Liquidity risk

The Corporation's objective in managing liquidity risk is to ensure that there are sufficient committed loan facilities in order to meet its liquidity requirements at any point in time. The Corporation has in place a planning and budgeting process to help determine the funds required to support the Corporation's normal operating requirements on an ongoing basis, taking into account its anticipated cash flows from operations and its operating facility capacity. The primary sources of liquidity are the operating credit facility, accounts receivable securitization program and the indebtedness provided by a company controlled by a common director, which require the continued support by the Chairman of the Board of the Corporation. 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 costs for 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.

Contractual maturity analysis

The following table summarizes the contractual maturity of the Corporation's financial liabilities. The table includes both interest and principal cash flows.

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Thereafter**	**Total**
Bank indebtedness	115,930	–	–	–	–	–	115,930
Long-term debt[1]	30,932	3,610	4,041	4,379	4,891	31,445	79,298
Equipment leases	397	371	329	206	113	101	1,517
Facility leases	1,691	1,668	1,478	1,317	1,132	5,338	12,624
Other long-term liabilities	1,565	794	690	687	581	1,887	6,204
Borrowings subject to specific conditions	1,711	2,110	200	927	789	13,610	19,347
	152,226	8,553	6,738	7,516	7,506	52,381	234,920
Interest payments	1,509	1,298	1,183	1,076	960	4,671	10,697
Total	153,735	9,851	7,921	8,592	8,466	57,052	245,617

[1] The amount drawn on the Corporation's accounts receivable securitization program is included in long-term debt in the Year 1 category.

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, accounts receivable, 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 consolidated statements of financial position are reasonable estimates of their fair values.

Foreign exchange contracts

The Corporation enters into forward foreign exchange contracts to mitigate future cash flow exposures in United States dollars and Euros. Under these contracts the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in United States dollars and Euros. The Corporation does not have any forward foreign exchange contracts outstanding as at December 31, 2013.

Long-term debt
The fair value of the Corporation's long-term debt is $51,021 at December 31, 2013. The fair value was determined by discounting the expected future cash flows based on current rates for debt with similar terms and maturities which is categorized as a Level 2 in the fair value hierarchy.

Collateral
As at December 31, 2013, the carrying amount of all of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $154,729.

Fair value hierarchy
The Corporation's financial assets and liabilities recorded at fair value on the consolidated statement of financial position have been categorized into three categories based on a fair value hierarchy. Fair value of assets and liabilities included in Level I are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The Corporation does not have any financial assets carried at fair value as at December 31, 2013.

19. EMPLOYEE FUTURE BENEFITS

The Corporation provides retirement benefits through a variety of arrangements comprised principally of defined benefit and defined contribution plans that cover a substantial portion of employees in accordance with local regulations and practices. The most significant plans in terms of the benefits accrued to date by participants are career average and final average earnings plans and around 62% of the obligations accrued to date come from defined benefit plans in Canada.

Defined Benefit Plans
Canada
The Canadian defined benefit plans comprise of both career average and final average earnings plans which provide benefits to members in the form of a guaranteed level of pension payable for life. A majority of the plans are currently closed to new entrants. The level of pensions in the defined benefit plans depends on the member's length of service and salary at retirement age for final average earnings plans and salary during employment for career average plans. The defined benefit pension plans requires contributions to be made to a separate trustee-administered fund which is governed by the Corporation. The Corporation is responsible for the administration of the plans assets and for the definition of the investment strategy. The Corporation reviews the level of funding in the defined benefit pension plans on an annual basis as required by local government legislation. Such review includes the asset-liability matching strategy and investment risk management policy. Actuarial valuations are required at least every three years. Depending on the jurisdiction and the funded status of the plan, actuarial valuations may be required annually. The most recent actuarial valuations for the various pension plans were completed between December 31, 2010 and December 31, 2012.

Contributions are determined by the appointed actuary and cover the going-concern normal costs and deficits (established under the assumption that the plan will continue to be in force) or solvency deficits (established under the assumption that the plan stops its operations and is being liquidated), as prescribed by laws and actuarial practices. Under the laws in effect, minimum contributions are required to amortize the going-concern deficits over a period of fifteen years and solvency deficits over a period of five years. Temporary solvency relief measures put in place to mitigate the adverse effects of the 2008 financial crisis allow for the amortization of solvency deficits over a period of up to ten years.

US

The United States defined benefit plan provides benefits to members in the form of a guaranteed level of pension payable for life at retirement, and is currently closed to future accrual of benefits. The benefit payments are from a trustee-administered fund and plan assets held in trusts are governed by Internal Revenue Service ("IRS") regulations. Responsibility for governance of the plan, including investment decisions and contribution schedules, is also governed by IRS Regulations and lies with the Corporation. Actuarial valuations are required annually. Contributions are determined by appointed actuaries and cover normal cost and deficits as prescribed by law. Funding deficits are generally amortized over a period of seven years.

Investment Policy

The overall investment policy and strategy for the defined benefit pension plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the risks of the plans. See below for more information about the Corporation's risk management initiatives.

The target asset allocation is determined based on expected economic and market conditions, the maturity profile of the plans' liabilities, the funded status of the respective plans and the plan stakeholders' tolerance to risk. Generally, the Corporation aims to have a portfolio mix of a combined 5% in money market securities, 20% in non-traditional equities, 30% in fixed income instruments and 45% in equity for the Canadian defined benefit plans and a portfolio mix of a combined 20% in cash, 35% in fixed income instruments and 45% in equity for the United States defined benefit plan. As the plans mature and the funded status improves through cash contributions and anticipated excess equity returns, the Corporation intends to reduce the level of investment risk by investing in more fixed-income assets that better match the liabilities.

Risk Management

The Corporation's pension plans are exposed to various risks, including equity, interest rate, inflation, liquidity and longevity risks. Several risk strategies and policies have been put in place to mitigate the impact these risks could have on the funded status of defined benefit plans and on the future level of contributions by the Corporation. The following is a description of key risks together with the mitigation measures in place to address them.

Equity risk

Equity risk is the risk that results from fluctuations in equity prices. This risk is managed by maintaining diversification of portfolios across geographies, industry sectors and investment strategies.

Interest rate risk

Interest rate risk is the risk that results from fluctuations in the fair value of plan assets and liabilities due to movements in interest rates. This risk is managed by reducing the mismatch between the duration of plan assets and the duration of pension obligation. This is accomplished by having a portion of the portfolio invested in long-term bonds. A decrease in corporate and/or government bond yields will increase plan liabilities, which will be partially offset by an increase in the value of the plans' bond holdings.

Liquidity risk

Liquidity risk is the risk stemming from holding assets which cannot be readily converted to cash when needed for the payment of benefits or to rebalance the portfolios. Liquidity risk is managed through investment in government bonds and equity futures.

Longevity risk

Longevity risk is the risk that increasing life expectancy results in longer-than-expected benefit payments resulting in an increase in the plans' liabilities. This risk is mitigated by using the most recent mortality tables to set the level of contributions.

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

The Corporation obtains actuarial valuations for its accrued benefit obligations and the fair value of plan assets for accounting purposes under IFRS as at December 31 of each year. In addition, the Corporation estimates movements in its accrued benefit liabilities at the end of each interim reporting period, based upon movements in discount rates and the rates of return on plan assets, as well as any significant changes to the plans. Adjustments are also made for payments made and benefits earned.

Defined Contribution Plans

The Corporation's management, administrative and certain unionized employees may participate in defined contribution pension plans. The Corporation contributes an amount expressed as a percentage of employees' contributions with such percentage varying by group.

The Corporation's expenses for defined contribution plans amounted to $4,189 for the year ended December 31, 2013 [2012 – $3,887].

Other Benefit Plan

The Corporation has another benefit plan in the United States which includes retiree medical benefits that contribute to the health care coverage of certain employees and their beneficiates after retirement. The other benefit plan is currently closed to new entrants. The post-retirement benefits cover all types of medical expenses including, but not limited to, cost of doctor visits, hospitalization, surgery and pharmaceuticals. The other benefit plan also provides for post-employment life insurance and compensated absences for eligible current employees, including vacation to be taken before retirement, if certain age and service requirements are met. The retirees contribute to the costs of the post-retirement medical benefits. The plan is not pre-funded and costs are incurred as amounts are paid.

The Corporation recognized total defined benefit costs related to its defined and other benefit plans as follows:

		2013		**2012**
	Defined benefit plans	**Other benefit plan**	**Defined benefit plans**	**Other benefit plan**
Current service cost	**2,225**	**–**	2,816	–
Net interest cost on net defined benefit liability (asset)	**1,073**	**268**	(364)	483
Past service cost	**154**	**–**	(269)	–
Other	**532**	**–**	(153)	–
Total defined benefit cost recognized in net income	**3,984**	**268**	2,030	483

The re-measurement components recognized in the statement of other comprehensive income for the Corporations defined benefit plans comprise the following:

		2013		**2012**
Actuarial (gains) losses	**Defined benefit plans**	**Other benefit plan**	**Defined benefit plans**	**Other benefit plan**
Return on pension assets (excluding amounts in net interest on defined benefit schemes)	**(9,751)**	**–**	496	–
Based on adjustment of liability assumptions	**(9,747)**	**–**	9,289	–
Due to liability experience adjustment	**(1,905)**	**–**	137	–
Total defined benefit cost recognized in the statement of other comprehensive income	**(21,403)**	**–**	9,922	–

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

The following tables show the changes in the fair value of plan assets and the defined benefit obligation as recognized in the consolidated financial statements for the Corporation's benefit plans:

Changes in benefit plan assets of the Corporation's benefit plans

		2013		2012
	Defined benefit plans	**Other benefit plan**	**Defined benefit plans**	**Other benefit plan**
Fair value, beginning of year	**87,480**	**–**	82,627	–
Interest income on plan assets	**3,553**	**–**	5,064	–
Actual return on assets (excluding interest income on plan assets)	**9,743**	**–**	(556)	–
Employer contributions	**6,031**	**–**	6,797	–
Employee contributions	**358**	**–**	342	–
Benefit payments	**(7,490)**	**–**	(6,668)	–
Administration costs	**(471)**	**–**	n/a	–
Exchange differences	**431**	**–**	(126)	–
End of year	**99,635**	**–**	87,480	–

Changes in the benefit plan obligations of the Corporation's benefit plans

		2013		2012
	Defined benefit plans	**Other benefit plan**	**Defined benefit plans**	**Other benefit plan**
Beginning of year	**116,219**	**880**	106,305	949
Current service cost	**2,225**	**–**	2,816	–
Interest cost	**4,627**	**268**	4,639	483
Actuarial losses (gains) in other comprehensive income:				
Changes in demographic assumptions	**1,707**	**–**	135	–
Changes in financial assumptions	**(11,376)**	**–**	–	–
Experience adjustments	**(1,904)**	**–**	9,291	–
Employee contributions	**358**	**–**	342	–
Benefit payments	**(7,490)**	**(244)**	(6,668)	(532)
Plan amendments and curtailments	**154**	**–**	(422)	–
Exchange difference	**628**	**62**	(219)	(20)
End of year	**105,148**	**966**	116,219	880

Reconciliation of funded status of benefit plans to amounts recorded in the consolidated financial statements

		2013		2012
	Defined benefit plans	**Other benefit plan**	**Defined benefit plans**	**Other benefit plan**
Fair value of plan assets	**99,635**	**–**	87,480	–
Accrued benefit obligation	**(105,148)**	**(966)**	(116,219)	(880)
Net defined benefit liability	**(5,513)**	**(966)**	(28,739)	(880)
Included in other long-term liabilities and provisions	**(6,640)**	**(966)**	(28,739)	(880)
Included in other assets	**1,127**	**–**	–	–

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

The Corporation expects to contribute approximately $6,556 in 2014 to all its defined benefit plans in accordance with normal funding policy. Because of market driven changes that the Corporation cannot predict, the Corporation could be required to make contributions in the future that differ significantly from its estimates.

Significant assumptions and sensitivity analysis

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations represent management's best estimates reflecting the long-term nature of employee future benefits and are as follows [weighted-average assumptions as at December 31]:

		2013		2012
	Defined benefit plans	**Other benefit plan**	**Defined benefit plans**	**Other benefit plan**
Assumptions used to determine defined benefit obligation at the end of the year				
Discount rate	**4.75%**	**4.75%**	4.0%	3.5%
Rate of compensation increase	**2.9%**	**–**	2.9%	–
Mortality Table	2013 RPP Private Sector Mortality Table projection with CPM Scale A (with size adjustment)		UP94 with fully generational projections using Scale AA	

The discount rate assumption used in determining the obligations for pension and other benefit plans was selected based on a review of current market interest rates of high-quality, fixed rate debt securities adjusted to reflect the duration of expected future cash outflows for pension benefit payments. At December 31, 2013, a 1.0% decrease in the discount rate used (all other assumptions remaining unchanged) could result in a $15,548 increase in the pension benefit obligation with a corresponding charge recognized in other comprehensive income in the year.

The fair value of the Corporation's long-term debt is $51,021 at December 31, 2013. The fair value was determined by discounting the expected future cash flows based on current rates for debt with similar terms and maturities which is categorized as a Level 2 in the fair value hierarchy. A one year additional life expectancy as at December 31, 2013 for all defined benefit plans would increase the net defined benefit liability by $1,788, all other actuarial assumptions remaining unchanged.

The Corporation funds health care benefit costs, shown under other benefit plan, as a pay as you go basis. For measurement purposes, a 5.0% to 10.0% annual rate of increase in the per capita cost of covered health care and dental benefits was assumed for 2013. The rate was assumed to decrease gradually over the next 10 years to 3.0% and to remain at that level thereafter. The impact of applying a one-percentage-point increase or decrease in the assumed health care and dental benefit trend rates as at December 31, 2013 was nominal.

Assets

The weighted average asset allocations of the defined benefit plans at the measurement date, by asset category, are as follows:

	2013	**2012**
Equity investments	**70%**	63%
Fixed income investments	**26%**	30%
Other investments	**4%**	7%
	100%	100%

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

Defined benefit pension liability term

	Total
Defined benefits schedule for disbursement within 12 months	6,594
Defined benefits schedule for disbursement within 2-5 years	31,213
Defined benefits schedule for disbursement after 5 years or more	67,341

20. SEGMENTED INFORMATION

Based on the nature of the Corporation's markets, two main operating segments were identified: Aerospace and Power Generation Project. The aerospace segment includes the design, development, manufacture, repair and overhaul and sale of systems and components for defence and commercial aviation, while the power generation project segment includes the supply of gas turbine power generation units. Revenues in the power generation project segment arise solely from the power generation project in Republic of Ghana and the revenue is included in Canada export revenue.

The Corporation evaluated the performance of its operating segments primarily based on net income before interest and income tax expense. The Corporation accounts for intersegment and related party sales and transfers, if any, at the exchange amount.

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

	2013	2012
Sale of goods	**631,046**	540,597
Construction contracts	**32,139**	59,449
Services	**88,941**	103,994
	752,126	704,040

At December 31, 2013 aggregate costs incurred under open construction contracts and recognized profits, net of recognized losses, amounted to $292,465 [December 31, 2012 – $269,800]. Advance payments received for construction contracts in progress at December 31, 2013 were $19,073 [December 31, 2012 – $11,663]. Retentions in connection with construction contracts at December 31, 2013 were $1,064 [December 31, 2012 – $995]. Advance payments and retentions are included in accounts payable, accrued liabilities and provisions.

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

Segmented information consists of the following:

Activity segments:

	2013			2012		
	Aerospace	Power Generation Project	Total	Aerospace	Power Generation Project	Total
Revenues	**749,934**	**2,192**	**752,126**	658,762	45,278	704,040
Income before interest and income taxes	**69,029**	**(1,586)**	**67,443**	69,680	(80)	69,600
Interest expense			**6,721**			9,178
Income before income taxes			**60,722**			60,422
Total assets	**727,227**	**24,683**	**791,910**	724,547	30,459	755,006
Total liabilities	**371,789**	**11,963**	**383,752**	403,407	17,065	420,472
Additions to property, plant and equipment	**31,299**	**–**	**31,299**	33,699	–	33,699
Depreciation and amortization	**33,309**	**–**	**33,309**	31,227	–	31,227
Impairment reversal, net	**1,312**	**–**	**1,312**	270	–	270

Geographic segments:

	2013				2012			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenues	**301,489**	**232,260**	**218,377**	**752,126**	337,493	199,917	166,630	704,040
Export revenues[1]	**201,281**	**62,264**	**16,680**	**280,225**	245,979	46,921	13,806	306,706

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

	2013				2012			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment and intangible assets	**185,818**	**131,043**	**75,444**	**392,305**	195,379	118,945	63,815	378,139

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

The major customers for the Corporation are as follows:

	2013	2012
Canadian operations		
Number of customers	**2**	3
Percentage of total Canadian revenues	**27%**	38%
United States operations		
Number of customers	**2**	1
Percentage of total United States revenues	**55%**	39%
European operations		
Number of customers	**2**	2
Percentage of total European revenues	**85%**	88%

21. COST OF REVENUES

	2013	2012
Operating expenses	**616,613**	592,539
Amortization	**31,363**	29,519
Investment tax credits	**(7,379)**	(16,395)
Impairment (reversal) of inventories	**514**	(151)
Impairment reversal, net [Note 8]	**(1,312)**	(270)
	639,799	605,242

22. ADMINISTRATIVE AND GENERAL EXPENSES

	2013	2012
Salaries, wages and benefits	**29,541**	25,680
Administration and office expenses	**11,914**	9,710
Professional services	**2,402**	2,072
Amortization	**1,624**	1,510
	45,481	38,972

23. INTEREST EXPENSE

	2013	2012
Interest on bank indebtedness and long-term debt [Notes 10 and 12]	**6,935**	7,923
Interest on convertible debenture	**–**	66
Accretion charge on convertible debenture, long-term debt and borrowings	**(916)**	541
Discount on sale of accounts receivables	**702**	648
	6,721	9,178

24. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) includes unrealized foreign currency translation gains and losses, which arise on the translation to Canadian dollars of assets and liabilities of the Corporation's foreign operations and net actuarial losses on defined benefit pension plans, net of tax. The Corporation recorded unrealized currency translation gains for the year ended December 31, 2013 of $15,842 [2012 – losses of $1,099] and net actuarial gains on defined benefit plans of $15,792 [2012 – losses of $6,109]. These gains and losses are reflected in the consolidated statement of financial position and had no impact on net income for the year.

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

25. RELATED PARTY DISCLOSURE

Transactions with related parties

On December 21, 2012, the Original Loan was extended [Note 12]. During 2013, the Corporation incurred interest of $2,016 [2012 – $2,325] in relation to the Original Loan and prepaid the Original Loan by $30,000 [2012 – $3,500]. At December 31, 2013, the Corporation owed Edco interest of $nil [2012 – $191].

On April 30, 2012, Convertible Debentures in the principal amount of $2,000 held by a director of the Corporation were converted into common shares of the Corporation. Interest incurred during the year ended December 31, 2012 on the Convertible Debentures was $66.

The Chairman of the Board has provided a guarantee for the full amount of the Corporation's operating credit facility. An annual fee averaging 0.5% [2012 – 0.63%] of the guaranteed amount or $755 [2012 – $1,102] was paid in consideration for the guarantee.

During the year, the Corporation incurred consulting costs of $100 [2012 – $100] payable to a corporation controlled by the Chairman of the Board.

Key management personnel

Key management includes members of the Board of the Corporation and executive officers, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Corporation. The compensation expense for key management for services is as follows:

	2013	**2012**
Short-term benefits	**2,449**	2,294
Post-employment benefits	**155**	122
Share-based payments	**318**	138
	2,922	2,554

Short-term benefits include cash payments for base salaries, bonuses and other short-term cash payments. Post-employment benefits include the Corporation's contribution pension plan and pension adjustment for defined benefit plan. Share-based payments include amounts paid to executives under the DSU Plan.

26. SUPPLEMENTARY CASH FLOW INFORMATION

	2013	**2012**
Net change in non-cash working capital		
Accounts receivable	**(8,126)**	(20,048)
Inventories	**(6,698)**	(17,293)
Prepaid expenses and other	**(5,886)**	(502)
Accounts payable, accrued liabilities and provisions	**10,412**	14,872
	(10,298)	(22,971)
Interest paid	**7,696**	9,546
Income taxes paid (refund)	**974**	(1,069)

27. ADDITIONAL FINANCIAL INFORMATION

Included in other expenses is a foreign exchange gain of $142 [2012 – gain of $540] on the conversion of foreign currency denominated working capital balances and debt.

28. 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.

As at December 31, 2013, total managed capital was $601,174, comprised of shareholders' equity of $408,158 and interest-bearing debt of $193,016.

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. 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 costs for 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. There were no changes in the Corporation's approach to capital management during the year.

The Corporation must adhere to covenants in its operating credit facility. As at December 31, 2013 the Corporation was in compliance with these covenants.

29. CONTINGENT LIABILITIES AND COMMITMENTS

In the ordinary course of business activities, the Corporation may be contingently liable for litigation and claims with, among other, 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 December 31, 2013, capital commitments in respect of purchase of property, plant and equipment totalled $11,867, all of which had been ordered. There were no other material capital commitments at the end of the year.

Executive Officers

N. Murray Edwards
Chairman

James S. Butyniec
President and
Chief Executive Officer

John B. Dekker
Chief Financial Officer and
Corporate Secretary

Daniel R. Zanatta
Vice President,
Business Development,
Marketing and Contracts

Larry A. Winegarden
Vice President,
Corporate Strategy

Konrad B. Hahnelt
Vice President,
North American Operations

Jo-Ann C. Ball
Vice President,
Human Resources

Elena M. Milantoni
Vice President,
Finance and Treasurer

Board of Directors

N. Murray Edwards
Chairman
Magellan Aerospace Corporation
President
Edco Financial Holdings Ltd.
Calgary, Alberta

James S. Butyniec
President and Chief Executive Officer
Magellan Aerospace Corporation
Mississauga, Ontario

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Brampton, Ontario

William A. Dimma C.M., O. Ont. (1, 2)
Chairman Emeritus
Home Capital Group Inc.
Toronto, Ontario

Bruce W. Gowan (1, 2, 3)
Corporate Director
Huntsville, Ontario

Donald C. Lowe (1, 4)
Corporate Director
Toronto, Ontario

Larry G. Moeller (2, 4)
President
Kimball Capital Corporation
Calgary, Alberta

Steven Somerville (3, 4)
Co-President
Spectrum Capital Corporation
Toronto, Ontario

Committees Of The Board

(1) Audit Committee
Chairman:
William A. Dimma

(2) Governance and Nominating Committee
Chairman:
Bruce W. Gowan

(3) Human Resources and Compensation Committee
Chairman:
William G. Davis

(4) Environmental and Health & Safety Committee
Chairman:
Donald C. Lowe

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Toronto Stock Exchange — TSX
Common Shares — MAL

Annual Meeting

The Annual Meeting of the Shareholders of Magellan Aerospace Corporation will be held on Tuesday, May 13th, 2014 at 2:00 p.m. at The Living Arts Centre 4141 Living Arts Drive, Mississauga, Ontario L5B 4B8

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