MAGELLAN AEROSPACE

ANNUAL REPORT 2017

INDUSTRY ANALYSTS PREDICT THAT THE CURRENT SUPER CYCLE WILL CONTINUE THROUGH THE END OF THIS DECADE.

During 2017 we continued to see growth in our major customer's civil and military aircraft deliveries; particularly Airbus and Boeing's Single Aisle programs and Lockheed Martin's Joint Strike Fighter program. These record build rates were underpinned by another year where both Airbus and Boeing's orders for new aircraft surpassed their deliveries generating a record combined backlog in excess of 13,000 aircraft.

Industry analysts predict that the current super cycle will continue through the end of this decade. The work we have done over the last few years securing significant work packages on all of our customers civil and military programs gives us an excellent platform to continue to develop and grow Magellan into the next decade.
To ensure we maximise the benefits from this growth we must continue to align our strategy with our major customers, delivering operational excellence across all areas of our business and providing our products and services consistently with ZERO DEFECTS and 100% ON TIME. This level of operational performance coupled with market-competitive pricing is a prerequisite for our continued success.

To achieve this level of performance we will continue to invest in advanced manufacturing technology and automation, to deliver sustainable productivity improvement in our North American and European operations. During 2017 we broke ground on our new advanced machining facility in India, scheduled to open in the fall of 2018. This new facility coupled with our existing operation in Meliec, Poland will enhance our competitive offering to our customers and help us continue to improve our operating margin. The India and Poland facilities are key to our ability to offer a vertically integrated supply chain and also serve to support our customer's local operations and industrial participation strategies.

We will also continue to invest in our employees through training and modern apprenticeships providing a safe and rewarding environment for our people to develop long and rewarding careers with Magellan. During 2017 we undertook an employee survey to better understand the views and concerns of our team. The results of this survey are being used to develop our policies and procedures in a number of areas to help us retain and develop our employees. I would like to take this opportunity to express my appreciation to our employees for their continued commitment and support. It is our employees who apply their skills in helping us achieve the results and performance levels that our shareholders and customers require from us in this demanding environment.

If we continue on this journey, focusing on delivering operational excellence in all areas of our business, and investing in our employees, systems and advanced technologies, we will continue to deliver strong financial performance and growth into the next decade.

Phillip C. Underwood
President and Chief Executive Officer
March 2, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

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, 2017 and 2016 prepared in accordance with International Financial Reporting Standards ("IFRS"), and the Annual Information Form for the year ended December 31, 2017 (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, 2017 relative to the year ended December 31, 2016. The information contained in this report is as at March 2, 2018. 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," "2017 and Recent Updates," "Outlook," "Consolidated Revenues," "Liquidity and Capital Resources," "Risk Factors," "Critical Accounting Estimates" and "Future Changes in Accounting Policies." In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "could," "expects," "forecasts," "believes," "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 2017 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 2017 events

Magellan is a diversified supplier of components to the aerospace industry. Through its wholly owned subsidiaries, Magellan engineers and manufactures aeroengine and aerostructure components for aerospace markets, including advanced products for defence and space markets and complementary specialty products. The Corporation also supports the aftermarket through the supply of spare parts as well as through repair and overhaul services ("R&O").

During 2017 the Corporation focused on improving its overall execution at all of its divisions. Adherence to business plans with an emphasis on meeting customer expectations was the common theme adopted throughout the Magellan organization. Business reviews are now well established in all divisions utilizing a standardized set of management tools; the Corporation believes that this approach is clearly driving improved performance in all aspects of its business. These improvements are being accomplished through the constant monitoring and management response to key indicators effectively at both the Corporate and divisional levels.

It is expected that the Corporation will continue to improve its overall performance and continue down this path using these management techniques which have been incorporated into the Magellan Operating System ("MOS™"). In 2018 the Corporation has committed to establishing a zero defect, 100% schedule compliance culture. Management will continue to focus on reducing inventories while increasing inventory turns and improving cash management, thereby ultimately continuing to reduce internal cost.

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

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.

Within the aerostructures product grouping, the Corporation supplies international customers by producing components 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 casting, 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 R&O services for jet engines and related components.

In 2017, 73% of revenues were derived from commercial markets (2016 – 73%, 2015 – 75%) while 27% of revenues related to defence markets (2016 – 27%, 2015 – 25%).

2017 and Recent Updates

– On February 3, 2017, Magellan announced a contract award from Public Services and Procurement Canada ("PSPC") for engine repair and overhaul and fleet management services on the F404 engine that powers Canada's fleet of CF-188 Hornet aircraft. The contract commenced in January 2017 and work will be carried out until the terms expire at the end of March 2021. A preliminary funding amount of $45 million has been approved to launch this multi-year agreement. The contract includes options to extend the duration of the agreement beyond 2021, based on performance. Magellan will service the F404 engines at its facility in Mississauga, Ontario and at Royal Canadian Air Force ("RCAF") bases located in Bagotville, Quebec and Cold Lake, Alberta.

– On February 14, 2017, the Corporation announced plans to construct a new manufacturing facility in India. The new 140,000 square foot building will be constructed on seven acres in Hitech Defence and Aerospace Park (Aerospace SEZ Sector) in Devanahalli, Bengaluru, near the Bangalore International Airport, already an established presence in India's aerospace sector for more than a decade. The Corporation will invest more than $28 million in this state-of-the-art manufacturing and assembly plant, which will be constructed in two phases. An announcement was made on

November 15, 2017 that Magellan had hosted a ground-breaking ceremony for the Corporation's new manufacturing and assembly facility in India. The plant will employ approximately 120 high technology and support positions, and will be equipped with a comprehensive range of high speed 4 and 5-axis machining centres, selected to optimize manufacturing efficiency.

– An announcement was made on March 8, 2017 about an agreement between Magellan and Airbus for the supply of complete crown module assemblies for all variants of the A350 XWB aircraft. This contract extension, valued at approximately $140 million, will see the provision of complex assemblies from Magellan facilities in the United Kingdom, Poland and India to the Airbus assembly lines in Germany and France.

– Magellan announced on April 3, 2017 the sale of the land and building of its Mississauga facility as at Friday, March 31, 2017. The sale generated net cash proceeds of approximately $32.7 million. Magellan will lease a new facility that will be constructed by the buyer on the existing site. The facility rationalization is being driven by the need to improve Magellan's manufacturing efficiencies, operational performance, profit margins and cash flow. The move to the newly constructed facility is expected to be completed and operational in the early part of 2019.

– On September 20, 2017, the Corporation announced that it was selected by Airbus to provide exhaust systems for the A320neo PW family of aircraft. Magellan will design, develop and manufacture exhaust systems for the A320neo PW1100G-JM nacelle with the first unit scheduled to enter into service in 2022. Revenue generated from this life-of-program contract is estimated to exceed $200 million over the first ten years of the contract. The fabricated metallic exhaust systems will be produced at Magellan's North American facilities in Winnipeg, Manitoba and Middletown, Ohio and will be delivered directly to Airbus assembly lines across the globe.

– Magellan announced on January 22, 2018 that it had delivered the first of three Power Control Units ("PCU's") for a planned space mission. In 2016, Magellan was selected by the Laboratory for Atmospheric and Space Physics ("LASP") at the University of Colorado in Boulder, Colorado to provide satellite technology for a future Deep Space Interplanetary Mission. Under the contract, Magellan's facility in Winnipeg, Manitoba will deliver three PCU's and subsystems for three jointly developed Control and Data Handling ("C&DH") units. Magellan will provide its flight-proven PCU's and C&DH subsystems that utilize expertise developed by Magellan for past and current Canadian Space Agency missions.

– On February 22, 2018, Magellan and Robinson announced that a WSPS™ is now available for the Robinson R66 helicopter platform. The WSPS™ is designed to provide a measure of protection for helicopters in level flight in the event of an encounter with horizontally strung wires and cables, using the concept of guiding wires over the fuselage into high tensile cutting blades. The R66 WSPS™ is comprised of upper cutter, lower cutters, and a windshield detector. Magellan's WSPS™ R66 platform is available as a field kit option for all R66 helicopters.

Labour Matters

During the year ended December 31, 2017, one labour agreement was successfully re-negotiated with an expiry date on December 31, 2018. Two other collective agreements were successfully re-negotiated in 2017, so that they now expire on December 31, 2019. Further, three labour agreements at two of the Corporation's facilities that expired during 2017 were ratified, so that they now expire on March 31, 2020, and October 23, 2020 respectively. In the first quarter of 2018, three labour agreements at two of the Corporation's facilities will expire, negotiations have commenced. One labour agreement at a newly unionized facility of the Corporation is also currently in negotiations. The Corporation anticipates that all negotiations will result in an extension of the expiry dates or a mutually satisfactory agreement, as applicable.

Financing Matters

The Corporation entered into the Bank Facility Agreement with a syndicate of lenders. The Bank Facility Agreement provides for an operating credit facility to be available to Magellan in a maximum aggregate amount of Cdn$95 million, US$35 million and £11 million British pounds. The Bank Facility Agreement also includes a Cdn$50 million uncommitted accordion provision which provides Magellan with the option to increase the size of the operating credit facility to Cdn$200 million. Under the terms of the Bank Facility Agreement, the operating credit facility expires on September 30, 2018. Extensions of the operating credit facility are subject to mutual consent of the lenders and the Corporation.

2. OUTLOOK

The outlook for Magellan's business in 2018

It was another record year for commercial aircraft in 2017. The worldwide commercial fleet grew by 4% during the year resulting in a new total of 31,000 aircraft in service. Boeing booked 912 orders and Airbus booked 1,109 orders building backlogs of 8.7 years and 10.4 years respectively, the highest of any time.

According to industry experts, this unprecedented commercial jetliner production supercycle will continue through to the end of the decade at which point annual deliveries will have reached US$138 billion in value, 3.5 times that which was experienced in 2004. Although order bookings in 2017 were lower than the peak in 2014, Boeing and Airbus continue to fulfill their record orders with steadily increasing monthly build rates. Boeing's combined production rates for B737 and B737 MAX programs are planned to increase from the current 47 aircraft per month to 52 aircraft per month mid-2018, and then 57.7 aircraft per month in 2019. Airbus' build rate for the A320 and its variants steps up from 54 aircraft to 57 aircraft in 2018, and then to 60 aircraft per month in 2019. Boeing's B787 and B777 programs remain steady at 12 aircraft per month and 5 aircraft per month respectively. Airbus' new A350XWB and Boeing's B777X continue their ramp up towards full rate production. The A350XWB rate is currently at 8.4 aircraft per month and is planned to hit 13 aircraft per month by 2020. Boeing is building 3 B777X's in 2018 and is expected to reach between 8 aircraft and 9 aircraft per month by 2024. Wide body market recent sales announcements have added to Airbus' A380 and Boeing's B747-8 backlogs stabilizing production rates going forward.

The commercial aerospace market is currently going through some changes, the first being vertical integration and the second being emerging new partnership agreements. For various reasons original equipment manufacturers are pursuing vertical integration strategies which will ultimately challenge lower tier suppliers to realign their strategies, including those that rely heavily on aftermarket for their profits. The second change comes with announcements that Airbus has partnered with Bombardier on the C-Series program, and Boeing and Embraer are in talks to reach a possible merger agreement. The impact of these initiatives on Magellan's market positions is not expected to be material. Magellan currently has supply agreements on all Airbus and Boeing commercial fixed wing platforms.

With new business jets about to enter service and more set for certification in 2018, the business jet industry hopes to see deliveries begin to recover after hitting another low point in 2017. The industry continues to introduce new models that are more attractive and more competitive than the previous ones in an attempt to stimulate demand, however some argue it is getting more difficult to find a niche to target. The latest focus by some manufacturers is on aircraft speed, such as with Bombardier's new Global platform and the new Gulfstream offerings which are capable of flying close to supersonic speeds. This may provide some stimulus in the market however experts continue to struggle in identifing new leading indicators that will signal that this market is in sustained recovery.

In the rotorcraft market, helicopter manufacturers are finally seeing signs of stability. Airbus predicts that the global market would need at least 22,000 helicopters over the next 20 years, with emerging economies providing most of the growth potential. Commercial sales increased by 3% in 2017 driven mainly by a preference for smaller lighter upper-medium models such as Bell's 525 and Leonardo's AW189. Further growth opportunity comes as a result of the opening up of the Chinese civil helicopter market, which is generating a boom in sales for light single and twin rotorcraft. In contrast, large helicopters for the oil and gas industry such as Airbus' H225 and Sikorsky's S-92 appear unlikely to fully recover to the volumes expected prior to the downturn in the energy market. Magellan services the rotorcraft industry through its engine maintenance, repair and overhaul capabilities and Wire Strike Protection System™ products. In addition, the Corporation's casting facilities in Haley, Ontario and Glendale, Arizona provides aeroengine castings in support of both the business jet and helicopter markets.

In the defense market, the United States market is entering its second consecutive year of growth. United States lawmakers acknowledge that their forces require fleet modernization and repair, and are therefore recommending funding increases for almost every aviation platform. For example, the Pentagon asked for an additional 70 F-35's and Congress wants to fund 90 of them. Allied nations' budgets are also expected to grow similarly to that of the United States.

Lockheed Martin's F-35 Lightening II aircraft ("F-35") completed a successful year in 2017. By the end of the year, 241 F-35's were in service worldwide and international final assembly lines in Italy and Japan had begun operations. In November, Denmark purchased the first of its 27 planned F-35's after selecting it over the Eurofighter and Super Hornet. In 2018, the U.S. Navy is set to declare the F-35C operational, the United Kingdom will begin F-35B carrier testing and Turkey will take delivery of its first F-35 fighters. Although Lockheed did not secure any new customers in 2017 for F-35, the fighter is expected to be successful in several upcoming next-generation fighter competitions such as in Belgium, Austria, Finland, Switzerland and Poland. Late in 2017, Canada announced that a tender for a new fighter would be put out in 2019, with the new fighter entering service by the mid 2020's. The competition will be open to all qualified bidders including Lockheed and Boeing. The Corporation has been a long term supplier to both the Boeing F-18 and Lockheed F-35 programs.

While some aerospace markets remain depressed, the industry outlook overall continues to be positive. Commercial airline markets are maintaining record levels of production output and defense markets are beginning to rebound. Growth opportunities are developing as current new programs ramp up to full production and a spate of innovative new programs variants emerge. Considering its diversified capabilities, Magellan is well positioned to benefit from current and future market opportunities.

3. SELECTED ANNUAL INFORMATION

A summary of selected annual financial information for 2017, 2016 and 2015

Expressed in millions of dollars, except per share information	**2017**	2016	2015
Revenues	**969.0**	1,003.8	951.5
Net income for the year	**111.3**	88.6	79.4
Net income per common share – Basic and Diluted	**1.91**	1.52	1.36
EBITDA	**181.5**	174.3	151.7
EBITDA per common share – Diluted	**3.12**	2.99	2.61
Total assets	**983.9**	992.9	1,049.7
Total non-current financial liabilities	**35.1**	101.5	196.0

Revenues for the year ended December 31, 2017 decreased from 2016 and increased from 2015 levels. The decrease in revenues from 2016 is primarily attributable to volume decreases and unfavourable foreign exchange impact. Net income increased in 2017 from 2016 mainly due to gain on sale of Mississauga property, and lower interest and income taxes (see "Results of Operations").

During 2017 the Corporation paid quarterly dividends on common shares of $0.065 per share for the first three quarters and $0.085 per share in the fourth quarter, amounting to $16.3 million in total for the year. During 2016, the Corporation paid quarterly dividends on common shares of $0.0575 per share in the first three quarters and $0.065 per share in the fourth quarter, amounting to $13.8 million in total for the year.

4. RESULTS OF OPERATIONS

A discussion of Magellan's operating results for 2017 and 2016

Consolidated Revenues

Consolidated revenues for the year ended December 31, 2017 were $969.0 million, a 3.5% decrease from the $1,003.8 million last year. Volume decreases and unfavourable foreign exchange impact contributed to the year over year decrease in sales.

Twelve-months ended December 31, expressed in thousands of dollars	**2017**	2016	Change
Canada	**315,398**	341,006	(7.5%)
United States	**314,767**	338,969	(7.1%)
Europe	**338,789**	323,868	4.6%
Total revenues	**968,954**	1,003,843	(3.5%)

Consolidated revenues are significantly impacted by the fluctuation of United States dollar and British pound against the Canadian dollar when the Corporation translates its foreign operations to Canadian dollars. Further, the fluctuation of the British pound relative to United States dollar impacts the performance of the Corporation's European operations. If the average exchange rates for both the United States dollar and British pound experienced in 2016 remained constant in 2017, consolidated revenues for 2017 would have been approximately $988.3 million.

On a currency neutral basis, in comparison to 2016, revenues in Canada in 2017 decreased 5.3% primarily driven by volume decreases. Revenues in the United States decreased by 6.5% largely due to volume decreases in wide body aircraft and rotorcraft market. Revenues in Europe increased 7.5% mainly due to higher production build rates for single aisle aircraft.

Gross Profit

Twelve-months ended December 31, expressed in thousands of dollars	**2017**	2016	Change
Gross Profit	**175,847**	178,886	(1.7%)
Percentage of revenue	**18.1%**	17.8%	

Gross profit was $175.8 million in 2017, $3.1 million lower than 2016 of $178.9 million. Gross profit, as a percentage of revenues, was slightly higher than the prior year. Decrease in gross profit was primarily driven by volume decreases in a number of programs.

Administrative and General Expenses

Twelve-months ended December 31, expressed in thousands of dollars	**2017**	2016	Change
Administrative and general expenses	**59,549**	57,557	3.5%
Percentage of revenue	**6.1%**	5.7%	

Administrative and general expenses as a percentage of revenue were 6.1% in 2017 as compared to 5.7% in 2016. Administrative and general expenses of $59.5 million in 2017 were $1.9 million or 3.5% higher than $57.6 million in the prior year mainly due to the recognition of a $1.3 million legal settlement recovery recorded in the prior year.

Other

Twelve-months ended December 31, expressed in thousands of dollars	**2017**	2016
Foreign exchange loss (gain)	**6,034**	(4,630)
Business closure costs	**–**	1,954
(Gain) loss on disposal of property, plant and equipment	**(26,533)**	442
Gain on investment property	**(2,183)**	–
Other	**4,010**	–
Other	**(18,672)**	(2,234)

In 2017, the Corporation sold the land and building of its Mississauga facility and recorded a gain of $26.6 million. The Corporation recorded $4.0 million of costs associated with the sale. In addition, the Corporation sold one of its investment properties in 2017 and recorded a gain of $2.2 million. Included in other income is also a foreign exchange loss of $6.0 million compared to a gain of $4.6 million in the prior year. The movements in balances denominated in foreign currencies and the fluctuations of the foreign exchange rates impact the net foreign exchange loss or gain recorded during the year.

Interest Expense

Twelve-months ended December 31, expressed in thousands of dollars	**2017**	2016
Interest on bank indebtedness and long-term debt	**2,435**	4,249
Accretion charge on long-term debt and borrowings	**611**	842
Discount on sale of trade receivables	**1,665**	1,058
Interest expense	**4,711**	6,149

Total interest costs of $4.7 million for 2017 decreased by $1.4 million from $6.1 million in 2016. Interest on bank indebtedness and long-term debt of $2.4 million in 2017 was $1.8 million lower mainly driven by lower principal amounts outstanding during 2017 when compared to 2016. The Corporation sells a portion of its trade receivables through securitization and factoring programs. Discount on sale of trade receivables was $1.7 million, an increase of $0.6 million over the prior year largely due to higher volumes of receivables sold during the year.

Income Taxes

Twelve-months ended December 31, expressed in thousands of dollars	**2017**	2016
Current income tax expense	**15,557**	12,780
Deferred income tax expense	**3,425**	16,054
Income tax expense	**18,982**	28,834
Effective tax rate	**14.6%**	24.6%

The Corporation recorded an income tax expense in 2017 of $19.0 million on pre-tax income of $130.3 million, representing an effective tax rate of 14.6%, compared to an income tax expense of $28.8 million on a pre-tax income of $117.4 million in 2016 for an effective tax rate of 24.6%.

During 2017 and 2016, the Corporation recognized investment tax credits totalling $9.0 million and $7.0 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 decrease in the effective tax rate to 14.6% in 2017 from 24.6% in 2016 is primarily attributed to the reduction in the deferred tax liability in the United States as a result of new legislation which lowered the United States federal corporate income tax rate. In addition, the lower tax rate applicable to the capital gain on the sale of the Mississauga property and the investment property in 2017 further decreased the effective tax rate. The change in mix of income across the different jurisdictions in which the Corporation operates also impacts the change in the effective tax rate.

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, income taxes and depreciation and amortization) in this MD&A. 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	**2017**	2016
Net income	**111,277**	88,580
Interest	**4,711**	6,149
Taxes	**18,982**	28,834
Depreciation and amortization	**46,516**	50,713
EBITDA	**181,486**	174,276

EBITDA for the year ended 2017 of $181.5 million increased by $7.2 million when compared to $174.3 million in 2016, primarily as a result of higher net income offset by lower interest, taxes and depreciation and amortization expenses.

6. SELECTED QUARTERLY FINANCIAL INFORMATION

A summary view of Magellan's quarterly financial performance

Expressed in millions of dollars except per share information				**2017**				2016
	Mar 31	**Jun 30**	**Sep 30**	**Dec 31**	Mar 31	Jun 30	Sep 30	Dec 31
Revenues	**247.2**	**253.5**	**232.6**	**235.6**	266.1	252.7	238.0	247.1
Income before taxes	**48.5**	**26.9**	**25.4**	**29.5**	31.3	29.6	25.2	31.3
Net income	**39.4**	**20.4**	**19.3**	**32.1**	23.4	22.3	18.8	24.0
Net income per common share								
Basic and Diluted	**0.68**	**0.35**	**0.33**	**0.55**	0.40	0.38	0.32	0.41
EBITDA [1]	**62.3**	**40.4**	**37.6**	**41.2**	45.8	44.7	38.4	45.3

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

Revenues and net income reported in the table above were impacted by the movements in the Canadian dollar relative to the United States dollar and British pound when the Corporation translates its foreign operations to Canadian dollars. Further, the movements in the United States dollar relative to British pound impact the Corporation's United States dollar exposures in its European operations. During the periods reported, the average exchange rate of United States dollar relative to the Canadian dollar fluctuated between a high of 1.3748 in the first quarter of 2016 and a low of 1.2526 in the third quarter of 2017. The average exchange rate of British pound relative to the Canadian dollar moved from a high of 1.9674 in the first quarter of 2016 to a low of 1.6398 in the third quarter of 2017. The average exchange rate of the British pound relative to the United States dollar reached its high of 1.4347 in the second quarter of 2016 and hit a low of 1.2395 in the first quarter of 2017. Had exchange rates remained at levels experienced in 2016, reported revenues in 2017 would have been lower by $7.8 million in the second quarter; higher by $9.4 million, $8.6 million and $9.4 million in the first, third and fourth quarters, respectively.

As discussed above, net income reported in the quarterly information was also impacted by the foreign exchange movements. The Corporation reported its highest net income in the first quarter of 2017 mainly driven by the recognition of the gain on the sale of Mississauga property. In the third quarter of 2017, the Corporation recorded a gain of $2.2 million on the disposition of an investment property. In the fourth quarter of 2017, the Corporation recognized the deferred tax recovery attributable to the reduction in the United States federal corporate income tax rate as a result of new legislation. The Corporation recorded business closure costs related to the closure of a small operating facility in the United States in the second quarter of 2016, and a margin adjustment related to one of its construction contracts in the third quarter of 2016.

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 trade receivables securitization program, and long-term debt and equity capacity. Principal uses of cash are to fund liabilities as they become due, finance capital expenditures, fund debt repayments, pay dividends and provide flexibility for new investment opportunities. 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 2017, $129.9 million of cash was generated by operations, $20.7 million was used in investing activities and $76.4 million was used in financing activities.

Cash Flow from Operating Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2017**	2016
Decrease (increase) in trade receivables	**6,766**	(13,460)
Decrease (increase) in inventories	**8,011**	(7,548)
Decrease (increase) in prepaid expenses and other	**3,992**	(2,762)
(Decrease) increase in accounts payable, accrued liabilities and provisions	**(17,320)**	30,427
Net change in non-cash working capital items	**1,449**	6,657
Net cash from operating activities	**129,949**	155,001

The Corporation generated $129.9 million in 2017 from operating activities, compared to $155.0 million in the prior year. Changes in non-cash working capital items provided cash of $1.4 million attributed to the decreases in trade receivables, inventories, prepaid expenses and other, offset by the decrease in accounts payable, accrued liabilities and provisions. The decrease in trade receivables resulted from the sale of receivables under a new factoring program. Lower inventory levels in 2017 resulted from lower production volumes on a number of programs and timing of shipment. The decrease in accounts payable, accrued liabilities and provisions was due to timing of purchases and payments. In 2016, changes in non-cash working capital items provided cash of $6.7 million as a result of an increase in accounts payable, accrued liabilities and provisions offset by increases in trade receivables, inventories, prepaid expenses and other.

Cash Flow from Investing Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2017**	2016
Purchase of property, plant and equipment	**(64,151)**	(45,421)
Proceeds from disposal of property, plant and equipment	**32,742**	760
Proceeds on disposition of investment property	**3,900**	–
Change in restricted cash	**3,665**	5,657
Decrease (increase) in intangibles and other assets	**3,105**	(7,580)
Net cash used in investing activities	**(20,739)**	(46,584)

The Corporation invested $64.2 million in capital assets during the year in comparison to $45.4 million in 2016. 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. During the year, the Corporation sold the land and building of its Mississauga facility and one investment property for proceeds of $32.7 million and $3.9 million respectively. Restricted cash relates to amounts deposited in escrow accounts in connection with the 2015 acquisitions. In 2017, the Corporation released funds from the escrow accounts in settlement of contingent liabilities.

Cash Flow from Financing Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2017**	2016
Decrease increase in bank indebtedness	**(43,159)**	(88,873)
Decrease increase in debt due within one year	**(7,951)**	(3,718)
Decrease in long-term debt	**(13,520)**	(4,526)
Increase (decrease) in long-term liabilities and provisions	**1,071**	(183)
Increase in borrowings, net	**3,493**	5,391
Common share dividend	**(16,299)**	(13,825)
Net cash used in investing activities	**(76,365)**	(105,734)

The Corporation used $76.4 million in 2017 mainly to repay bank indebtedness, debt due within one year, and long-term debt, and to pay dividends. The Corporation also received $3.5 million proceeds, as compared to $5.4 million in 2016, from Canadian Government agencies related to the development of its technologies and processes.

Contractual Obligations

As at December 31, 2017, expressed in thousands of dollars	**Less than 1 year**	**1-3 Years**	**4-5 Years**	**After 5 Years**	**Total**
Trade receivables securitization	36,675	–	–	–	36,675
Long-term debt	15,159	4,977	4,451	2,880	27,467
Equipment leases	909	1,239	755	221	3,124
Facility leases	4,931	5,721	5,838	21,768	38,258
Other long-term liabilities	147	501	504	1,225	2,377
Borrowings subject to specific conditions	1,296	1,709	2,066	20,091	25,162
Total Contractual Obligations	**59,117**	**14,147**	**13,614**	**46,185**	**133,063**

Major cash flow requirements for 2018 include the repayment of trade receivables securitization of $36.7 million which is expected to be refinanced, repayment of long-term debt of $15.2 million, payments of equipment and facility leases of $5.8 million and borrowings subject to specific conditions of $1.3 million.

On September 30, 2014, the Corporation amended and restated its Bank Facility Agreement with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was amended to a

Canadian dollar limit of $95.0 million plus a United States dollar limit of $35.0 million, and the addition of a £11.0 million British pound limit with a maturity date of September 30, 2018. The Bank Facility Agreement also includes a Canadian $50.0 million uncommitted accordion provision which provides Magellan with the option to increase the size of the operating credit facility to $200.0 million. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement was amended on December 4, 2015 to include a short term bridge credit facility that increased the operating credit facility by US$10 million. The bridge credit facility expired on March 4, 2016. As of December 31, 2017, the Corporation is debt-free under its credit facility.

As at December 31, 2017, the Corporation had made contractual commitments to purchase $12.4 million of capital assets. In addition, the Corporation had purchase commitments, largely for materials required for the normal course of operations, of $324.0 million as at December 31, 2017. 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 2, 2018, 58,209,001 common shares were outstanding and no preference shares were outstanding. More information on the Corporation's share capital is provided in note 18 of the Corporation's consolidated financial statements.

On March 31, 2017, June 30, 2017, and September 30, 2017 the Corporation paid quarterly dividends on 58,209,001 common shares of $0.065 per common share, representing an aggregate dividend payment of $11.4 million. On December 29, 2017 the Corporation paid quarterly dividends on 58,209,001 common shares of $0.085 per common share, amounting to $4.9 million.

For the year ended December 31, 2016, the Corporation declared and paid dividends on common shares on March 31, 2016, June 30, 2016 and on September 30, 2016 of $0.0575 per share amounting to $10.0 million and on December 30, 2016 of $0.065 per share amounting to $3.8 million.

In the first quarter of 2018, the Corporation declared cash dividends of $0.085 per common share payable on March 30, 2018 to shareholders of record at the close of business on March 16, 2018.

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 at December 31, 2017.

Off-Balance Sheet Arrangements

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

9. RELATED PARTY TRANSACTIONS

A summary of Magellan's transactions with related parties

During the year, the Corporation incurred consulting costs of $0.1 million [2016 - $0.1 million] payable to a corporation controlled by the Chairman of the Board of Directors 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. Information relating to additional risks and uncertainties are set forth in the Corporation's Annual Information Form on SEDAR at www.sedar.com.

Factors that have an adverse impact on the aerospace industry may adversely affect the Corporation's results of operations.

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 original equipment manufacturers ("OEMs"), 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 acquisitions; 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 the Corporation competes. 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.

Fluctuations in the value of foreign currencies could result in currency exchange losses.

A large portion of the Corporation's revenues and expenses are not currently denominated in Canadian dollars, and it is expected that some revenues and expenses will continue to be based in currencies other than the Canadian dollar. In situations where the Corporation is not fully hedged, fluctuations in the Canadian dollar exchange rate will impact the Corporation's results of operations and financial condition from period to period. In addition, such fluctuations could affect the translation of the Corporation's results and profitability shown in its consolidated financial statements. The Corporation also may not be able to manage its currency exposure on commercially reasonable terms.

Political uncertainty could result in a decrease in revenues or have other material adverse effects on the Corporation.

In the last several years, the United States and certain European countries have experienced significant political events that have cast uncertainty on global financial and economic markets. During the last year under the new federal administration of the United States a number of election promises were pushed forward and the new American administration has taken steps to implement some of them. These include the renegotiation of the terms of the North American Free Trade Agreement, withdrawal of the United States from the Trans-Pacific Partnership, and possible imposition of a tax on the importation of goods into the United States. Additionally newly adopted tax legislation changes in the United States may affect strategies for US corporations. The potential introduction of laws to reduce immigration and restrict access into the United States for citizens of certain countries may also present future challenges to non-US corporations. It is presently unclear exactly what actions the new administration in the United States will be successful implementing, and if implemented, how these actions may impact the aerospace industry.

On June 23, 2016, the United Kingdom held a referendum in which a majority of voters voted to exit the European Union ("Brexit"). The effects of Brexit will depend on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. Brexit could adversely affect European and global economic or market conditions and could contribute to instability in global financial markets. Any of these effects of Brexit, and others the Corporation cannot anticipate, may have a negative effect and may adversely affect the Corporation's business.

To the extent that certain political actions taken in North America, Europe and elsewhere in the world result in a marked decrease in free trade, access to personnel and freedom of movement it could have an adverse effect on the Corporation's ability to market its products and services internationally, increase costs for goods and services required for the Corporation's operations, reduce access to skilled labour and negatively impact the Corporation's business, operations, financial conditions and the market value of its Common Shares.

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.

Competitive pressures may adversely affect the Corporation.

The Corporation competes in the aerospace industry primarily in support of OEMs and the manufacturers that supply them, some of which are divisions or subsidiaries of OEMs, and other large companies that manufacture aircraft components and subassemblies. Competition for the repair and overhaul of aerospace components comes from three primary sources: OEMs, major commercial airlines and other independent repair and overhaul companies. Some of the competitors' financial and other resources and name recognition are substantially greater than that of the Corporation and this constitutes significant competitive advantages. There can be no assurance that Magellan will be able to compete successfully against current and future competitors or that the competitive pressures that Magellan faces will not adversely affect the Corporation's operating revenues and, in turn, the Corporation's business and financial condition.

The aerospace and defense industry is experiencing significant consolidation, including the Corporation's customers, competitors, and suppliers. Consolidation among Magellan's customers may result in delays in awarding new contracts and losses of existing business. Consolidation among the Corporation's competitors may result in larger competitors with greater resources and market share which could adversely affect the Corporation's ability to compete successfully. Consolidation among Magellan's suppliers may result in fewer sources of supply and increased costs to the Corporation.

11. CRITICAL ACCOUNTING ESTIMATES

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

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 is estimated are provided in note 20 to 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 ("CGU") or group of CGUs.

In order to estimate the fair value of indefinite-lived intangible assets and goodwill resulting from business combinations, the Corporation typically estimates future revenue, considers market factors and estimates future cash flows. Based on these key assumptions, judgments and estimates, the Corporation determines whether to record an impairment charge to reduce the value of the asset carried on the consolidated statements of financial position to its estimated fair value. Assumptions, judgments and estimates about future values are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the Corporation's business strategy or internal forecasts. Although the Corporation believes the assumptions, judgments and estimates made in the past have been reasonable and appropriate, different assumptions, judgments and estimates could materially affect the Corporation's reported financial results.

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 taxes.

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 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 2017

The Corporation has adopted the following new and amended standards in 2017.

Disclosure Initiative

In 2016, the IASB issued amendments to IAS 7, *Statement of Cash Flows* ("IAS 7"). The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Corporation has provided the information in note 16 to the 2017 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, 2017, 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 ("IASB") and the International Financial Reporting Interpretations Committees ("IFRIC") with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

Revenue Recognition

In 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), which supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts* and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principle based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments and lease contracts, which fall in the scope of other IFRSs. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some nonfinancial assets that are not an output of the entity's ordinary activities. IFRS 15 permits either a full or modified retrospective approach for the adoption and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The Corporation plans to adopt the new standard on the required effective date using the full retrospective method, that is, restate each prior period presented and recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at the beginning of the earliest period presented, subject to certain practical expedients the Corporation anticipates adopting.

The Corporation's revenue recognition methodology is determined on a contract-by-contract basis. The Corporation has undertaken a project in 2017 to assess the effects of applying the new standard on the Corporation's consolidated financial statements. The Corporation collected and reviewed an inventory of significant contracts with customers in scope for IFRS 15 assessment and identified the following areas that will be affected:

Sale of goods

The Corporation engineers and manufactures aeroengine and aerostructure components for the aerospace market. Presently, 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.

The Corporation has identified contracts in which performance obligations are satisfied over time under IFRS 15 as control transfers during production. For these contracts, the revenue recognition pattern will change with revenue being recognized earlier in the year of adoption as compared to under the legacy accounting policy. Contracts that do not meet the criteria for over time recognition will continue to be recognized at a point in time. The Corporation expects to use an input method as the basis for recognizing revenue for performance obligations satisfied over time. Input methods recognize revenue on the basis of an entity's efforts or inputs toward satisfying a performance obligation (for example, resources consumed, labor hours expended, costs incurred, time lapsed, or machine hours used) relative to the total expected inputs to satisfy the performance obligation.

Rendering services

The Corporation supports the aftermarket through the supply of spare parts as well as through repair and overhaul services. Currently, the Corporation recognizes revenues for certain repair and overhaul services using the percentage-of-completion units-of-delivery method as the basis for measuring the progress on the contract. The Corporation concluded that the repair and overhaul services are satisfied over time under IFRS 15 given that the customer simultaneously receives and consumes the benefits provided by the Corporation. However, under IFRS 15, units-of-delivery method is not appropriate if there is material work-in-process at the end of the reporting period. Therefore, on adoption of IFRS 15, the Corporation expects to use an input method as the basis for recognizing the revenue from repair and overhaul services.

Variable consideration

Some contracts with customers included a liquidated damage provision, which gives rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception and updated thereafter. Currently, the Corporation recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of any trade discounts and liquidated damages. If revenue cannot be reliably measured, the Corporation defers revenue recognition until the uncertainty is resolved. Consequently, under IFRS 15 the Corporation would continue the current practice.

With respects to certain long-term contracts for the sales of goods, revenue is recognized using the percentage-of-completion method. The liquidated damages once reasonably estimated are included in the total estimated costs for the contracts to determine the contract progress.

Presentation of contract assets or contract liabilities

IFRS 15 requires separate presentation of contract assets and contract liabilities in the balance sheet. Under IFRS 15, earned consideration that is conditional should be recognized by the entity as a contract asset (i.e., unbilled receivables) rather than receivable. When the customer performs first, for example, by prepaying its promised consideration, the entity has a contract liability (i.e., customer advances and amounts in excess of costs incurred). This will result in some reclassifications as of January 1, 2018 in relation to contracts that are recognized under percentage-of-completion input method.

Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Corporation's consolidated financial statements.

The Company is completing the execution of its implementation plan and will adopt IFRS 15 on January 1, 2018 on a retrospective basis subject to permitted and elected practical expedients. The Corporation expects that the adoption of this standard will have a material impact to the Corporation's revenue and cost of sales, however, the net impact to the Corporation's opening retained earnings as at January 1, 2018 will not be material.

Financial Instruments — Recognition and Measurement

In 2014, the IASB issued the final amendments to IFRS 9, *Financial Instruments* (“IFRS 9”) which provides guidance on the classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. The classification and measurement portion of the standard determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. The amended IFRS 9 introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. In addition, the amended IFRS 9 includes a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The adoption of the standard will not result in a significant impact on the Corporation’s consolidated financial statements.

Classification and Measurement of Share-based Payment Transactions

In 2016, the IASB issued the final amendments to IFRS 2, *Share-based Payments* (“IFRS 2”) that clarify the classification and measurement of share-based transactions, consisting of: accounting for cash-settled share-based payment transactions that include a performance condition; classification of share-based payment transactions with net settlement features; accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The amendments are to be applied prospectively. However, retrospective application is allowed if this is possible without the use of hindsight. The Corporation does not expect the adoption of the standard will result in a significant impact on the Corporation’s consolidated financial statements.

Foreign Currency Transactions and Advance Consideration

In 2016, the IASB issued IFRIC Interpretation 22, *Foreign Currency Transactions and Advance Consideration* (“IFRIC 22”), which provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. IFRIC 22 clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. On initial application, entities have the option to apply either retrospectively or prospectively. The Corporation does not expect the adoption of the standard will result in a significant impact on the Corporation’s consolidated financial statements.

Transfer of Investment Property

In 2016, the IASB issued the narrow scope amendments to IAS 40, *Investment Property* (“IAS 40”) to reinforce the principle for transfers into, or out of, investment property in IAS 40 to specify that: a transfer into, or out of investment property should be made only when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. That change in use should be supported by evidence. The new amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The amendments will have an impact on the Corporation’s consolidated financial statements only when there is a change in use of the Corporation’s investment properties.

Leases

In 2016, the IASB issued IFRS 16, *Leases* (“IFRS 16”), replacing IAS 17, *Leases* and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") has been adopted. The Corporation is in the process of evaluating the impact that IFRS 16 may have on the Corporation's consolidated financial statements.

Uncertainty over Income Tax Treatments

In June 2017, IASB issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23"), which clarifies application of recognition and measurement requirements in IAS 12, Income Taxes when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Corporation is in the process of evaluating the impact that IFRIC 23 may have on the Corporation's consolidated financial statements.

Prepayment Features with Negative Compensation and Modifications of Financial Liabilities (Amendments to IFRS 9)

In October 2017, IASB issued amendments to IFRS 9 that cover two issues:

– What financial assets may be measured at amortised cost. The amendment permits more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets with negative compensation.

  Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. However, to qualify for amortised cost measurement, the negative compensation must be "reasonable compensation for early termination of the contract". In addition, to qualify for amortised cost measurement, the asset must be held within a 'held to collect' business model.

– How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss.

The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the remainder of IFRS 9. The Corporation does not expect the amendments will have an impact on the Corporation's consolidated financial statements.

Annual Improvements to IFRS Standards 2015 – 2017

In December 2017, IASB issued the following amendments from the 2015-2017 annual improvement cycle. The Corporation is in the process of evaluating the impact that these amendments may have on the Corporation's consolidated financial statements

IFRS 3 Business Combination ("IFRS 3")

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019. Earlier application is permitted.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

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, 2017 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, 2017, 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, 2017.

No changes were made in the Corporation's internal control over financial reporting during the year ended December 31, 2017, 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.

MANAGEMENT'S REPORT

December 31, 2017

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.

Phillip C. Underwood
President and Chief Executive Officer
March 2, 2018

Elena M. Milantoni
Chief Financial Officer and
Corporate Secretary

INDEPENDENT AUDITORS' REPORT

December 31, 2017

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, 2017 and 2016, and the consolidated statements of income and comprehensive income, changes in equity and cash flow for the years then ended, 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 audit 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, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 2, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in thousands of Canadian dollars	Notes	**December 31 2017**	December 31 2016
Current assets			
Cash and cash equivalents	3	**40,394**	7,606
Restricted cash	4	**3,233**	7,125
Trade and other receivables	5	**189,867**	205,609
Inventories	6	**197,857**	208,964
Prepaid expenses and other		**14,155**	18,007
		445,506	447,311
Non-current assets			
Property, plant and equipment	7	**401,855**	389,825
Investment properties	8	**2,414**	4,377
Intangible assets	9	**61,495**	67,443
Goodwill	9	**33,441**	33,797
Other assets	10, 21	**24,908**	28,142
Deferred tax assets	17	**14,313**	22,007
		538,426	545,591
Total assets		**983,932**	992,902
Current liabilities			
Accounts payable and accrued liabilities and provisions	12	**161,575**	178,566
Debt due within one year	13, 20	**51,834**	50,787
		213,409	229,353
Non-current liabilities			
Bank indebtedness	11	**—**	43,314
Long-term debt	13	**11,202**	35,364
Borrowings subject to specific conditions	14	**23,866**	22,867
Other long-term liabilities and provisions	15, 21	**15,153**	18,617
Deferred tax liabilities	17	**26,070**	36,056
		76,291	156,218
Equity			
Share capital	18	**254,440**	254,440
Contributed surplus		**2,044**	2,044
Other paid-in capital		**13,565**	13,565
Retained earnings		**405,976**	310,664
Accumulated other comprehensive income	26	**18,207**	26,618
		694,232	607,331
Total liabilities and equity		**983,932**	992,902

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Expressed in thousands of Canadian dollars, except per share amounts	Notes	Years ended December 31 **2017**	2016
Revenues	22	**968,954**	1,003,843
Cost of revenues	23	**793,107**	824,957
Gross profit		**175,847**	178,886
Administrative and general expenses	24	**59,549**	57,557
Other	7,8, 29	**(18,672)**	(2,234)
Income before interest and income taxes		**134,970**	123,563
Interest	25	**4,711**	6,149
Income before income taxes		**130,259**	117,414
Income taxes			
Current	17	**15,557**	12,780
Deferred	17	**3,425**	16,054
		18,982	28,834
Net income		**111,277**	88,580
Other comprehensive income (loss)			
Other comprehensive (loss) income that may be reclassified to profit and loss in subsequent periods:			
Foreign currency translation	26	**(8,411)**	(44,977)
Items not to be reclassified to profit and loss in subsequent periods:			
Actuarial income on defined benefit pension plans, net of taxes	17,21	**334**	208
Comprehensive income		**103,200**	43,811
Net income per share			
Basic	18	**1.91**	1.52
Diluted	18	**1.91**	1.52

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Expressed in thousands of Canadian dollars	Share capital	Contributed surplus	Other paid-in capital	Retained earnings	Foreign currency translation	Total equity
January 1, 2016	254,440	2,044	13,565	235,701	71,595	577,345
Net income	–	–	–	88,580	–	88,580
Other comprehensive income (loss)	–	–	–	208	(44,977)	(44,769)
Common share dividend	–	–	–	(13,825)	–	(13,825)
December 31, 2016	254,440	2,044	13,565	310,664	26,618	607,331
Net income	–	–	–	111,277	–	111,277
Other comprehensive income (loss)	–	–	–	334	(8,411)	(8,077)
Common share dividend	–	–	–	(16,299)	–	(16,299)
December 31, 2017	**254,440**	**2,044**	**13,565**	**405,976**	**18,207**	**694,232**

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in thousands of Canadian dollars	Notes	Years ended December 31 **2017**	2016
Cash flow from operating activities			
Net income		**111,277**	88,580
Amortization/depreciation of intangible assets and property, plant and equipment	7,9	**46,516**	50,713
Impairment of property, plant and equipment	7	**2,900**	923
(Gain) Loss on disposal of property, plant and equipment	7	**(26,533)**	442
Gain on sale of investment properties	8	**(2,183)**	–
Decrease in defined benefit plans	21	**(2,623)**	(1,923)
Accretion	25	**611**	842
Deferred taxes	17	**(1,134)**	9,502
Income on investments in joint ventures	10	**(331)**	(735)
Change in non-cash working capital	28	**1,449**	6,657
Net cash provided by operating activities		**129,949**	155,001
Cash flow from investing activities			
Purchase of property, plant and equipment	7	**(64,151)**	(45,421)
Proceeds from disposal of property, plant and equipment	7	**32,742**	760
Proceeds on disposition of investment property	8	**3,900**	–
Change in restricted cash	4	**3,665**	5,657
Decrease (increase) in intangible and other assets		**3,105**	(7,580)
Net cash used in investing activities		**(20,739)**	(46,584)
Cash flow from financing activities			
Decrease increase in bank indebtedness	11,16	**(43,159)**	(88,873)
Decrease increase in debt due within one year	16	**(7,951)**	(3,718)
Decrease in long-term debt	13,16	**(13,520)**	(4,526)
Increase (decrease) in long-term liabilities and provisions	16	**1,071**	(183)
Increase in borrowings, net	16	**3,493**	5,391
Common share dividend	18	**(16,299)**	(13,825)
Net cash used in financing activities		**(76,365)**	(105,734)
Increase in cash during the year		**32,845**	2,683
Cash at beginning of the year		**7,606**	5,538
Effect of exchange rate differences		**(57)**	(615)
Cash at end of the year		**40,394**	7,606

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.

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 2, 2018.

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 interest in its joint ventures. 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 joint ventures and 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. Trade receivables 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 intragroup 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 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 makers. The Corporation evaluates the financial performance of its operating segments primarily based on net income before interest and income taxes.

Revenue Recognition

Revenue comprises 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 systematically allocated overheads, including depreciation of production-related property, plant and equipment, and 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 statements of financial position. Repayments made are recorded as a reduction of the liability.

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 19, *Employee Benefits*. Actuarial gains and losses are recognized in full in the period in which they occur, and are recognized in other comprehensive income and immediately transferred to retained earnings. 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 consists 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 adjusted for the effect of any dilutive instruments 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.

Business Combinations and Goodwill

The Corporation accounts for business combinations using the acquisition method, under which the acquirer measures the cost of the business combination as the total of the fair values, at the date of exchange, of the assets transferred, liabilities incurred and equity instruments issued by the acquirer in exchange for control of the acquiree. Goodwill is measured as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally the fair value) of the identifiable assets and liabilities assumed, measured as at the acquisition date. The primary items that generate goodwill include the value of the synergies between the acquired company and the Corporation and the value of the acquired assembled workforce, neither of which qualifies for recognition as an intangible asset. Goodwill is assigned to one or more cash-generating unit ("CGU") on the date of acquisition. Acquisition-related expenses and post-acquisition restructuring costs are recognized separately from the business combination and are expensed as incurred.

Impairment of Non-Financial Assets

The carrying amounts of the Corporation's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset or its CGUs recoverable amount is estimated. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Non-financial assets that have an indefinite useful life such as goodwill and certain intangible assets, are not subject to amortization and are therefore tested annually for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which goodwill is allocated must represent the lowest level at which the goodwill is monitored for internal management purposes and must not be, before allocating the goodwill, larger than an operating segment.

The Corporation's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in net income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amounts of the other assets in the CGU or group of CGUs on a pro rata basis of the carrying amount of each asset of the CGU that is subject to the impairment test.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only 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.

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 statements 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 taxes.

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 is estimated are provided in note 20 to 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 CGU or group of CGUs.

In order to estimate the fair value of indefinite-lived intangible assets and goodwill resulting from business combinations, the Corporation typically estimates future revenue, considers market factors and estimates future cash flows. Based on these key assumptions, judgments and estimates, the Corporation determines whether to record an impairment charge to reduce the value of the asset carried on the consolidated statements of financial position to its estimated fair value. Assumptions, judgments and estimates about future values are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the Corporation's business strategy or internal forecasts. Although the Corporation believes the assumptions, judgments and estimates made in the past have been reasonable and appropriate, different assumptions, judgments and estimates could materially affect the Corporation's reported financial results.

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 taxes.

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 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 REPORATING STANDARDS

New and Amended International Financial Reporting Standards Adopted in 2017
The Corporation has adopted the following new and amended standards in the current year.

Disclosure Initiative
In 2016, the IASB issued amendments to IAS 7, *Statement of Cash Flows* ("IAS 7"). The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Corporation has provided the information in 2017 in note 16.

New and Amended International Financial Reporting Standards to be Adopted in 2018 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 2018 or later.

Revenue Recognition
In 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), which supersedes IAS 18, *Revenue,* IAS 11, *Construction Contracts* and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principle based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments and lease contracts, which fall in the scope of other IFRSs. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some nonfinancial assets that are not an output of the entity's ordinary activities. IFRS 15 permits either a full or modified retrospective approach for the adoption and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The Corporation plans to adopt the new standard on the required effective date using the full retrospective method, that is, restate each prior period presented and recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at the beginning of the earliest period presented, subject to certain practical expedients the Corporation anticipates adopting.

The Corporation's revenue recognition methodology is determined on a contract-by-contract basis. The Corporation has undertaken a project in 2017 to assess the effects of applying the new standard on the Corporation's consolidated financial statements. The Corporation collected and reviewed an inventory of significant contracts with customers in scope for IFRS 15 assessment and identified the following areas that will be affected:

Sale of goods
The Corporation engineers and manufactures aeroengine and aerostructure components for the aerospace market. Presently, 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.

The Corporation has identified contracts in which performance obligations are satisfied over time under IFRS 15 as control transfers during production. For these contracts, the revenue recognition pattern will change with revenue being recognized earlier in the year of adoption as compared to under the legacy accounting policy. Contracts that do not meet the criteria for over time recognition will continue to be recognized at a point in time. The Corporation expects to use an input method as the basis for recognizing revenue for performance obligations satisfied over time. Input methods recognize revenue on the basis of an entity's efforts or inputs toward satisfying a performance obligation (for example, resources consumed, labor hours expended, costs incurred, time lapsed, or machine hours used) relative to the total expected inputs to satisfy the performance obligation.

Rendering services
The Corporation supports the aftermarket through the supply of spare parts as well as through repair and overhaul services. Currently, the Corporation recognizes revenues for certain repair and overhaul services using the percentage-of-completion units-of-delivery method as the basis for measuring the progress on the contract. The Corporation concluded that the repair and overhaul services are satisfied over time under IFRS 15 given that the customer simultaneously receives and consumes the benefits provided by the Corporation. However, under IFRS 15, units-of-delivery method is not appropriate if there is material work-in-process at the end of the reporting period. Therefore, on adoption of IFRS 15, the Corporation expects to use an input method as the basis for recognizing the revenue from repair and overhaul services.

Variable consideration
Some contracts with customers included a liquidated damage provision, which gives rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception and updated thereafter. Currently, the Corporation recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of any trade discounts and liquidated damages. If revenue cannot be reliably measured, the Corporation defers revenue recognition until the uncertainty is resolved. Consequently, under IFRS 15 the Corporation would continue the current practice.

With respects to certain long-term contracts for the sales of goods, revenue is recognized using the percentage-of-completion method. The liquidated damages once reasonably estimated are included in the total estimated costs for the contracts to determine the contract progress.

Presentation of contract assets or contract liabilities
IFRS 15 requires separate presentation of contract assets and contract liabilities in the balance sheet. Under IFRS 15, earned consideration that is conditional should be recognized by the entity as a contract asset (i.e., unbilled receivables) rather than receivable. When the customer performs first, for example, by prepaying its promised consideration, the entity has a contract

liability (i.e., customer advances and amounts in excess of costs incurred). This will result in some reclassifications as of January 1, 2018 in relation to contracts that are recognized under percentage-of-completion input method.

Presentation and disclosure requirements
The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Corporation's consolidated financial statements.

The Company is completing the execution of its implementation plan and will adopt IFRS 15 on January 1, 2018 on a retrospective basis subject to permitted and elected practical expedients. The Corporation expects that the adoption of this standard will have a material impact to the Corporation's revenue and cost of sales, however, the net impact to the Corporation's opening retained earnings as at January 1, 2018 will not be material.

Financial Instruments—Recognition and Measurement
In 2014, the IASB issued the final amendments to IFRS 9, *Financial Instruments* ("IFRS 9") which provides guidance on the classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. The classification and measurement portion of the standard determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. The amended IFRS 9 introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. In addition, the amended IFRS 9 includes a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The adoption of the standard will not result in a significant impact on the Corporation's consolidated financial statements.

Classification and Measurement of Share-based Payment Transactions
In 2016, the IASB issued the final amendments to IFRS 2, *Share-based Payments* ("IFRS 2") that clarify the classification and measurement of share-based transactions, consisting of: accounting for cash-settled share-based payment transactions that include a performance condition; classification of share-based payment transactions with net settlement features; accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The amendments are to be applied prospectively. However, retrospective application is allowed if this is possible without the use of hindsight. The Corporation does not expect the adoption of the standard will result in a significant impact on the Corporation's consolidated financial statements.

Foreign Currency Transactions and Advance Consideration
In 2016, the IASB issued IFRIC Interpretation 22, *Foreign Currency Transactions and Advance Consideration* ("IFRIC 22"), which provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. IFRIC 22 clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. On initial application, entities have the option to apply either retrospectively or prospectively. The Corporation does not expect the adoption of the standard will result in a significant impact on the Corporation's consolidated financial statements.

Transfer of Investment Property

In 2016, the IASB issued the narrow scope amendments to IAS 40, *Investment Property* ("IAS 40") to reinforce the principle for transfers into, or out of, investment property in IAS 40 to specify that: a transfer into, or out of investment property should be made only when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. That change in use should be supported by evidence. The new amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The amendments will have an impact on the Corporation's consolidated financial statements only when there is a change in use of the Corporation's investment properties.

Leases

In 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"), replacing IAS 17, *Leases* and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") has been adopted. The Corporation is in the process of evaluating the impact that IFRS 16 may have on the Corporation's consolidated financial statements.

Uncertainty over Income Tax Treatments

In June 2017, IASB issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23"), which clarifies application of recognition and measurement requirements in IAS 12, Income Taxes when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Corporation is in the process of evaluating the impact that IFRIC 23 may have on the Corporation's consolidated financial statements.

Prepayment Features with Negative Compensation and Modifications of Financial Liabilities (Amendments to IFRS 9)

In October 2017, IASB issued amendments to IFRS 9 that covers two issues:

– What financial assets may be measured at amortised cost. The amendment permits more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets with negative compensation.
  Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. However, to qualify for amortised cost measurement, the negative compensation must be "reasonable compensation for early termination of the contract." In addition, to qualify for amortised cost measurement, the asset must be held within a 'held to collect' business model.
– How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss.

The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the remainder of IFRS 9. The Corporation does not expect the amendments will have an impact on the Corporation's consolidated financial statements.

Annual Improvements to IFRS Standards 2015–2017

In December 2017, IASB issued the following amendments from the 2015-2017 annual improvement cycle. The Corporation is in the process of evaluating the impact that these amendments may have on the Corporation's consolidated financial statements

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

IFRS 3 Business Combination ("IFRS 3")

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019. Earlier application is permitted.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

3. CASH AND CASH EQUIVALENTS

	December 31 2017	December 31 2016
Cash on hand	**14,625**	7,606
Short-term deposits	**25,769**	–
	40,394	7,606

Bank balances and short-term deposits comprise cash held by the Corporation on a short-term basis with original maturity of one month or less. The carrying amount of these assets approximates their fair value.

4. RESTRICTED CASH

Restricted cash totalling $3,233 [December 31, 2016 – $7,125] relates to amounts deposited in escrow accounts in connection with the acquisitions completed in 2015.

5. TRADE AND OTHER RECEIVABLES

	December 31 2017	December 31 2016
Trade receivables	**154,409**	173,464
Less allowance for doubtful accounts	**725**	553
Net trade receivables	**153,684**	172,911
Other receivables	**36,183**	32,698
	189,867	205,609

Included in the above amounts are accrued receivables for construction contracts in progress at December 31, 2017 of $4,578 [December 31, 2016 – $5,174].

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

The following table presents the aging of gross trade receivables:

	Current	Less than 90 days	91-181 days	182-365 days	More than 365 days	Total
December 31, 2016	165,390	5,802	600	1,430	242	173,464
December 31, 2017	**146,261**	**7,140**	**703**	**132**	**173**	**154,409**

6. INVENTORIES

	Raw materials	Work in progress	Finished goods	Total
At December 31, 2016	62,708	115,102	31,154	208,964
At December 31, 2017	**60,721**	**106,061**	**31,075**	**197,857**

The cost of inventories recognized as expense and included in cost of sales for the year ended December 31, 2017 amounted to $766,823 [2016–$795,420].

During the year ended December 31, 2017, the Corporation recorded an impairment expense related to the write-down of inventory in the amount of $1,856 [2016–$2,314]. The Corporation also recorded reversals of previous write-downs of inventory in the amount of $2,275 [2016–$3,295] due to the sale of inventory previously provided for. The carrying amount of inventory recorded at net realizable value was $26,529 as at December 31, 2017 [2016–$30,198], with the remaining inventory recorded at cost.

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

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Tooling	Total
Cost					
At December 31, 2015	15,660	132,837	571,524	50,803	770,824
Additions	–	4,262	36,782	1,255	42,299
Disposals and other	–	(21)	(13,853)	(1,493)	(15,367)
Foreign currency translation	(797)	(3,718)	(28,297)	(1,291)	(34,103)
At December 31, 2016	14,863	133,360	566,156	49,274	763,653
Additions	4,215	3,840	51,439	2,310	61,804
Disposals and other	(518)	(8,416)	(3,081)	–	(12,015)
Foreign currency translation	(633)	(2,051)	(13,861)	(2,795)	(19,340)
At December 31, 2017	**17,927**	**126,733**	**600,653**	**48,789**	**794,102**
Accumulated depreciation and impairment					
At December 31, 2015	–	(46,914)	(275,450)	(42,934)	(365,298)
Depreciation	–	(4,137)	(26,211)	(2,529)	(32,877)
Disposal and other	–	(36)	11,985	1,217	13,166
Foreign currency translation	–	560	9,549	1,072	11,181
At December 31, 2016	–	(50,527)	(280,127)	(43,174)	(373,828)
Depreciation	–	(3,445)	(27,405)	(2,354)	(33,204)
Disposal and other	–	943	1,880	–	2,823
Foreign currency translation	–	1,069	8,454	2,439	11,962
At December 31, 2017	**–**	**(51,960)**	**(297,198)**	**(43,089)**	**(392,247)**
Net book value					
At December 31, 2016	14,863	82,833	286,029	6,100	389,825
At December 31, 2017	**17,927**	**74,773**	**303,455**	**5,700**	**401,855**

As at December 31, 2016 and 2017, the Corporation did not have any assets under finance lease.

Included in the above are assets under construction in the amount of $13,343 [December 31, 2016 – $17,226], which as at December 31, 2017 are not amortized.

During 2016, the Corporation determined to close an operating facility in the United States in order to lower operating costs, increase efficiencies and better align the Corporation's workforce with the needs of the business. This resulted in an impairment charge of $923 to property, plant and equipment to bring them to the lower of carrying value and recoverable amount, which is based on their fair value less costs of disposal. The fair value less costs of disposal was determined by using inputs based on observable market data for identical assets and liabilities, and therefore, was categorized within Level 2 of the fair value hierarchy.

In 2017, the Corporation sold land and building (the "Property") located at 3160 Derry Road, Mississauga, Ontario, Canada to a third party and to lease the building for a two-year period. The Corporation has also agreed to lease a new facility for a 12-year period, with three renewal periods of five years each, which will be constructed by the buyer on the existing site. The facility rationalization was driven by the need to improve the Corporation's manufacturing efficiencies, operational performance, profit margins and cash flow. The sale generated net cash proceeds of approximately $32,662 and resulted in a gain of $26,593 on sale of the Property recognized by the Corporation.

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

Costs associated with the sale are summarized below:

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

Disposal of non-current assets consists of the derecognition of the Property of $6,068 and equipment impairment charges of $2,900 that reduced the carrying amount of the equipment to the recoverable amount, which is based on their fair value less costs of disposal. The fair value less costs of disposal was determined by using inputs based on observable market data for identical assets and liabilities, and therefore, was categorized within Level 2 of the fair value hierarchy.

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

8. INVESTMENT PROPERTIES

	Cost	Accumulated depreciation, disposal and impairment	Net book value
At December 31, 2016	11,652	(7,275)	4,377
At December 31, 2017	**9,286**	**(6,872)**	**2,414**

The Corporation's investment properties consist of land and building. Depreciation expense recognized in relation to the buildings in 2017 was $258 [2016 – $265]. The Corporation recorded rental income of $864 in 2017 [2016 – $992]

The fair value of the Corporation's investment properties was $12,343 at December 31, 2017. 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 2017, the Corporation obtained opinions from external valuators, with experience in the real estate market, on the fair value of $11,500 of the total fair values of the Corporation's investment properties.

On September 29, 2017, the Corporation sold one of its investment properties located in Winnipeg, Manitoba for proceeds of $3,900 and recorded a gain of $2,183 on disposal of the asset.

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

9. INTANGIBLE ASSETS AND GOODWILL

	Technology rights	Development costs	Other Intangibles	Total Intangible Assets	Goodwill	Total Intangible Assets and Goodwill
Cost						
At December 31, 2015	39,489	123,048	31,311	193,848	39,020	232,868
Additions	–	3,137	356	3,493	–	3,493
Foreign currency translation	(62)	(4,457)	(4,886)	(9,405)	(5,223)	(14,628)
At December 31, 2016	39,427	121,728	26,781	187,936	33,797	221,733
Additions	5,811	1,617	–	7,428	–	7,428
Foreign currency translation	(132)	(2,209)	58	(2,283)	(356)	(2,639)
At December 31, 2017	**45,106**	**121,136**	**26,839**	**193,081**	**33,441**	**226,522**
Depreciation and impairment						
At December 31, 2015	(27,281)	(76,879)	(1,844)	(106,004)	–	(106,004)
Depreciation	(2,706)	(11,663)	(2,920)	(17,289)	–	(17,289)
Foreign currency translation	35	2,234	531	2,800	–	2,800
At December 31, 2016	(29,952)	(86,308)	(4,233)	(120,493)	–	(120,493)
Depreciation	(1,604)	(8,637)	(2,766)	(13,007)	–	(13,007)
Foreign currency translation	84	1,911	(81)	1,914	–	1,914
At December 31, 2017	**(31,472)**	**(93,034)**	**(7,080)**	**(131,586)**	**–**	**(131,586)**
Net book value						
At December 31, 2016	9,475	35,420	22,548	67,443	33,797	101,240
At December 31, 2017	**13,634**	**28,102**	**19,759**	**61,495**	**33,441**	**94,936**

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 1 to 20 years based on units of production.

Other intangibles relate to customer lists, brands and technical processes. Customer lists will be amortized over a 5 year period and technical processes will be amortized over a 15 year period. Brands of $8,863 (£5,226) with indefinite useful lives assets are not subject to amortization.

As described in Note 1, the carrying values of goodwill and intangible assets with indefinite lives are tested for impairment annually. The Corporation's impairment test for goodwill and intangible assets with indefinite useful lives was based on the recoverable amount determined on its value in use. The key assumptions used to determine the recoverable amount are discussed below. The Corporation completed the annual impairment test on October 1, 2017 and determined there was no impairment. The results of the annual impairment test indicate that the fair values of the reporting units are in excess of their carrying values.

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

In the assessment of impairment, management used industry guidance, historical data and past experience as the key assumptions in the determination of the recoverable amount of the two CGUs. The value in use was determined based on the present value of the estimated free cash flows for the two CGUs. The cash flow projections, covering a five year period plus a terminal year, were based on financial projections approved by management using assumptions that reflect the Corporation's most likely planned course of action, given management's judgment of the most probable set of economic conditions. A discount rate of 10.5% per annum was used for the two CGUs based on management's best estimate of the Corporation's weighted average cost of capital adjusted for the risks facing the CGU. Annual growth rate of 2% and 3% was used in the terminal year given the businesses' anticipated growth. The recoverable amount was determined to be higher than the carrying value including the goodwill. If the discount rate for the CGUs is increased by 1%, the recoverable amount for one CGU would still exceed the carrying value, whereas the recoverable amount for the other CGU would be less than the carrying value.

10. 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. 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. The Corporation has no share of any contingent liabilities or capital commitments in its joint ventures as at December 31, 2017 and December 31, 2016.

	December 31 2017	December 31 2016
Balance, beginning of the year	**6,484**	5,749
Share of total comprehensive income	**331**	735
Balance, end of the year	**6,815**	6,484

11. BANK INDEBTEDNESS

On September 30, 2014, the Corporation amended its credit agreement with its existing lenders. The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian dollar limit of $95,000, a US dollar limit of US$35,000 and a British Pound limit of £11,000 [$157,565 at December 31, 2017]. Under the terms of the amended credit agreement, the operating credit facility expires on September 30, 2018. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a Canadian $50,000 uncommitted accordion provision which provides the Corporation with the option to increase the size of the operating credit facility. As of December 31, 2017, the Corporation is debt-free under its credit facility [December 31, 2016 – $43,314]. The Corporation had letters of credit outstanding totalling $3,773 as at December 31, 2017, such that $153,792 was unused and available. Bank indebtedness bears interest at the bankers' acceptance or LIBOR rates plus 1.75% [Dec 31, 2016 – bankers' acceptance or LIBOR rates plus 1.875% or 2.61%]. A fixed and floating charge debenture on trade receivables, inventories and property, plant and equipment is pledged as collateral for the operating credit facility.

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

12. ACCOUNTS PAYABLE, ACCRUED LIABILITIES AND PROVISIONS

	December 31 2017	December 31 2016
Accounts payables	**84,677**	90,369
Accrued liabilities	**74,773**	85,305
Provisions [Note 15]	**2,125**	2,892
	161,575	178,566

13. LONG-TERM DEBT

	December 31 2017	December 31 2016
Property mortgages [a]	**13,789**	14,694
Other loans [b]	**12,572**	25,497
	26,361	40,191
Less current portion	**15,159**	4,827
	11,202	35,364

[a] Property mortgages include $1,050 (£619) [2016–$1,317 (£795)] 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, 2017 was 1.4% [2016–1.4%]. The property mortgage requires scheduled monthly repayments of accrued interest and principal and matures in June 2021.

The Corporation has a five year fixed rate term mortgage, under which interest is charged at 4.49% as at December 31, 2017, with accrued interest and principal paid monthly. The mortgage is secured by certain land and building. The principal amount outstanding at December 31, 2017 was $12,739 [2016–$13,377]. The mortgage expired on and was repaid on February 1, 2018.

[b] Other loans include loans of $12,572 [2016–$14,172] provided by governmental authorities ("Government Loans") that bear interest of approximately 1.38% [2016–1.5%]. The Government Loans mature April 2024 with accrued interest and principal repayable monthly.

Included in other loans were bank loans ("Commercial Loans") used to finance equipment over a ten year period maturing between December 2020 and December 2022. The Commercial Loans required scheduled monthly repayments of accrued interest and principal and was repaid in August 2017. As at December 31, 2016, the Commercial Loans were $11,325 (US$8,434), bearing interest at LIBOR plus 2.75%, which was 3.52%. The equipment is pledged as collateral for the Commercial Loans.

14. BORROWINGS SUBJECT TO SPECIFIC CONDITIONS

The Corporation has received proceeds 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.

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

During 2017, the Corporation received $3,638 [2016–$5,653] of government proceeds, of which $2,023 [2016–$2,729] has been credited to the related assets, $66 [2016–$218] has been credited to the related expense and $1,549 [2016–$2,706] has been recorded in borrowings subject to specific conditions.

The proceeds are repayable as future royalty payments; a liability is recorded for the amounts received that will be repaid based on future estimated sales. During 2017, the Corporation repaid $190 [2016–$455]. As at December 31, 2017, the Corporation has recognized $25,162 [2016–$23,057] as the amount repayable. The Corporation is eligible for additional government proceeds of $9,323 for the period from January 1, 2018 to March 31, 2020 based on approved expenditures.

15. OTHER LONG-TERM LIABILITIES AND PROVISIONS

	December 31 2017	December 31 2016
Net defined benefit plan deficits [Note 21]	**5,958**	9,297
Provisions	**5,601**	5,658
Other	**5,719**	6,554
	17,278	21,509
Less current portion included in accounts payable, accrued liabilities and provisions	**2,125**	2,892
	15,153	18,617

The following table presents the movement in provisions:

	Warranty	**Environmental**	**Other provisions**	**Total**
At December 31, 2015	1,831	2,925	249	5,005
Additional provisions	1,191	–	701	1,892
Amount used	(1,160)	(36)	–	(1,196)
Unused amounts reversed	96	–	–	96
Unwind of discount	–	(73)	–	(73)
Foreign currency	(60)	(9)	3	(66)
At December 31, 2016	1,898	2,807	953	5,658
Additional provisions	850	–	1,325	2,175
Amount used	(873)	(20)	(509)	(1,402)
Unused amounts reversed	(652)	(50)	–	(702)
Unwind of discount	–	(34)	–	(34)
Foreign currency	(47)	–	(47)	(94)
At December 31, 2017	**1,176**	**2,703**	**1,722**	**5,601**

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.

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

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.

16. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	January 1 2017	Cash flows	Foreign exchange	Other	**December 31 2017**
Bank indebtedness	43,314	(43,159)	(446)	291	**–**
Debt due within one year	50,787	(7,951)	(1,334)	10,332	**51,834**
Long-term debt	35,364	(13,520)	(351)	(10,291)	**11,202**
Long-term liabilities and provisions	18,617	1,071	(299)	(4,236)	**15,153**
Borrowing subject to specific conditions – Non-current	22,867	3,493	–	(2,494)	**23,866**
Borrowing subject to specific conditions – Current	–	–	–	1,296	**1,296**
Total	170,949	(60,066)	(2,430)	(5,102)	**103,351**

The "Other" column includes the effect of reclassification of non-current portion of interest bearing loans, borrowings and deferred revenues, allocation of borrowing subject to specific conditions to the related assets and expenses, changes in defined benefit plans, and the effect of interest accretion on interest bearing loans and borrowings.

17. INCOME TAXES

The following are the major components of income tax expense:

	2017	2016
Current income tax expense		
Current tax expense for the year	**15,557**	12,780
Adjustments of previous year's tax expense	**–**	–
	15,557	12,780
Deferred income tax expense		
Origination and reversal of temporary differences	**13,261**	16,240
Impact of tax law changes	**(9,836)**	(186)
	3,425	16,054
Total income tax expense	**18,982**	28,834

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

The Corporation's consolidated effective tax rate for the year ended December 31, 2017 was 14.6% [2016 – 24.6%]. The difference in the effective tax rates compared to the Corporation's statutory income tax rates were mainly caused by the following:

	2017	2016
Income before income taxes	**130,259**	117,414
Income taxes based on the applicable tax rate of 25.8% in 2017 and 2016	**33,607**	30,293
Adjustment to income taxes resulting from:		
Adjustments in respect of prior years	**59**	(77)
Permanent differences and other	**(191)**	66
Non-taxable portion of capital gains	**(3,252)**	–
Income tax rates differentials on income of foreign operations	**(1,269)**	(1,021)
Changes in income tax rates	**(9,972)**	(427)
Income tax expense	**18,982**	28,834

The decrease in the effective corporate tax rate from 2016 is primarily attributable to the reduction in the United States Federal corporate income tax rate from 35% to 21% necessitated by the Tax Cuts and Jobs Act being signed into legislation in December 2017. As a result of the re-measurement of the Corporation's deferred tax assets and liabilities in the United States, the Corporation recorded a tax benefit of approximately $9,972. Additionally, a portion of the capital gains realized on the sale of property during the year was not taxable resulting in a reduction of the current tax expense by approximately $3,252.

Changes in the deferred tax components are adjusted through deferred income tax expense except for $8,958 [2016 – $7,015] of investment tax credits which is adjusted through cost of revenues and $183 [2016 – $51] 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 2017	December 31 2016
Operating loss carry forwards	**3,808**	5,002
Investment tax credits	**26,465**	34,026
Employee future benefits	**2,036**	3,151
Property, plant and equipment and intangibles	**(46,546)**	(58,548)
Other	**2,480**	2,320
Deferred tax (liabilities) assets	**(11,757)**	(14,049)

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 2017	December 31 2016
Deferred tax assets	**14,313**	22,007
Deferred tax liabilities	**(26,070)**	(36,056)

The temporary difference associated with investments in subsidiaries and joint ventures, for which a deferred tax liability has not been recognized aggregates to $572,030 [2016 – $457,304].

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

18. SHARE CAPITAL

The authorized capital of the Corporation consists of an unlimited number of preference shares, issuable in series of which none are outstanding, and an unlimited number of common shares, with no par value.

Common shares

	Number	Amount
Issued and fully paid:		
Outstanding at December 31, 2016 and December 31, 2017	**58,209,001**	254,440

Net income per share

	2017	2016
Net Income	**111,277**	88,580
Weighted average number of shares	**58,209,001**	58,209,001
Basic and diluted net income per share	**1.91**	1.52

Dividends declared

On March 31, 2017, June 30, 2017, and September 30, 2017 the Corporation paid quarterly dividends on 58,209,001 common shares of $0.065 per common share, amounting to $11,351. On December 29, 2017 the Corporation paid quarterly dividends on 58,209,001 common shares of $0.085 per common share, amounting to $4,948.

For the year ended December 31, 2016, the Corporation declared and paid dividends on common shares on March 31, 2016, June 30, 2016 and on September 30, 2016 of $0.0575 per share amounting to $10,041 and on December 30, 2016 of $0.065 per share amounting to $3,784.

Subsequent to December 31, 2017, the Corporation declared dividends to holders of common shares in the amount of $0.085 per common share payable on March 30, 2018, for shareholders of record at the close of business on March 16, 2018.

19. 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, 2017 and December 31, 2016, 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 vested and paid upon issuance and the remaining Units are vested and paid out equally on the anniversary date of issuance in the following two year periods 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. For Units granted subsequent to May 1, 2016 a Total Shareholder Return ("TSR") performance element was introduced to reinforce the connection between remuneration and the interests of Shareholders, by motivating and rewarding participants for improving the long-term value of the Corporation. One third of the cash payment of the Units awarded for calendar 2016 and calendar years thereafter is made May 1 of the first calendar year following the date of the grant of the Units, another one third of cash payment is made May 1 of the second calendar year following the date of grant of the Units, and the remaining one third cash payment is made May 1 of the third calendar year following the date of grant of the Units. The number of Units that will actually vest ranges from 75% to 200% of the award remuneration granted and will be determined by the Corporation's three year TSR relative to a comparator group. The value each Officer ultimately receives would be determined by the number of Units earned, multiplied by the fair market value of the common share at the end of the performance period. As at December 31, 2017, 44,469 Units were outstanding at an accrued value of $523 [December 31, 2016 – $269]. The Corporation recorded compensation expense in relation to the plans during the year of $433 [2016 – $384].

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

20. FINANCIAL INSTRUMENTS

Categories of financial instruments

Under IFRS, financial instruments are classified into one of the following categories: financial assets at fair value through profit or loss, loans and receivables, available for sale financial assets, financial assets and liabilities held for trading, 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, 2016	14,731	205,609	220,340	330,898	330,898
December 31, 2017	**43,627**	**189,867**	**233,494**	**248,477**	**248,477**

[1] Includes cash and cash equivalents and restricted cash
[2] Includes trade receivables and other receivables
[3] Includes bank indebtedness, accounts payable and accrued liabilities, long-term debt, borrowings subject to specific conditions and trade receivables 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 Directors 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 US dollars. As a result, the Corporation may experience transaction exposures because of the volatility in the exchange rate between the Canadian and US dollar. Based on the Corporation's current US denominated net inflows as of December 31, 2017, fluctuations of +/- 1% would, everything else being equal, have an effect on net income for the year ended December 31, 2017 of approximately +/- $99. The Corporation may experience translation exposures on the consolidation of its US and European subsidiaries. Fluctuations of +/- 1% in the US dollar and British pound would, everything else being equal, have an effect on other comprehensive income of approximately $3,296.

Interest rate risk

The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. As at December 31, 2017, $26,361 of the Corporation's total debt portfolio is subject to movements in floating interest rates. In addition, a portion of the Corporation's trade receivables 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%) would have impacted the amount of interest charged to net income during the year ended December 31, 2017 by approximately +/- $579.

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 trade receivables. 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.

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

The carrying amount of trade receivables 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 doubtful accounts. 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 trade receivables through securitization programs or factoring transactions. During 2017, the Corporation sold receivables to various financial institutions in the amount of $310,037 [2016–$284,891] for a discount of $1,665 [2016–$1,058] representing an annualized interest rate of 2.30% [2016–2.29%].

As at December 31, 2017, trade receivables include receivables sold and financed through securitization transactions of $36,675 [2016–$45,960] 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.

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, trade receivables securitization program and cash provided by operations. 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
Long-term debt	51,834	2,507	2,470	2,291	2,160	2,880	64,142
Equipment leases	909	668	571	502	253	221	3,124
Facility leases	4,931	2,863	2,858	2,883	2,955	21,768	38,258
Other long-term liabilities	147	247	254	236	268	1,225	2,377
Borrowings subject to specific conditions	1,296	700	1,009	1,022	1,044	20,091	25,162
	59,117	6,985	7,162	6,934	6,680	46,185	133,063
Interest payments	189	153	118	85	56	28	629
Total	59,306	7,138	7,280	7,019	6,736	46,213	133,692

[1] The amount drawn on the Corporation's trade receivables 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 and cash equivalents, trade receivables, bank indebtedness and accounts payable and accrued liabilities

Due to the short period to maturity of these instruments, the carrying values as presented in the 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 US 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 US dollars and Euros. The Corporation had no material foreign exchange contracts outstanding at December 31, 2017.

Long-term debt

The carrying amount of the Corporation's long-term debt of $26,361 would approximate its fair value at December 31, 2017.

Borrowings subject to specific conditions

The Corporation has recognized $23,866 as the amount repayable to Canadian government agencies. The contributions are repayable as future royalty payments; a liability is recorded for the amounts received that will be repaid based on future estimated sales.

Contingent consideration

The Corporation has recognized contingent consideration of $445 at December 31, 2017 [2016 – $3,225] representing future amounts the Corporation may be required to pay in conjunction with various business combinations. The ultimate amount of future payments is based on specified future criteria, such as sales and earnings metrics. The Corporation estimates the fair value of the contingent consideration liabilities related to the achievement of these metrics by assigning an achievement probability to each potential milestone.

Collateral

As at December 31, 2017, the carrying amount of all of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $63,036.

Fair value hierarchy

The Corporation's financial assets and liabilities recorded at fair value on the consolidated statement of financial position have been categorized into three categories based on a fair value hierarchy. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The Corporation does not have any financial assets carried at fair value as at December 31, 2017.

21. 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 100% 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 require 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 as at December 31, 2016.

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 are in place that allow for the amortization of solvency deficits over a period of up to ten years.

Effective January 1, 2014, three pension plans were merged. On July 7, 2017, the Financial Services Commission of Ontario ("FSCO") approved the transfer of the assets and the asset transfer was completed on August 31, 2017. The net impact of the asset transfer on the consolidated results for all plans is nil.

US

The US 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 5% in cash, 20% in fixed income instruments, 60% in equity and 15% in alternative assets for the US 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.

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.

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

The Corporation's expenses for defined contribution plans amounted to $5,883 for the year ended December 31, 2017 [2016 – $5,906].

Other Benefit Plan

The Corporation has another benefit plan in the US 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:

		2017		2016
	Defined benefit plans	**Other benefit plan**	Defined benefit plans	Other benefit plan
Current service cost	**2,760**	**–**	2,544	–
Net interest cost on net defined benefit liability (asset)	**225**	**192**	314	210
Past service cost	**–**	**–**	154	–
Other	**430**	**–**	430	–
Total defined benefit cost recognized in net income	**3,415**	**192**	3,442	210

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

		2017		2016
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)	**(6,592)**	**–**	(3,945)	–
Based on adjustment of liability assumptions	**5,991**	**–**	3,849	–
Due to liability experience adjustment	**84**	**–**	(163)	–
Total defined benefit income recognized in the statement of other comprehensive income	**(517)**	**–**	(259)	–

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:

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

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

	2017		2016	
	Defined benefit plans	**Other benefit plan**	Defined benefit plans	Other benefit plan
Fair value, beginning of year	**121,776**	**–**	114,758	–
Interest income on plan assets	**4,610**	**–**	4,584	–
Actual return on assets (excluding interest income on plan assets)	**6,592**	**–**	3,945	–
Employer contributions	**5,959**	**161**	5,365	295
Employee contributions	**279**	**–**	291	–
Benefit payments	**(8,155)**	**(161)**	(6,445)	(295)
Administration costs	**(580)**	**–**	(454)	–
Exchange differences	**(675)**	**–**	(268)	–
End of year	**129,806**	**–**	121,776	–

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

	2017		2016	
	Defined benefit plans	**Other benefit plan**	Defined benefit plans	Other benefit plan
Beginning of year	**130,367**	**1,139**	125,612	1,263
Current service cost	**2,760**	**–**	2,544	–
Interest cost	**4,835**	**192**	4,897	210
Employee contributions	**279**	**–**	291	–
Actuarial losses (gains) in other comprehensive income from:				
Changes in demographic assumptions	**(553)**	**–**	421	–
Changes in financial assumptions	**6,394**	**–**	3,404	–
Experience adjustments	**84**	**–**	(163)	–
Benefit payments	**(8,155)**	**(161)**	(6,445)	(295)
Plan amendments and curtailments	**–**	**–**	154	–
Exchange difference	**(716)**	**(76)**	(348)	(39)
End of year	**135,295**	**1,094**	130,367	1,139

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

	2017		2016	
	Defined benefit plans	**Other benefit plan**	Defined benefit plans	Other benefit plan
Fair value of plan assets	**129,806**	**–**	121,776	–
Accrued benefit obligation	**(135,295)**	**(1,094)**	(130,367)	(1,139)
Net defined benefit liability	**(5,489)**	**(1,094)**	(8,591)	(1,139)
– Included in other long-term liabilities and provisions	**(5,958)**	**(1,094)**	(9,297)	(1,139)
– Included in other assets	**469**	**–**	706	–

The Corporation expects to contribute approximately $5,107 in 2018 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.

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

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]:

	2017		2016	
	Defined benefit plans	**Other benefit plan**	Defined benefit plans	Other benefit plan
Discount rate	**3.4%**	**3.4%**	3.8%	3.9%
Rate of compensation increase	**2.0%/3.0%**	**–**	2.8%	–
Mortality Table				
Canadian defined benefit plans	**Club Vita Canada's 2016 VitaCurves, projected with improvement scale CPM-B**		2014 CPM Private Sector Mortality Table projection with CPM Scale B (with size adjustment)	
US defined benefit and other benefit plans	**MP-2014 mortality tables with MP-2017 projections**		MP-2014 mortality tables with MP-2016 projections	
Other benefit plan	**MP-2014 mortality tables with MP-2017 projections (with blue collar adjustment)**		MP-2014 mortality tables with MP-2016 projections (with blue collar adjustment)	

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, 2017, a 1.0% decrease in the discount rate used (all other assumptions remaining unchanged) could result in a $18,337 increase in the pension benefit obligation with a corresponding charge recognized in other comprehensive income in the year.

The Corporation funds health care benefit costs, shown under other benefit plan, on a pay as you go basis. For measurement purposes, a 7.0% annual rate of increase in the per capita cost of covered health care and dental benefits was assumed for 2017. 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, 2017 was nominal.

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

Assets

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

	2017	2016
Equity investments	**84%**	83%
Fixed income investments	**14%**	14%
Other investments	**2%**	3%
	100%	100%

Defined benefit pension liability term

	Total
Defined benefits schedule for disbursement within 12 months	7,906
Defined benefits schedule for disbursement within 2 -5 years	22,479
Defined benefits schedule for disbursement after 5 years or more	47,646

22. SEGMENTED INFORMATION

Operating segments are defined as components of the Corporation for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Corporation is the President and Chief Executive Officer. The Corporation operates substantially all of its activities in one reportable segment, Aerospace, which include the design, development, manufacture, repair and overhaul, and sale of systems and components for defence and civil aviation. The Corporation 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:

	2017	2016
Sale of goods	**807,971**	850,841
Construction contracts	**33,717**	32,229
Services	**127,266**	120,773
	968,954	1,003,843

As at December 31, 2017, aggregate costs incurred under open construction contracts and recognized profits, net of recognized losses, amounted to $401,906 [December 31, 2016 – $374,917]. Advance payments received for construction contracts in progress at December 31, 2017 were $5,599 [December 31, 2016 – $6,115]. Retentions in connection with construction contracts at December 31, 2017 were $284 [December 31, 2016 – $303]. Advance payments and retentions are included in accounts payable, accrued liabilities and provisions.

Revenues from the Corporation's two largest customers accounted for 41.6% of total sales for the year ended December 31, 2017 [December 31, 2016 – two largest customers accounted for 38.3% of total sales].

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

Geographic segments:

	2017				2016			
	Canada	**United States**	**Europe**	**Total**	Canada	United States	Europe	Total
Revenues	**315,398**	**314,767**	**338,789**	**968,954**	341,006	338,969	323,868	1,003,843
Export revenues[1]	**220,309**	**72,799**	**108,573**	**401,681**	259,145	84,425	100,252	443,822

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

	2017				2016			
	Canada	**United States**	**Europe**	**Total**	Canada	United States	Europe	Total
Property, plant and equipment, intangible assets and goodwill	**181,539**	**174,281**	**140,971**	**496,791**	173,724	188,828	128,513	491,065

23. COST OF REVENUES

	2017	2016
Operating expenses	**757,340**	783,620
Amortization	**44,858**	49,096
Investment tax credits	**(8,671)**	(6,778)
(Reversal) impairment of inventories	**(420)**	(981)
	793,107	824,957

24. ADMINISTRATIVE AND GENERAL EXPENSES

	2017	2016
Salaries, wages and benefits	**36,575**	35,933
Administration and office expenses	**18,487**	16,851
Professional services	**2,829**	2,971
Amortization	**1,658**	1,802
	59,549	57,557

25. INTEREST EXPENSE

	2017	2016
Interest on bank indebtedness and long-term debt [Notes 11 and 13]	**2,435**	4,249
Accretion charge on long-term debt and borrowings	**611**	842
Discount on sale of trade receivables	**1,665**	1,058
	4,711	6,149

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

26. 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 losses for the year ended December 31, 2017 of $8,411 [2016 – unrealized currency translation losses of $44,977] and net actuarial gains on defined benefit plans of $334 [2016 – net actuarial gains of $208]. These gains and losses are reflected in the consolidated statement of financial position and had no impact on net income for the year.

27. RELATED PARTY DISCLOSURE

Transactions with related parties
During the year, the Corporation incurred consulting costs of $100 [2016 – $100] payable to a corporation controlled by the Chairman of the Board of Directors of the Corporation.

Key management personnel
Key management includes members of the Board of Directors 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:

	2017	2016
Short-term benefits	**2,863**	2,959
Post-employments benefits	**133**	304
Share-based payments	**144**	187
	3,140	3,450

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 Officers under the DSU Plan.

28. SUPPLEMENTARY CASH FLOW INFORMATION

	2017	2016
Net change in non-cash working capital		
Trade receivables	**6,766**	(13,460)
Inventories	**8,011**	(7,548)
Prepaid expenses and other	**3,992**	(2,762)
Accounts payable, accrued liabilities and provisions	**(17,320)**	30,427
	1,449	6,657
Interest paid	**3,930**	5,171
Income taxes paid	**11,903**	7,047

29. ADDITIONAL FINANCIAL INFORMATION

Included in other expenses is a foreign exchange loss of $6,034 [2016 – $4,630 gain] on the conversion of foreign currency denominated working capital balances and debt.

30. 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, 2017, total managed capital was $757,268, comprised of shareholders' equity of $694,232 and interest-bearing debt of $63,036.

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, 2017 the Corporation was in compliance with these covenants.

31. CONTINGENT LIABILITIES AND COMMITMENTS

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

As at December 31, 2017, capital commitments in respect of purchase of property, plant and equipment totalled $12,388, all of which had been ordered. There were no other material capital commitments at the end of the year.

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

EXECUTIVE OFFICERS

N. Murray Edwards
Chairman

James S. Butyniec
Vice Chairman

Phillip C. Underwood
President and
Chief Executive Officer

Elena M. Milantoni
Chief Financial Officer and
Corporate Secretary

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

Larry A. Winegarden
Vice President,
Corporate Strategy

Jo-Ann C. Ball
Vice President,
Human Resources

Karen Yoshiki-Gravelsins
Vice President,
Corporate Stewardship and
Operational Excellence

Mark Allcock
Vice President,
Information Technology

BOARD OF DIRECTORS

N. Murray Edwards (5)
Chairman
Magellan Aerospace Corporation
Mississauga, Ontario

James S. Butyniec
Vice Chairman
Magellan Aerospace Corporation
Mississauga, Ontario

Phillip C. Underwood
President and Chief Executive Officer
Magellan Aerospace Corporation
Mississauga, Ontario

Beth M. Budd Bandler (2, 4)
President
Beth Bandler Professional Corporation
Toronto, Ontario

Hon. William G. Davis P.C., C.C., Q.C. (3)
Counsel
Davis Webb LLP
Brampton, Ontario

William A. Dimma C.M., O. Ont. (1, 2)
Corporate Director
Toronto, Ontario

Bruce W. Gowan (1, 2, 3, 5)
Corporate Director
Huntsville, Ontario

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

Steven Somerville (1, 3, 4, 5)
President
Kerr Industries Limited
Oshawa, Ontario

COMMITTEES OF THE BOARD

(1) Audit Committee
Chairman:
Bruce W. Gowan

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

(3) Human Resources and Compensation Committee
Chairman:
Steven Somerville

(4) Environmental and Health & Safety Committee
Chairman:
Beth M. Budd Bandler

(5) Pension Committee
Chairman:
Steven Somerville

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STOCK LISTING
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 1st, 2018 at 2:00 p.m. at The Living Arts Centre, 4141 Living Arts Drive, Mississauga, Ontario L5B 4B8

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