

# MAGELLAN

# 2016

A N N U A L  
R E P O R T

## COLLECTIVELY, WE HAVE MADE EXCELLENT PROGRESS IN DEFINING WHERE THE CORPORATION NEEDS TO BE IN "2020" AND WHAT ACTIONS ARE NECESSARY TO MEET AND ACHIEVE THESE OBJECTIVES.

In this past year 2016, the Corporation reached a major milestone, achieving annual revenues in excess of \$1 billion, a goal which we had previously identified as one of our primary objectives. While achieving the revenue goal was noteworthy we continued to show improvements in our financial performance and in executing to our customers' needs. The Corporation's sustaining improvements in overall performance is a strong indicator that we are on the right path for growth and continued success.

---

**"Before we move too far along in this message I would like to take this opportunity to express my appreciation to our employees worldwide 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."**

---

Throughout 2015 and 2016, we continued to develop and evolve our strategic plans, taking the required actions to ensure that our plans continue to stay aligned with those of our primary customers. This process is dynamic and demanding and one which will be an ongoing challenge as we move forward in what is indeed a globally competitive environment.

In last year's message I emphasized that our management team would focus on a number of key strategies and I am pleased to report that we are achieving success through these initiatives.

We focused on continuing to improve our operational performance and our strong commitment to support our customers. We are prepared to invest in technology, capability and capacity and this commitment together with our performance has helped us to secure new work opportunities and extend current contracts into long term agreements. While we have achieved success in 2016, it will be necessary for Magellan to continue to improve on our performance in 2017. Customers require and are rightfully demanding that

our industry accepts and meets the market demands for delivering "defect free" products and achieving 100% on time delivery performance. In order to remain successful we must improve and sustain our performance to these expectations. Also, it remains a key objective of ours to accelerate our growth through acquisitions which complement and support our strategic plans. In the coming year, we will be applying a significant amount of management focus and energy in fulfilling these objectives.

As we continue our transition into a highly competitive global environment it is recognized that we must balance our needs for continued investment internationally with a strong commitment to maintaining our core capabilities. In the end Magellan sells expertise developed by, and with, our employees which we look to apply as efficiently and as cost effectively as we can in support of our customers' requirements. In 2017 we need to explore the means and methods which will facilitate improvements in our employee communications and engagement as we rely on our employees continued commitment as a keystone to our success.

In closing, I am optimistic and excited to lead Magellan as we continue to capitalize on growth and improvement opportunities. We are moving into 2017 well positioned to continue to demonstrate sustainable profitable growth beneficial to all our stakeholders.



**Phillip C. Underwood**  
*President and Chief Executive Officer*  
March 3, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

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, 2016 and 2015 prepared in accordance with International Financial Reporting Standards ("IFRS"), and the Annual Information Form for the year ended December 31, 2016 (available on SEDAR at [www.sedar.com](http://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, 2016 relative to the year ended December 31, 2015. The information contained in this report is as at March 3, 2017. All financial references are in Canadian dollars unless otherwise noted.

The MD&A contains forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance. All statements other than statements of historical facts may be forward-looking statements. In particular and without limitation there are forward looking statements under the heading "Overview," "2016 and Recent Updates," "Outlook," "Consolidated Revenues," "Liquidity and Capital Resources," "Risk Factors" and "Future Changes in Accounting Policies." In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "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 2016 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

### 1. OVERVIEW

A summary of Magellan's business and significant 2016 events

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

During 2016 the Corporation focused on reorganizing and transitioning the Business Development Organization. This completed reorganization provides the Corporation with capable resources leading pro-active sales capture strategies for Magellan's key commodity groups; Aerostructures, Aeroengine, Castings, Maintenance, Repair and Overhaul ("R&O"), and Proprietary Products. The rollout of Magellan's sales strategy has been aligned with its customers' needs and is fully integrated with its site operations. Recent program award announcements are solid indicators that this realigned business focus is helping to support Magellan's vision of continued profitable growth. In this past year Magellan continued to rely on the Magellan Operating System ("MOS™") to drive continuous improvements in cash generation and profitability highlighted by the Corporation reaching a new milestone of \$1.0 billion in annual revenues.

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 cast, fabricated and machined gas turbine engine components, both static and rotating, and integrated nacelle components, flow paths and engine exhaust systems for the world's leading aeroengine manufacturers. The Corporation also performs R&O services for jet engines and related components.

In 2016, 73% of revenues were derived from commercial markets (2015 – 75%, 2014 – 77%) while 27% of revenues related to defence markets (2015 – 25%, 2014 – 23%).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

### 2016 and Recent Updates

- On March 1, 2016, Magellan announced that a Wire Strike Protection System™ (“WSPS™”) will soon be available for the Robinson R66 helicopter platform with the anticipated issuance of a Supplemental Type Certificate in the first quarter of 2016. 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 steel cutting blades. The basic WSPS™ is comprised of an upper cutter, lower cutter, and a windshield deflector. The R66 WSPS™ kit is expected to be available for new R66 helicopters commencing in the fall of 2016. Internal provisions for the R66 WSPS™ platform will be available as an option from Robinson on new helicopters and will allow for easy installation of the exterior kit. A comprehensive aftermarket kit, including the internal provisions, should be available later in 2017 to retrofit older R66 helicopters through Magellan’s authorized distributors.
- The Corporation announced on May 2, 2016, a contract extension between Magellan and Airbus for the supply of aluminium and titanium structural wing components from its facilities in the United Kingdom (“UK”), Poland and its joint ventures in India. This contract, valued at approximately \$700 million, is comprised of precision machined details and assemblies for use on the A320 Family, the A330 Family, and the A380 program. In addition to the contract extension for the machined components, Magellan was awarded a contract to supply certain A380 wing ribs to Airbus valued at approximately \$20 million.
- An announcement was made on May 10, 2016 that an agreement had been reached between Magellan and GKN Aerospace for a contract extension to deliver precision aluminium and titanium components and assemblies to GKN Aerospace’s Filton facility where complex wing structures are manufactured and assembled for the A320, A330 and A380 aircraft programs. This contract extension is projected to generate revenues in excess of \$130 million through to December 2020 and the components and assemblies will be supplied from Magellan facilities located in the UK and Poland and its joint ventures in India. Magellan was also awarded a new contract to supply A350 outboard flap precision machine details and assemblies. This new contract is projected to generate revenues of \$36 million to December 2020.
- On May 26, 2016, Magellan signed a Memorandum of Understanding with ATLAS ELEKTRONIK sealing intent to collaborate on the development of the rocket motor and warhead sections of the SeaSpider® Anti-Torpedo-Torpedo. SeaSpider® will combine the best technology and decades of experiences on the expertise of ATLAS ELEKTRONIK in naval systems like the SeaHake® mod4 heavyweight torpedo and the leading rocket technology of Magellan as chosen by NASA. This pairing will leverage Canadian and German innovation and technology to develop effective “hard-kill” torpedo defence with the world’s leading Anti-Torpedo-Torpedo. Magellan and ATLAS ELEKTRONIK CANADA will enter the global market of naval defence with a revolutionary underwater rocket motor for SeaSpider® that will define the world standard and support diversity in a key Canadian aerospace capability. This industrial effort seeks to secure and create long-term Canadian employment in the naval defence space. ATLAS ELEKTRONIK CANADA, located in Victoria, BC, will build up capability in project management, research and development and work with Magellan’s facilities located in Winnipeg and Rockwood, Manitoba. ATLAS ELEKTRONIK Naval Weapons Division in Wedel, Germany will provide ongoing support.
- The Corporation announced on October 13, 2016 the signing of new long-term contracts for the supply of complex titanium machined components for the 777X program with Boeing Commercial Airplanes (“Boeing”). These components will be manufactured by Magellan’s facilities located in New York and Kitchener. In addition to the new contract awards, Magellan and Boeing agreed to a long term contract extension on Magellan’s existing 787 Dreamliner program statement of work, produced at its New York facilities. The new long-term 777X contracts and the 787 extension period will take effect in 2017. In securing these agreements Magellan has met Boeing’s customer affordability goals through the Partnering for Success program on these new long term contracts.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

- Magellan announced on October 27, 2016 that it will be producing F-35 Lightning II horizontal tail assemblies under an agreement with BAE Systems. The agreement is the continuation of annual contract awards made to Magellan by BAE Systems for F-35 assemblies, valued at more than \$70 million over a two year period. Magellan and BAE Systems have been working together to produce horizontal tails for the global F-35 program for almost a decade, signing the original Letter of Intent for this agreement at the Farnborough Air Show in 2006. Building on that initial commitment, both companies have since made significant investment in the facilities, technologies and training to ensure the successful delivery of these flight-critical assemblies to the customer. The horizontal tail assemblies produced at Magellan will be used on the Conventional Takeoff and Landing variant of the F-35. At present, Magellan plans to produce more than 1,000 ship sets of horizontal tail assemblies over the life of the F-35 program.
- An announcement was made on October 31, 2016, of the successful launch, and return to earth, of three Canadian student space microgravity science experiments aboard Mission 8 of the U.S.-based Student Spaceflight Experiments Program (“SSEP”). The experiments were delivered to the International Space Station (“ISS”) by the SpaceX CRS-9 mission. The SSEP is a unique, immersive program that gives students the ability to design and propose real microgravity experiments to fly in low earth orbit in the ISS. Two of the three participating Canadian school communities were sponsored by Magellan at the University of Toronto, Toronto District School Board, and Ryerson University, Toronto, Ontario. Magellan’s national SSEP partnership serves to increase the opportunity for Canadian communities to participate in the SSEP. The program utilizes the funding provided by the Corporation to bridge funding shortfalls for student communities that would otherwise be unable to participate. The Corporation has been a supporter of the SSEP since it expanded into Canada in 2012. Since that time Magellan has sponsored school communities, and engaged over 1,225 Canadian secondary school students in microgravity science experiment design and resulted in more than 270 flight experiment proposals submitted to the SSEP.
- On February 3, 2017, Magellan Aerospace announced a contract award from Public Services and Procurement Canada 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 the 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 bases located in Bagotville, Quebec and Cold Lake, Alberta.
- The Corporation announced on February 14, 2017 plans to construct a new manufacturing facility in India. The new 140,000 sq. ft. building will be constructed on seven acres in the Aerospace Special Economic Zone near the Bangalore International Airport. Magellan expects to break ground for the new facility in summer 2017. The Corporation will invest more than \$28 million in this state-of-the-art manufacturing and assembly plant, which will be constructed in three phases. When the first phase is commissioned near the end of 2017, it will employ approximately 120 engineers, machinists, procurement professionals, and quality and management personnel and be equipped with a full suite of 5-axis machining centres.

### Labour Matters

During the year ended December 31, 2016, three labour agreements at three of the Corporation’s facilities which expired during 2016 were successfully re-negotiated with contract periods ending in 2019. One labour agreement, which expired on December 31, 2015, was successfully re-negotiated in 2016 with a contract period ending in 2017. Two labour agreements, which expired on December 31, 2016, are currently in negotiations. One labour agreement at one of the Corporation’s facilities expires in the first quarter of 2017, negotiations have commenced. Two labour agreements at one of the Corporation’s facilities expire in the fourth quarter of 2017.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

### Financing Matters

On September 30, 2014, Magellan announced the Corporation amended the Bank Facility Agreement pursuant to which Magellan and the lenders agreed to adjust the maximum amounts available under the operating credit facility to Cdn\$95 million (down from Cdn\$115 million), US\$35 million and £11 million British pounds. Under the terms of the amended credit agreement, the operating credit facility expires on September 30, 2018. The Bank Facility Agreement also includes a Cdn\$50 million uncommitted accordion provision which provides the Corporation with the option to increase the size of the operating credit facility to \$200 million. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. Pursuant to the amendment of the Bank Facility Agreement, the guarantee of the facility by the Chairman of the Board of Directors of the Corporation, which had supported the Corporation since 2005, was released. 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 (\$13.8 million at December 31, 2015). The bridge credit facility, which was arranged to enhance liquidity following the Ripak acquisition, expired on March 4, 2016.

## 2. OUTLOOK

The outlook for Magellan's business in 2017

Boeing last announced that cumulative production rates for B737 and B737 MAX programs are expected to increase from the current 42 aircraft per month, to 47 aircraft per month in the third quarter of 2017, to 52 aircraft per month in 2018, and then 57 aircraft per month in 2019. Airbus' rates for the A320 and the A330 NEO are expected to reach 55 aircraft per month by mid-2017, and will continually ramp up through 2018 to a peak rate of 60 aircraft per month in 2019. It has been suggested for some time now that both original equipment manufacturers ("OEMs") are monitoring these production rates to ensure that they will remain aligned with the market.

The twin aisle market has leveled off as both Airbus and Boeing have adjusted production rates in this market. New programs, such as the Airbus A350 and Boeing's B777X continue to progress in line with published schedules.

While production rates have declined in the large wide body market, recent market information and sales indicate that the Airbus A380 and Boeing's B747-800 market will remain relatively stable at the lower rates of production.

The traditional regional aircraft market is not expected to change in 2017. Relatively low fuel prices have had a dampening effect on demand for new regional turboprop aircraft, however there still remains a niche for them in various regions and applications. Manufacturers were hoping an expansion of this market would come from the introduction of a new 90-seat class, but prolonged low fuel prices have triggered them to shelve any such plans. New large regional jet entrants such as Bombardier's C-Series and Embraer's E2 aircraft will on the other hand be the impetus for growth in this market.

In the business jet market, there have been occasional signs of recovery in one segment or another, however, the market is still struggling as it faces an oversupply of both new and used aircraft. After almost a decade of downturn, manufacturers are now looking to create new models to stimulate growth. One new concept currently being tried is one where members pay an annual fee for aircraft service, thereby avoiding the capital outlay, a multi-year commitment, and any residual value risk of fractional ownership. Another model being discussed is a point-to-point charter type model, where customers pay an airfare for scheduled direct flights. The industry's goal in the end is to add customers, and change the perception of business jets as expensive assets for the wealthy.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

The civil rotorcraft market remains significantly depressed, but on speculation that oil prices will rise, the industry is anticipating the start of recovery. OEM's are also hoping to expand market applications through the commercialization of tilt-rotorcraft and compound helicopter technologies. These have the potential in the medium to long term to broaden the spectrum of applications across this segment.

Global defense spending rose in 2015 and again in 2016. It is as yet unknown what impact the political movement towards nationalism in the US and UK will have, but many expect that US defense procurement spending will rise under the new US administration. Most segments of the global defense market are forecasting growth as extended life fleets are due for replacement and global threats are continuing to cause increasing unease.

Military fixed-wing and military rotorcraft markets are predicted to be on the upswing, both of which have suffered through a period of significant downward budgetary pressures. An unpredictability factor exists in these segments in that worldwide defence acquisition decisions are becoming increasingly political and highly contested. The Canadian government's recent decision to purchase 18 Boeing Super Hornets as an interim fleet solution and to run a five year competition to replace the existing CF-18 fleet is just one of a number of recent examples. Magellan currently participates in both the CF-18 and Super Hornet programs.

The largest fighter program in the world, Lockheed's F-35 Lightning II, continues to ramp up production rates. The jet now operates in 12 countries worldwide. The program has logged over 75,000 flight hours while training more than 380 pilots and 3,700 maintainers. On January 11, 2017 the program delivered its 200th operational jet. Lockheed anticipates delivering 66 planes in 2017, up from the 46 delivered in 2016. The program has reported that costs are progressing down the cost affordability curve with the price of an F-35A expected to be less than \$100 million for aircraft ordered within the 10<sup>th</sup> annual lot. The program from its inception has been built upon achieving an affordability model. Magellan, along with other F-35 Canadian suppliers chosen to supply major components, remains confident in its continued participation on this program.

In summary, 2017 is predicted to be a year where the aerospace industry begins to approach peak demands. Commercial airliner production is still growing, but may be reaching the end of a "super cycle". The commercial rotorcraft and business jets markets remain down and are not expected to change much in 2017, while regional markets are expected to grow due to the new larger aircraft entrants. It is expected that increasing global defense spending will partially offset any plateauing in the civil and commercial aircraft markets.

### 3. SELECTED ANNUAL INFORMATION

A summary of selected annual financial information for 2016, 2015 and 2014

Expressed in millions of dollars, except per share information	2016	2015	2014
Revenues	<b>1,003.8</b>	951.5	843.0
Net income for the year	<b>88.6</b>	79.4	56.6
Net income per common share – Basic and Diluted	<b>1.52</b>	1.36	0.97
EBITDA	<b>174.3</b>	151.7	120.3
EBITDA per common share - Diluted	<b>2.99</b>	2.61	2.07
Total assets	<b>992.9</b>	1,049.7	834.6
Total non-current financial liabilities	<b>101.5</b>	196.0	144.1

Revenues for the year ended December 31, 2016 increased from 2015 and 2014 levels. The increase in revenues from 2015 is primarily attributable to production rate increases on several leading programs in the global commercial aerospace market and to the strengthening of the US dollar in comparison to the Canadian dollar and British pound. Net income



## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

increased in 2016 from 2015 mainly due to favourable foreign exchange impact (see "Results of Operations–Gross Profit" and "Other"), offset by higher current income taxes.

During 2016 the Corporation paid quarterly dividends on common shares of \$0.0575 per share for the first three quarters and \$0.065 per share in the fourth quarter, amounting to \$13.8 million in total for the year. During 2015, the Corporation paid quarterly dividends on common shares of \$0.055 per share in the first three quarters and \$0.0575 per share in the fourth quarter, amounting to \$13.0 million in total for the year.

### 4. RESULTS OF OPERATIONS

A discussion of Magellan's operating results for 2016 and 2015

#### Consolidated Revenues

Consolidated revenues for the year ended December 31, 2016 increased 5.5% to \$1,003.8 million from \$951.5 million last year. The weakness in the Canadian dollar against the US dollar in combination with an increase in product shipments contributed to the year over year increase in sales.

Twelve-months ended December 31, expressed in thousands of dollars	2016	2015	Change
Canada	<b>341,006</b>	330,444	3.2%
United States	<b>338,969</b>	333,074	1.8%
Europe	<b>323,868</b>	287,948	12.5%
<b>Total revenues</b>	<b>1,003,843</b>	951,466	5.5%

Consolidated revenues are significantly impacted by the fluctuation of United States dollar and British pound against the Canadian dollar mainly due to the translation of foreign operations to Canadian dollars. If average exchange rates for both the United States dollar and British pound experienced in 2015 remained constant in 2016, consolidated revenues for 2016 would have been approximately \$982.5 million, a 3.3% increase over 2015 revenue levels.

On a currency neutral basis, in comparison to 2015, revenues in Canada in 2016 increased 1.0% primarily driven by volume increases. Revenues in the United States decreased slightly by 1.8% largely due to volume decreases and price adjustments, offset by revenue contribution from Ripak Aerospace Processing ("Ripak"), which was acquired by the Corporation in the fourth quarter of 2015. Revenues in Europe increased 11.7% mainly due to increased production build rates, and the acquisition of Euravia Engineering & Supply Co. Limited ("Euravia"), which was acquired by the Corporation in the second quarter of 2015.

#### Gross Profit

Twelve-months ended December 31, expressed in thousands of dollars	2016	2015	Change
Gross Profit	<b>178,886</b>	164,379	8.8%
Percentage of revenue	<b>17.8%</b>	17.3%	

Gross profit was \$178.9 million in 2016, an increase of \$14.5 million from 2015 of \$164.4 million. Gross profit, as a percentage of revenues, was slightly higher than the prior year. Increase in gross profit was primarily driven by the strengthening year over year of the United States dollar against the Canadian dollar and British pound in translating the United States dollar denominated revenues to Canadian dollars and British pound. This was partially offset by the unfavourable foreign exchange impact due to the weakening British pound relative to Canadian dollars in 2016 as compared to 2015, and a higher operating loss recorded in a small operating facility in the United States, which was closed down in 2016.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

### Administrative and General Expenses

Twelve-months ended December 31, expressed in thousands of dollars	2016	2015	Change
Administrative and general expenses	<b>57,557</b>	56,739	1.4%
Percentage of revenue	<b>5.7%</b>	6.0%	

Administrative and general expenses of \$57.6 million in 2016 were slightly higher than \$56.7 million in 2015. Administrative and general expenses as a percentage of revenue were 5.7% in 2016 as compared to 6.0% in 2015.

### Other

Twelve-months ended December 31, expressed in thousands of dollars	2016	2015
Foreign exchange gain	<b>(4,630)</b>	(977)
Business closure costs	<b>1,954</b>	–
Loss on disposal of property, plant and equipment	<b>442</b>	1,909
<b>Other</b>	<b>(2,234)</b>	932

Included in other income is a foreign exchange gain of \$4.6 million in 2016 as compared to a gain of \$1.0 million in 2015. The significant increase of \$3.6 million mainly resulted from the revaluation and settlement of the Corporation's United States dollar denominated monetary assets and liabilities in European operations due to the strengthening United States dollar relative to the British pound. In 2016, the Corporation recorded a \$2.0 million charge related to closure of a small operating facility in the United States. In 2016 and 2015, the Corporation retired assets for a loss on disposal of approximately \$0.4 million and \$1.9 million, respectively.

### Interest Expense

Twelve-months ended December 31, expressed in thousands of dollars	2016	2015
Interest on bank indebtedness and long-term debt	<b>4,249</b>	4,456
Accretion charge on long-term debt and borrowings	<b>842</b>	876
Discount on sale of trade receivables	<b>1,058</b>	928
<b>Interest expense</b>	<b>6,149</b>	6,260

Total interest costs of \$6.1 million for 2016 were consistent with \$6.3 million in 2015. Interest on bank indebtedness and long-term debt of \$4.2 million in 2016 decreased \$0.2 million mainly as a result of lower principal amounts outstanding on bank indebtedness and long term debt during 2016 when compared to 2015. The Corporation sells a portion of its trade receivables through securitization programs or factoring transactions. Discount on sale of trade receivables was \$1.1 million, an increase of \$0.2 million largely due to a higher annualized interest rate of 2.29% the Corporation has paid in 2016 as compared to 1.68% in the prior year, offset by a lower volume of receivables sold in 2016.

### Income Taxes

Twelve-months ended December 31, expressed in thousands of dollars	2016	2015
Current income tax expense	<b>12,780</b>	7,363
Deferred income tax expense	<b>16,054</b>	13,662
<b>Income tax expense</b>	<b>28,834</b>	21,025
<b>Effective tax rate</b>	<b>24.6%</b>	20.9%

The Corporation recorded an income tax expense in 2016 of \$28.8 million on pre-tax income of \$117.4 million, representing an effective tax rate of 24.6%, compared to an income tax expense of \$21.0 million on a pre-tax income of \$100.4 million in 2015 for an effective tax rate of 20.9%.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

During 2016 and 2015, the Corporation recognized investment tax credits in Canada totalling \$6.8 million and \$4.2 million, respectively, as a reduction of cost of revenues, as the Corporation has determined that it will be able to benefit from these investment tax credits. The increase in the effective tax rate to 24.6% in 2016 when compared to 20.9% in 2015 is primarily due to 2015 adjustment in corporate taxation rates in the income tax jurisdictions in which the Corporation operates. The increase in current income tax expense in 2016 was mainly due to higher net income before taxes and full utilization of the net operating loss carry-forwards and certain tax credits in the United States in 2015.

### 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	2016	2015
Net income	<b>88,580</b>	79,423
Interest	<b>6,149</b>	6,260
Taxes	<b>28,834</b>	21,025
Depreciation and amortization	<b>50,713</b>	45,007
<b>EBITDA</b>	<b>174,276</b>	151,715

EBITDA for the year ended 2016 of \$174.3 million increased by \$22.6 million when compared to \$151.7 million in 2015, primarily as a result of higher net income, 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	2016				2015			
	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
Revenues	<b>266.1</b>	<b>252.7</b>	<b>238.0</b>	<b>247.1</b>	228.3	234.4	236.2	252.6
Income before taxes	<b>31.3</b>	<b>29.6</b>	<b>25.2</b>	<b>31.3</b>	26.8	21.8	24.8	27.1
Net income	<b>23.4</b>	<b>22.3</b>	<b>18.8</b>	<b>24.0</b>	19.2	16.2	18.5	25.5
Net income per common share								
Basic and Diluted	<b>0.40</b>	<b>0.38</b>	<b>0.32</b>	<b>0.41</b>	0.33	0.28	0.32	0.44
EBITDA <sup>1</sup>	<b>45.8</b>	<b>44.7</b>	<b>38.4</b>	<b>45.3</b>	37.4	33.5	37.8	43.1

<sup>1</sup> EBITDA is not an IFRS financial measure. Please see the "Reconciliation of Net Income to EBITDA" section for more information.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

The quarterly revenues reported in the table above reached a peak of \$266.1 million in the first quarter of 2016, and down to \$247.0 million in the fourth quarter of 2016. The quarterly revenues and net income reported 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 impacts the Corporation's United States dollar denominated transactions in European operations. 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 1.2294 in the second quarter of 2015. The average exchange rate of British pound relative to the Canadian dollar fluctuated between a high of 2.0280 in the third quarter of 2015 and a low of 1.6564 in the fourth quarter of 2016. The average exchange rate of the British pound relative to the United States dollar fluctuated between a high of 1.5489 in the third quarter of 2015 and a low of 1.2418 in the fourth quarter of 2016. Had exchange rates remained at levels experienced in 2015, reported revenues in 2016 would have been lower by \$17.0 million and \$9.2 million in the first and the second quarter, respectively; higher by \$3.0 million and \$1.9 million in the third and the fourth quarter, respectively.

Net income for the first quarter of 2016 and fourth quarter of 2015 of \$23.4 million and \$25.5 million, respectively, was higher than all other quarterly net income shown in the table above. As discussed above, net income reported in the quarterly information was also impacted by the foreign exchange movements. During 2016, the Corporation recorded higher income taxes due to full utilization of the net operating loss carry-forwards and certain tax credits in the United States in the second quarter of 2015. The Corporation recorded business closure costs related to the closure of a small operating facility in the United States, and a margin adjustment related to one of its construction contracts in the second and third quarter of 2016, respectively. In the fourth quarter of 2015, the Corporation recognized an adjustment in corporation taxation rates in the income tax jurisdictions in which the Corporation operates. In the second quarter of 2015, the Corporation recorded a loss on translation of its foreign currency liabilities within Canada and Europe.

### 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 2016, \$155.0 million of cash was generated by operations, \$46.6 million was used in investing activities and \$105.7 million was used in financing activities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

### Cash Flow from Operating Activities

Twelve-months ended December 31, expressed in thousands of dollars	2016	2015
Increase in trade receivables	(13,460)	(19,263)
Increase in inventories	(7,548)	(11,991)
Increase in prepaid expenses and other	(2,762)	(3,943)
Increase (decrease) in accounts payable, accrued liabilities and provisions	30,427	(6,181)
<b>Net change in non-cash working capital items</b>	<b>6,657</b>	<b>(41,378)</b>
<b>Net cash from operating activities</b>	<b>155,001</b>	<b>94,115</b>

Operating activities for 2016 generated cash of \$155.0 million compared to \$94.1 million in the prior year. 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. The increase in trade receivables during the year is attributed primarily to the higher revenues. Increased inventory levels in 2016 were to support higher production volumes on a number of programs. The increase in accounts payable, accrued liabilities and provisions was due to higher purchases and timing of payments. In 2015, changes in non-cash working capital items used \$41.4 million cash principally as a result of increases in trade receivables, inventories and prepaid expenses and other, and a decrease in accounts payable, accrued liabilities and provisions.

### Cash Flow from Investing Activities

Twelve-months ended December 31, expressed in thousands of dollars	2016	2015
Business combinations	–	(75,076)
Purchase of property, plant and equipment	(45,421)	(43,905)
Proceeds from disposals of property, plant and equipment	760	621
Change in restricted cash	5,657	(12,902)
Increase in intangibles and other assets	(7,580)	(2,175)
<b>Net cash used in investing activities</b>	<b>(46,584)</b>	<b>(133,437)</b>

The Corporation invested \$45.4 million in capital assets during the year in comparison to \$43.9 million in 2015. The Corporation continues to invest in advanced technology production equipment and information technology systems, both designed to increase productivity, reduce cycle time and improve technology capability. In 2015, the Corporation invested \$75.1 million, net of cash acquired, in business acquisitions. The restricted cash relate to amounts deposited in escrow accounts in connection with the 2015 acquisitions. In 2016, the Corporation released funds from the escrow accounts in settlement of contingent liabilities and working capital adjustment.

### Cash Flow from Financing Activities

Twelve-months ended December 31, expressed in thousands of dollars	2016	2015
(Decrease) increase in bank indebtedness	(88,873)	46,967
(Decrease) increase in debt due within one year	(3,718)	10,134
Increase in long-term debt	–	276
Decrease in long-term debt	(4,526)	(6,112)
(Decrease) increase in long-term liabilities and provisions	(183)	1,406
Increase in borrowings, net	5,391	977
Common share dividend	(13,825)	(12,952)
<b>Net cash (used in) provided by investing activities</b>	<b>(105,734)</b>	<b>40,696</b>

The Corporation used \$105.7 million in 2016 mainly to repay bank indebtedness. The Corporation also received \$5.4 million proceeds, as compared to \$1.0 million in 2015, from Canadian Government agencies related to the development of its technologies and processes.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

### Contractual Obligations

As at December 31, 2016, expressed in thousands of dollars

	Less than			After	
	1 year	1-3 Years	4-5 Years	5 Year	Total
Bank indebtedness	–	43,314	–	–	43,314
Trade receivables securitization	45,960	–	–	–	45,960
Long-term debt	4,827	10,794	9,978	15,739	41,338
Equipment leases	613	869	479	220	2,181
Facility leases	2,910	4,812	4,621	21,786	34,129
Other long-term liabilities	3,825	505	494	1,332	6,156
Borrowings subject to specific conditions	190	1,464	2,093	19,310	23,057
<b>Total Contractual Obligations</b>	<b>58,325</b>	<b>61,758</b>	<b>17,665</b>	<b>58,387</b>	<b>196,135</b>

Major cash flow requirements for 2017 include the repayment of trade receivables securitization of \$46.0 million which is expected to be refinanced, repayment of long-term debt of \$4.8 million, payments of equipment and facility leases of \$3.5 million and other long-term liabilities of \$3.8 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 (down from \$115.0 million) plus a United States dollar limit of \$35.0 million, and the addition of a £9.0 million 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. Pursuant to the amendment of the Bank Facility Agreement, the guarantee of the facility by the Chairman of the Board of Directors of the Corporation, which has supported the Corporation since 2005, was released. 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 (\$13.8 million at December 31, 2015). The bridge credit facility, which was arranged to enhance liquidity following the Ripak acquisition, expired on March 4, 2016.

As at December 31, 2016, the Corporation had made contractual commitments to purchase \$16.4 million of capital assets. In addition, the Corporation had purchase commitments, largely for materials required for the normal course of operations, of \$314.0 million as at December 31, 2016. 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 3, 2017, 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 16 of the Corporation's consolidated financial statements.

On March 31, 2016, June 30, 2016, and September 30, 2016 the Corporation paid quarterly dividends on 58,209,001 common shares of \$0.0575 per common share, representing an aggregate dividend payment of \$10.0 million. On December 30, 2016 the Corporation paid quarterly dividends on 58,209,001 common shares of \$0.065 per common share, amounting to \$3.8 million. The Corporation's dividend per Common Share has more than doubled over the past three years since it first implemented a dividend policy in 2013.

For the year ended December 31, 2015, the Corporation declared and paid dividends on common shares on March 31, 2015, June 30, 2015 and on September 30, 2015 of \$0.055 per share amounting to \$9.6 million and on December 31, 2015 of \$0.0575 per share amounting to \$3.4 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

In the first quarter of 2017, the Corporation declared cash dividends of \$0.065 per common share payable on March 31, 2017 to shareholders of record at the close of business on March 10, 2017.

### 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, 2016.

#### 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 [2015 - \$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](http://www.sedar.com).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

### ***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 acquisition; changing priorities and possible spending cuts by government agencies; government support for export sales; world trade policies; increased competition from other businesses, including new entrants in market segments in which 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.

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

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

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

### ***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. Therefore, 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 affect the translation of the Corporation's results for purposes of its consolidated financial statements. The Corporation's activities to manage its currency exposure may not be successful.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

### ***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.

### ***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 recent United States presidential campaign a number of election promises were made and the new American administration has begun taking steps to implement certain of these promises. Included in the actions that the administration has discussed are the renegotiation of the terms of the North American Free Trade Agreement, withdrawal of the United States from the Trans-Pacific Partnership, imposition of a tax on the importation of goods into the United States, reduction of regulation and taxation in the United States, and introduction of laws to reduce immigration and restrict access into the United States for citizens of certain countries. It is presently unclear exactly what actions the new administration in the United States will implement, and if implemented, how these actions may impact the aerospace industry.

In addition to the political disruption in the United States, the citizens of the United Kingdom recently voted to withdraw from the European Union and the Government of the United Kingdom has begun taken steps to implement such withdrawal. Some European countries have also experienced the rise of anti-establishment political parties and public protests held against open-door immigration policies, trade and globalization. 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.

### ***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 the Corporation's and constitute 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

### 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 18 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

### *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 2016

The Corporation has adopted the following new and amended standards in 2016.

### **Property, Plant and Equipment and Intangibles Assets**

In 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* ("IAS 16") and IAS 38, *Intangible Assets* ("IAS 38") to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. As at January 1, 2016, the Corporation adopted the amendments and there was no material impact on the Corporation's consolidated financial statements.

### **Joint Arrangements**

In 2014, the IASB issued amendments to IFRS 11, *Joint Arrangements* ("IFRS 11") to address the accounting for acquisitions of interests in joint operations. The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11, as amended, now requires that such transactions shall be accounted for using the principles related to business combinations accounting as outlined in IFRS 3, *Business Combinations*. As at January 1, 2016, the Corporation adopted the amendments and there was no impact on the Corporation's consolidated financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

### 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, 2016, 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:

#### 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.

#### Revenue Recognition

In 2014, the IASB issued 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 IFRS. 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 non-financial assets that are not an output of the entity's ordinary activities. IFRS 15 is to be applied on either a full or modified retrospective approach and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation will apply a full retrospective approach in adopting the standards and is in the process of evaluating the impact that IFRS 15 may have on the Corporation's consolidated financial statements.

#### 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 Corporation is in the process of evaluating the impact of adopting these amendments on the Corporation's consolidated financial statements.

#### Disclosure Initiative

In 2016, the IASB issued amendments to IAS 7, *Statement of Cash Flows* ("IAS 7"). The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The adoption of IAS 7 amendments will require additional disclosure in the Corporation's consolidated financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

### **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 is in the process of evaluating the impact of adopting these amendments 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 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 is in the process of evaluating the impact of adopting these amendments 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.

## **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, 2016 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

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, 2016, 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, 2016.

No changes were made in the Corporation's internal control over financial reporting during the year ended December 31, 2016, 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](http://www.sedar.com).

## MANAGEMENT'S REPORT

December 31, 2016

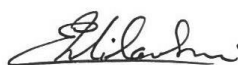
### To the shareholders of Magellan Aerospace Corporation

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 3, 2017



Elena M. Milantoni  
*Chief Financial Officer and  
Corporate Secretary*

## INDEPENDENT AUDITORS' REPORT

December 31, 2016

### 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, 2016 and 2015, 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, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
March 3, 2017



## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in thousands of Canadian dollars	Notes	December 31 2016	December 31 2015
<b>Current assets</b>			
Cash		7,606	5,538
Restricted cash	3	7,125	12,902
Trade and other receivables	4	205,609	207,189
Inventories	5	208,964	215,351
Prepaid expenses and other		18,007	17,914
		<b>447,311</b>	458,894
<b>Non-current assets</b>			
Property, plant and equipment	6	389,825	405,526
Investment properties	7	4,377	4,753
Intangible assets	8	67,443	87,844
Goodwill	3, 8	33,797	39,020
Other assets	9, 19	28,142	23,642
Deferred tax assets	15	22,007	30,070
		<b>545,591</b>	590,855
<b>Total assets</b>		<b>992,902</b>	1,049,749
<b>Current liabilities</b>			
Accounts payable and accrued liabilities and provisions	11	178,566	158,186
Debt due within one year	12, 18	50,787	55,255
		<b>229,353</b>	213,441
<b>Non-current liabilities</b>			
Bank indebtedness	10	43,314	135,828
Long-term debt	12	35,364	40,402
Borrowings subject to specific conditions	13	22,867	19,751
Other long-term liabilities and provisions	14, 19	18,617	26,047
Deferred tax liabilities	15	36,056	36,935
		<b>156,218</b>	258,963
<b>Equity</b>			
Share capital	16	254,440	254,440
Contributed surplus		2,044	2,044
Other paid-in capital		13,565	13,565
Retained earnings		310,664	235,701
Accumulated other comprehensive income	24	26,618	71,595
		<b>607,331</b>	577,345
<b>Total liabilities and equity</b>		<b>992,902</b>	1,049,749

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	
		2016	2015
Revenues	20	<b>1,003,843</b>	951,466
Cost of revenues	21	<b>824,957</b>	787,087
Gross profit		<b>178,886</b>	164,379
Administrative and general expenses	22	<b>57,557</b>	56,739
Other	27	<b>(2,234)</b>	932
Income before interest and income taxes		<b>123,563</b>	106,708
Interest	23	<b>6,149</b>	6,260
Income before income taxes		<b>117,414</b>	100,448
Income taxes			
Current	15	<b>12,780</b>	7,363
Deferred	15	<b>16,054</b>	13,662
		<b>28,834</b>	21,025
<b>Net income</b>		<b>88,580</b>	79,423
Other comprehensive income (loss)			
Other comprehensive (loss) income that may be reclassified to profit and loss in subsequent periods:			
Foreign currency translation	24	<b>(44,977)</b>	48,446
Items not to be reclassified to profit and loss in subsequent periods:			
Actuarial income on defined benefit pension plans, net of taxes	15, 19	<b>208</b>	2,832
<b>Comprehensive income</b>		<b>43,811</b>	130,701
<b>Net income per share</b>			
Basic	16	<b>1.52</b>	1.36
Diluted	16	<b>1.52</b>	1.36

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, 2015	254,440	2,044	13,565	166,398	23,149	459,596
Net income	–	–	–	79,423	–	79,423
Other comprehensive income	–	–	–	2,832	48,446	51,278
Common share dividend	–	–	–	(12,952)	–	(12,952)
December 31, 2015	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)
<b>December 31, 2016</b>	<b>254,440</b>	<b>2,044</b>	<b>13,565</b>	<b>310,664</b>	<b>26,618</b>	<b>607,331</b>

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in thousands of Canadian dollars	Notes	Years ended December 31	
		2016	2015
<b>Cash flow from operating activities</b>			
Net income		<b>88,580</b>	79,423
Amortization/depreciation of intangible assets and property, plant and equipment	6, 8	<b>50,713</b>	45,007
Impairment of property, plant and equipment	6	<b>923</b>	–
Loss on disposal of property, plant and equipment		<b>442</b>	1,909
Decrease in defined benefit plans	19	<b>(1,923)</b>	(1,731)
Accretion	23	<b>842</b>	876
Deferred taxes	15	<b>9,502</b>	10,430
Income on investments in joint ventures	9	<b>(735)</b>	(421)
Change in non-cash working capital	26	<b>6,657</b>	(41,378)
<b>Net cash provided by operating activities</b>		<b>155,001</b>	94,115
<b>Cash flow from investing activities</b>			
Business combinations	3	–	(75,076)
Purchase of property, plant and equipment	6	<b>(45,421)</b>	(43,905)
Proceeds from disposal of property, plant and equipment		<b>760</b>	621
Change in restricted cash	3	<b>5,657</b>	(12,902)
Increase in intangible and other assets		<b>(7,580)</b>	(2,175)
<b>Net cash used in investing activities</b>		<b>(46,584)</b>	(133,437)
<b>Cash flow from financing activities</b>			
(Decrease) increase in bank indebtedness	10	<b>(88,873)</b>	46,967
(Decrease) increase in debt due within one year		<b>(3,718)</b>	10,134
Increase in long-term debt	12	–	276
Decrease in long-term debt	12	<b>(4,526)</b>	(6,112)
(Decrease) increase in long-term liabilities and provisions		<b>(183)</b>	1,406
Increase in borrowings, net		<b>5,391</b>	977
Common share dividend	16	<b>(13,825)</b>	(12,952)
<b>Net cash (used in) provided by financing activities</b>		<b>(105,734)</b>	40,696
<b>Increase in cash during the year</b>		<b>2,683</b>	1,374
Cash at beginning of the year		<b>5,538</b>	2,645
Effect of exchange rate differences		<b>(615)</b>	1,519
<b>Cash at end of the year</b>		<b>7,606</b>	5,538

See accompanying notes to the consolidated financial statements

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Description of Business

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

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

#### Statement of Compliance

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

These consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on March 3, 2017.

#### 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 18 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### *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 REPORTING STANDARDS

### **New and Amended International Financial Reporting Standards Adopted in 2016**

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

#### **Property, Plant and Equipment and Intangibles Assets**

In 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment* ("IAS 16") and IAS 38, *Intangible Assets* ("IAS 38") to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38 eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. As at January 1, 2016, the Corporation adopted the amendments and there was no material impact on the Corporation's consolidated financial statements.

#### **Joint Arrangements**

In 2014, the IASB issued amendments to IFRS 11, *Joint Arrangements* ("IFRS 11") to address the accounting for acquisitions of interests in joint operations. The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11, as amended, now requires that such transactions shall be accounted for using the principles related to business combinations accounting

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

as outlined in IFRS 3, *Business Combinations*. As at January 1, 2016, the Corporation adopted the amendments and there was no impact on the Corporation's consolidated financial statements.

### **New and Amended International Financial Reporting Standards to Be Adopted in 2017 or Later**

The following new standards and amendments to existing standards were issued by the IASB and the International Financial Reporting Interpretations Committees ("IFRIC"), and are expected to be adopted by the Corporation in 2017 or later.

#### **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.

#### **Revenue Recognition**

In 2014, the IASB issued 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 is to be applied on either a full or modified retrospective approach and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation will apply a full retrospective approach in adopting the standards and is in the process of evaluating the impact that IFRS 15 may have on the Corporation's consolidated financial statements.

#### **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 Corporation is in the process of evaluating the impact of adopting these amendments on the Corporation's consolidated financial statements.

#### **Disclosure Initiative**

In 2016, the IASB issued amendments to IAS 7, *Statement of Cash Flows* ("IAS 7"). The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. They are effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The adoption of IAS 7 amendments will require additional disclosure in the Corporation's consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 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 is in the process of evaluating the impact of adopting these amendments 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 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 is in the process of evaluating the impact of adopting these amendments 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.

## 3. BUSINESS COMBINATIONS

### Euravia

On May 15, 2015, the Corporation purchased all of the issued and outstanding shares of the capital stock of Euravia Engineering & Supply Co. Limited (“Euravia”), an aviation company that provides maintenance, repair and overhaul solutions for a wide range of aircraft and helicopter gas turbine engines. This acquisition in the United Kingdom complements the Corporation’s existing repair and overhaul capabilities in North America.

The total consideration payable to the seller was \$67,467 in cash, or \$56,404 net of cash acquired of \$11,063. Included in the cash consideration paid on the acquisition date, is an estimated contingent consideration payable of \$6,256 to the seller, which was estimated to be paid based on the annual adjusted profit before interest and taxes of Euravia over a two-year period, starting January 1, 2015. As at December 31, 2016, \$2,748 was recorded in accounts payable and accrued liabilities and provisions.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

	Amount
Current assets	17,647
Non-current assets	1,556
Intangible assets	23,066
Goodwill	23,661
Current liabilities	(4,818)
Deferred tax liabilities	(4,708)
	56,404
Cash in subsidiary acquired	11,063
Total purchase consideration <sup>1</sup>	67,467

<sup>1</sup>Includes amount of \$6,256 deposited in an escrow account in connection with the acquisition.

The goodwill recognized as part of the purchase is not deductible for tax purposes. The goodwill arising from the acquisition is attributable to expected future income and cash-flow projections and synergies the Corporation expects to achieve in combining the acquisition into its operations.

### Ripak

Effective November 13, 2015, the Corporation acquired substantially all the assets of Lawrence Ripak Co. Inc. and Ripak Aerospace Processing LLC ("Ripak"), an aerospace processing facility located in Long Island, New York, providing a full range of non-destructive test services, anodizing, plating, painting, shot peening and other processing services.

The total consideration paid by the Corporation was \$30,216 in cash on the acquisition date. Included in the cash consideration paid on the acquisition date, is an estimated contingent consideration payable of \$629 recorded in accounts payable and accrued liabilities and provisions, which was estimated to be paid based on achievement of a specific revenue objective over the 12-month period following the close of the transaction. During the year, \$403 was released from the escrow account in connection with the acquisition as a result of working capital and contingent consideration adjustments, leaving \$477 of contingent liabilities recorded in accounts payable and accrued liabilities and provisions as at December 31, 2016. This also reduced the goodwill recognized.

The final purchase price allocation for the acquisition as set forth in the table below reflects various fair value estimates and analysis, including the final work performed related to the fair values of certain tangible assets and liabilities acquired, the valuation of intangible assets acquired and residual goodwill.

	Final Amount	Preliminary Amount
Current assets	2,695	2,695
Non-current assets	8,730	8,730
Intangible assets	6,103	6,103
Goodwill	12,896	13,299
Current liabilities	(611)	(611)
Total purchase consideration <sup>1</sup>	29,813	30,216

<sup>1</sup>Includes amount of \$3,723 deposited in an escrow account in connection with the acquisition on the acquisition date.

The Corporation incurred acquisition-related costs of \$218 in the year ended December 31, 2015 relating to external legal fees, consulting fees and due diligence costs that are included in administration and general expenses.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The goodwill recognized as part of the purchase is deductible for tax purposes. The goodwill arising from the acquisition is attributable to expected future income and cash-flow projections and synergies the Corporation expects to achieve in combining the acquisition into its operations.

Restricted cash totalling \$7,125 [December 31, 2015 – \$12,902] relate to amounts deposited in escrow accounts in connection with the acquisitions completed in 2015.

### 4. TRADE AND OTHER RECEIVABLES

	December 31 2016	December 31 2015
Trade receivables	173,464	164,069
Less allowance for doubtful accounts	553	884
Net trade receivables	172,911	163,185
Other receivables	32,698	44,004
	<b>205,609</b>	207,189

Included in the above amounts are accrued receivables for construction contracts in progress as at December 31, 2016 of \$5,174 [December 31, 2015 – \$13,322].

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, 2015	146,538	13,751	2,122	1,136	522	164,069
<b>December 31, 2016</b>	<b>165,390</b>	<b>5,802</b>	<b>600</b>	<b>1,430</b>	<b>242</b>	<b>173,464</b>

### 5. INVENTORIES

	Raw materials	Work in progress	Finished goods	Total
At December 31, 2015	70,419	123,004	21,928	215,351
<b>At December 31, 2016</b>	<b>62,708</b>	<b>115,102</b>	<b>31,154</b>	<b>208,964</b>

The cost of inventories recognized as expense and included in cost of sales for the year ended December 31, 2016 amounted to \$795,420 [2015 – \$762,256].

During the year ended December 31, 2016, the Corporation recorded an impairment expense related to the write-down of inventory in the amount of \$2,314 [2015 – \$1,844]. The Corporation also recorded reversals of previous write-downs of inventory in the amount of \$3,295 [2015 – \$736] due to the sale of inventory previously provided for. The carrying amount of inventory recorded at net realizable value was \$30,198 as at December 31, 2016 [2015 – \$22,587], with the remaining inventory recorded at cost.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Tooling	Total
<b>Cost</b>					
At December 31, 2014	13,880	122,339	479,580	42,471	658,270
Additions	287	6,321	36,364	1,619	44,591
Acquisitions [Note 3]	–	–	9,810	–	9,810
Disposals and other	–	(822)	(10,263)	(126)	(11,211)
Foreign currency translation	1,493	7,784	53,248	6,839	69,364
At December 31, 2015	15,660	135,622	568,739	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)
<b>At December 31, 2016</b>	<b>14,863</b>	<b>136,145</b>	<b>563,371</b>	<b>49,274</b>	<b>763,653</b>
<b>Accumulated depreciation and impairment</b>					
At December 31, 2014	–	(40,825)	(232,606)	(33,782)	(307,213)
Depreciation	–	(4,043)	(24,897)	(3,715)	(32,655)
Disposal and other	–	318	6,438	121	6,877
Foreign currency translation	–	(2,364)	(24,385)	(5,558)	(32,307)
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
<b>At December 31, 2016</b>	<b>–</b>	<b>(50,527)</b>	<b>(280,127)</b>	<b>(43,174)</b>	<b>(373,828)</b>
<b>Net book value</b>					
At December 31, 2015	15,660	88,708	293,289	7,869	405,526
<b>At December 31, 2016</b>	<b>14,863</b>	<b>85,618</b>	<b>283,244</b>	<b>6,100</b>	<b>389,825</b>

As at December 31, 2015 and 2016, the Corporation did not have any assets under finance lease.

Included in the above are assets under construction in the amount of \$17,226 [December 31, 2015 – \$10,528], which as at December 31, 2016 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 reference to quoted prices in active markets for identical assets and liabilities, and therefore, was categorized within Level 1 of the fair value hierarchy.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 7. INVESTMENT PROPERTIES

	Cost	Accumulated depreciation and impairment	Net book value
At December 31, 2015	11,769	(7,016)	4,753
<b>At December 31, 2016</b>	<b>11,652</b>	<b>(7,275)</b>	<b>4,377</b>

The Corporation's investment properties consist of land and building. Depreciation expense recognized in relation to the buildings in 2016 was \$265 [2015 – \$175]. The Corporation recorded rental income of \$992 in 2016 [2015 – \$768]

The fair value of the Corporation's investment properties was \$17,282 as at December 31, 2016. 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 2016, the Corporation obtained opinions from external valuers, with experience in the real estate market, on the fair value of \$16,100 of the total fair values of the Corporation's investment properties.

### 8. INTANGIBLE ASSETS AND GOODWILL

	Technology rights	Development costs	Other intangibles	Total intangible assets	Goodwill	Total intangible assets and goodwill
<b>Cost</b>						
At December 31, 2014	39,153	109,432	–	148,585	–	148,585
Additions	–	4,789	–	4,789	–	4,789
Acquisitions [Note 3]	–	–	29,164	29,164	36,557	65,721
Disposals	–	(287)	–	(287)	–	(287)
Foreign currency translation	336	9,114	2,147	11,597	2,463	14,060
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)
<b>At December 31, 2016</b>	<b>39,427</b>	<b>121,728</b>	<b>26,781</b>	<b>187,936</b>	<b>33,797</b>	<b>221,733</b>
<b>Depreciation and impairment</b>						
At December 31, 2014	(24,139)	(63,858)	–	(87,997)	–	(87,997)
Depreciation	(2,961)	(7,091)	(1,767)	(11,819)	–	(11,819)
Disposals	–	90	–	90	–	90
Foreign currency translation	(181)	(6,020)	(77)	(6,278)	–	(6,278)
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)
<b>Net book value</b>						
At December 31, 2015	12,208	46,169	29,467	87,844	39,020	126,864
<b>At December 31, 2016</b>	<b>9,475</b>	<b>35,420</b>	<b>22,548</b>	<b>67,443</b>	<b>33,797</b>	<b>101,240</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 five-year period and technical processes will be amortized over a 15-year period. Brands of \$8,656 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, 2016 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.

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 CGUs. The value in use was determined based on the present value of the estimated free cash flows for the Euravia and Ripak 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% and 10% per annum was used, 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 Euravia CGU is increased by 1%, the recoverable amount would still exceed the carrying value. If the discount rate for the Ripak CGU is increased by 1%, the recoverable amount will be less than the carrying value.

### 9. INVESTMENTS IN JOINT VENTURES

The Corporation has interests in a number of individually immaterial joint ventures. The Corporation's joint ventures are private entities that are not listed on any public exchange. All operations are continuing. 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, 2016 and December 31, 2015.

	<b>December 31</b>	December 31
	<b>2016</b>	2015
Balance, beginning of the year	<b>5,749</b>	5,328
Share of total comprehensive income	<b>735</b>	421
Balance, end of the year	<b>6,484</b>	5,749

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 10. 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 [\$160,215 as at December 31, 2016]. 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. The credit agreement was amended on December 4, 2015 to include a short-term bridge credit facility that increased the operating credit facility by a US dollar limit US\$10,000 [\$13,840 as at December 31, 2015]. The bridge credit facility expired on March 4, 2016. Bank indebtedness as at December 31, 2016 of \$43,314 [December 31, 2015 – \$135,828] bears interest at the bankers' acceptance or LIBOR rates plus 1.875% [2.61% as at December 31, 2016 (2015 – bankers' acceptance or LIBOR rates plus 1.875% or 2.53%)]. Included in the amount outstanding as at December 31, 2016 is US\$10,030 [December 31, 2015 – US\$32,524]. As at December 31, 2016, the Corporation had drawn \$47,240 under the operating credit facility, including letters of credit totalling \$3,926 such that \$112,975 was unused and available. A fixed and floating charge debenture on trade receivables, inventories and property, plant and equipment is pledged as collateral for the operating credit facility.

### 11. ACCOUNTS PAYABLE, ACCRUED LIABILITIES AND PROVISIONS

	<b>December 31 2016</b>	December 31 2015
Accounts payables	<b>90,369</b>	73,147
Accrued liabilities [Note 3]	<b>85,305</b>	82,676
Provisions [Note 14]	<b>2,892</b>	2,363
	<b>178,566</b>	158,186

### 12. LONG-TERM DEBT

	<b>December 31 2016</b>	December 31 2015
Property mortgages [a]	<b>14,694</b>	15,962
Other loans [b]	<b>25,497</b>	29,114
	<b>40,191</b>	45,076
Less current portion	<b>4,827</b>	4,674
	<b>35,364</b>	40,402

[a] Property mortgages include \$1,317 (£795) [2015 – \$1,975 (£968)] 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, 2016 was 1.4% [2015 – 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 a 4.49% as at December 31, 2016. The mortgage is due in February 2018, with accrued interest and principal paid monthly. The mortgage is secured by certain land and building. The principal amount outstanding as at December 31, 2016 was \$13,377 [2015 – \$13,987].

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

[b] Other loans include loans of \$14,172 [2015 – \$15,112] provided by governmental authorities (“Government Loans”) that bear interest of approximately 1.5% [2015 – 1.25% to 2.00%]. The Government Loans mature in April 2024 with accrued interest and principal repayable monthly.

Included in other loans are bank loans aggregating \$11,325 (US\$8,434) [2015 – \$14,004 (US\$10,118)] (“Commercial Loans”) to finance equipment over a ten-year period maturing between December 2020 and December 2022. The Commercial Loans require scheduled monthly repayments of accrued interest and principal. The same equipment is collateral for the Commercial Loans, which bear interest at LIBOR plus 2.75%, which as at December 31, 2016 was 3.52% [2015 – 3.18%].

### 13. 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.

During 2016, the Corporation received \$5,653 [2015 – \$1,217] of government proceeds, of which \$2,729 [2015 – \$412] has been credited to the related assets, \$218 [2015 – \$205] has been credited to the related expense and \$2,706 [2015 – \$600] 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 2016, the Corporation repaid \$455 [2015 – \$2,651]. As at December 31, 2016, the Corporation has recognized \$23,057 [2015- \$20,527] as the amount repayable. The Corporation is eligible for additional government proceeds of \$12,961 for the period from January 1, 2017 to March 31, 2018 based on approved expenditures.

### 14. OTHER LONG-TERM LIABILITIES AND PROVISIONS

	<b>December 31</b>	December 31
	<b>2016</b>	2015
Net defined benefit plan deficits [Note 19]	<b>9,297</b>	11,522
Provisions	<b>5,658</b>	5,005
Other	<b>6,554</b>	11,883
	<b>21,509</b>	28,410
Less current portion included in accounts payable and accrued liabilities and provisions	<b>2,892</b>	2,363
	<b>18,617</b>	26,047

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following table presents the movement in provisions:

	Warranty	Environmental	Other provisions	Total
At December 31, 2014	1,194	2,866	219	4,279
Additional provisions	1,616	–	186	1,802
Amounts used	(447)	(65)	–	(512)
Unused amounts reversed	(933)	–	(186)	(1,119)
Unwind of discount	–	116	–	116
Foreign currency	401	8	30	439
At December 31, 2015	1,831	2,925	249	5,005
Additional provisions	1,191	–	701	1,892
Amounts used	(1,160)	(36)	–	(1,196)
Unused amounts	96	–	–	96
Unwind of discount	–	(73)	–	(73)
Foreign currency	(60)	(9)	3	(66)
<b>At December 31, 2016</b>	<b>1,898</b>	<b>2,807</b>	<b>953</b>	<b>5,658</b>

### Warranty

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

### Environmental

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

### Other

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

## 15. INCOME TAXES

The following are the major components of income tax expense:

	2016	2015
<b>Current income tax expense</b>		
Current tax expense for the year	12,780	7,363
Adjustments of previous year's tax expense	–	–
	<b>12,780</b>	7,363
<b>Deferred income tax expense</b>		
Origination and reversal of temporary differences	16,240	16,494
Impact of tax law changes	(186)	(2,832)
	<b>16,054</b>	13,662
Total income tax expense	<b>28,834</b>	21,025



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Corporation's consolidated effective tax rate for the year ended December 31, 2016 was 24.6% [2015 – 20.9%]. The difference in the effective tax rates compared to the Corporation's statutory income tax rates were mainly caused by the following:

	<b>2016</b>	2015
Income before income taxes	<b>117,414</b>	100,448
Income taxes based on the applicable tax rate of 25.8% in 2016 and 2015	<b>30,293</b>	25,935
Adjustment to income taxes resulting from:		
Adjustments in respect of prior years	<b>(77)</b>	(328)
Permanent differences and other	<b>66</b>	(769)
Income tax rates differentials on income of foreign operations	<b>(1,021)</b>	755
Changes in income tax rates	<b>(427)</b>	(4,568)
Income tax expense	<b>28,834</b>	21,025

Changes in the deferred tax components are adjusted through deferred income tax expense except for \$7,015 [2015 – \$4,208] of investment tax credits which is adjusted through cost of revenues and \$51 [2015 – \$1,020] for employee future benefits which is adjusted through other comprehensive income.

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

	<b>December 31 2016</b>	December 31 2015
Operating loss carryforwards	<b>5,002</b>	7,153
Investment tax credits	<b>34,026</b>	36,511
Employee future benefits	<b>3,151</b>	3,906
Property, plant and equipment and intangibles	<b>(58,548)</b>	(63,658)
Other	<b>2,320</b>	9,223
Deferred tax (liabilities) assets	<b>(14,049)</b>	(6,865)

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.

	<b>December 31 2016</b>	December 31 2015
Deferred tax assets	<b>22,007</b>	30,070
Deferred tax liabilities	<b>(36,056)</b>	(36,935)

The temporary difference associated with investments in subsidiaries and joint ventures, for which a deferred tax liability has not been recognized aggregates to \$457,304 [2015 – \$366,804].

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 16. SHARE CAPITAL

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

#### Common shares

	Number	Amount
Issued and fully paid:		
<b>Outstanding as at December 31, 2015 and December 31, 2016</b>	<b>58,209,001</b>	254,440

#### Net income per share

	2016	2015
Net income	<b>88,580</b>	79,423
Weighted average number of shares	<b>58,209,001</b>	58,209,001
Basic and diluted net income per share	<b>1.52</b>	1.36

#### Dividends declared

On March 31, 2016, June 30, 2016, and September 30, 2016 the Corporation paid quarterly dividends on 58,209,001 common shares of \$0.0575 per common share, amounting to \$10,041. On December 30, 2016 the Corporation paid quarterly dividends on 58,209,001 common shares of \$0.065 per common share, amounting to \$3,784.

For the year ended December 31, 2015, the Corporation declared and paid dividends on common shares on March 31, 2015, June 30, 2015 and on September 30, 2015 of \$0.055 per share amounting to \$9,605 and on December 31, 2015 of \$0.0575 per share amounting to \$3,347.

Subsequent to December 31, 2016, the Corporation declared dividends to holders of common shares in the amount of \$0.065 per common share payable on March 31, 2017, for shareholders of record at the close of business on March 10, 2017.

### 17. STOCK-BASED COMPENSATION PLAN

The Corporation has an incentive stock option plan, which provides for the granting of options for the benefit of employees and directors. The options include a cash option feature that allows option holders to elect to receive an amount in cash equal to the intrinsic value, being the excess market price of the common share over the exercise price of the option, instead of exercising the option and acquiring the common shares. Options are granted at an exercise price equal to the market price of the Corporation's common shares at the time of granting. Options normally have a life of five years with vesting at 20.0% at the end of the first, second, third, fourth and fifth years from the date of the grant. In addition, certain business unit income tests must be met in order for the option holder's entitlement to fully vest. As at December 31, 2016 and December 31, 2015, 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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. As at December 31, 2016, 28,226 Units were outstanding at an accrued value of \$269 [December 31, 2015 – \$360].

The Corporation recorded compensation expense in relation to the plans during the year of \$ 384 [2015 – \$368].

### 18. 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 <sup>1</sup>	Loans and receivables <sup>2</sup>	Total financial assets	Other financial liabilities (at amortized cost) <sup>3</sup>	Total financial liabilities
December 31, 2015	18,440	207,189	225,629	409,422	409,422
<b>December 31, 2016</b>	<b>14,731</b>	<b>205,609</b>	<b>220,340</b>	<b>330,898</b>	<b>330,898</b>

<sup>1</sup> Includes cash and cash equivalents and forward foreign exchange contracts included in prepaid expenses and other

<sup>2</sup> Includes trade receivables and loan receivables

<sup>3</sup> 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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, 2016, fluctuations of +/- 1% would, everything else being equal, have an effect on net income for the year ended December 31, 2016 of approximately +/- \$59. 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 \$3,925.

### *Interest rate risk*

The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. At December 31, 2016, \$83,506 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, 2016 by approximately +/- \$909.

### **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.

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### *Derecognition of financial assets*

The Corporation sells a portion of its trade receivables through securitization programs or factoring transactions. During 2016, the Corporation sold receivables to various financial institutions in the amount of \$284,891 [2015 – \$344,104] for a discount of \$1,058 [2015 – \$976] representing an annualized interest rate of 2.29% [2015 – 1.68%].

As at December 31, 2016, trade receivables include receivables sold and financed through securitization transactions of \$45,960 [2015 – \$50,581], 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 statements 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
Bank indebtedness	–	43,314	–	–	–	–	43,314
Long-term debt <sup>1</sup>	50,787	5,339	5,455	5,447	4,531	15,739	87,298
Equipment leases	613	502	367	252	227	220	2,181
Facility leases	2,910	2,508	2,304	2,299	2,322	21,786	34,129
Other long-term liabilities	3,825	257	248	247	247	1,332	6,156
Borrowings subject to specific conditions	190	671	793	1,052	1,041	19,310	23,057
	58,325	52,591	9,167	9,297	8,368	58,387	196,135
Interest payments	1,183	1,042	894	746	608	2,507	6,980
Total	59,508	53,633	10,061	10,043	8,976	60,894	203,115

<sup>1</sup> 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:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### *Cash, 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, 2016.

### *Long-term debt*

The carrying amount of the Corporation's long-term debt of \$40,191 would approximate its fair value as at December 31, 2016.

### *Borrowings subject to specific conditions*

The Corporation has recognized \$22,867 as the amount repayable to Canadian government agencies. The contributions are repayable as future royalty payments; a liability is recorded for the amounts received that will be repaid based on future estimated sales.

### *Contingent considerations*

The Corporation has recognized contingent considerations of \$3,225 at December 31, 2016 [2015 – \$7,425] 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, 2016, the carrying amount of all of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was \$129,465.

### **Fair value hierarchy**

The Corporation's financial assets and liabilities recorded at fair value on the consolidated statements 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, 2016.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 19. EMPLOYEE FUTURE BENEFITS

The Corporation provides retirement benefits through a variety of arrangements composed 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 82% of the obligations accrued to date come from defined benefit plans in Canada.

#### **Defined Benefit Plans**

##### *Canada*

The Canadian defined benefit plans consist of both career average and final average earnings plans which provide benefits to members in the form of a guaranteed level of pension payable for life. A majority of the plans are currently closed to new entrants. The level of pensions in the defined benefit plans depends on the member's length of service and salary at retirement age for final average earnings plans and salary during employment for career average plans. The defined benefit pension plans requires contributions to be made to a separate trustee-administered fund which is governed by the Corporation. The Corporation is responsible for the administration of the plans assets and for the definition of the investment strategy. The Corporation reviews the level of funding in the defined benefit pension plans on an annual basis as required by local government legislation. Such review includes the asset-liability matching strategy and investment risk management policy. Actuarial valuations are required at least every three years. Depending on the jurisdiction and the funded status of the plan, actuarial valuations may be required annually. The most recent actuarial valuations for the various pension plans were completed between December 31, 2013 and December 31, 2015.

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.

##### *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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

The Corporation's expenses for defined contribution plans amounted to \$5,906 for the year ended December 31, 2016 [2015 – \$5,342].



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 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 beneficiaries 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:

	2016		2015	
	Defined benefit plans	Other benefit plan	Defined benefit plans	Other benefit plan
Current service cost	2,544	–	2,552	–
Net interest cost (benefit) on net defined benefit liability (asset)	314	210	524	(136)
Past service cost	154	–	119	–
Other	430	–	430	–
Total defined benefit cost (benefit) recognized in net income	3,442	210	3,625	(136)

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

	2016		2015	
	Defined benefit plans	Other benefit plan	Defined benefit plans	Other benefit plan
<b>Actuarial (gains) losses</b>				
Return on pension assets (excluding amounts in net interest on defined benefit schemes)	(3,945)	–	(2,202)	–
Based on adjustment of liability assumptions	(163)	–	(495)	–
Due to liability experience adjustment	3,849	–	(1,004)	–
Total defined benefit (income) cost recognized in the statement of other comprehensive income	(259)	–	(3,701)	–

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:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

	2016		2015	
	Defined benefit plans	Other benefit plan	Defined benefit plans	Other benefit plan
Fair value, beginning of year	114,758	–	108,313	–
Interest income on plan assets	4,584	–	4,244	–
Actual return on assets (excluding interest income on plan assets)	3,945	–	2,255	–
Employer contributions	5,365	295	5,356	181
Employee contributions	291	–	303	–
Benefit payments	(6,445)	(295)	(6,660)	(181)
Administration costs	(454)	–	(548)	–
Exchange differences	(268)	–	1,495	–
End of year	121,776	–	114,758	–

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

	2016		2015	
	Defined benefit plans	Other benefit plan	Defined benefit plans	Other benefit plan
Beginning of year	125,612	1,263	124,302	1,346
Current service cost	2,544	–	2,552	–
Interest cost (income)	4,897	210	4,768	(136)
Employee contributions	291	–	303	–
Actuarial losses (gains) in other comprehensive income from:				
Changes in demographic assumptions	421	–	(48)	–
Changes in financial assumptions	3,404	–	(1,115)	–
Experience adjustments	(163)	–	(495)	–
Benefit payments	(6,445)	(295)	(6,660)	(181)
Plan amendments and curtailments	154	–	119	–
Exchange difference	(348)	(39)	1,886	234
End of year	130,367	1,139	125,612	1,263

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

	2016		2015	
	Defined benefit plans	Other benefit plan	Defined benefit plans	Other benefit plan
Fair value of plan assets	121,776	–	114,758	–
Accrued benefit obligation	(130,367)	(1,139)	(125,612)	(1,263)
Net defined benefit liability	(8,591)	(1,139)	(10,854)	(1,263)
Included in other long-term liabilities and provisions	(9,297)	(1,139)	(11,523)	(1,263)
Included in other assets	706	–	669	–

The Corporation expects to contribute approximately \$5,200 in 2017 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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]:

	2016		2015	
	Defined benefit plans	Other benefit plan	Defined benefit plans	Other benefit plan
Discount rate	3.8%	3.9%	4.0%	4.0%
Rate of compensation increase	2.8%	–	2.9%	–
Mortality Table	2014 CPM Private Sector Mortality Table projection with CPM Scale B (with size adjustment)		2014 CPM Private Sector Mortality Table projection with CPM Scale B (with size 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, 2016, a 1.0% decrease in the discount rate used (all other assumptions remaining unchanged) could result in a \$20,240 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 2016. 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, 2016 was nominal.

### Assets

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

	2016	2015
Equity investments	83%	81%
Fixed income investments	14%	15%
Other investments	3%	4%
	100%	100%

### Defined benefit pension liability term

	Total
Defined benefits schedule for disbursement within 12 months	5,826
Defined benefits schedule for disbursement within 2-5 years	19,182
Defined benefits schedule for disbursement after 5 years or more	44,133

## 20. 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,

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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:

	2016	2015
Sale of goods	<b>850,841</b>	808,552
Construction contracts	<b>32,229</b>	35,713
Services	<b>120,773</b>	107,201
	<b>1,003,843</b>	951,466

At December 31, 2016, aggregate costs incurred under open construction contracts and recognized profits, net of recognized losses, amounted to \$374,917 [December 31, 2015 – \$351,672]. Advance payments received for construction contracts in progress at December 31, 2016 were \$6,115 [December 31, 2015 – \$3,439]. Retentions in connection with construction contracts at December 31, 2016 were \$303 [December 31, 2015 – \$29]. Advance payments and retentions are included in accounts payable and accrued liabilities and provisions.

Revenues from the Corporation's two largest customers accounted for 38.3% of total sales for the year ended December 31, 2016 [December 31, 2015 – two largest customers accounted for 37.1% of total sales].

Geographic segments:

	2016				2015			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenues	<b>341,006</b>	<b>338,969</b>	<b>323,868</b>	<b>1,003,843</b>	330,444	333,074	287,948	951,466
Export revenues <sup>1</sup>	<b>259,145</b>	<b>84,425</b>	<b>100,252</b>	<b>443,822</b>	242,715	81,223	65,092	389,030

<sup>1</sup>Export revenue is attributed to countries based on the location of the customers

	2016				2015			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment, intangible assets and goodwill	<b>173,724</b>	<b>188,828</b>	<b>128,513</b>	<b>491,065</b>	169,853	204,956	157,581	532,390

## 21. COST OF REVENUES

	2016	2015
Operating expenses	<b>783,620</b>	748,337
Amortization	<b>49,096</b>	41,849
Investment tax credits	<b>(6,778)</b>	(4,206)
(Reversal) impairment of inventories	<b>(981)</b>	1,107
	<b>824,957</b>	787,087

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 22. ADMINISTRATIVE AND GENERAL EXPENSES

	2016	2015
Salaries, wages and benefits	35,933	35,260
Administration and office expenses	16,851	16,192
Professional services	2,971	3,497
Amortization	1,802	1,790
	57,557	56,739

### 23. INTEREST EXPENSE

	2016	2015
Interest on bank indebtedness and long-term debt [Notes 10 and 12]	4,249	4,456
Accretion charge on long-term debt and borrowings	842	876
Discount on sale of trade receivables	1,058	928
	6,149	6,260

### 24. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) includes unrealized foreign currency translation gains and losses, which arise on the translation to Canadian dollars of assets and liabilities of the Corporation's foreign operations and net actuarial losses on defined benefit pension plans, net of tax. The Corporation recorded unrealized currency translation losses for the year ended December 31, 2016 of \$44,977 [2015 – unrealized currency translation gains of \$48,446] and net actuarial gains on defined benefit plans of \$208 [2015 – net actuarial gains of \$2,832]. These gains and losses are reflected in the consolidated statements of financial position and had no impact on net income for the year.

### 25. RELATED PARTY DISCLOSURE

#### Transactions with related parties

During the year, the Corporation incurred consulting costs of \$100 [2015 – \$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:

	2016	2015
Short-term benefits	2,959	3,213
Post-employment benefits	304	299
Share-based payments	187	225
	3,450	3,737

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

### 26. SUPPLEMENTARY CASH FLOW INFORMATION

	2016	2015
<b>Net change in non-cash working capital</b>		
Trade receivables	<b>(13,460)</b>	(19,263)
Inventories	<b>(7,548)</b>	(11,991)
Prepaid expenses and other	<b>(2,762)</b>	(3,943)
Accounts payable and accrued liabilities and provisions	<b>30,427</b>	(6,181)
	<b>6,657</b>	(41,378)
Interest paid	<b>5,171</b>	5,406
Income taxes paid	<b>7,047</b>	5,634

### 27. ADDITIONAL FINANCIAL INFORMATION

Included in other expenses is a foreign exchange gain of \$4,630 [2015 – \$977] on the conversion of foreign currency denominated working capital balances and debt.

### 28. MANAGEMENT OF CAPITAL

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

As at December 31, 2016, total managed capital was \$736,796, comprising of shareholders' equity of \$607,331 and interest-bearing debt of \$129,465.

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 flows 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Corporation must adhere to covenants in its operating credit facility. As at December 31, 2016 the Corporation was in compliance with these covenants.

### **29. CONTINGENT LIABILITIES AND COMMITMENTS**

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

At December 31, 2016, capital commitments in respect of purchase of property, plant and equipment totalled \$16,393, 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** <sup>(5)</sup>

*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** <sup>(2, 4)</sup>

*President*  
Beth Bandler Professional Corporation  
Toronto, Ontario

**Hon. William G. Davis** P.C., C.C., Q.C. <sup>(3)</sup>

*Counsel*  
Davis Webb LLP  
Brampton, Ontario

**William A. Dimma** C.M., O. Ont. <sup>(1, 2)</sup>

*Corporate Director*  
Toronto, Ontario

**Bruce W. Gowan** <sup>(1, 2, 3, 5)</sup>

*Corporate Director*  
Huntsville, Ontario

**Larry G. Moeller** <sup>(4)</sup>

*President*  
Kimball Capital Corporation  
Calgary, Alberta

**Steven Somerville** <sup>(1, 3, 4, 5)</sup>

*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**



## OPERATING FACILITIES DIRECTORY & SHAREHOLDER INFORMATION

### CANADA

660 Berry Street,  
Winnipeg, Manitoba R3H 0S5  
Tel: 204 775 8331

3160 Derry Road East,  
Mississauga, Ontario L4T 1A9  
Tel: 905 673 3250

634 Magnesium Road,  
Haley, Ontario K0J 1Y0  
Tel: 613 432 8841

975 Wilson Avenue,  
Kitchener, Ontario N2C 1J1  
Tel: 519 893 7575

### UNITED STATES

97-11 50th Avenue,  
New York, New York 11368  
Tel: 718 699 4000

25 Aero Road,  
Bohemia, New York 11716  
Tel: 631 589 2440

165 Field Street,  
West Babylon, New York 11704  
Tel: 631 694 1818

20 Computer Drive,  
Haverhill, Massachusetts 01832  
Tel: 978 774 6000

2320 Wedekind Drive,  
Middletown, Ohio 45042  
Tel: 513 422 2751

5170 West Bethany Road,  
Glendale, Arizona 85301  
Tel: 623 931 0010

5401 West Luke Avenue,  
Glendale, Arizona 85311  
Tel: 623 939 9441

### UNITED KINGDOM

Davy Way, Llay Industrial Estate,  
Llay, Wrexham LL12 0PG  
Tel: 01978 856600

Miners Road, Llay Industrial Estate,  
Llay, Wrexham LL12 0PJ  
Tel: 01978 856798

Rackery Lane,  
Llay, Wrexham LL12 0PB  
Tel: 01978 852101

510 Wallisdown Road,  
Bournemouth, Dorset BH11 8QN  
Tel: 01202 512405

7/8 Lyon Road, Wallisdown,  
Poole, Dorset BH12 5HF  
Tel: 01202 535536

11 Tullykevin Road  
Greyabbey, County Down  
BT22 2QE  
Tel: 02842 758231

Amy Johnson Way  
Blackpool Business Park,  
Blackpool, FY4 2RP  
Tel: 01253 345466

Colne Road, Kelbrook  
Lancashire, BB18 6SN  
Tel: 01282 844480

### POLAND

Wojska Polskiego 3  
39-300 Mielec  
Tel: 017 773 8970

### INDIA

Unit No. 201, Oxford Towers  
No. 139, Kodihalli, Old Airport Road  
Bangalore 560 008  
Tel: 91 80 2520 3191

### CORPORATE OFFICE

Magellan Aerospace Corporation  
3160 Derry Road East  
Mississauga, Ontario, Canada  
L4T 1A9  
Tel: 905 677 1889  
Fax: 905 677 5658  
www.magellan.aero  
For investor information:  
ir@magellan.aero

### AUDITORS

Ernst & Young LLP  
Toronto, Ontario

### TRANSFER AGENT

Computershare Investor Services Inc.  
Toronto, Ontario  
Tel: 1 800 564 6253  
e-mail: service@computershare.com  
www.computershare.com

### 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 2nd, 2017 at  
2:00 p.m. at The Living Arts Centre,  
4141 Living Arts Drive,  
Mississauga, Ontario L5B 4B8

Magellan Aerospace  
3160 Derry Road East  
Mississauga, ON Canada L4T 1A9

[www.magellan.aero](http://www.magellan.aero)