



**MAGELLAN**  
**A E R O S P A C E**

# **MAGELLAN AEROSPACE CORPORATION**

**ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

**MARCH 26, 2012**

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### ADVISORY

In the interest of providing the shareholders and potential investors of Magellan Aerospace Corporation ("Magellan" or the "Corporation") with information regarding the Corporation, including management's assessment of the Corporation's future plans and operations, this Annual Information Form and certain documents incorporated by reference into this Annual Information Form contain 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 Magellan's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions and also appear under the following headings: "*General Development of the Business – Business Matters*" as to potential revenues and duration of certain contracts and other matters; and "*Description of the Business*" as to future business opportunities for Magellan. The projections, expectations, estimates, assumptions and beliefs contained in such forward looking statements necessarily involve known and unknown risks and uncertainties which may cause the Corporation's actual performance and financial results in future periods to differ materially from any projections, expectations, estimates, assumptions and beliefs of future performance or results expressed or implied by such forward looking statements. These risks, assumptions and uncertainties include, among other things, such risks, assumptions and uncertainties described in this Annual Information Form and in documents incorporated by reference into this Annual Information Form and the Corporation's other reports and filings with the Canadian securities authorities. Magellan believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form or as of the date specified in the documents incorporated by reference into this Annual Information Form, as the case may be. Accordingly, shareholders and potential investors are cautioned that events or circumstances could cause actual results to differ materially from those predicted.

In particular, this Annual Information Form, and the documents incorporated by reference, contains forward-looking statements pertaining to the following:

- projections of market prices and costs;
- supply and demand for products and services in the aerospace industry;
- expectations regarding the ability to raise capital;
- treatment under governmental regimes;

- expectations regarding foreign exchange fluctuations and changes to interest rate;
- revenues, timing of receipts and duration of multi year supply contracts; and
- capital expenditure programs.

The actual results could differ materially from those results anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual Information Form:

- the consequences of heightened sovereign debt levels and recurring yearly deficit budgeting on defence spending by countries, including the United States;
- the state of the North American and European economy in general and the aerospace industry in particular;
- uncertainties relating to the weakened global economic situation and consequential restricted access to capital, increased borrowing costs and refinancing risk for existing debt;
- foreign exchange fluctuations;
- the level of indebtedness or inability to refinance indebtedness;
- competition for, among other things, capital, supply contracts and skilled personnel;
- changes in governmental laws and regulations, including environmental laws and regulations;
- incorrect assessments of the value of acquisitions;
- increased learning in manufacturing new products;
- changes in income tax laws or changes in other tax laws; and
- the other factors discussed under "*Risks Inherent in Magellan's Business*".

The actual results could differ materially from those results anticipated in these forward-looking statements as a result of the assumptions set forth below and elsewhere in this Annual Information Form being incorrect:

- interest rates incurred on the Corporation's borrowing facility and any future indebtedness;
- foreign exchange rates;
- the continuance of current tax, environmental and other laws;
- the continuance of contracts to manufacture goods and the customers' delivery projections and Magellan's relationship with certain of its key customers;
- inflation rates in the jurisdictions where Magellan conducts its business;
- the success in improving results at underperforming business units; and
- no labour disruptions during the year.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this Annual Information Form and the documents incorporated by reference herein are expressly qualified by this cautionary statement. Magellan does not undertake any obligation to publicly update or revise any forward-looking statements except as required by securities laws or regulators.

All dollar amounts in this Annual Information Form are expressed in Canadian dollars unless specifically designated to be in United States dollars or British pound sterling.

## THE CORPORATION

### General

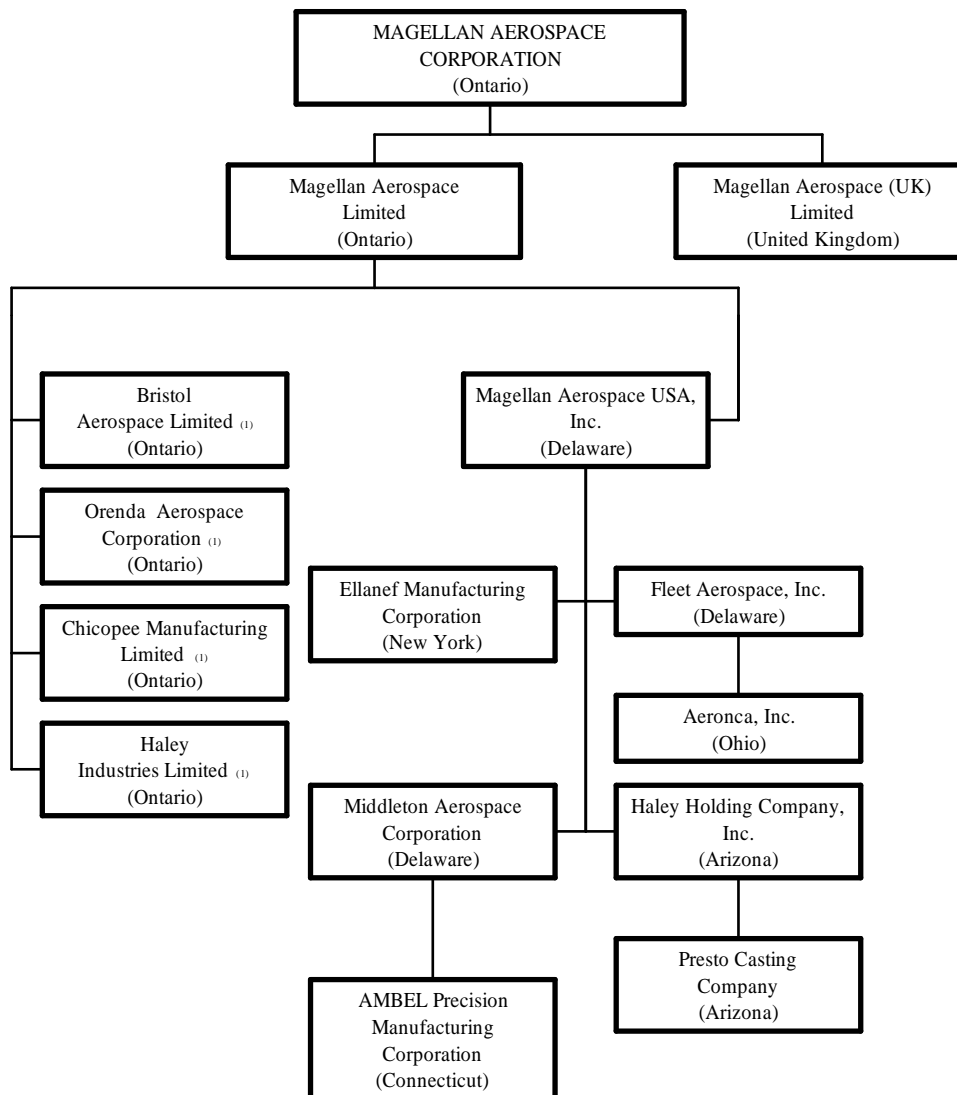
Magellan Aerospace Corporation ("Magellan" or the "Corporation") was incorporated on February 15, 1996 under the *Business Corporations Act* (Ontario). On October 17, 1996 the Corporation changed its name to Magellan Aerospace Corporation. Magellan's Common Shares were consolidated on the basis of one consolidated common share for five pre-consolidated common shares effective May 21, 2008. The Corporation's registered office and head office is located at 3160 Derry Road East, Mississauga, Ontario, L4T 1A9.

Magellan, through its wholly owned subsidiaries, is involved in the engineering, manufacture and repair and overhaul of sophisticated components and assemblies for the aerospace industry, modernizing, repairing and overhauling jet engines, defence aircraft and helicopters, the design and manufacture of rocket and satellite

systems and the design and production of magnesium and aluminium castings, primarily for the aerospace industry. The Corporation also supplies in certain circumstances parts and equipment for power generation projects.

### Corporate Structure

The following chart shows Magellan's material subsidiaries and their respective holding companies, all wholly owned, directly or indirectly, and their respective jurisdiction of incorporation as at December 31, 2011:



Note:

- (1) These corporations carry on business as directed by, and as agent on behalf of, Magellan Aerospace Limited.

## GENERAL DEVELOPMENT OF THE BUSINESS

### Business Matters

The following comprises a description of the development of the Corporation's business over the last three completed financial years.

#### 2009

Subject to corporate approvals and favourable contract awards, an investment of up to \$120 million may be made in Magellan's Winnipeg, Manitoba facility to facilitate work on the Joint Strike Fighter ("JSF") program over a period of approximately 5-7 years commencing in 2009. Subject to corporate approvals and favourable contract awards, the Canadian Government's Strategic Aerospace and Defence Initiative program has agreed to provide repayable cash-flow support of up to \$43.4 million for technology and process development. Magellan estimates that the scope of the deliveries by Magellan of aircraft and engine components over the next 25-30 years as a result of the JSF program could be as much as US\$3 billion, with revenues of up to US\$120 million per year once full rate production is achieved.

On May 27, 2009 Magellan announced the award to its Winnipeg, Manitoba facility of the RADARSAT Constellation Mission (RCM) satellite bus development contract with MacDonal, Dettwiler and Associates Ltd. of Vancouver. The RCM mission is being developed by the Canadian Space Agency to provide C-Band data continuity to existing RADARSAT-1 and RADARSAT-2 users. As well, the RCM mission will support maritime surveillance (ship detection, ice monitoring and oil spill detection), disaster management and ecosystem monitoring. The primary areas of coverage are Canada and its surrounding Arctic, Pacific and Atlantic maritime areas. The mission will be comprised of three spacecraft in low earth orbit, each carrying a C-band Synthetic Aperture Radar payload. The expected launch dates are 2014, 2015 and 2016.

Magellan has been awarded a contract to produce F-35 Lightning II horizontal tail components in the third lot of Low Rate Initial Production. It is the initial contract awarded to Magellan by BAE Systems for F-35 components, with estimated revenues of \$11 million over a two year period commencing June 2009. Magellan has been participating on the F-35 Lightning II aircraft program from the earliest stages in 2001. Machined details and complex assemblies have been delivered throughout the System Development and Demonstration phase. Magellan is currently producing components for all three of the F-35 variants. The horizontal tails produced at Magellan will be used on the Conventional Takeoff and Landing (the "CTOL") variant. Currently up to 1,038 ship sets of horizontal tails are planned to be produced by Magellan over the life of the F-35 (also known as the Joint Strike Fighter) program.

Magellan announced on June 18, 2009 the award of multi-year buys of complex machined titanium components for all three variants of the F-35 Lightning II aircraft – the CTOL, the Short Take-Off and Vertical Landing and the Carrier Variant. This contract has estimated revenues of US\$60 million and will be carried out at Magellan's facility in Kitchener, Ontario over the period of 2009 to 2015. The shipsets will be comprised of components for machined Wing Tie Bars for the Leading Edge Flap installation and Aft Engine Thrust Mounts. This latest contract is a continuation of a long-established relationship with Lockheed Martin on the JSF program. Magellan's facility in Kitchener, Ontario was the first international partner on the JSF program to deliver parts to the then-fledgling project in late 2003.

An agreement has been reached between Airbus and Magellan UK securing an important work package on Airbus' new A350 XWB twin-aisle commercial aircraft. The package consists of a number of large, complex machined aluminium-lithium components for the aircraft centre wing box, including Rib 1 and a range of attachment fittings and flange Ribs. Initial production will utilize existing capacity at Magellan's facilities in the UK at Bournemouth and Wrexham, with investment in new high-technology equipment planned as the production rate increases commencing in 2012. The agreement covers delivery of the first 400 units to Airbus.

Magellan announced, on November 12, 2009 an agreement between the Ministry of Energy, Republic of Ghana, and Magellan for the provision of a turnkey electric power generation plant in Ghana, contracted through the Canadian Commercial Corporation. The revenue is estimated at US\$238 million, and the project is

expected to be completed in 2012 by Magellan's Mississauga, Ontario facility. The project will produce 132 MW of electric power for Ghana. Magellan will supply four gas turbines in combined cycle that will have a dual fuel capability to run on light crude oil or on natural gas when it becomes available on site. This contract is a major boost to Magellan's industrial gas turbine business.

## **2010**

On April 6, 2010 Magellan Aerospace (UK) Ltd. announced that an agreement has been reached with GKN Aerospace – Filton securing a major work package on the Airbus A380 program. The package contains 203 machined aluminum detail components and is expected to generate revenues in excess of US\$19 million over the next five years. Initial production will utilize existing capacity at Magellan's facilities at Bournemouth and Chalfont St Peter, UK, with further investment in high speed 5-axis machinery.

Magellan announced, on May 12, 2010 an agreement with Rolls-Royce Plc and Rolls-Royce Deutschland Ltd. & Co KG to manufacture mainline shafts and stub shafts for various Rolls-Royce engine programs. The work will be performed on these flight safety critical rotating parts at Magellan's facility in Haverhill, MA. It is estimated that the gross program revenue will be approximately US\$425 million over the 15-year term of the agreement. Magellan will utilize its existing equipment for initial production, but will expand its manufacturing footprint at the Haverhill facility to accommodate the new equipment and processes required to support full-scale production for the program.

On July 7, 2010 Magellan announced that an agreement has been reached between Airbus and Magellan Aerospace (UK) Limited securing a further major work package on Airbus' new A350 XWB that is expected to generate revenues in excess of US\$60 million over the next ten years. That package consists of a number of complex machined aluminium detail components and assemblies that form the structure of the pylon body. Magellan's selection reconfirms Airbus' continued confidence in Magellan's advanced capabilities.

Following Magellan's July 16, 2010 press statement commending the Government of Canada for its decision to proceed with the Joint Strike Fighter (JSF) program, Magellan announced on October 8, 2010 an expansion of its manufacturing facility in Winnipeg, Manitoba. At a ground breaking ceremony, Magellan unveiled the Advanced Composite Manufacturing Facility being constructed in Winnipeg, Manitoba in support of the JSF program. The launch customer for this new facility is BAE Systems in the United Kingdom, who awarded Magellan a contract to produce the JSF F-35 Lightning II horizontal tail components. The \$22 million, 13,000 square meter facility will be equipped with advanced technology for the manufacture of complex fabrications and assemblies.

On November 29, 2010 Magellan announced the commissioning of the first new high-velocity, hard metal machining centre to undertake F-35 opportunities of up to \$212 million for various customers over the initial fifteen years of the program. Magellan currently has firm contracts for the multi-year purchase of manufacturing packages for components of the F-35 program for approximate revenues of \$26 million. The components will be manufactured in the Corporation's facility in Kitchener, Ontario, Magellan's Centre of Excellence for high velocity, hard metal machining. In 2003, Magellan's facility in Kitchener, Ontario was the first international partner on the Joint Strike Fighter program to deliver non-U.S. manufactured components to the program. This current investment is being supported through the Strategic Aerospace and Defence Initiative, a Federal Government program which supports strategic industrial research and pre-competitive development projects.

On December 9, 2010 Magellan Aerospace (UK) announced an agreement with GKN Aerospace securing a work package containing structural components for the Airbus A320 and A330 aircraft. The package contains a number of major aluminium and titanium structural components, and is expected to generate revenues in excess of £21 million over the next five years.

## **2011**

Magellan issued two news releases on February 7, 2011. First, an agreement has been reached between Airbus and Magellan Aerospace (UK) Limited securing a further work package on Airbus' new A350 XWB. It is expected to generate revenues in excess of US\$20 million over the next ten years. The contract requires the machining and treatment of complex aluminium lithium detail components, and delivery to the final assembly line in Toulouse, France. Second, the agreement with Hindustan Aeronautics Limited (HAL) in Bangalore,

India was reached for a new Wire Strike Protection System® (WSPS®). The agreement includes the design and development of a WSPS® for the HAL Advanced Light Helicopter (ALH). The ALH system is comprised of an upper and lower cutter, and windshield deflector, designed by the Corporation's facility in Winnipeg, Manitoba to be integrated into the unique structure of the ALH.

On March 8, 2011 Magellan announced a new agreement with Bell Helicopter for a WSPS® kit development. The helicopter to be fitted with WSPS® will be the Bell UH-1Y. The design and production of the WSPS® will be carried out at Magellan's facility in Winnipeg, Manitoba.

On June 30, 2011 Magellan announced that its facility in Haverhill, MA has achieved the globally recognized ISO 14001 certification for its environmental management system.

Magellan held a ceremonial ribbon cutting event, on October 25, 2011 celebrating the final stages of completion of the Corporation's new Advanced Composite Manufacturing Centre in Winnipeg, Manitoba to support the JSF program. A year following an official ground breaking; the Corporation hosted this ceremony to acknowledge the support and dedicated efforts of all three levels of government, major funding partners, their customer, and all of the other stakeholders in this major new undertaking.

Magellan announced on December 20, 2011 that an agreement has been reached between GKN Aerospace and Magellan Aerospace (UK) Limited securing a contract extension to deliver aluminum and titanium components from Magellan's facilities in Bournemouth and Chalfont St Peter, UK. The components are destined to GKN's Filton facility, which manufactures and assembles wing structures. This contract is projected to generate revenues in excess of £200 million through to December 2017. To support this program Magellan will make further investments in high speed 5-axis machining technology. These future investments demonstrate Magellan's commitment to world class manufacturing facilities focused on core competencies.

### **Financing Matters**

On January 30, 2008, Magellan closed a private placement of an aggregate of \$20.95 million principal amount 8.5% convertible unsecured subordinated debentures due January 31, 2010 (the "New Debentures"). On January 31, 2008, Edco Capital Corporation ("Edco"), a corporation controlled by N. Murray Edwards, the Chairman of the Board of the Corporation, provided loans aggregating \$65 million (the "Secured Subordinated Loan") to Magellan. Both the proceeds of the New Debentures and the Secured Subordinated Loan were used to retire debt.

The Secured Subordinated Loan was renewed on April 30, 2009 until July 1, 2010 providing for interest at 12% per annum and renewed again on March 26, 2010 to July 1, 2011, providing for interest at 11% per annum and for the payment of a one time extension fee to Edco of 1% of the principal amount of the loan. Edco also extended an option to Magellan exercisable on or before July 1, 2011 to renew the loan for a further one year period on payment of an additional extension fee of 1% of the principal amount of the loan on certain conditions. On April 28, 2011, the extension and restatement of the Secured Subordinated Loan was completed. The interest rate was decreased from 11% per annum to 7.5% per annum commencing July 1, 2011 and the loan extended to July 1, 2013 in consideration of the payment of a fee to Edco equal to 1% of the principal amount outstanding on July 1, 2011. The Corporation has the right to repay the Secured Subordinated Loan at any time without penalty.

On April 30, 2009, Magellan announced that it had made a cash offer (the "Offer") to purchase all of the New Debentures as required by the terms of the New Debentures. Mr. Edwards held \$17.5 million principal amount of the New Debentures and Mr. Moeller held \$0.65 million principal amount of the New Debentures. Pursuant to the Offer, Magellan acquired all of the outstanding New Debentures in exchange for aggregate cash consideration of \$21.9 million (\$21.5 million of which represents payment in respect of principal and premium and \$0.4 million of which represents payment of accrued interest).

On April 30, 2009 Magellan issued \$40 million of 10% subordinated convertible debentures due April 30, 2012 (the "New Convertible Debentures") to Mr. Edwards. On December 30, 2011, Magellan announced that Mr. Edwards has given notice to Magellan effective December 31, 2011 as to the conversion of \$38.0 million principal amount of the New Convertible Debentures at \$1.00 per Common Share, the entire amount of New Convertible Debentures then held by Mr. Edwards. On the conversion Mr. Edwards acquired an additional

38,000,000 Common Shares which when aggregated with his direct and indirect holdings, through Edco Capital Corporation, of 5,056,979 Common Shares equals approximately 76% of the 56,209,001 Common Shares which were outstanding following the conversion transaction. For more information, see "*Borrowings – New Convertible Debentures due April 30, 2012*".

Magellan announced it had amended its credit agreement (the "Bank Facility Agreement") with its existing lenders on April 30, 2009 and again on March 26, 2010. The Bank Facility Agreement was fully guaranteed by Mr. Edwards, the Chairman of the Board of Directors of the Corporation. The Corporation had undertaken to pay the 1.15% fee of Mr. Edwards for the guarantee of Magellan's obligations under the Bank Facility Agreement. For more information, see "*Borrowings – Bank Credit Facility*".

The Bank Facility Agreement was further amended on April 29, 2011. Magellan and the lenders agreed that the maximum available under the operating credit facility is Cdn\$125.0 million (up from Cdn\$105.0 million) and US\$50.0 million (down from US\$70.0 million) and the maturity date has been extended to April 29, 2013. The operating credit facility continues to be fully guaranteed until April 29, 2013 by Mr. Edwards in consideration of the continued payment by the Corporation to Edco of an annual fee payable monthly equal to 0.63% (down from 1.15%) of the loan amount. The facility is extendible for unlimited future one year renewal periods, subject to mutual consent of the syndicate of lenders and the Corporation.

The terms of the Bank Facility Agreement permitted Magellan to (i) repay, in whole or in part, the Secured Subordinated Loan outstanding from Edco and (ii) retract all (approximately \$12,000,000) of the Preference Shares Series A outstanding on or after April 30, 2011, together with accrued and unpaid dividends on the shares to be retracted provided there is no current default or event of default under the operating credit facility and after the repayment of the loan and the payment of the retraction amount Magellan has at least \$25 million in availability under the operating credit facility. As at December 31, 2011 Magellan had retracted all of the outstanding First Preference Shares Series A and the outstanding principal amount of the Secured Subordinated Loan was \$33.5 million. For more information, see "*Description of Share Capital – Preference Shares*" and "*Borrowings*".

## **DESCRIPTION OF THE BUSINESS**

The Corporation operates under two segments: Aerospace and Power Generation Project.

The Corporation supplies both the commercial and military sectors of the Aerospace segment. The Corporation's principal business activities are the engineering, design and manufacture of sophisticated components and assemblies for civil and defence aircraft and helicopters, the manufacture, modernization, repairing and overhauling of jet engines, the design and manufacture of rocket and satellite systems and the design and production of magnesium and aluminium castings, primarily for the aerospace industry.

The Corporation's principal strategy is to focus on selected core competencies within the aerospace industry. These include design and manufacture of aircraft structural components, precision machining of a wide variety of aerospace metal alloys, composites, complex high technology magnesium and aluminium alloy castings, integration of complex assemblies, and repair and overhaul technologies. The Corporation is now seeking to leverage these core competencies by achieving growth in aerospace applications where these abilities are critical to meeting customer needs.

The Corporation supplies design engineering and aerostructures products to an international customer base in the civil and defence markets. Components are manufactured to aerospace tolerances using conventional and high-speed automated equipment. Capabilities also include precision casting of engine and airframe mounted components. 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 some of the world's leading aeroengines manufacturers. The Corporation also performs repair and overhaul services for jet engines, nacelle components, landing gear and related components and supplies in certain circumstances parts and equipment for power generation projects. The Corporation also supplies systems and design engineering to develop and sell proprietary space and rocket motor systems to a global customer base. Management believes that Magellan's dedication to technological innovation combined with low cost sourcing from emerging markets will position Magellan attractively to capture targeted complex assembly programs.



The Power Generation Project segment is a specialty product complementary to the Corporation's principal business. The Corporation's sole product for the Power Generation Project segment is an electric power generation project in the Republic of Ghana that is expected to be completed by 2012. While a number of power generation project opportunities are being considered, at this time the Corporation does not have any other committed projects.

### **Industry Overview**

The aerospace supplier industry differs from traditional manufacturing industries in a number of material respects. An aerospace manufacturer develops relatively small quantities of highly specialized products on a contract basis. Accordingly, an aerospace manufacturer is more like a contractor, hired to complete a very customized and specialized project to the specifications of a customer. The up-front costs in developing such products that are incurred prior to the completion of the first production unit are significant. Up-front costs generally include engineering, design and manufacture of tooling, and test units required for certification. These up-front costs of developing products are borne by the manufacturer, and are recovered when the project reaches the production phase, usually on an amortization basis over the projected program life. See "*Risks Inherent in Magellan's Business – Customer unit deliveries may not reach the number projected when the basis for amortization of non-recurring costs is established*".

The business carried on by the Corporation involves firm contracts generally having terms of three to ten years. Component products and systems supplied are related to end-product sales by the Corporation's customers, and in accordance with industry practice, are generally subject to termination, modification or reduction at the option of the Corporation's customers. However, if a program is so terminated, the terms of the underlying contracts generally provide that the Corporation will be reimbursed for its allowable costs to the date of termination plus any proportionate amount of profits attributable to the work actually performed. Products that are delivered directly to the end-user generally involve contracts for specific quantities over specific time periods, and are less likely to experience variations to the terms.

Many new aircraft and aircraft engine programs require that major suppliers become risk-sharing partners, meaning that the cost of design, development and engineering work associated with the development of the aircraft or the aircraft engine is partially born by the supplier, usually in exchange for a life-time agreement to supply those critical parts once the aircraft or the aircraft engine is in production. In the event that the aircraft or the aircraft engine fails to reach the production stage, inadequate numbers of units are produced, or actual sales otherwise do not meet projections, the Corporation may incur significant costs without any corresponding revenues. See "*Risks Inherent in Magellan's Business - Most of the Corporation's contracts are subject to competitive bidding. If the Corporation is unable to successfully compete in the bidding process, the Corporation's results of operations could suffer*".

The aerospace industry is highly regulated in most countries, including Canada, the United States and the United Kingdom, by specialized government agencies. The Corporation must be certified in such jurisdictions and, in some cases, by individual original equipment manufacturers in order to engineer and service parts and components used in specific aircraft models. See "*Risks Inherent in Magellan's Business – The Corporation may incur significant expenses to comply with new or more stringent governmental regulation*".

### Locations and Core Capabilities

The Corporation operates 15 plants, 4 of which are located in Canada, 6 plants in the United States and 5 plants in 3 separate locations in the United Kingdom, and co-operates a jointly owned facility in India. The Corporation believes that the available capacity at its facilities is sufficient to meet its current and anticipated manufacturing requirements as indicated by contract requirements and current growth trends in the industry.

Business Unit	Location	Approximate Size	Core Capabilities
<b>Canada</b>			
Bristol Aerospace Limited	Winnipeg, Manitoba	82,600 square meters	Manufacture of composite structures and engine components for aircraft Manufacture of rocket systems, satellites and other proprietary products
Chicopee Manufacturing Limited	Kitchener, Ontario	7,500 square meters	Machining of medium and large aerospace components
Haley Industries Limited	Haley, Ontario	18,000 square meters	Production of precision magnesium and aluminium castings for the aerospace industry
Orenda Aerospace Corporation	Mississauga, Ontario	69,700 square meters	Manufacture of components for commercial, regional and military jet engines Repair and overhaul of military aircraft engines Manufacture, repair and overhaul of gas turbine and other industrial components
<b>United States</b>			
Aeronca, Inc.	Middletown, Ohio	17,700 square meters	Manufacture of jet engine nacelle, exhaust components, and heat-resistant space products
AMBEL Precision Manufacturing Corporation	Bethel, Connecticut	2,000 square meters	Machining of jet engine components
Ellanef Manufacturing Corporation	Corona, New York	8,200 square meters	Manufacture and assembly of complex components and sub-assemblies for civil and military aircraft and helicopters
	Bohemia, New York	13,200 square meters	
Middleton Aerospace Corporation	Haverhill, Massachusetts	10,400 square meters	Manufacture of critical rotating and non-rotating engine components for civil and defence use
Presto Casting Company	Glendale, Arizona	8,300 square meters	Production of small to medium magnesium and aluminium castings for the aerospace industry
<b>United Kingdom</b>			
Magellan Aerospace (UK) Limited	Wrexham Bournemouth Chalfont St Peter	24,400 square meters combined in the 5 facilities	Design and manufacture of airframe components Precision machining of space and aerospace products

## **Production and Services**

Magellan is a diversified supplier of components to the aerospace industry and in certain circumstances parts and equipment for power generation products. Through its wholly owned subsidiaries, Magellan designs, engineers, and manufactures aeroengine and aerostructure components for aerospace markets, advanced products for military and space markets, and complementary specialty products. The Corporation also supports the aftermarket through supply of spare parts as well as performing repair and overhaul services. The Corporation relies on a mix of commercial and defence aerospace programs. The power generation product is a specialty product complementary to the Corporation's principal aerospace business.

## **Specialized Skill and Knowledge**

The Corporation's strategy has been to focus on several core competencies within the aerospace industry. These include precision machining of a wide variety of aerospace material, composites, complex high technology magnesium and aluminium alloy castings, repair and overhaul technologies and design of structures. The Corporation is now seeking to leverage these core competencies by seeking growth in aerospace applications where these abilities are critical in meeting customer needs. See *"Risks inherent in Magellan's Business –The Corporation may need to expend significant capital to keep pace with technological developments in its industry."*

## **Competitive Conditions**

Competition for airframe and engine parts and assemblies comes primarily from companies in Europe, Asia, and North and South America. Aircraft manufacturers continue to develop their supply chains by increasing the amount of outsourcing to suppliers with design and supply-base management capabilities, and reducing the number of commodity suppliers. The Corporation continues to successfully develop relationships with its most important customers based on the value it can provide: design, engineering, integration and assembly, supply-base management, emerging market sourcing and other measures to improve value for customers. The strong growth in orders of civil aircraft has been maintained over the last two years primarily fueled by growth in the Asian markets. Most airlines across the globe sustained profitability and high load factors in 2011. In spite of lingering economic concerns in some areas of the world, passenger and air freight usage rose steadily in 2011 with forecasts for 2012 looking even stronger. Business aviation demand fell abruptly in late 2008, and continued to weaken in 2009. Demand stabilized in late 2010, with slow recovery in 2011 and expected recovery over the next two years. Defence markets continue to be steady, although changes are expected to be made in the United States over the mid-term. An important defence development activity in 2009 to 2012 is the plan in the United States to transition to new platforms, such as the JSF program and the tanker replacement, amongst others. This plan has received support from both the Administration and the U.S. Congress for the most part. To date, the Government of Canada remains committed and supportive of the JSF program.

The Corporation's sole product for the Power Generation Project segment is an electric power generation project in the Republic of Ghana that is expected to be completed by 2012. While a number of power generation project opportunities are being considered, at this time the Corporation does not have any other committed projects.

See *"Risks Inherent in Magellan's Business – Competitive Pressures may adversely affect the Corporation"* and *"Risks Inherent in Magellan's Business – A reduction in defence spending by the United States or other countries could result in a decrease in revenue"*.

## **Raw Materials and Components**

The Corporation is continuing its efforts to utilize the buying power of its customer base, where possible, in order to reduce or minimize the increase in cost of bought-in materials and parts. While raw materials such as aluminium and titanium are typically supplied on long-term agreements, in general, supply and costs are somewhat out of the Corporation's control. Magellan procures raw materials and components necessary to fulfill contractual requirements at competitive prices from the global marketplace. To the extent possible, Magellan includes price escalation formulas and other clauses in contracts with its customers to share the risk of price increases in, or lack of availability of, raw materials and components. See *"Risks Inherent in*

*Magellan's Business – Fluctuations in availability and prices of raw materials used in production may adversely impact the financial results of the Corporation."*

### **Markets and Economic Dependence**

The markets for the Corporation's products are primarily in Canada, the United States, the United Kingdom and other parts of Europe. The Corporation serves both the commercial and defence markets. In 2011, 67% of sales were derived from the commercial markets (2010 – 64%, 2009 – 64%) while 33% of sales related to defence markets (2010 – 36%, 2009 – 36%).

The total revenues, the number of principal customers accounting for more than 10% of the consolidated revenues in each of the last two completed financial years ended December 31, and the total revenues in each of Canada, the United States and the United Kingdom from the operations of the Corporation's business are set forth in the following table:

(in thousands of Canadian dollars)	2011	2010
<b>Canadian operations</b>		
Total revenues	\$365,853	\$421,864
Number of principal customers	2	1
Percentage of total Canadian revenue from principal customers	33%	25%
<b>U.S. operations</b>		
Total revenues	\$187,658	\$187,555
Number of principal customers	1	1
Percentage of total U.S. revenue from principal customers	40%	38%
<b>U.K. operations</b>		
Total revenues	\$137,899	\$122,216
Number of principal customers	1	1
Percentage of total U.K. revenue from principal customers	73%	84%
<b>Total Corporation</b>		
Total revenues	\$691,410	\$731,635
Number of principal customers	3	3
Percentage of total revenue from principal customers	39%	37%

For the year ended December 31, 2011, direct sales to The Boeing Company represented approximately 12% of total Corporation revenues and are expected to remain at approximately the same level of total Corporation revenues in 2012. In 2011, direct sales to Airbus represented approximately 16% of total Corporation revenues and are expected to remain at approximately the same level of total Corporation revenues in 2012. In 2011, direct sales to Government of Ghana represented approximately 12% of total Corporation revenues and are expected to decrease in 2012 as the electric power generation project in the Republic of Ghana is anticipated to be completed by 2012.

See "*Risks Inherent in Magellan's Business - The loss of one of the Corporation's key customers could have a material adverse effect on the Corporation*".

### **Changes to Contracts**

From time to time circumstances under which long-term contracts are negotiated change and require amendment so that the Corporation does not incur a loss. See "*Risks Inherent in Magellan's Business - The Corporation may not be able to successfully negotiate long-term contracts to eliminate losses*" and "*Risks Inherent in Magellan's Business – Cancellations, reductions or delays in customer orders may adversely affect the Corporation's results of operations.*"

## **Environmental Matters**

### *Environmental protection requirements*

The Corporation's manufacturing activities are subject to environmental law and regulations associated with risks to the environment and human health in each of Canada, the United States and the United Kingdom. Legislation at country, provincial and state levels provide for restrictions and prohibitions on emissions, discharges and releases of various substances produced in association with manufacturing operations. It is expected legislation will become more stringent and necessitate additional environmental controls. There are several initiatives under review by the Corporation to ensure that it meets the new legislated requirements. These initiatives include, but are not limited to, replacement of trichloroethylene used for degreasing, replacement of chlorofluorocarbons ("CFCs") and hydrochlorofluorocarbons ("HCFCs") used as refrigerant, and greenhouse gas reduction.

### *Environmental policies and programs*

The Corporation updates and maintains its environmental policies which affirm the Corporation's commitment to identify the environmental aspects and impacts of its operations and ensure compliance with all applicable environmental laws and regulations. To this end, each facility of the Corporation has been instructed to establish an environmental management system in accordance with ISO 14001 that provides the framework for setting environmental objectives and targets and establishing environmental programs that are consistent with the Corporation's commitment to prevention of pollution and continual improvement. Environmental control, including operational controls, documented procedures, training, monitoring and measuring, and pollution control equipment are put in place to manage the environmental aspects of the Corporation.

The Corporation's environmental council comprised of the corporate environmental representative and an environmental representative from each of the operating sites meets regularly to:

- Provide early warning of new or changing legislative requirements,
- Standardize methods based on best practice to better manage environmental risk, minimize waste, and identify cost-saving opportunities,
- Improve overall corporate environmental performance, and
- Encourage environmental stewardship amongst its business partners, including suppliers.

The Corporation has ongoing remedial systems at a number of its sites for environmental contamination. See "*Risks Inherent in Magellan's Business – Any exposure to environmental liabilities may adversely affect the Corporation*".

### *Environmental oversight*

The Environmental and Health & Safety Committee ("Committee") of the Board of Directors is established to assist the Board in the review of policies and programs for management of environmental and health & safety matters. The major responsibilities and functions of the committee are to:

- Act in an advisory capacity to the Board,
- Assess corporate environmental and health and safety practices and ensure that remedial plans and programs are carried out and adequate reserves are in place,
- Oversee the Corporation's performance in environmental and health and safety matters and monitor compliance with regulatory and corporate standards in the Corporation's operations,
- Monitor trends, and review current and emerging policy in the area of environment and health and safety,

- Ensure management's commitment to minimize the impact of the Corporation's businesses on the environment through a program of continual improvement in environmental and health and safety performance, achieved by implementing a feasible and comprehensive environmental and health and safety policy with measurable and achievable targets as resources become available and technology improves, and
- Ensure that processes are in place to annually evaluate the performance of the Committee and the adequacy of its mandate and to report thereon to the Board.

The Committee holds meetings at least annually with a portion of every meeting reserved for in-camera discussion without any member of management being present.

### **Employees**

The number of employees employed by the Corporation as of December 31, 2011 was approximately 3,200 employees in Canada, the United States, the United Kingdom and India (a jointly owned facility). Approximately half of the Corporation's employees are unionized. As a result the Corporation is a party to numerous collective bargaining agreements which expire from time to time. One labour agreement at one of the Corporation's facilities expired on April 1, 2011 and was successfully negotiated on June 6, 2011 after a strike period. Two labour agreements at two of the Corporation's facilities expired December 31, 2011 and two other labour agreements at another of the Corporation's facilities expired March 15, 2012. The Corporation is currently in negotiation on these four labour agreements. See *"Risks Inherent in Magellan's Business - The agreements with labour unions representing certain of the Corporation's employees are subject to renewal"*.

### **Foreign Operations**

Magellan sells products and services in the global marketplace and has manufacturing facilities in Canada, the United States, the United Kingdom, and India (a jointly owned facility). See *"Risks Inherent in Magellan's Business - Fluctuations in the value of foreign currencies could result in currency exchange losses"*.

### **Further Information**

For more information in relation to the business and development of business of Magellan, reference is made to the information under "Company Overview" in Management Discussion and Analysis for the year ended December 31, 2011 which is filed on SEDAR at [www.sedar.com](http://www.sedar.com) and which information is hereby incorporated by reference.

## **RISKS INHERENT IN MAGELLAN'S BUSINESS**

The following risks and uncertainties apply to the Corporation:

### ***A reduction in defence spending by the United States or other countries could result in a decrease in revenue.***

Heightened sovereign debt issues in the European Union have created instability and volatility in the international credit and financial markets and have caused a number of countries in the European Union to focus on their respective recurring yearly deficit budgeting practices, resultant aggregate debt levels and to implement austerity measures. Likewise the governments in the United States and Canada have recognized the need to reduce budget deficits. The United States is the principal purchaser under the Joint Strike Fighter (JSF) program and the JSF program represents a significant item in their budget. Canada is also a participant in the JSF program and has invested in an Advanced Composite Manufacturing Facility at Magellan's Winnipeg facility, primarily in support of the JSF program.

The Corporation relies on sales to military customers particularly in the United States. A significant reduction in military expenditures by the United States or other countries with which the Corporation has material contracts such as the JSF program could materially adversely affect the Corporation's business and financial condition.

The loss or significant reduction in government funding of a large program such as the JSF program in which the Corporation participates could also materially adversely affect sales and earnings.

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

Market events and conditions that occurred in 2007 and 2008, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, caused significant volatility in the credit and financial markets. These conditions continued in 2011 and linger in 2012 resulting in a lack of confidence in the broader U.S. and global credit and financial markets. While global financial conditions and outlook have improved, these factors continue to impact the performance of the global economy going forward. Political unrest in the countries of North Africa and the Middle East may create more volatility in the price of oil and may threaten the ongoing recovery of the global economy or may have other unforeseen consequences. Sovereign debt issues in Europe continue to create uncertainty in the marketplace.

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

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

The majority of the Corporation's gross profit is derived from the aerospace industry. The Corporation's aerospace operations are focused on engineering and manufacturing aircraft components on new aircraft, selling spare parts and performing repair and overhaul services on existing aircraft and aircraft components. Therefore, the Corporation's business is directly affected by economic factors and other trends that affect the Corporation's customers in the aerospace industry, including a possible decrease in outsourcing by aircraft operators and original equipment manufacturers ("OEMs"), decreased demand for air travel or projected market growth that may not materialize or be sustainable. The price of fuel has increased the pressure on the operating margins of aircraft companies which will reduce their ability to finance capital expenditures. 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 to the aerospace industry or general economic factors that might affect the aerospace industry may have an adverse impact on the Corporation's results of operations.

***Potentially volatile capital markets may reduce the Corporation's financial flexibility and may result in less than optimal financing results.***

As future capital expenditures will be financed out of cash generated from operations, borrowings and possible future equity sales, the Corporation's ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the aerospace industry and Magellan's securities in particular.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, the Corporation's ability to make capital investments may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

Alternatively, the Corporation may need to issue additional Common Shares or other convertible securities from treasury at low prices to refinance existing debt or to finance the capital costs of significant projects or may wish to borrow to finance significant projects to accomplish Magellan's long-term objectives on less than optimal terms or in excess of its optimal capital structure.

Based on current funds available and expected cash flow from operating activities, management believes that the Corporation has sufficient funds available to fund its projected capital expenditures. However, if cash flow from operating activities is lower than expected or capital costs for these projects exceed current estimates, or

if the Corporation incurs major unanticipated expenses, it may be required to seek additional capital to maintain its capital expenditures at planned levels. Failure to obtain any financing necessary for the Corporation's capital expenditure plans may affect it in a materially adverse manner.

***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.

***The Corporation's debt is significant and needs to be refinanced and such refinancing may not be available.***

The Corporation and its subsidiaries have significant debt obligations. The degree to which this indebtedness could have consequences on the Corporation's prospects include the effect of such debts on the ability to obtain additional financing for working capital, capital expenditures or acquisitions; the portion of available cash flow that will need to be dedicated to repayment of principal and interest on indebtedness, thereby reducing funds available for expansion and operations; and the Corporation's vulnerability to economic downturn and its ability to withstand competitive pressure. If the Corporation is unable to meet its debt obligations, it may need to consider refinancing or adopting alternative strategies to reduce or delay capital expenditures, selling assets or seeking additional equity capital.

The Corporation amended its Bank Facility Agreement with its existing lender on April 29, 2011. Under the terms of the Bank Facility Agreement, the Corporation has an operating credit facility, expiring on April 29, 2013, and extendable for unlimited one year periods by agreement of the Corporation and the lenders. The Corporation's Bank Facility Agreement also requires the Corporation to maintain specified financial ratios. For more information, see "*Borrowings – Bank Credit Facility*". The Corporation's ability to meet the financial ratios can be affected by events beyond the Corporation's control, and there can be no assurance that the Corporation will be able to meet the ratios. There is no assurance that the Bank Facility Agreement will be renewed every year or that the terms of renewal will not be materially adverse to the Corporation. This credit facility is fully guaranteed by Mr. Edwards, a director and Chairman of the Board of the Corporation. There is also no assurance that Mr. Edwards's guarantee, if required, will be available beyond the term of the current commitment which ends on April 29, 2013. There is no assurance that Magellan will be in compliance with its bank covenant at all times during the upcoming twelve months due to unforeseen events or circumstances, some of which are outlined in this "*Risks Inherent in Magellan's Business*".

The Secured Subordinated Loan has been extended to July 1, 2013 and as at December 31, 2011 is outstanding in the principal amount of \$33.5 million. The \$2.0 million principal amount of New Convertible Debentures is due April 30, 2012 and the Corporation may need to finance repayment of such amount. There is no assurance that alternative debt or equity financing will be available, or will be available on satisfactory terms, to the Corporation to refinance the repayment of, or to fund the offer to purchase, the New Convertible Debentures or the Secured Subordinated Loan.

Credit ratings and access to the capital markets may be impacted by a number of matters, include those set forth in this Annual Information Form, and a number of external factors beyond the Corporation's control.

***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.

***The agreements with labour unions representing certain of the Corporation's employees are subject to renewal.***

The Corporation is party to collective bargaining agreements throughout its business which are subject to expiration at various times in the future. Currently, management is in negotiation for four of its labour agreements of which two expired on December 31, 2011 and the other two expired March 15, 2012. If the Corporation is unable to renew all agreements as they become subject to renegotiation from time to time, it could result in work stoppages and other labour disturbances which could have a material adverse effect on its business.

***The Corporation may need additional financing for acquisitions and capital expenditures and additional financing may not be available on acceptable terms.***

A key element of the Corporation's strategy has been, and continues to be, internal growth and growth through the acquisition of additional companies and product lines engaged in the aerospace industry. In order to grow internally, the Corporation may need to make significant capital expenditures and may need additional capital to do so. The Corporation's ability to grow is dependent upon, and may be limited by, among other things, availability under the credit facilities and by particular restrictions contained therein and the Corporation's other financing arrangements. In that case, additional funding sources may be needed, and the Corporation may not be able to obtain the additional capital necessary to pursue its internal growth and acquisition strategy or, if the Corporation can obtain additional financing, the additional financing may not be on financial terms which are satisfactory to it.

***The loss of one of the Corporation's key customers could have a material adverse effect on the Corporation.***

For the year ended December 31, 2011, direct sales to The Boeing Company represented approximately 12% of total Corporation revenues and are expected to remain at approximately the same level of consolidated revenues in 2012. In 2011, direct sales to Airbus represented approximately 16% of total Corporation revenues and are expected to remain at approximately the same level of consolidated revenues in 2012. The loss of either of these customers or any significant decline in purchasing by either customer from the Corporation could have a material adverse impact on the Corporation.

***Customer unit deliveries may not reach the number projected when the basis for amortization of non-recurring costs is established.***

The Corporation relies on customers' delivery projections to determine the number of units over which to amortize non-recurring costs. Should deliveries not reach the number projected, any unamortized balance that remains would then need to be written off which could have a material adverse impact on the Corporation.

***Competitive pressures may adversely affect the Corporation.***

The Corporation competes in the aerospace industry primarily with 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 we face will not adversely affect the Corporation's operating revenues and, in turn, the Corporation's business and financial condition.

***The Corporation may need to expend significant capital to keep pace with technological developments in its industry.***

The aerospace industry is constantly undergoing development and change and it is likely that new products, equipment and methods of repair and overhaul service will be introduced in the future. In order to keep pace with any new developments, the Corporation may need to expend significant capital to purchase new equipment and machinery or to train the Corporation's employees in the new methods of production and service. In addition, the Corporation makes significant expenditures for the research and development of new products and services. The Corporation may not be successful in developing new products and these capital expenditures may have a material adverse effect on the Corporation.

***The Corporation may not realize the Corporation's anticipated return on capital commitments made to expand its capabilities.***

From time to time, the Corporation makes significant capital expenditures to implement new processes and to increase both efficiency and capacity. Some of these projects require additional training for the Corporation's employees and not all projects may be implemented as anticipated. If any of these projects do not achieve the anticipated increase in efficiency or capacity, the Corporation's returns on these capital expenditures may not be as expected.

***The Corporation may incur significant expenses to comply with new or more stringent governmental regulation.***

The aerospace industry is highly regulated in most countries by specialized government agencies. The Corporation must be certified in such jurisdictions and, in some cases, by individual OEMs in order to engineer and service parts and components used in specific aircraft models. If any of the Corporation's material authorizations or approvals were revoked or suspended, the Corporation's operations would be adversely affected. New or more stringent governmental regulations may be adopted, or industry oversight heightened, in the future, and the Corporation may incur significant expenses to comply with any new regulations or any heightened industry oversight.

***The Corporation may be unable to successfully achieve "key supplier" status with OEMs, and may be required to risk capital to achieve key supplier status.***

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

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

***Most of the Corporation's contracts are subject to competitive bidding. If the Corporation is unable to successfully compete in the bidding process, the Corporation's results of operations could suffer.***

The Corporation obtains most of its contracts through a competitive bidding process that subjects it to the risk that it will expend substantial time and effort on the design, development and marketing of proposals for contracts that may not be awarded to it. The Corporation is sometimes required to bid on programs in advance of the completion of the prime vehicle or system design. This creates a risk that it will experience unforeseen technological difficulties and cost overruns. The Corporation cannot ensure that it will continue to win competitively awarded contracts at the same rate as in the past.

***The Corporation may not be able to successfully negotiate long-term contracts to eliminate losses.***

From time to time circumstances under which long-term contracts are negotiated change and require amendments so the Corporation does not incur a loss. If these negotiations or future negotiations on other contract negotiations are not successful or the final terms are different from what the Corporation expects, the Corporation may be required to record a loss provision on these contracts which will be materially adverse to the Corporation. The amount of such provision, if any, cannot be reasonably estimated until such amendments are finalized.

***The Corporation may be affected by interest rate fluctuations.***

The Corporation's operations have been significantly financed by debt, and it has significant debt obligations. The majority of the Corporation's interest bearing long-term debt bears a variable interest rate. Consequently, the Corporation is sensitive to fluctuations in interest rates and increases in interest costs may adversely and materially affect the Corporation's financial results.

***Any exposure to environmental liabilities may adversely affect the Corporation.***

The Corporation's business, operations and facilities are subject to numerous stringent federal, provincial, state, local and foreign environmental laws and regulations in Canada, the United States and the United Kingdom. The Corporation is required to maintain certificates of approval, permits or licenses with respect to its water discharges, air emissions, generation of wastes, and land fill sites, as applicable. The regulatory body in charge of environmental matters conducts periodic compliance reviews and the Corporation engages in regular monitoring and measuring of its environmental aspects and impacts. From time to time due to non-compliance matters that arise, containment, mitigation and remedial orders are received, which require action by the Corporation. The Corporation commits financial and technical resources as it deems necessary, including outside consultants, to develop action plans in accordance with the requirements of the various jurisdictions within which it operates.

Management believes the current political climate may lead to new environmental laws and programs setting reduction for discharges into the environment, which may be costly or not possible for the Corporation to meet, and thereby result in cost, penalties or charges to the Corporation. Examples are the New Environmental Penalties regulation in Ontario and global trends in the reduction in use, creation and release of toxic substances.

Legislation at country, provincial and state levels provide for restrictions and prohibitions on emissions, discharges and releases of various substances produced in association with manufacturing operations. It is expected legislation will become more stringent and necessitate additional environmental controls. There are several initiatives under review by the Corporation to ensure that it meets the new legislated requirements. These initiatives include, but are not limited to, greenhouse gas reduction, replacement of trichloroethylene used for degreasing, replacement of CFCs and HCFCs used as refrigerant, and monitoring of substance releases from products exported to the European Union. As legislation evolves and enforcement of the laws and regulation become more rigorous, the Corporation may be required to incur additional significant capital, and operating expenditures to comply, which could have a material adverse effect on the Corporation's financial condition.

As a result of historic releases of trichloroethylene, the Corporation, with regulatory body approval, has implemented remedial systems in Winnipeg, Manitoba, Middletown, Ohio, and Charlotte, North Carolina to address trichloroethylene-impacted groundwater. These remedial systems have been in operation for more than 5 years and continue to show decreasing levels of contamination with capital costs already incurred and ongoing operating expenses. At the former Fleet Industries site, the regulatory authorities and the Corporation have agreed on a remediation plan for the same contaminant. While it is expected that the remediation will be successful, the plan incorporates a new technique, which may not be successful within the time and budget contemplated. Recently a remedial system has been implemented at a facility in Bournemouth, UK in conjunction with the governing environmental authorities and a similar system constructed at the facility in Mississauga, Ontario. The final costs of remediation at these sites are not known at this time and could adversely and materially affect the Corporation's financial results. Although management believes that the Corporation's operations and facilities are in material compliance with environmental laws and regulations,

future changes in these laws, regulations or interpretations thereof or the nature of the Corporation's operations may require the Corporation to make significant additional capital expenditures to ensure compliance in the future, which may adversely affect the financial condition of the Corporation.

***Fluctuations in availability and prices of raw materials used in production may adversely impact the financial results of the Corporation.***

The main raw materials purchased by the Corporation are aluminium and titanium. Supply and cost of these materials is somewhat outside the Corporation's control. Difficulty in procuring raw materials in sufficient quantities and in a timely fashion, along with cost increases for these materials, could have a material adverse affect on the Corporation's operations and financial condition.

***Potential for unforeseen costs associated with warranty claims.***

Some of the products manufactured by the Corporation are complex and sophisticated and may contain defects despite having in place procedures and processes to detect and correct any defects before shipment to its customers. Errors may be found in the Corporation's products after they are delivered to the customers. As a result, the Corporation may be exposed to legal claims relating to the products it manufactures or the loss of customers. In addition, due to the nature of the Corporation's business, the Corporation may be subject to liability claims involving its products or products for which it provides services. The Corporation maintains product liability insurance for its business. However, there is potential that the insurance coverage will not be sufficient to cover all relevant claims. Furthermore, there is no assurance that the Corporation will be able to obtain insurance coverage at acceptable levels and costs in the future. The occurrence of errors, failures, and claims could adversely affect the Corporation's operation results and business.

***Competitive market for skilled labour may adversely impact the Corporation's operation.***

The Corporation's success and growth will depend on, in part, on its ability to attract and retain the necessary skilled labour. The competition for skilled labour in the aerospace industry has been and is generally expected to be intense in the future. The Corporation's inability to attract and retain skilled labour, particularly engineers, machinists and programmers, could adversely affect its operations, financial results, and ability to attract and retain work.

***The Corporation's risk management strategy may not be effective to the risks faced by the Corporation.***

The Corporation maintains policies of insurance of the types and in the amounts that are comparable to companies of similar sizes and industry. The Corporation's risk management programs and claims handling and litigation processes utilize internal professionals and external technical expertise. If this risk management strategy is not effective to mitigate the risks faced by the Corporation, these risks could have a material adverse affect on the business, results of operations, financial condition and liquidity.

***Changes in estimates used in accounting for long term contracts could adversely affect the Corporation's future results.***

Accounting for long term contracts require judgment related to assessing risks, estimating contract revenues and costs and making assumptions for schedule and technical issues. Due to the size and nature of the Corporation's contracts, average unit cost for products produced is determined based on the estimated total production costs for a predetermined program quantity. Program quantities are established based on management's assessment of market conditions and foreseeable demand at the beginning of the production stage for each program, taking into consideration both customer provided and independent data. Management conducts regular reviews of its cost estimates and program quantities, however, changes in underlying assumptions, circumstances or estimates concerning quantities or change in the market conditions, along with not realizing estimated total production costs, may adversely affect future financial performance.

## **DIVIDENDS**

The Corporation has not declared or paid any dividends on any of its Common Shares in the last three financial years. It is expected that the Corporation will not pay any dividends on its Common Shares in the near future

and that future earnings will be retained to finance further expansion of the business and operations of the Corporation. Any decision to pay dividends on the Corporation's Common Shares will be made by the Board of Directors on the basis of the Corporation's earnings, financial requirements and other conditions existing at such future time.

For the years ended December 31, 2009, 2010, and 2011 the Corporation paid dividends of eighty cents (\$0.80) per share on the Corporation's First Preference Shares Series A. The Board of Directors of Magellan determined not to declare or pay dividends on the First Preference Shares Series A for the periods ended April 30, 2009, July 31, 2009 and October 31, 2009, but in December, 2009, declared the outstanding cumulative dividends for each such period. As at December 31, 2011, the Corporation had retracted all of the First Preference Shares Series A. See "*Description of Share Capital - Preference Shares*".

See "*Risks Inherent in Magellan's Business – Potentially volatile capital markets may reduce the Corporation's financial flexibility and may result in less than optimal financing results*" and "*Risks Inherent in Magellan's Business – The Corporation's debt is significant and may need to be refinanced and such financing may not be available*".

## **DESCRIPTION OF SHARE CAPITAL**

### **Common Shares**

Magellan has authorized for issuance an unlimited number of Common Shares of which 56,209,001 Common Shares were outstanding as at December 31, 2011. The holders of Common Shares are entitled to notice of, to attend and to one vote per share held at any meeting of the shareholders of Magellan; to receive dividends as and when declared by the Board of Directors of Magellan on the Common Shares as a class, and subject to prior satisfaction of all preferential rights to dividends attached to all shares of other classes; and in the event of any liquidation, dissolution or winding-up of Magellan, whether voluntary or involuntary, or any other distribution of the assets of Magellan among its shareholders for the purpose of winding-up its affairs, and subject to prior satisfaction of all preferential rights to return of capital on dissolution attached to all shares of other classes of shares of Magellan ranking in priority to the Common Shares in respect of return of capital on dissolution, to share rateably, together with the shares of any other class of shares of Magellan ranking equally with the Common Shares in respect of return of capital on dissolution, in such assets of Magellan as are available for distribution. Effective December 31, 2011 Mr. Edwards converted \$38 million principal amount of the New Convertible Debentures at \$1.00 per Common Share, the entire amount of New Convertible Debentures then held by Mr. Edwards. On the conversion Mr. Edwards acquired an additional 38,000,000 Common Shares.

### **Preference Shares**

Magellan also has authorized an unlimited number of Preference Shares which may at any time or from time to time be issued in one or more series. Before any shares of a particular series are issued, the board of directors of Magellan shall, by resolution, fix the number of shares that will form such series and shall, subject to the limitations set out in the Corporation's articles, by resolution fix the designation, rights, privileges, restrictions and conditions to be attached to the shares of such series. The Preference Shares of each series shall rank on parity with the Preference Shares of every other series with respect to accumulated dividends and return of capital. The Preference Shares are entitled to a preference over the Common Shares and over any other shares of the Corporation ranking junior to the Preference Shares with respect to priority in the payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs.

On May 27, 2005 the Corporation issued 2,000,000 First Preference Shares Series A at a price of \$10.00 per First Preference Shares Series A (the "Issue Price"). As at December 31, 2011, Magellan had retracted all of the First Preference Shares Series A at the Issue Price plus accrued and unpaid dividends.

For more information in relation to the First Preference Shares Series A, see Note 12 of Magellan's audited consolidated financial statements for the year ended December 31, 2011 filed on SEDAR at [www.sedar.com](http://www.sedar.com), which note is incorporated by reference in this Annual Information Form.

## BORROWINGS

The Corporation has the following financing arrangements as at December 31, 2011:

### **Bank Credit Facility**

The Corporation has an operating credit facility pursuant to the Bank Facility Agreement of a Canadian dollar limit of \$125 million plus a US dollar limit of \$50 million (approximately \$176 million at December 31, 2011) which expires on April 29, 2013 and is extendable for unlimited one-year renewal periods by agreement of the lenders and the Corporation. The operating credit facility is fully guaranteed by Mr. Edwards. Magellan has agreed in the amended and restated Bank Facility Agreement to maintain a fixed charge coverage ratio and to limit capital expenditures, the failure of which will create an event of default pursuant to the Bank Facility Agreement. The fixed charge coverage ratio is the ratio of (a) earnings before interest, taxes, depreciation and amortization less unfinanced capital expenditures less cash taxes less distributions permitted by the lenders, to (b) the sum of scheduled principal payments paid plus interest expense plus capital lease payments made. The Corporation has agreed that its capital expenditures will not exceed a specified amount agreed upon with the lenders. For more information in relation to the Bank Facility Agreement, reference is made to Note 8 of the Corporation's audited consolidated financial statements for the year ended December 31, 2011 which is incorporated by reference into this Annual Information Form and see "*Material Contracts*" and "*Interest of Management and Others in Material Transactions*".

The Bank Facility Agreement restricts the payment of dividends on the Common Shares.

See "*Risks Inherent in Magellan's Business – The Corporation's debt is significant and may need to be refinanced and such refinancing may not be available*".

### **New Convertible Debentures due April 30, 2012**

On April 30, 2009, Magellan issued \$40 million of 10% subordinated convertible debentures due April 30, 2012 (the "New Convertible Debentures"), of which \$2 million principal amount of the New Convertible Debentures were outstanding as at December 31, 2011, with the following terms:

**Interest:** The New Convertible Debentures pay interest at a rate of 10% per annum on a semi-annual basis on April 30 and October 31 in each year commencing October 31, 2009.

**Conversion:** The New Convertible Debentures are convertible, at the option of the holder at any time prior to April 30, 2012, in whole or in multiples of \$1,000.00, into fully paid and non-assessable Common Shares of the Corporation at the conversion rate of \$1.00 per Common Share.

**Redemption:** The Corporation may, at any time and from time to time, at its option, purchase the New Convertible Debentures for cancellation in the market or by tender or by private contract, at any price agreed to by the holder.

**Change of Control:** Upon a change of control, other than a change of control by N. Murray Edwards, involving the acquisition by any person of voting control or direction over Common Shares, or securities convertible into or carrying the right to Common Shares, representing an aggregate of 66 2/3% or more of the outstanding Common Shares, Magellan will be required to make an offer to acquire all of the New Convertible Debentures at a price equal to 101% of the principal amount of the New Convertible Debentures, plus accrued and unpaid interest, if any.

**Rank:** The New Convertible Debentures are direct secured obligations of Magellan ranking subordinate to all senior debt, including the debt under the Bank Facility Agreement.

For more information, see "*Interest of Management and Others in Material Transactions*" and "*Material Contracts*" and see Note 11 of Magellan's audited consolidated financial statements for the year ended December 31, 2011 filed on SEDAR at [www.sedar.com](http://www.sedar.com), which note is hereby incorporated by reference in this Annual Information Form.

### Secured Subordinated Loan

As at December 31, 2011, Magellan has an amount of \$33.5 million outstanding pursuant to the Secured Subordinated Loan from Edco to the Corporation. The original principal amount of \$65 million was prepaid in the amount of \$31.5 million during 2010 and 2011. On April 28, 2011, the Secured Subordinated Loan was restated and extended to July 1, 2013. The interest rate was decreased from 11% per annum to 7.5% per annum commencing July 1, 2011 in consideration of the payment of a one-time extension fee of 1% of the principal amount outstanding as of July 1, 2011 of \$39.6 million. The interest is calculated and payable monthly and is collateralized and subordinated to the Corporation's existing operating credit facility. The Secured Subordinated Loan is secured by subordinated mortgages on two of Magellan's real properties.

For more information, see "*Material Contracts*" and "*Interest of Management and Others in Material Transactions*" and Note 10 to the Corporation's consolidated financial statements for the year ended December 31, 2011 filed on SEDAR at [www.sedar.com](http://www.sedar.com), which note is incorporated by reference in this Annual Information Form. See "*Risks Inherent in Magellan's Business – The Corporation's debt is significant and may need to be refinanced and such refinancing may not be available*".

### MARKET FOR SECURITIES

The Corporation's Common Shares are listed and posted for trading on the TSX under the symbol "MAL".

The following chart shows the high and low closing prices and the aggregate volumes traded of the Common Shares on the TSX for each month in 2011:

Month	Low (\$)	High (\$)	Volume
January	4.40	4.90	356,741
February	3.80	4.85	373,587
March	3.44	4.50	277,916
April	4.11	5.49	561,792
May	4.35	5.63	351,703
June	3.80	5.05	352,352
July	4.08	4.52	107,970
August	3.18	4.45	180,706
September	2.75	3.57	108,415
October	2.53	3.19	153,651
November	2.77	3.53	123,470
December	2.65	3.72	250,821

Neither the First Preference Shares Series A nor the New Convertible Debentures were listed or quoted on a marketplace.

### DIRECTORS AND OFFICERS

The names and municipalities of residence of the directors and officers of the Corporation, the offices held by them in the Corporation, their principal occupations and the year each director first became a director are set out below. Each of the directors, except for Larry G. Moeller who was not a director for the period from August 14, 1999 to March 3, 2000, has served continuously as a director since the date he was first elected or appointed, which date is indicated below such director's name. The present term of each director will expire immediately prior to the election of directors at the next annual meeting of shareholders, which is scheduled for May 9, 2012. All of the directors are nominees for election at such annual meeting. The information below concerning each of the Corporation's directors (except for information relating to the committee on which such director is a member) has been provided by the individual director.

To the knowledge of the Corporation, no director of the Corporation is, or has been in the last ten years, a director or executive officer of an issuer that, while that person was acting in that capacity, (a) was the subject of a cease trade order or similar order or an order that denied the issuer access to any exemptions under Canadian securities legislation, for a period of more than 30 consecutive days, (b) was subject to an event that resulted, after that person ceased to be a director or executive officer, in the issuer being the subject of a cease

trade or similar order or an order that denied the issuer access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days, or (c) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, except as disclosed in the notes to the following table.

Director's Name, Municipality of Residence and Year First Became Director	Office Held	Principal Occupation
N. MURRAY EDWARDS Calgary/Banff, Alberta, Canada (1995)	Chairman of the Board and Director	President, Edco Financial Holdings Ltd. (private consulting and management company)
RICHARD A. NEILL <sup>(4)</sup> Oakville, Ontario, Canada (1996)	Vice-Chairman of the Board and Director	Vice-Chairman of the Board, Magellan Aerospace Corporation
JAMES S. BUTYNIC <sup>(5)</sup> Carlisle, Ontario, Canada (2008)	Director	President and Chief Executive Officer, Magellan Aerospace Corporation
HON. WILLIAM G. DAVIS <sup>(3)</sup> Brampton, Ontario, Canada (1989)	Director	Counsel, Davis Webb LLP (Brampton law firm)
WILLIAM A. DIMMA <sup>(1)(2)</sup> Toronto, Ontario, Canada (1989)	Director	Corporate Director
BRUCE W. GOWAN <sup>(1)(2)(3)</sup> Huntsville, Ontario, Canada (1990)	Director	Corporate Director
DONALD C. LOWE <sup>(1)(4)</sup> Toronto, Ontario, Canada (1992)	Director	Corporate Director
LARRY G. MOELLER <sup>(4)(6)</sup> Calgary, Alberta, Canada (1995)	Director	President, Kimball Capital Corporation (private consulting and management company)
JAMES S. PALMER <sup>(2)(3)</sup> Calgary, Alberta, Canada (1995)	Director	Chairman Emeritus, Burnet, Duckworth & Palmer LLP (law firm)

Notes:

- (1) Member of the Audit Committee
- (2) Member of the Governance and Nominating Committee
- (3) Member of the Human Resources and Compensation Committee
- (4) Member of the Environmental and Health & Safety Committee
- (5) Effective January 28, 2008, Mr. Butyniec was appointed President and Chief Executive Officer of the Corporation. Prior thereto Mr. Butyniec was President and Chief Operating Officer from January 1, 2007. Prior thereto Mr. Butyniec was Executive Vice-President and Chief Operating Officer, North America from March 10, 2005.
- (6) Mr. Moeller was a director of Protective Products of America, Inc. when the corporation and its subsidiaries filed on January 13, 2010 voluntary petitions for relief under Chapter 11 of the United



States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Florida, Fort Lauderdale Division. On January 14, 2010, the shares of the corporation were suspended from trading on the Toronto Stock Exchange and were delisted on February 19, 2010 for failure to meet continued listing requirements.

Executive Officer's Name and Municipality of Residence	Office Held	Principal Occupation
JO-ANN C. BALL Toronto, Ontario, Canada	Vice President, Human Resources	Vice President, Human Resources, Magellan Aerospace Corporation
JAMES S. BUTYNIEC Carlisle, Ontario, Canada	President and Chief Executive Officer	President and Chief Executive Officer, Magellan Aerospace Corporation
JOHN B. DEKKER Burlington, Ontario, Canada	Vice President, Finance and Corporate Secretary	Vice President, Finance and Corporate Secretary, Magellan Aerospace Corporation
KONRAD B. HAHNELT Waterloo, Ontario, Canada	Vice President, Strategic Global Sourcing	Vice President, Strategic Global Sourcing, Magellan Aerospace Corporation
LARRY A. WINEGARDEN Markham, Ontario, Canada	Vice President, Corporate Strategy	Vice President, Corporate Strategy, Magellan Aerospace Corporation
DANIEL R. ZANATTA Ridgeway, Ontario, Canada	Vice President, Business Development, Marketing & Contracts	Vice President, Business Development, Marketing & Contracts, Magellan Aerospace Corporation

During the past five years, all of the directors and officers of the Corporation have been engaged in their principal occupations or in other executive capacities with the corporations or firms with which they currently hold positions except for Mr. Zanatta. Effective April 15, 2011, Mr. Zanatta was appointed as Vice, President, Business Development, Marketing & Contracts. Effective March 1, 2010, Mr. Zanatta was appointed as Vice President, North American Operations of the Corporation. Prior to March 1, 2010, Mr. Zanatta was Magellan's Vice President and General Manager at two of the Corporation's divisions and has been with the Corporation since 1979.

As at March 26, 2012, the directors and executive officers of the Corporation, as a group, beneficially own, directly or indirectly, or exercise control or direction over, 43,570,972 Common Shares representing approximately 77.5% of the outstanding Common Shares of the Corporation.

Circumstances may arise where members of the Board of Directors of Magellan serve as directors or officers of corporations which are in competition to its interests. No assurances can be given that opportunities identified by such board members will be provided to the Corporation.

The Business Corporations Act (Ontario) provides that in the event that a director has an interest in a contract or proposed contract or agreement with the Corporation, the director shall disclose his interest in such contract or agreement and shall not attend any part of the meeting of directors during which the contract or transaction is discussed and not vote on any matter in respect of such contract or agreement unless otherwise provided under such Act. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of such Act.

## **AUDIT COMMITTEE**

### **The Audit Committee's Charter**

The Board of Directors of the Corporation has established an audit committee (the "Audit Committee") with the responsibility for monitoring the Corporation's systems and procedures for financial reporting, risk management

and internal controls, for reviewing all public disclosure documents containing financial information, and for monitoring the performance of the Corporation's external auditors. The responsibilities of the Audit Committee are set out in a written charter, which is reviewed and approved by the Board of Directors. The current Charter of the Audit Committee was approved by the board on May 17, 2006 and is set out in full in Appendix "A" to this Annual Information Form.

### **Composition of the Audit Committee**

The Audit Committee is composed of the following three members: William A. Dimma, Bruce W. Gowan and Donald C. Lowe. Each of the Audit Committee members is independent and financially literate within the meaning of Multilateral Instrument 52-110 – Audit Committees ("MI 52 101") which means that each of them (i) has no direct or indirect material relationship with the Corporation, other than being one of its directors, and (ii) has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

### **Relevant Education and Experience**

Each member of the Audit Committee has developed considerable experience and expertise related to financial and accounting matters which are relevant to the performance of their respective responsibilities as an Audit Committee member. More particularly, each of them has developed and acquired (i) an understanding of the accounting principles used by the Corporation to prepare its financial statements; (ii) the ability to assess the general application of such accounting principles in connection with the accounting estimates, accruals and reserves; (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements, or experience actively supervising one or more persons engaged in such activities; and (iv) an understanding of internal controls and procedures for financial reporting.

The following is a description of the education and experience of each Audit Committee member that is relevant to the performance of their responsibilities as Audit Committee members.

#### *William A Dimma*

Mr. Dimma is the Chairman of the Audit Committee. Mr Dimma has been a director of the Corporation since 1989 and a member and chairman of the Audit Committee since 1995.

Mr. Dimma received an engineering degree (B.A. Sc.) from the University of Toronto, an M.B.A. from York University, and a D.B.A. from Harvard University. He is also a P.Eng. and an ICD.D. He has been or continues to be a member of twelve audit committees over the past forty years.

#### *Bruce W. Gowan*

Mr. Gowan, a Chartered Accountant, has been a director of the Corporation since 1990, a member of the Audit Committee since 2000 and was Chief Financial Officer of the Corporation during the period 1983 to 1999.

Mr. Gowan completed his academic requirements for his Chartered Accountancy designation, Ontario, through Queen's University.

#### *Donald C. Lowe*

Mr. Lowe has been a director of the Corporation since 1992 and a member of the Audit Committee since 2005. Mr. Lowe is an experienced business executive.

A graduate of Oshawa Collegiate & Vocational Institute, Mr. Lowe also holds a Bachelor of Applied Science degree from the University of Toronto, a Masters of Science degree from the University of Birmingham, England and attended the Harvard International Senior Managers Program, Switzerland.

### Pre-Approval Policies and Procedures

The Audit Committee pre-approves all permitted audit, audit-related and non-audit services to be performed by Ernst & Young LLP, the Corporation's external auditors.

### External Auditor Service Fees

The following is the aggregate fees billed by the Corporation's external auditors, Ernst & Young LLP in each of the last two fiscal years by category of services provided:

	Fiscal year ended December 31	
	2011	2010
Audit fees	\$1,345,390	\$1,378,650
Audit-related fees	411,609	198,175
Tax fees	88,516	27,450
All other fees	-	-
<b>Total</b>	<b>\$1,845,515</b>	<b>\$1,604,275</b>

*Audit Fees.* Audit fees include fees for services that would normally be provided by the external auditor in connection with statutory and regulatory filings or engagements, including fees for services necessary to perform an audit or review in accordance with generally accepted auditing standards. This category also includes services that generally only the external auditor reasonably can provide, including comfort letters, statutory audits, attest services, consents and assistance with and review of certain documents filed with securities regulatory authorities.

*Audit-Related Fees.* Audit-related fees are for assurance and related services, such as due diligence services that traditionally are performed by the external auditor. More specifically, these services include, among others, assistance in preparing for requirements of International Financial Reporting Standards, Bill 198, employee benefit plan audits, due diligence related to mergers and acquisitions, accounting consultations and audits in connection with acquisitions, attest services that are not required by statute or regulation, and consultation concerning financial accounting and reporting standards.

*Tax Fees.* Tax fees are principally for assistance in tax compliance, tax return preparation, tax advisory services and support regarding tax audits.

*All Other Fees.* All other fees include fees for litigation and advisory support services.

### INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

During the Corporation's last three completed financial years or during the current financial year as of March 26, 2012, no director or executive officer of the Corporation, or any person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10 percent of any class or series of the Corporation's outstanding voting securities, or an associate or affiliate of any of the foregoing persons or companies, had or has any material interest, direct or indirect, in any transaction with the Corporation that has materially affected or will materially affect the Corporation other than as described herein and below.

1. The obligations of Magellan under the Bank Facility Agreement are fully guaranteed and secured by Mr. Edwards. The guarantee fee payable to Mr. Edwards remained at 1.35% per annum (\$2.8 million) on the renewal of the Bank Facility Agreement on April 30, 2009. On March 26, 2010, the Bank Facility Agreement was amended and Mr. Edwards agreed to fully guarantee and secure the obligations of Magellan under the Bank Facility Agreement until May 21, 2011. The fee payable to Mr. Edwards was 1.15% per annum (\$2.1 million) of the principal amount guaranteed. On April 28, 2011,

Mr. Edwards agreed to fully guarantee and secure the obligations of Magellan under the Bank Facility Agreement until April 28, 2013. The fee payable to Mr. Edwards was decreased to 0.63% per annum (\$1.4 million) of the principal amount guaranteed. For additional information, reference is made to "*General Development of the Business – Financing Matters*", "*Borrowings – Bank Credit Facility*" and "*Material Contracts*".

2. On April 30, 2009, Mr. Edwards purchased \$40.0 million principal amount of the New Convertible Debentures. On December 31, 2011, Mr. Edwards converted \$38.0 million principal amount of the New Convertible Debentures at \$1.00 per Common Share, the entire amount of New Convertible Debentures then held by Mr. Edwards. On conversion, Mr. Edwards acquired an additional 38,000,000 Common Shares. For additional information, reference is made to "*General Development of the Business – Financing Matters*", "*Borrowings – New Convertible Debentures due April 30, 2012*" and "*Material Contracts*".
3. On April 30, 2009, Edco's loan to the Corporation of \$50.0 million was increased to \$65.0 million (the "Secured Subordinated Loan"). For additional information as to the terms of the Secured Subordinated Loan, see "*General Development of the Business – Financing Matters*", "*Borrowings – Secured Subordinated Loan*" and "*Material Contracts*". On March 26, 2010, the Secured Subordinated Loan in the principal amount of \$65.0 million from Edco to the Corporation was amended by decreasing the interest rate from 12% per annum to 11% per annum commencing July 1, 2010 and extending the loan to July 1, 2011 in consideration of the payments of an aggregate extension fee to Edco equal to 1% of the principal amount. The Corporation was also granted the option, exercisable on or before July 1, 2011, to renew the Secured Subordinated Loan under certain conditions. On April 28, 2011, the Secured Subordinated Loan was restated and extended to July 1, 2013 on the same terms and conditions except that the interest rate was reduced from 11% to 7.5% per annum in consideration of the payment of a one-time extension fee of 1% of the principal amount outstanding as of July 1, 2011. The Corporation has the right to prepay the Secured Subordinated Loan at any time without penalty. During 2010 and 2011, the Corporation prepaid the Secured Subordinated Loan by \$31.5 million. For more information, in relation to these financing arrangements, see "*Borrowings – Secured Subordinated Loans*" and Note 10 to the Corporation's audited financial statements for the year ended December 31, 2011 which have been filed on SEDAR at [www.sedar.com](http://www.sedar.com) and which is incorporated herein by reference.
4. Magellan sold receivables pursuant to numerous financing agreements entered into during 2009 to Balinhard Capital Corporation, a corporation wholly-owned by Mr. Moeller, a director of the Corporation, in the aggregate amount of \$65.4 million, for a discount of \$0.8 million in 2009. All these sales were made at market rates. This securitization facility expired on December 31, 2009.

For additional information on certain of these transactions, see Note 25 to the Corporation's audited financial statements for the year ended December 31, 2011 filed on SEDAR, at [www.sedar.com](http://www.sedar.com), which note is hereby incorporated herein by reference.

To the knowledge of the directors and officers of the Corporation, other than as set out in the table below, no person beneficially owns or exercises control or direction over shares carrying more than 10% of the voting rights attached to any class of voting shares of the Corporation.

<b>Name and Address of Holder</b>	<b>Class of Shares</b>	<b>Type of Ownership</b>	<b>Number of Common Shares</b>	<b>Percentage of Common Shares</b>
N. Murray Edwards Calgary/Banff, Alberta	Common Shares	Direct and Indirect	43,056,979	76.6%

### **MATERIAL CONTRACTS**

The material contracts of the Corporation that were entered into within the most recently completed financial year, or entered into before the most recently completed financial year which are still in effect, other than contracts entered into in the ordinary course of business are as follows:

1. Amended and Restated Promissory Note and Guarantee Agreement dated April 28, 2011 for the Secured Subordinated Loan outstanding as of December 31, 2011 in the principal amount of \$33.5 million due July 1, 2013 by Magellan in favour of Edco and guaranteed by Magellan Aerospace Limited and Magellan Aerospace USA, Inc. See "*General Development of the Business – Financing Matters*" and "*Borrowings - Secured Subordinated Loan*".
2. Credit Agreement dated May 27, 2005 between Magellan and a number of lenders, as amended May 2, 2006, September 28, 2006, March 30, 2006, December 31, 2007 and January 30, 2008, and amended and restated on June 24, 2008, and further amended April 30, 2009, March 26, 2010 and April 29, 2011 (the "Bank Facility Agreement") which is the subject of amended and restated guarantees by Mr. Edwards dated as of June 24, 2008. Amended and Restated Undertaking between Mr. Edwards and Magellan Aerospace Limited in respect of the guarantees, dated April 28, 2011. See "*General Development of the Business – Financing Matters*" and "*Borrowings – Bank Credit Facility*".

For more information, in relation to recent financing arrangements, see "*General Development of the Business – Financing Matters*", "*Borrowings – Secured Subordinated Loans*" and Notes 8 and 10 to the Corporation's audited financial statements for the year ended December 31, 2011 filed on SEDAR at [www.sedar.com](http://www.sedar.com) and which is incorporated herein by reference.

### **TRANSFER AGENT AND REGISTRAR**

Computershare Investor Services Inc., Toronto, Ontario is the transfer agent and registrar for the Corporation's Common Shares. The Corporation was the transfer agent and registrar for the Corporation's First Preference Shares Series A.

### **INTERESTS OF EXPERTS**

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Corporation during, or related to, its most recently completed financial year other than Ernst & Young LLP, the Corporation's external auditors. Ernst & Young LLP is independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

### **ADDITIONAL INFORMATION**

Additional information relating to the Corporation may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information relating to directors' and officers' remuneration and indebtedness, principal holders of the Corporation's voting shares and options to purchase the Corporation's shares is contained in the Corporation's Management Information Circular prepared in connection with the annual meeting of shareholders of the Corporation to be held on May 9, 2012. Additional financial information is provided in the Corporation's consolidated financial statements for the year ended December 31, 2011 and Management's Discussion and Analysis which have been filed on SEDAR at [www.sedar.com](http://www.sedar.com)

Copies of the Management Information Circular, the financial statements, including any interim financial statements, Management's Discussion and Analysis, additional copies of this Annual Information Form, any other documents incorporated therein by reference may be obtained upon request from the Secretary of the Corporation at the head office, Magellan Aerospace Corporation, 3160 Derry Road East, Mississauga, Ontario, L4T 1A9. Telephone: (905) 677 1889; Facsimile: (905) 677 5658.

**APPENDIX "A"**  
**MAGELLAN AEROSPACE CORPORATION**  
**CHARTER OF THE AUDIT COMMITTEE**

***MANDATE***

The Audit Committee (the "Committee") is appointed by the Board of Directors (the "Board") of Magellan Aerospace Corporation (the "Corporation") to assist the Board in its oversight of the reliability and integrity of the accounting principles and practices, financial statements and other financial reporting, and disclosure practises followed by the Corporation and its subsidiaries.

The Committee's primary duties and responsibilities are to:

- Review and assess management's identification of principal financial risks and monitor the process to manage such risks.
- Review and assess management's overall process to identify principal risks that could affect the achievement of the Corporation's business plans.
- Monitor and report on the integrity of the Corporation's financial statements, financial reporting processes and systems of internal controls regarding financial reporting and accounting compliance and compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and disclosure of material facts.
- Select and recommend to the Board for appointment by the shareholders, the Corporation's external auditors and the fee of the external auditors.
- Oversee the work of the external auditors.
- Pre-approve all audit and non-audit services to be provided by the Corporation's external auditors consistent with all applicable laws and establish the fees and other compensation to be paid to the external auditors.
- Monitor the independence and performance of the Corporation's external auditors.
- Monitor the performance of the internal audit processes.
- Establish procedures for the receipt, retention, response to and treatment of complaints, including confidential anonymous submissions by the Corporation's employees, regarding accounting, internal control or auditing matters.
- Provide an avenue of communication among the external auditors, management, the internal auditing function, and the Board.
- Report to the Board.

The Committee has the authority to conduct any review or investigation appropriate to fulfilling its responsibilities. The Committee shall have unrestricted access to personnel and information, and any resources necessary to carry out its responsibility. In this regard, the Committee may direct management to particular areas of examination.

## **MAJOR RESPONSIBILITIES AND FUNCTIONS**

### ***Review Procedures***

Review and update the Committee's Charter at least annually and provide a summary of the Committee's composition and responsibilities in the Corporation's annual report or other public disclosure documentation. Ensure the processes are in place to annually evaluate the performance of the Committee and report to the Board on the results of such evaluation.

### ***Annual Financial Statements***

1. Review the Corporation's annual audited financial statements and related documents prior to their filing or distribution. Such review to include:
  - (a) A review with the external auditors and management of the annual financial statements and related footnotes including significant issues and disclosures regarding accounting policies and practices and any changes thereto.
  - (b) A review with the external auditors and management of the use of off-balance sheet financing, if any, including management's risk assessment and adequacy of disclosure.
  - (c) A review with the external auditors of the audit plan and the results of the audit including any significant changes required in the audit plan.
  - (d) A review of any significant disagreements between the external auditors and management encountered during the course of the audit, including any restrictions on the scope of the external auditors' work or access to required information.
  - (e) A review of other matters related to the conduct of the audit, which are to be communicated to the Committee under generally accepted auditing standards.
2. Review and formally recommend approval to the Board of the Corporation's:
  - (a) Year-end audited financial statements and disclosures.
  - (b) Annual earnings press releases.
  - (c) Management's Discussion and Analysis.
  - (d) Annual Information Form.
  - (e) All prospectuses and information circulars as to financial information provided therein.

### ***Quarterly Financial Statements***

1. Review with management and the external auditors and recommend for approval to the Board the Corporation's:
  - (a) Quarterly unaudited financial statements and related documents, including management's discussion and analysis and interim earnings press releases.
  - (b) Any significant changes to the Corporation's accounting principles.



***Other Financial Filings and Public Documents***

1. Review financial information contained in any filings with the securities regulators or news releases related thereto and consider whether the information is consistent with the information contained in the financial statements of the Corporation.

***Internal Control Environment***

1. Ensure that management and the external auditors provide to the Committee an annual report on the Corporation's financial control environment as it pertains to the Corporation's financial reporting process and controls.
2. Review and discuss significant financial risks or exposures and assess the steps management has taken to monitor, control, report and mitigate such risk to the Corporation.
3. Review the effectiveness of the overall process for identifying the principal risks affecting the achievement of business plans and provide the Committee's view to the Board.
4. Review in consultation with management and the external auditors the degree of coordination in management's audit plans relating to the internal control environment and the external auditors audit plan and enquire as to the extent the planned scope can be relied upon to detect weaknesses in internal controls, fraud, or other illegal acts. The Committee will assess the coordination of audit effort to assure completeness of coverage and the effective use of audit resources. Any recommendations made by the auditors for the strengthening of internal controls shall be reviewed and discussed with management.
5. Review the hedging and risk management policies and procedures of the Corporation.
6. Review legal and regulatory matters that may have a material impact on the interim or annual financial statements, related Corporation compliance policies and programs and reports received from regulators.
7. Review policies and procedures with respect to officers' and directors' expense accounts and perquisites, including their use of corporate assets, and consider the results of any review of these areas by the internal auditor or the external auditors.
8. Review all related party transactions between the Corporation and any officers or directors.

***External auditors***

1. Meet quarterly with the external auditors to review amongst other things the quarterly and annual financial statements of the Corporation and have the external auditors be available to attend Committee meetings or portions thereof at the request of the Chairman of the Committee or by a majority of the members of the Committee.
2. Review and discuss with the external auditors all significant relationships that the external auditors and their affiliates have with the Corporation and its affiliates in order to determine the external auditors' independence, including, without limitation, (i) requesting, receiving and reviewing, no less than annually, a formal written statement from the external auditors delineating all relationships that may reasonably be thought to bear on the independence of the external auditors with respect to the Corporation and its affiliates, (ii) discussing with the external auditors any disclosed relationships or services that the external auditors believe may affect the objectivity and independence of the external auditors, and (iii) recommending that the Board take appropriate action in response to the external auditors' report to satisfy itself of the external auditors' independence.

3. Review:

- (a) The external auditor's performance, and make a recommendation to the Board regarding the reappointment of the external auditors at the annual meeting of the Corporation's shareholders or regarding the discharge of such external auditors.
  - (b) The terms of engagement of the external auditors together with their proposed fees.
  - (c) External audit plans and results.
  - (d) Any other related audit engagement matters.
  - (e) The engagement of the external auditors to perform non-audit services, if any, together with the fees therefor, and the impact thereof, on the independence of the external auditors.
4. Consider with management and the external auditors the rationale for employing audit firms other than the principal external auditors, including a review of management consulting services and related fees provided by the external auditors compared to those of other audit firms.

***Other matters***

- 1. Review and concur in the appointment, replacement, reassignment, or dismissal of the Chief Financial Officer.
- 2. Report Committee actions to the Board with such recommendations, as the Committee may deem appropriate.
- 3. Conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee shall be empowered to retain independent counsel, accountants, or others to assist it in the conduct of any investigation.
- 4. Perform such other functions as required by law, the Corporation's mandate or By-laws, or the Board.
- 5. Consider any other matters referred to it by the Board.
- 6. Nothing contained in this charter is intended to transfer to the Committee the Board's responsibility to ensure the Corporation's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the Committee. While the Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Committee to plan or conduct audits, to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles, or to design or implement an effective system of internal controls. Such matters are the responsibility of management and the independent external auditors, as the case may be. Members of the Committee are entitled to rely, absent knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, and (iii) representations made by management as to the non-audit services provided to the Corporation by the external auditors.

**OPERATION OF COMMITTEE**

***Reporting***

The Committee shall report to the Board following each meeting of the Committee.

### ***Composition of Committee***

The Committee shall consist of not less than 3 nor more than 5 directors all of whom shall qualify as independent directors. All members of the Committee shall have the financial literacy to be able to read and understand the Corporation's financial statements and to understand the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements. In addition, the Committee's composition, including the qualifications and experience of its members, shall comply with the applicable requirements of the Toronto Stock Exchange ("TSX"), the Ontario Securities Commission (the "OSC") and other securities regulatory authorities to which the Corporation may be subject, as adopted or in force or amended from time to time. The Board will consider the appropriateness of the application of all TSX guidelines and OSC rules and recommendations regarding the composition of the Committee.

### ***Appointment of Committee Members***

Members of the Committee shall be appointed by the Board at a meeting, typically held immediately after the annual shareholders' meeting, provided that any member may be removed or replaced at any time by the Board and shall in any event cease to be a member of the Committee upon ceasing to be a member of the Board.

### ***Vacancies***

Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board.

### ***Chairman***

The Chairman of the Board, based on the recommendation of the Corporate Governance and Nominating Committee, will recommend an independent director as Chairman of the Committee to the Board for approval.

If the Chairman of the Committee is not present at any meeting of the Committee, one of the other members of the Committee present at the meeting shall be chosen by the Committee to preside.

The Chairman presiding at any meeting shall not have a casting vote.

### ***Secretary***

The Committee shall appoint a Secretary who need not be a member of the Committee or a director of the Corporation. The Secretary shall keep minutes of the meetings of the Committee.

### ***Committee Meetings***

The Committee shall meet at least quarterly at the call of the Chairman. In addition, a meeting may be called by any director or by the external auditors.

Committee meetings may be held in person, by video-conference, by means of telephone or by any combination of any of the foregoing.

### ***Notice of Meeting***

Notice of the time and place of every meeting may be given orally, in writing, by facsimile or by e-mail to each member of the Committee and to external auditors at least 48 hours prior to the time fixed for such meeting.

A member may in any manner waive notice of the meeting. Attendance of a member at the meeting shall constitute waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting was not lawfully called.

**Quorum**

A majority of committee members, present in person, by video-conference, by telephone or by a combination thereof, shall constitute a quorum.

**Attendance at Meetings**

The President and Chief Executive Officer, the Chief Financial Officer, the Corporate Controller and the head of internal audit are expected to be available to attend meetings, but a portion of every meeting will be reserved for in-camera discussion without members of management, being present.

The Committee may by specific invitation have other resource persons in attendance.

The Committee shall have the right to determine who shall and who shall not be present at any time during a meeting of the Committee.

**Minutes**

Minutes of Committee meetings shall be sent to all Committee members and to the external auditors.

**Engaging Outside Resources**

The Committee is empowered to engage outside resources, as it deems advisable, at the expense of the Corporation.