MAGELLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") provides a review of activities, results of operations, and financial condition of Magellan Aerospace Corporation for the three and six months ended June 30, 2012, in comparison with those for the three and six months ended June 30, 2011. References to "Magellan" or "the Corporation" refer to Magellan Aerospace Corporation and its subsidiaries, as applicable. The following discussion should be read in conjunction with the unaudited interim consolidated financial statements, including the notes thereto, for the three months ended June 30, 2012, and the audited annual consolidated financial statements for the year ended December 31, 2011. The date of the MD&A is August 10, 2012. All financial references are in Canadian dollars unless otherwise noted.

The MD&A contains forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance. All statements other than statements of historical facts may be forward-looking statements. In particular and without limitation there are forward looking statements under the heading " Overview", "Business Updates", "Analysis of Operating Results", "Liquidity and Capital Resources", "Changes in Accounting Policies", and "Outlook". In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", and similar expressions. The projections, estimates and beliefs contained in such forward-looking statements are based on management's assumptions relating to the production performance of Magellan's assets and competition throughout the aerospace industry in 2012 and continuation of the current regulatory and tax regimes in the jurisdictions in which the Corporation operates, and necessarily involve known and unknown risks and uncertainties, including the business risks discussed in this MD&A, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Except as required by law, the Corporation does not undertake to update any forward-looking information in this document whether as to new information, future events or otherwise.

The MD&A presents certain non-IFRS financial measures to assist readers in understanding the Corporation's performance. Non-IFRS financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with Generally Accepted Accounting Principles ("GAAP"). Throughout this discussion, reference is made to EBITDA (defined as net income before interest, income taxes, depreciation, amortization, dividends and stock based compensation), which the Corporation considers to be an indicative measure of operating performance and a metric to evaluate profitability. Reference is also made to gross profit which represents revenues less direct costs and expenses. Not included in the calculation of gross profit are administrative and general expenses, foreign exchange, gains or losses on the sale of assets, dividends, interest and income taxes. EBITDA and gross profit are not generally accepted earnings measures and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, the Corporation's EBITDA and gross profit may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA to net income (loss) reported in accordance with IFRS are included in this MD&A.

OVERVIEW

Magellan is a diversified supplier of components to the aerospace industry and in certain circumstances for power generation projects. 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 and supplies in certain circumstances parts and equipment for power generation projects.

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 aluminum alloy castings, repair and overhaul technologies and design of structures. The Corporation is now seeking to leverage these core competencies by achieving growth in applications where these abilities are critical in meeting customer needs.

BUSINESS UPDATE

Results for the second quarter of 2012 improved over those reported in the second quarter of 2011. Revenues reflected a decrease primarily as a result of the timing of revenues in the power generation project segment.

Business development activity increased during the quarter as the Corporation continues to leverage its core expertise to develop integrated solutions for its customers. This was demonstrated by recent contract awards that seamlessly utilize the capabilities of two or more Magellan operating units to offer a higher value-added product to the customer.

At the recent Farnborough International Air Show, Magellan met with major customers and received favourable reaction to its re-branding campaign and to the strategic direction of the Corporation. The Corporation also announced at the show, a contract extension agreement worth £370 million with Airbus, covering aluminum and titanium wing structure components for use on A320, A330, and A380 aircraft. This significant contract complements the new A350 XWB contracts that Magellan has been awarded and secures Magellan as a supplier on every Airbus commercial program. Additionally, in the second quarter of 2012, the Corporation announced a significant ten year contract extension with Boeing. Based on current market forecasts it is expected that this contract in support of the full family of Boeing airliners will support annual revenues exceeding $80 million.

Magellan is an industry partner in the global F-35 Lightning II aircraft program. At a recent production readiness review for the Horizontal Tail Program with BAE, Lockheed Martin, and the US Government, Magellan was recognized for successfully transitioning the program production and assembly activities into a new Advanced Composite Manufacturing Centre as well as for the quality of production. As of June 30, 2012 the multi-role fighter had conducted 595 test flights in 2012 versus a plan of 445 and for the 18th consecutive month, the test program remained ahead of plan. Concerns with the development of the F-35 Program are in decline and the production readiness of the supply chain is increasing due to the steady progression in achieving key program milestones.

Magellan will achieve a major milestone this summer with the completion of the Critical Design Review for the RADARSAT Constellation Mission ("RCM") contract with MacDonald, Dettwiler and Associates Ltd. The $130 million RCM contract is a three-satellite constellation of radar-imaging, earth observation satellites that will undergo manufacturing, assembly, integration and testing at Magellan commencing in early 2013 through to 2015.

Magellan expects to complete the installation and commissioning of a 132 megawatt electric power generation plant in the Republic of Ghana by the end of 2012. The work is being performed under contract with Canadian Commercial Corporation.

The diversity of the Corporation's markets and customer base is expected to assist the Corporation in managing and mitigating the effects of economic uncertainties.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2011 Annual Report available on www.sedar.com.

ANALYSIS OF OPERATING RESULTS FOR THE SECOND QUARTER ENDED JUNE 30, 2012

The Corporation reported higher revenue in its aerospace segment and lower revenue in its power generation project segment in the second quarter of 2012 when compared to the second quarter of 2011. Gross profit and net income for the second quarter of 2012 were $23.0 million and $9.2 million, respectively, an increase from the second quarter of 2011 gross profit of $21.1 million and from the second quarter of 2011 net income of $4.9 million.

Consolidated Revenue

Overall, the Corporation's revenues decreased when compared to the second quarter of 2011.

	Three month period ended June 30			Six month period ended June 30		
Expressed in thousands of dollars	**2012**	2011	Change	**2012**	2011	Change
Aerospace	**162,956**	143,711	13.4%	**329,093**	298,326	10.3%
Power Generation Project	**6,505**	42,279	(84.6)%	**27,360**	58,151	(53.0)%
Total revenues	**169,461**	185,990	(8.9)%	**356,453**	356,477	-%

Consolidated revenues for the second quarter ended June 30, 2012 decreased 8.9% to $169.5 million from $186.0 million in the second quarter of 2011 due mainly to higher volumes in the aerospace segment offset by the lower revenues earned in the power generation project segment. As the Corporation moves through 2012, revenue from the power generation project will continue to decrease on a year over year basis unless the Corporation receives further contracts in this area.

Aerospace Segment

Revenues for the Aerospace segment were as follows:

	Three month period ended June 30			Six month period ended June 30		
Expressed in thousands of dollars	**2012**	2011	Change	**2012**	2011	Change
Canada	**71,912**	64,293	11.9%	**147,779**	136,662	8.1%
United States	**51,162**	47,005	8.8%	**100,692**	94,027	7.1%
United Kingdom	**39,882**	32,413	23.0%	**80,622**	67,637	19.2%
Total revenues	**162,956**	143,711	13.4%	**329,093**	298,326	10.3%

Consolidated aerospace revenues for the second quarter of 2012 of $163.0 million were 13.4% higher than revenues of $143.7 million in the second quarter of 2011. Revenues in Canada in the second quarter of 2012 increased 11.9% from the same period in 2011. The Corporation's revenue in the second quarter of 2012 was impacted negatively by approximately $5.5 million due to a work stoppage at the Corporation's Haley location and was impacted negatively in the second quarter of 2011 by approximately $12 million due to a work stoppage at the Corporation's Winnipeg location. Revenues increased by 8.8% in the United States in the second quarter of 2012 in comparison to the second quarter of 2011, primarily due to volume increases on several of the Corporation's single and double aisle aircraft programs and the movement of the stronger US dollar in comparison to the CDN dollar during the same periods in 2012 and 2011. Revenues in the United Kingdom in the second quarter of 2012 increased by 23.0% over revenues in the same period in 2011 as the Airbus statement of work continues to increase in volume on both new and existing programs.

Power Generation Project Segment

Revenues for the Power Generation Project segment were as follows:

	Three month period ended June 30			Six month period ended June 30		
Expressed in thousands of dollars	**2012**	2011	Change	**2012**	2011	Change
Power Generation Project	**6,505**	42,279	(84.6)%	**27,360**	58,151	(53.0)%
Total revenues	**6,505**	42,279	(84.6)%	**27,360**	58,151	(53.0)%

The Corporation's progress achieved on the Ghana electric power generation project in the second quarter of 2012 decreased in comparison to the progress made in the previous year's same quarter as the project approaches the estimated completion date in the fourth quarter of 2012. In addition, the Corporation recognized revenue in the second quarter of 2011 on additional work which was over and above the initial contract that had previously been recorded in inventory. As the Corporation moves through 2012, revenue from the Power Generation Project will decrease on a year over year basis unless the Corporation receives further contracts in this area.

Gross Profit

	Three month period ended June 30			Six month period ended June 30		
Expressed in thousands of dollars	**2012**	2011	Change	**2012**	2011	Change
Gross profit	**23,005**	21,096	9.1%	**49,012**	44,855	9.3%
Percentage of revenues	**13.6%**	11.4%		**13.8%**	12.6%	

Gross profit of $23.0 million (13.6% of revenues) was reported for the second quarter of 2012 compared to $21.1 million (11.4% of revenues) during the same period in 2011. Gross profit in the most recent quarter of 2012 increased over the same period in 2011 due to the change in mix of revenue between the different segments of the Corporation and the recognition of an impairment reversal of $1.5 million in the second quarter of 2012. The Corporation earned lower gross profits in the second quarter of 2012 and 2011 as a result of the work stoppages at the Corporation's Haley and Winnipeg locations respectively**.**

Administrative and General Expenses

	Three month period ended June 30			Six month period ended June 30		
Expressed in thousands of dollars	**2012**	2011	Change	**2012**	2011	Change
Administrative and general expenses	**9,221**	9,593	(3.9)%	**19,149**	18,836	1.7%
Percentage of revenues	**5.4%**	5.2%		**5.4%**	5.3%	

Administrative and general expenses were $9.2 million (5.4% of revenues) in the second quarter of 2012 compared to $9.6 million (5.2% of revenues) in the second quarter of 2011.

Other

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2012	2011	**2012**	2011
Foreign exchange loss (gain)	**142**	514	**(37)**	393
Loss on disposal of property, plant and equipment	**8**	8	**11**	30
Total other	**150**	522	**(26)**	423

Other loss of $0.2 million and $0.5 million in the second quarter of 2012 and 2011 respectively, consisted of realized and unrealized foreign exchange losses and losses on the disposal of property, plant and equipment.

Interest Expense

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2012	2011	**2012**	2011
Interest on bank indebtedness and long-term debt	**1,953**	2,489	**3,923**	5,410
Convertible debenture interest	**16**	1,000	**66**	1,986
Accretion charge for convertible debt, borrowings and long-term debt	**190**	187	**340**	390
Discount on sale of accounts receivable	**156**	192	**295**	344
Total interest expense	**2,315**	3,868	**4,624**	8,130

Interest expense of $2.3 million in the second quarter of 2012 was lower than the second quarter of 2011 amount of $3.9 million, as interest on bank indebtedness and long-term debt decreased as principal amounts outstanding during the second quarter of 2012 were lower than those in the second quarter of 2011. Also reduced interest rates on the long-term debt and lower interest rate spreads on bank indebtedness contributed to the reduction in interest expense in the current quarter when compared to the second quarter of 2011. Interest expense on convertible debentures decreased as the full amount of the $40,000 principal amount outstanding at the end of the second quarter of 2011 was converted by the end of the second quarter of 2012.

Provision for Income Taxes

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2012	2011	**2012**	2011
Expense of current income taxes	**872**	2	**1,785**	25
Expense of deferred income taxes	**1,241**	2,146	**2,450**	5,014
Total expense of income taxes	**2,113**	2,148	**4,235**	5,039
Effective tax rate	**18.7%**	30.5%	**16.8%**	29.4%

The Corporation recorded an income tax expense of $2.1 million in both the second quarter of 2012 and 2011. The change in effective tax rates quarter over quarter is a result of a changing mix of income across the different jurisdictions in which the Corporation operates and the inclusion of $1.8 million as a reduction in deferred income tax, due to the recognition of previously unrecognized deferred tax assets, which will not be a recurring event in all future periods.

SELECTED QUARTERLY FINANCIAL INFORMATION

	2012		**2011**				**2010**	
Expressed in millions of dollars, except per share amounts	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Revenues	169.5	187.0	173.3	161.6	186.0	170.5	187.9	184.7
Income before income taxes	11.3	13.9	13.8	10.4	7.0	10.1	19.0	8.9
Net Income	9.2	11.8	16.7	8.6	4.9	7.2	15.4	8.0
Net Income per share								
Basic	0.16	0.21	0.90	0.47	0.27	0.40	0.85	0.44
Diluted	0.16	0.20	0.31	0.17	0.10	0.14	0.29	0.16
EBITDA	21.7	23.5	29.6	20.8	18.5	22.7	32.5	22.3

Revenues and net income reported in the quarterly information was impacted by the fluctuations in the Canadian dollar exchange rate in comparison to the US dollar and British Pound. The US dollar/Canadian dollar exchange rate in the second quarter of 2012 fluctuated reaching a low of 0.9810 and a high of 1.0416. During the second quarter of 2012, the British Pound relative to the Canadian dollar fluctuated reaching a low of 1.5773 and a high of 1.6189. Had exchange rates remained at levels experienced in the second quarter of 2011, reported revenues in the second quarter of 2012 would have been lower by $5.62 million. Income before income taxes was higher in the second quarter of 2012 than the same quarter in 2011 in large part due to $1.5 million less interest expense and higher gross profit earned in the second quarter of 2012 than in the same period in 2011. Net income for the fourth quarter of 2010 and 2011 of $15.4 million and $16.7 million respectively was higher than other quarterly net income disclosed in the table above. In the fourth quarter of each year the Corporation recognized a reversal of previous impairment losses against intangible assets relating to various civil aircraft programs. In addition a portion of previously unrecognized deferred tax assets were recognized in the fourth quarter of each year as the Corporation determined that it will be able to benefit from these assets.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

In addition to the primary measures of earnings and earnings per share (basic and diluted) in accordance with IFRS, the Corporation includes certain measures in this quarterly statement, including EBITDA (earnings before interest expense, dividends on preference shares, income taxes, depreciation, amortization and certain non-cash charges). The Corporation has provided these measures because it believes this information is used by certain investors to assess financial performance and EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Corporation's principal business activities prior to consideration of how these activities are financed and how the results are taxed in the various jurisdictions. Each of the components of this measure are calculated in accordance with IFRS, but EBITDA is not a recognized measure under IFRS, and the Corporation's method of calculation may not be comparable with that of other companies. Accordingly, EBITDA should not be used as an alternative to net earnings as determined in accordance with IFRS or as an alternative to cash provided by or used in operations.

	Three month period ended June 30		**Six month period ended June 30**	
Expressed in thousands of dollars	**2012**	2011	**2012**	2011
Net income	**9,206**	4,895	**21,030**	12,117
Interest	**2,315**	3,868	**4,624**	8,130
Dividends on preference shares	**—**	70	**—**	310
Taxes	**2,113**	2,148	**4,235**	5,039
Stock-based compensation	**(3)**	19	**3**	57
Depreciation and amortization	**8,016**	7,449	**15,227**	15,533
EBITDA	**21,647**	18,449	**45,119**	41,186

EBITDA for the second quarter of 2012 was $21.7 million, compared to $18.4 million in the second quarter of 2011. As previously discussed, increased gross profit and decreased interest expense resulted in increased EBITDA for the current quarter.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation's liquidity needs can be met through a variety of sources including cash on hand, cash provided by operations, short-term borrowings from its credit facility and accounts receivable securitization program, and long-term debt and equity capacity. Principal uses of cash are for operational requirements and capital expenditures. Based on current funds available and expected cash flow from operating activities, management believes that the Corporation has sufficient funds available to meet its liquidity requirements at any point in time. However, if cash from operating activities is lower than expected or capital projects exceed current estimates, or if the Corporation incurs major unanticipated expenses, it may be required to seek additional capital in the form of debt or equity or a combination of both.

Cash Flow from Operations

	Three month period ended June 30		Six month period ended June 30	
Expressed in thousands of dollars	**2012**	2011	**2012**	2011
Decrease (increase) in accounts receivable	**1,456**	(7,296)	**(22,466)**	(18,503)
(Increase) decrease in inventories	**(5,330)**	33,815	**(15,623)**	28,588
Decrease (increase) in prepaid expenses and other	**276**	(3,133)	**(969)**	(5,652)
(Decrease) increase in accounts payable, accrued liabilities and provisions	**(7,518)**	(17,128)	**14,618**	(5,028)
Changes to non-cash working capital balances	**(11,116)**	6,258	**(24,440)**	(595)
Cash provided by operating activities	**3,728**	18,635	**8,790**	28,524

In the quarter ended June 30, 2012, the Corporation generated $3.7 million of cash from its operations, compared to cash generated by operations of $18.6 million in the second quarter of 2011. Cash was generated mainly by an increase in net income and decrease in accounts receivable and prepaid expenses offset by increases in inventories and decreases in accounts payable, accrued liabilities and provisions.

Investing Activities

	Three month period ended June 30		Six month period ended June 30	
Expressed in thousands of dollars	**2012**	2011	**2012**	2011
Purchase of property, plant and equipment	**(8,512)**	(8,840)	**(12,496)**	(14,270)
Proceeds of disposals of property plant and equipment	**39**	—	**42**	136
Increase in intangibles and other assets	**(3,075)**	(3,106)	**(8,112)**	(6,923)
Cash used in investing activities	**(11,548)**	(11,946)	**(20,566)**	(21,057)

In the second quarter of 2012, the Corporation invested $8.5 million in property, plant and equipment to upgrade and enhance capabilities for current and future programs and $3.1 million in intangibles and other assets, largely related to deposits placed on new property, plant and equipment to be acquired over the next two years.

Financing Activities

	Three month period ended June 30		Six month period ended June 30	
Expressed in thousands of dollars	**2012**	2011	**2012**	2011
Increase (decrease) in bank indebtedness	**1,788**	9,233	**(3,903)**	8,810
Increase in debt due within one year	**1,751**	3,023	**17,502**	6,781
Decrease in long-term debt	**(3,662)**	(6,186)	**(5,858)**	(8,368)
Increase in long-term debt	**—**	822	**—**	1,989
Increase (decrease) in long-term liabilities and provisions	**10**	(1,121)	**158**	(1,458)
Increase in borrowings	**820**	902	**1,002**	1,618
Redemption of preference shares	**—**	(12,000)	**—**	(12,000)
Cash provided by (used in) financing activities	**707**	(5,327)	**8,901**	(2,628)

In 2011 the Corporation amended its credit agreement with its existing lenders and extended the loan [originally $65.0 million] due on July 1, 2011 (the "Original Loan") to Edco Capital Corporation ("Edco"), which is wholly owned by the Chairman of the Board of the Corporation, in order to provide loan facilities for a two year period. Under the terms of the amended operating credit agreement, the Corporation and the lenders have agreed that the maximum available under the operating credit facility was amended to a Canadian dollar limit of $125.0 million plus a US dollar limit of $50.0 million [previously a Canadian dollar limit of $105.0 million plus a US dollar limit of $70.0 million] and the maturity date was extended to April 29, 2013 and continued to be fully guaranteed until April 29, 2013 by the Chairman of the Board of the Corporation, in consideration of the payment by the Corporation of an annual fee payable monthly equal to 0.63% [previously 1.15%] of the gross amount of the operating credit facility. The operating credit 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 amended operating credit facility permit the Corporation to (i) repay, in whole or in part, the Original Loan outstanding from Edco and (ii) retract all [approximately $12.0 million] of the Corporation's 8.0% Cumulative Redeemable First Preference Shares Series A (the "Preference Shares) on or after April 30, 2011, together with payment of all 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 the Corporation has at least $25.0 million in availability under the operating credit facility. As a result, the Corporation retracted all the remaining Preference Shares during the second quarter of 2011 in the amount of $12.0 million.

The extension and restatement of the Original Loan [outstanding as at June 30, 2012 in the principal amount of $30.0 million] resulted in a decrease in the interest rate on the Original Loan from 11% per annum to 7.5% per annum commencing July 1, 2011 and the extension of the loan to July 1, 2013 in consideration of the payment on July 1, 2011 of a fee to Edco equal to 1% of the principal amount outstanding on such date. The Corporation has the right to repay the secured subordinated loan at any time without penalty.

On December 31, 2011, the Chairman of the Board of the Corporation exercised his conversion rights under the debenture agreement and $38.0 million principal amount of the 10% convertible debentures ("Convertible Debentures"), the entire amount then held by the Chairman, were converted into 38,000,000 common shares of the Corporation. On April 30, 2012, the remaining $2.0 million principal amount of the Convertible Debentures were exercised and converted into 2,000,000 common shares.

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance of financial condition of the Corporation.

TRANSACTIONS WITH RELATED PARTIES

During the three month period ended June 30, 2012, the Corporation paid guarantee fees in the amount of $276 to the Chairman of the Board of the Corporation. During the three month period ended June 30, 2012, the Corporation incurred interest of $578 in relation to the Original Loan due to Edco, a corporation which is controlled by the Chairman of the Board of the Corporation which is due on July 1, 2013. At June 30, 2012, the Corporation owed Edco interest of $187. During the three month period ended June 30, 2012, the Corporation repaid $2.5 million of the Original Loan.

DERIVATIVE CONTRACTS

The Corporation has entered into foreign forward exchange contracts to mitigate future cash flow exposures in US dollars. Under these contracts the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in US dollars. As at June 30, 2012 the Corporation had foreign exchange contracts outstanding as follows:

Forward exchange collars	Amount	Floor	Ceiling
Maturity – less than 1 year – US dollar	6,800	1.0000	1.1111

Foreign exchange forward contracts	Amount	Rate
Maturity – less than 1 year – US dollar	8,500	1.0400
Maturity – less than 1 year – British Pounds	1,250	1.6079

The fair values of the Corporation's forward foreign exchange contracts are based on the current market values of similar contracts with the same remaining duration as if the contract had been entered into on June 30, 2012.

The mark-to-market on these financial instruments as at June 30, 2012 was an unrecognized gain of $0.2 million which has been recorded in other expenses in the period.

SHARE DATA

As at July 31, 2012, the Corporation had 58,209,001 common shares outstanding. The dilutive weighted average number of common shares outstanding, resulting from the potential common shares issuable on the conversion of the convertible debentures, for the six month period ending June 30, 2012 was 58,209,001.

RISKS AND UNCERTAINTIES

The Corporation manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without hindering the ability to maximize returns. Management has procedures to help identify and manage significant operational and financial risks.

For more information in relation to the risks inherent in Magellan's business, reference is made to the information under "Risk Factors" in the Corporation's Management's Discussion and Analysis for the year ended December 31, 2011 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2011, which has been filed with SEDAR (www.sedar.com).

CHANGES IN ACCOUNTING POLICIES

On January 1, 2012, the Corporation adopted revised *IAS 12, Income Taxes*. The revised standard was amended in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The adoption of the standard did not have a material impact on the condensed consolidated interim financial statements.

Recent accounting pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended June 30, 2012, and have not been applied in preparing these unaudited interim consolidated financial statements. The following standards and interpretations have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

International Accounting Standards		Effective Date
IFRS 9 - Financial Instruments	In November 2009, as part of the International Accounting Standards Board's (IASB) project to replace International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities.	January 1, 2015
IFRS 10 - Consolidation	IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.	January 1, 2013
IFRS 11 – Joint Arrangements	IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions.*	January 1, 2013
IFRS 12 - Disclosure of Interests in Other Entities	IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.	January 1, 2013
IFRS 13 – Fair Value Measurement	IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.	January 1, 2013
IAS 27 – Separate Financial Statements	As a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the	January 1, 2013

International Accounting Standards		Effective Date
	accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	
IAS 28 – Investments in Associates and Joint Ventures	As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.	January 1, 2013
IAS 1 – Presentation of Financial Statements	The IASB amended IAS 1 with a new requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss.	January 1, 2013
IAS 19 – Employee Benefits	A number of amendments have been made to IAS 19, which included eliminating the use of the "corridor" approach and requiring remeasurements to be presented in OCI. The standard also includes amendments related to termination benefits as well as enhanced disclosures.	January 1, 2013

The extent of the impact of adoption of these standards and interpretations on the consolidated financial statements of the Corporation has not been determined.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In the 2011 annual audited consolidated financial statements and management's discussion and analysis, the Corporation identified the accounting policies and estimates that are critical to the understanding of the business and results of operations. Please refer to note 2 to the unaudited interim condensed consolidated financial statements for the three and six month period ended June 30, 2012 for a discussion regarding the adoption of new accounting standards.

CONTROLS AND PROCEDURES

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at June 30, 2012 that they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting.

Management does not expect disclosure controls and procedures and internal control over financial reporting to prevent all errors, misstatements or fraud. In addition, internal control over financial reporting that management has designed and established may be circumvented and rendered ineffective as a result of unauthorized acts of individuals through collusion or management override. A system of control, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that control objectives are met. Due to the inherent limitations in a system of control, there is no absolute assurance that all controls issues, which may result in errors, misstatements, or fraud, can be prevented or detected. The inherent limitations include, amongst other things: (i) management's assumptions and judgements could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of isolated errors; (iii) assumptions about the likelihood of future events.

No changes were made in the Corporation's internal control over financial reporting during the Corporation's most recent interim period, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

OUTLOOK

The Corporation exhibited at the 2012 Farnborough International Airshow held from July 9th to 15th in Farnborough, England. The number of commercial aircraft orders announced at the show were higher than at the Paris Air Show the previous year, although slightly more conservative as there was a higher percentage of letters of intents and memorandums of understandings versus firm orders. Airlines appear to be balancing the requirement to make fleets more fuel efficient with the need to conserve cash amid the economic uncertainty in Europe and concerns that the US economy will continue to struggle. It must be noted as well, that new fuel efficient aircraft are making older aircraft obsolete and the percentage of parked fleet, which will likely be re-deployed, is now down 6.6% year over year.

Boeing announced commercial aircraft orders and commitments at Farnborough for 396 aircraft worth $37 billion and Airbus 115 aircraft for $16.9 billion. Boeing also released their 20-year commercial aircraft forecast predicting that the current world fleet is expected to double in size by 2031.

Players in the US defence industry are intensely focused on the potential outcome of “sequestration” where US$54.5 billion in automatic spending cuts are required in January 2013 as a part of the US government’s actions to reduce annual budget deficits of more than US$1 trillion. Defense OEM’s have been rallying Congress through their Aerospace Industries Association to recognize the significant impact this will have on an industry that has already been trimmed. Given this uncertainty the industry has been conservative in its research and development, hiring and capital investments.

In the business jet market, a leading indicator of market health is the number of pre-owned aircraft available for sale as percentage of the total in-service fleet. In July this percentage level was down to 12% which is the lowest in the past four years and an improvement over the 17% level reported in 2009. While it has been suggested there may be a new norm established for the business jet market following this recession, such a reduced percentage level traditionally has been a signal that the market is expected to rebound.

Global helicopter production is forecasted to steadily increase for the next decade with 2015 production rates projected to be as high as the peak 2007-2008 years. This growth will come primarily from commercial and para-public markets in the short term as defence markets remain tempered.

Finally, the 2011 Space Foundation report benchmarked the global space market at $276 billion in 2010 and continuing growth is driven by commercial space products and services.

The Corporation is confident that its current core business base in commercial, defence, proprietary products, space and power generation remains well positioned in the marketplace.

ADDITIONAL INFORMATION

Additional information relating to Magellan Aerospace Corporation, including the Corporation’s annual information form, can be found on the SEDAR web site at www.sedar.com.

FORWARD LOOKING STATEMENTS

This Management’s Discussion and Analysis contain certain forward-looking statements that reflect the current views and/or expectations of the Corporation with respect to its performance, business and future events. Such statements are subject to a number of uncertainties and assumptions, which may cause actual results to be materially different from those expressed or implied. These forward looking statements can be identified by the words such as "anticipate", "continue", "estimate", "forecast", "may", "project", "could", "plan", "intend", "should", "believe" and similar words suggesting future events or future performance. In particular there are forward looking statements contained under the headings: "Overview" which outlines certain expectations for future operations and "Outlook" which outlines certain expectations for the future. These statements assume the continuation of the current regulatory and legal environment; the continuation of trends for passenger airliner and defence production and are subject to the risks contained herein and outlined in our annual information form. The Corporation assumes no future obligation to update these forward-looking statements except as required by law.