



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

**MAGELLAN AEROSPACE CORPORATION**

**ANNUAL INFORMATION FORM  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**MARCH 21, 2014**

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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 from certain contracts, the investments in certain technologies that the Corporation intends to make and duration of certain contracts and other matters; and "*Narrative Description of the Business*" as to outlook for the aerospace industry and 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, European and Asia economy in general and the aerospace industry in particular;
- uncertainties relating to the volatile 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.

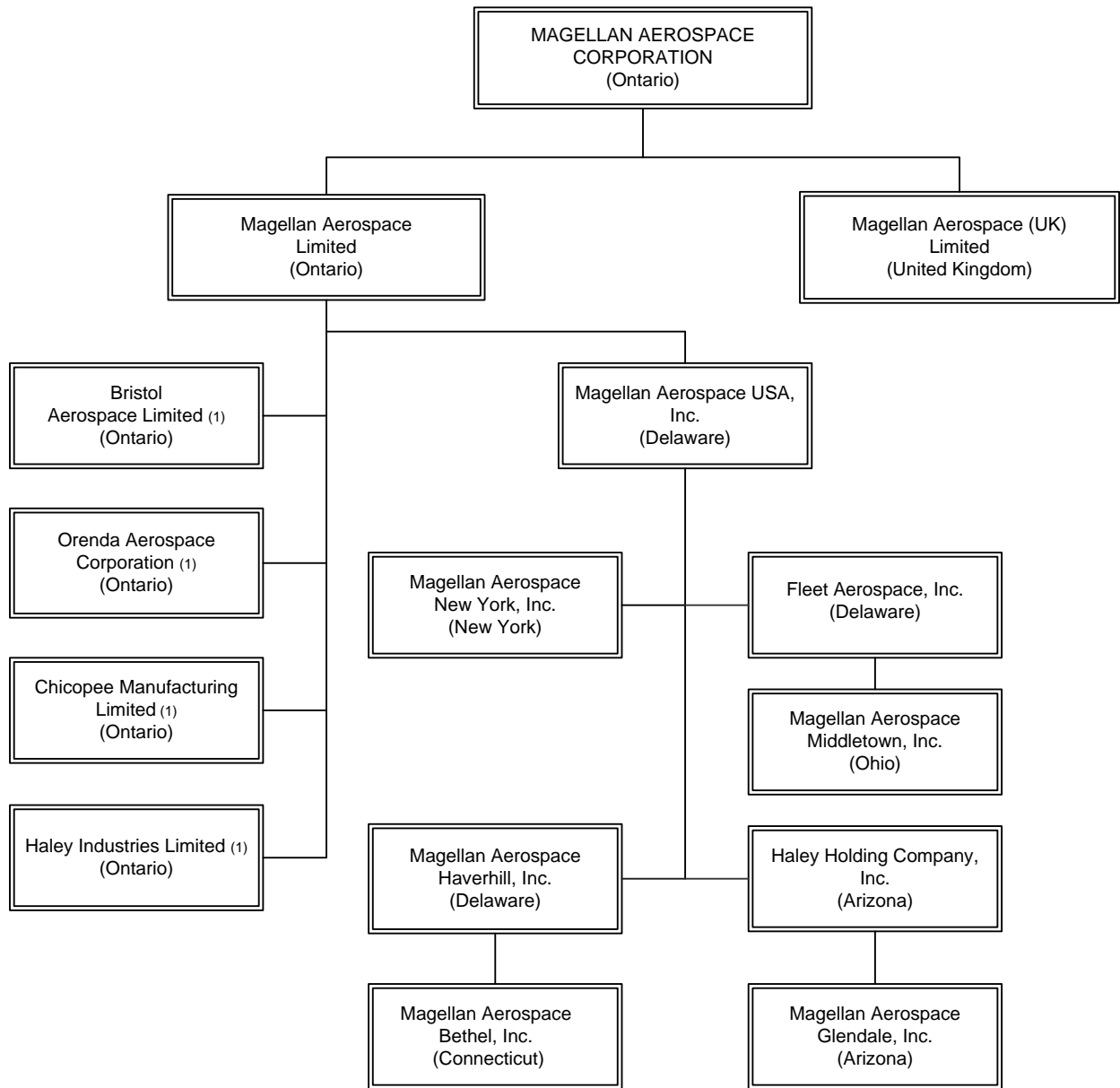
## **THE CORPORATION**

### **Incorporation of the Issuer**

Magellan Aerospace 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 (the "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.

### **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, 2013. Certain subsidiaries whose total assets did not represent more than 10% of the Corporation's consolidated assets or revenue did not represent more than 10% of the Corporation's consolidated revenues as at or for the year ended December 31, 2013, have not been explicitly outlined in the following chart. The Corporation's consolidated financial statements for year-ended December 31, 2013 have been filed on SEDAR ([www.sedar.com](http://www.sedar.com)).



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.

#### 2011

On February 7, 2011, Magellan announced an agreement had been reached between Airbus and Magellan Aerospace (UK) Limited securing a further work package on Airbus' new A350 XWB. The work is expected to generate revenues in excess of US\$20 million over the period from 2011 to 2021. The contract requires the machining and treatment of complex aluminium lithium detail components, and delivery to the final assembly line in Toulouse, France. In addition, on February 7, 2011 Magellan announced an agreement with Hindustan Aeronautics Limited ("HAL") in Bangalore, India had been 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® is currently carried out at Magellan's facility in Winnipeg, Manitoba.

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

Magellan held a ceremonial ribbon cutting event, on October 25, 2011, a year following the official ground breaking, celebrating the final stages of completion of the Corporation's new Advanced Composite Manufacturing Facility in Winnipeg, Manitoba to support the Joint Strike Fighter program. 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 had 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 delivered to GKN's Filton facility, which manufactures and assembles wing structures. This contract is projected to generate revenues in excess of £200 million from 2012 through to December 2017. To support this program, Magellan has made and intends to complete the required investments in high speed 5-axis machining technology.

#### 2012

On May 10, 2012 Magellan announced that it had been awarded a contract with The Boeing Company for the continuation of the production of complex, hard metal structural assemblies for the Next-Generation 737, 747-8, 767, 777, and the production of such assemblies for the new 787 Dreamliner airplanes. These integrated assemblies are being manufactured and delivered from Magellan's New York, NY and Kitchener, Ontario operating facilities beginning in 2013.

An agreement between Magellan Aerospace (UK) Limited and Airbus was announced on July 10, 2012 for a contract extension to deliver aluminum and titanium structural wing components from Magellan Aerospace (UK) Limited operating facilities located in Wrexham and Bournemouth. This contract is comprised of components for use on the A320, A330 and A380 aircraft programs and is projected to generate revenues in excess of £370 million from commencement through to December 2019. The scope of work of this contract complements the new A350 work packages that Magellan had previously been awarded and is currently developing, thereby, securing Magellan as a supplier on every Airbus commercial program.

Magellan completed the acquisition of John Huddleston Engineering Limited (“JHE”) on August 31, 2012. JHE is a European supplier of precision machined aerospace components with facilities in Great Britain, Northern Ireland and Poland. With the acquisition of JHE, Magellan has strengthened and enhanced its core manufacturing capabilities and further expanded its European operations. Over the last five years, JHE has made significant investments in the latest high speed 5-axis machining equipment. In addition, JHE has been a supplier to Magellan of precision machined structural components. The acquisition was funded out of Magellan’s working capital. JHE operations will be integrated and managed through Magellan Aerospace (UK) Limited’s operations.

On December 13, 2012 Magellan announced it has completed the first F-35A Lightning II horizontal tail assembly at its Winnipeg manufacturing facility. This achievement is a product of, and reflects investments made by the Corporation over a five year period, to develop state of the art facilities and processes necessary to perform the work. Magellan is under contract with BAE Systems to produce horizontal tail assemblies for the Conventional Take Off and Landing (“CTOL”) variant of F-35 and is expected to produce more than 1,000 sets of the components for the program over a 20-year period.

### **2013**

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

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

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

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

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

The Corporation announced on January 22, 2014 that an agreement had been reached between Airbus and Magellan securing a significant work package to manufacture and supply complex, 5-axis machined wing ribs for Airbus’ single aisle A320 product family including the A320neo. This additional work package complements the existing A320 wing ribs manufactured by Magellan. The work package is expected to generate revenues of

approximately \$US 20 million over the next 5 years. Magellan will invest in a new high-speed, 5-axis machining centre to be located in its facility in Greyabbey, Northern Ireland, enhancing the capabilities of the existing machining facilities.

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

## Financing Matters

On January 31, 2008, Edco Capital Corporation ("Edco"), a corporation controlled by the Chairman of the Board of Directors of the Corporation (the "Board") provided loans aggregating \$65 million (the "Secured Subordinated Loan") to Magellan. The proceeds of the Secured Subordinated Loan were used to retire debt. The Secured Subordinated Loan was renewed 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. On December 21, 2012, the Secured Subordinated Loan was extended to January 1, 2015 in consideration of the payment of a fee to Edco equal to 0.75% of the principal amount outstanding on December 21, 2012. The Corporation had the right to repay the Secured Subordinated Loan at any time without penalty. The original principal amount of \$65 million was prepaid in the amount of \$35 million during 2010, 2011 and 2012. During the twelve month period ended December 31, 2013, the Corporation repaid the Secured Subordinated Loan by \$30 million resulting in an ending balance of \$nil.

Magellan issued \$40 million of 10% subordinated convertible debentures due April 30, 2012 (the "Convertible Debentures") to Mr. Edwards on April 30, 2009. Effective December 31, 2011 Mr. Edwards exercised his conversion rights under the debenture agreement and \$38 million principal amount of the Convertible Debentures, the entire amount of the Convertible Debentures then held by Mr. Edwards, were converted at \$1.00 per Common Share into 38,000,000 Common Shares. On April 30, 2012, the remaining \$2 million of the Convertible Debentures held by a director of the Corporation were converted into 2,000,000 Common Shares of Magellan. Following the conversion of the Convertible Debentures, Mr. Edwards holds, directly or indirectly, 43,056,979 Common Shares representing approximately 74% of the 58,209,001 Common Shares which were outstanding following the conversion transactions.

Magellan announced it had amended its Bank Facility Agreement (as defined under "*Material Contracts*") with its existing lenders on May 2, 2011. The Bank Facility Agreement was fully guaranteed by Mr. Edwards, the Chairman of the Board. The Corporation agreed to pay an annual fee equal to 0.63% to Mr. Edwards as consideration for providing 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 December 21, 2012 pursuant to which Magellan and the lenders agreed to reduce the maximum available under the operating credit facility to Cdn\$115 million (down from Cdn\$125 million) and US\$35 million (down from US\$50 million) and the maturity date was extended to December 21, 2014. The Bank Facility Agreement also includes a Cdn\$50 million uncommitted accordion provision which will provide Magellan with the option to increase the size of the operating credit facility to \$200 million. The facility is extendible for unlimited one-year renewal periods, subject to mutual consent of the syndicate of lenders and the Corporation. The operating credit facility continues to be fully guaranteed until December 21, 2014 by Mr. Edwards in consideration of the continued payment by the Corporation of an annual fee equal to 0.50% (down from 0.63%) of the loan amount (payable monthly).

## Significant Acquisitions

During the year ended December 31, 2013, the Corporation did not complete any acquisitions that would be considered significant pursuant to National Instrument 51-102 – *Continuous Disclosure Obligations*.



## NARRATIVE DESCRIPTION OF THE BUSINESS

### 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*".

### Business Overview

In 2013 the Corporation operated under two segments: Aerospace and Power Generation Project.

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

The Corporation'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 seeks to leverage these core competencies where these abilities are critical to meet customer needs.

The Corporation supplies design engineering and aerostructures products to an international customer base in the commercial 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, and nacelle 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 (the "Project") that was substantially completed by March 31, 2013. The Corporation was notified of the mechanical breakdown of the turbines in the Project. The Corporation and Ghana contracted an independent arbitrator to assess the cause of the damage and are awaiting a final report of the findings. Repairs of the equipment are currently underway. While a number of power generation project opportunities are being considered, at this time the Corporation does not have any other committed projects.

#### Locations and Core Capabilities

The Corporation operates 18 plants, 4 of which are located in Canada, 6 plants in the United States and 8 plants in 6 separate locations in Europe. 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>Business Unit</b>	<b>Location</b>	<b>Approximate Size</b>	<b>Core Capabilities</b>
<b>United States</b>			
Magellan Aerospace Middletown, Inc.	Middletown, Ohio	17,700 square meters	Manufacture of jet engine nacelle, exhaust components, and heat-resistant space products
Magellan Aerospace Bethel, Inc.	Bethel, Connecticut	2,000 square meters	Machining of jet engine components
Magellan Aerospace New York, Inc.	Corona, New York	8,200 square meters	Manufacture and assembly of complex components and sub-assemblies for commercial and military aircraft and helicopters
	Bohemia, New York	13,200 square meters	
Magellan Aerospace Haverhill, Inc.	Haverhill, Massachusetts	10,400 square meters	Manufacture of critical rotating and non-rotating engine components for commercial and military use
Magellan Aerospace Glendale, Inc.	Glendale, Arizona	8,300 square meters	Production of small to medium magnesium and aluminium castings for the aerospace industry
<b>Europe</b>			
Magellan Aerospace (UK) Limited	Wrexham	14,492 square meters	Design and manufacture of airframe components
	Bournemouth	8,370 square meters	Precision machining of commercial aerospace products
	Chalfont St Peter	1,208 square meters	Precision machining of space and commercial aerospace products
	Blackpool	5,675 square meters	Precision machining of commercial and defence aerospace products
	Greyabbey	5,500 square meters	Precision machining of commercial and defence aerospace products
	Mielec	3,099 square meters	Metal finishing treatment services for 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, including advanced products for defence 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 seeks to leverage these core competencies 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 strives to 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. Currently the global commercial aerospace market is reaching record levels of production based on the need to replace older aircraft with new more fuel efficient models and on passenger travel growth in Asia and the Middle East. Backlogs have continued to increase as airlines update their fleets with new fuel-efficient aircraft to remain competitive. The current business jet market has stabilized and is demonstrating a slow recovery. China has liberalized its air space which is expected to lead the growth in business jet aircraft due to the increasing number of wealthy individuals in that country. The Middle East is expected to follow the same pattern. However, given the caution and restraint that continue to prevail in corporate spending, this market is not expected to return to the peak production levels experienced in the past. Overall, recovery in the business jet market is expected to be gradual in its year-to-year growth. In contrast, the global defence market has declined as expected due to the significant defence budget cutbacks of most governments. The global defence market has experienced a reduction in demand by as much as 20% from previous levels. This has been led by the reduction in the United States defence spending, which represents approximately 50% of the global defence spend. The impact of the cutbacks in the United States defence spending has been mitigated to some degree by the growth and build-up of defence spending in other developing countries. European markets have made similar budgetary adjustments in their defence spending. As the defence industry contracts, it is expected that primary defence contractors will focus their efforts on securing business opportunities in the commercial aerospace market place. These efforts can mitigate the impact of defence reduction on their businesses and this will create additional competitive challenges internationally.

The Corporation's sole product for the Power Generation Project segment is an electric power generation project in the Republic of Ghana that was substantially completed by March 31, 2013. 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 – A reduction in defence spending by the United States or other countries could result in a decrease in revenue*" and "*Risks Inherent in Magellan's Business – Competitive Pressures may adversely affect the Corporation*".

### **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 aerospace products are primarily in Canada, the United States, the United Kingdom and other parts of Europe. The Corporation serves both the commercial and defence aerospace

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

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 Europe from the operations of the Corporation's business are set forth in the following table:

(in thousands of Canadian dollars)	2013	2012
<b>Canadian operations</b>		
Total revenues	\$301,489	\$337,493
Number of principal customers	2	3
Percentage of total Canadian revenue from principal customers	27%	38%
<b>U.S. operations</b>		
Total revenues	\$232,260	\$199,917
Number of principal customers	2	1
Percentage of total U.S. revenue from principal customers	55%	39%
<b>European operations</b>		
Total revenues	\$218,377	\$166,630
Number of principal customers	2	2
Percentage of total European revenue from principal customers	85%	88%
<b>Total Corporation</b>		
Total revenues	\$752,126	\$704,040
Number of principal customers	2	2
Percentage of total revenue from principal customers	33%	24%

For the year ended December 31, 2013, direct sales to The Boeing Company represented approximately 14.3% of total Corporation revenues and are expected to remain at approximately the same level of total Corporation revenues in 2014. In 2013, direct sales to Airbus represented approximately 18.5% of total Corporation revenues and are expected to remain at approximately the same level of total Corporation revenues in 2014. 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*".

## Environmental Matters

### *Environmental protection requirements*

The Corporation's manufacturing activities are subject to environmental laws and regulations associated with risks to the environment and human health in each of Canada, the United States, the United Kingdom, and the European Union. Legislation at country, provincial and state levels provides 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, greenhouse gas reduction, toxic reduction planning, and improved waste management.

### *Environmental policies and programs*

The Corporation's environmental policy affirms its 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. Appropriate levels of 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.

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 is established to assist the Board in the review of policies and programs for management of environmental and health & safety matters. The mandate of the Committee identifies the major responsibilities and functions of the committee as follows:

- 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, 2013 was approximately 3,500 employees in Canada, the United States, Europe and India (a jointly owned facility). Approximately 41% 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. Labour agreements at five of the Corporation's facilities expired during year ended December 31, 2013. Three of those labour agreements were successfully re-negotiated with new contract periods ending in 2016. The Corporation is currently in negotiations on the two remaining labour agreements that expired on December 31, 2013. Three labour agreements at two of the Corporation's facilities expire in 2014. The Corporation has commenced negotiation at one facility as the agreement expires March 31, 2014. The other two agreements will not expire until the second half of 2014. 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, and Europe. See "*Narrative Description of the Business – Markets and Economic Dependence*" and "*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 "Overview" in Management Discussion and Analysis for the year ended December 31, 2013 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:

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

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

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

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

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

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

of the world could result in lower orders or the rescheduling or cancellation of part of the existing order backlog for some of the Corporation's products.

***Cancellations, reductions or delays in customer orders may adversely affect the Corporation's results of operations.***

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

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

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

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

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

***The Corporation may be unable to successfully achieve "key supplier" status with 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.

***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 may need to be refinanced and such refinancing may not be available.***

The Corporation and its subsidiaries have 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 December 21, 2012. Under the terms of the Bank Facility Agreement, the Corporation has an operating credit facility, expiring on December 21, 2014, and extendible for unlimited one-year renewal periods subject to mutual consent of the syndicate of lenders and the Corporation. 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. There is also no assurance that Mr. Edward's guarantee, if required, will be available beyond the term of the current commitment which ends on December 21, 2014. There is no

assurance that Magellan will be in compliance with its bank covenant during the upcoming twelve months due to unforeseen events or circumstances, some of which are outlined in this "*Risks Inherent in Magellan's Business*".

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

***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. Labour agreements at five of the Corporation's facilities expired during year ended December 31, 2013. Three of those labour agreements were successfully re-negotiated with new contract periods ending in 2016. The Corporation is currently in negotiations on the two remaining labour agreements that expired on December 31, 2013. Three labour agreements at two of the Corporation's facilities expire in 2014. The Corporation has commenced negotiation at one facility as the agreement expires March 31, 2014. The other two agreements will not expire until the second half of 2014. If the Corporation is unable to renew all agreements as they become subject to renegotiation in the future, 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, 2013, direct sales to The Boeing Company represented approximately 14.3% of total Corporation revenues and are expected to remain at approximately the same level of consolidated revenues in 2014. In 2013, direct sales to Airbus represented approximately 18.5% of total Corporation revenues and are expected to remain at approximately the same level of consolidated revenues in 2014. 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 in support of OEMs and the manufacturers that supply them, some of which are divisions or subsidiaries of OEMs, and other large companies that manufacture aircraft components and subassemblies. Competition for the repair and overhaul of aerospace components comes from three primary sources: OEMs, major commercial airlines and other independent repair and overhaul companies. Some of the competitors' financial and other resources and name recognition are substantially greater than the Corporation's and constitute significant competitive advantages. There can be no

assurance that Magellan will be able to compete successfully against current and future competitors or that the competitive pressures that 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.

***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 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 majority of the Corporation's debt bears interest at variable rates. 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 European Union. 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.

The Corporation operates in various jurisdictions where there are legislative initiatives relating to greenhouse gas ("GHG") emissions being considered or adopted. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. As a signatory to the United Nations Framework Convention on Climate Change (the "UNFCCC") and as a participant to the Copenhagen Agreement (a non-binding agreement created by the UNFCCC), the Government of Canada announced on January 29, 2010 that it will seek a 17% reduction in GHG emissions from 2005 levels by 2020. These GHG emission reduction targets are not binding, however. In addition, the governments of the United States and the United Kingdom have each put forward clean air acts and related policies that propose reductions of emissions and target deadlines. The various GHG and clean air initiatives have resulted in continued uncertainty surrounding the timing and scope of climate change regulations and a continuing patchwork of regulatory initiatives. If enacted, these may adversely affect the Corporation's financial condition and results of operations. Notwithstanding the current regulatory uncertainty, Magellan has established its corporate carbon footprint and committed to a GHG reduction target that meets the most stringent current legislative requirements of 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, greenhouse gas reduction, replacement of trichloroethylene used for degreasing, 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 an example, sulphur hexafluoride is widely in use as a cover gas in the casting industry, including the Corporation's casting operations in Glendale, Arizona and Haley, Ontario. This substance has an inherently high global warming potential and is a major contributor to the Corporation's GHG emissions. The Corporation is actively testing alternatives and new technology, however given the uncertainty in climate change legislation, it may be costly or not possible for the Corporation to meet legislated reductions and timelines before proven alternatives are in place.

As a result of historic releases of trichloroethylene, the Corporation, with regulatory body approval, has implemented remedial systems in Winnipeg, Manitoba; Fort Erie, Ontario; Bournemouth, Great Britain; and Charlotte, North Carolina to address trichloroethylene-impacted groundwater. These remedial systems have been in operation for a number of years with capital costs already incurred and ongoing operating expenses. 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. Furthermore, neighbouring parties have been made aware of potential off-site impacts of trichloroethylene at the Mississauga and Fort Erie sites in Ontario and the Corona site in New York.

Negotiations with the neighbouring property owners have precluded the need for further environmental investigation and remediation. Actual liability to the Corporation remains highly uncertain due to unknown timing and extent of remediation and other corrective actions that may be required, and the liability of the Corporation not being known in proportion to other potentially responsible parties and the extent to which such costs are recoverable from third parties.

***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

For the year ended December 31, 2011 the Corporation paid annual dividends of eighty cents (\$0.80) per share on the Corporation's First Preference Shares Series A, which were paid on a quarterly basis. As at December 31, 2011, the Corporation had retracted all of the First Preference Shares Series A. See "*General Description of Capital Structure - Preference Shares*".

In each of the third and fourth quarter of 2013, the Corporation declared quarterly cash dividends of \$0.03 per Common Share. In the first quarter of 2014, the Corporation declared cash dividends of \$0.04 per Common Share payable on March 31, 2014 to shareholders of the record at the close of business on March 14, 2014. The Corporation had not declared or paid any dividends on any of its Common Shares in 2012 and 2011. The declaration of dividends is at the discretion of the Board and is approved quarterly. Any decision to pay dividends on the Corporation's Common Shares will be made on the basis of the Corporation's earnings, financial requirements and other conditions existing at such future time. The amount of dividends available to pay is restricted by the Corporation's Bank Facility Agreement.

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 may need to be refinanced and such financing may not be available*".

## GENERAL DESCRIPTION OF CAPITAL STRUCTURE

### Common Shares

Magellan has authorized for issuance an unlimited number of Common Shares of which 58,209,001 Common Shares were outstanding as at December 31, 2013. 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 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.

### 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 Preference Shares of a particular series are issued, the Board shall, by resolution, fix the number of Preference 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 Preference 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 and as a result no First Preference Shares Series A remain outstanding.

## BORROWINGS

The Corporation had the following financing arrangement as at December 31, 2013:

### Bank Credit Facility

The Corporation has an operating credit facility pursuant to the Bank Facility Agreement of a Canadian dollar limit of \$115 million plus a US dollar limit of \$35 million (approximately \$152 million at December 31, 2013) which expires on December 21, 2014 and is extendible for unlimited one-year renewal periods, subject to mutual consent of the syndicate of lenders and the Corporation. The Bank Facility Agreement also includes a Cdn\$50 million uncommitted accordion provision which will provide Magellan with the option to increase the size of the operating credit facility to \$200 million. The operating credit facility is fully guaranteed by Mr. Edwards. Magellan has agreed in the amended 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.

See "*Risks Inherent in Magellan's Business – The Corporation's debt may need to be refinanced and such refinancing may not be available*". For more information in relation to the Bank Facility Agreement, reference is made to Note 10 of the Corporation's consolidated financial statements for the year ended December 31, 2013 filed on SEDAR at [www.sedar.com](http://www.sedar.com), which note is incorporated by reference into this Annual Information Form and see "*General Development of the Business – Financing Matters*", "*Material Contracts*" and "*Interest of Management and Others in Material Transactions*".

## 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 2013:

Month	Low (\$)	High (\$)	Volume
January	2.95	3.43	119,551
February	3.00	3.66	123,264
March	3.10	3.77	148,433
April	3.57	3.93	228,396
May	3.75	4.50	228,431
June	4.10	4.60	81,100
July	4.04	4.49	89,555
August	3.93	5.52	305,055
September	5.24	5.97	353,699
October	5.55	5.94	245,562
November	5.62	7.50	912,470
December	7.25	8.67	871,315

## 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 13, 2014. 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 or officer of the Corporation is, or has been in the last ten years, a director or executive officer of an issuer (including the Corporation) 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.

To the knowledge of management of the Corporation, no proposed director of the Corporation has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for a proposed director of the Corporation.

Director's Name, Province/State and Country of Residence and Year First Became Director	Office Held	Principal Occupation
N. MURRAY EDWARDS Alberta, Canada (1995)	Chairman of the Board and Director	President, Edco Financial Holdings Ltd. (private consulting and management company)
JAMES S. BUTYNIEC Ontario, Canada (2008)	Director	President and Chief Executive Officer, Magellan Aerospace Corporation
HON. WILLIAM G. DAVIS <sup>(3)</sup> Ontario, Canada (1989)	Director	Counsel, Davis Webb LLP (Brampton law firm)
WILLIAM A. DIMMA <sup>(1)(2)</sup> Ontario, Canada (1989)	Director	Corporate Director
BRUCE W. GOWAN <sup>(1)(2)(3)</sup> Ontario, Canada (1990)	Director	Corporate Director
DONALD C. LOWE <sup>(1)(4)</sup> Ontario, Canada (1992)	Director	Corporate Director
LARRY G. MOELLER <sup>(2)(4)(5)</sup> Alberta, Canada (1995)	Director	President, Kimball Capital Corporation (private consulting and management company)
STEVEN SOMERVILLE <sup>(3)(4)(6)</sup> Ontario, Canada (2013)	Director	Co-President, Spectrum Capital Corporation (private equity investment company)

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) 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.  
 (6) Mr. Somerville was elected as a director of the Corporation at the Annual Meeting of Shareholders held on May 8, 2013.

Executive Officer's Name and Province/State and Country of Residence	Office Held	Principal Occupation
JO-ANN C. BALL Ontario, Canada	Vice President, Human Resources	Vice President, Human Resources, Magellan Aerospace Corporation
JAMES S. BUTYNYEC Ontario, Canada	President and Chief Executive Officer	President and Chief Executive Officer, Magellan Aerospace Corporation
JOHN B. DEKKER Ontario, Canada	Chief Financial Officer and Corporate Secretary	Chief Financial Officer and Corporate Secretary, Magellan Aerospace Corporation
KONRAD B. HAHNELT Ontario, Canada	Vice President, North American Operations	Vice President, North American Operations, Magellan Aerospace Corporation
ELENA M. MILANTONI <sup>(1)</sup> Ontario, Canada	Vice President, Finance and Treasurer	Vice President, Finance and Treasurer, Magellan Aerospace Corporation
LARRY A. WINEGARDEN Ontario, Canada	Vice President, Corporate Strategy	Vice President, Corporate Strategy, Magellan Aerospace Corporation
DANIEL R. ZANATTA Ontario, Canada	Vice President, Business Development, Marketing and Contracts	Vice President, Business Development, Marketing and Contracts, Magellan Aerospace Corporation

Note:

- (1) Effective January 1, 2014, Ms. Milantoni was appointed Vice President Finance and Treasurer. Prior thereto, Ms. Milantoni was Corporate Controller and Treasurer since joining the Corporation in 2007.

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 Corporation.

As at March 21, 2014, the directors and executive officers of the Corporation, as a group, beneficially own, directly or indirectly, or exercise control or direction over, 45,504,024 Common Shares representing approximately 78.2% of the outstanding Common Shares of the Corporation.

Circumstances may arise where members of the Board 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) (the "Act") 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 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. 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 National Instrument 52-110 – Audit Committees ("NI 52-110") 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 consolidated 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 Professional 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 Professional 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	
	2013	2012
Audit fees	\$1,412,360	\$1,388,550
Audit-related fees	8,720	40,260
Tax fees	56,610	127,350
Total	\$1,477,690	\$1,556,160

*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.

*Tax Fees.* Tax fees are principally for assistance in tax compliance, tax advisory services on research and development credits and transfer pricing.

#### LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no legal proceedings that we are or were a party to, or that any of our property is or was the subject of, during the most recently completed financial year, that were or are material to the Corporation, and there are not such material legal proceedings that we are currently aware of that are contemplated.

There were not: (a) penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority during the most recently completed financial year; (b) other penalties or sanctions imposed by a court or regulatory body against the Corporation that would likely be considered important to a reasonable investor in making an investment decision; or (c) settlement agreements entered into by the Corporation with a court relating to securities legislation or with a securities regulatory authority during the most recently completed financial year.

#### 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 21, 2014, 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. 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 0.63% per annum (\$1.4 million was paid for year ended December 31, 2011) of the principal amount guaranteed. On December 21, 2012, the maturity date of the operating credit facility was extended to December 21, 2014 and will continue to be fully guaranteed by Mr. Edwards in consideration of the continued payment by the Corporation to Mr. Edwards of an annual fee, payable monthly, equal to 0.50% per annum (\$ 1.1 million and \$0.8 million were paid for years ended December 31, 2012 and 2013, respectively) of the principal amount guaranteed. For additional information, reference is made to "*General Development of the Business – Financing Matters*", "*Borrowings – Bank Credit Facility*", "*Material Contracts*" and Note 25 to the Corporation's consolidated financial statements for the year ended December 31, 2013 which have been filed on SEDAR at [www.sedar.com](http://www.sedar.com) and which is incorporated herein by reference.
2. On April 30, 2009, Mr. Edwards purchased \$40 million principal amount of the Convertible Debentures. On December 31, 2011, Mr. Edwards converted \$38 million principal amount of the Convertible Debentures at a conversion price of \$1.00 per Common Share, the entire amount of the Convertible Debentures then held by Mr. Edwards, and as result received an additional 38,000,000 Common Shares. For additional information, reference is made to "*General Development of the Business – Financing Matters*" and Note 12 to the Corporation's consolidated financial statements for the year ended December 31, 2012 which have been filed on SEDAR at [www.sedar.com](http://www.sedar.com) and which is incorporated herein by reference.
3. On April 30, 2012, Larry G. Moeller, a director of the Corporation, converted \$2 million principal amount of the Convertible Debentures, which were then held by him, at a conversion price of \$1.00 per Common Share and as result received 2,000,000 Common Shares. For additional information, reference is made to "*General Development of the Business – Financing Matters*" and Note 25 to the Corporation's consolidated financial statements for the year ended December 31, 2013 which have been filed on SEDAR at [www.sedar.com](http://www.sedar.com) and which is incorporated herein by reference.
4. 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. On December 21, 2012, the Secured Subordinated Loan was extended to January 1, 2015 on the same terms and conditions in consideration of the payment of a fee to Edco equal to 0.75% of the principal amount outstanding as of December 21, 2012. The Corporation had the right to prepay the Secured Subordinated Loan at any time without penalty. During 2010, 2011 and 2012, the Corporation prepaid the Secured Subordinated Loan by \$35 million. For the twelve month period ended December 31, 2013, the Corporation repaid the Secured Subordinated Loan by \$30 million resulting in an ending balance of \$nil. The Secured Subordinated Loan was secured by subordinated mortgages on two of Magellan's real properties. 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*" and Note 12 to the Corporation's consolidated financial statements for the year ended December 31, 2013 which have been filed on SEDAR at [www.sedar.com](http://www.sedar.com) and which is 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.

Name and Address of Holder	Class of Shares	Type of Ownership	Number of Common Shares	Percentage of Common Shares
N. Murray Edwards Calgary/Banff, Alberta	Common Shares	Direct and Indirect	43,056,979	74.0%

### MATERIAL CONTRACTS

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

1. Credit agreement dated June 24, 2008 between Magellan and a number of lenders, further amended April 30, 2009, March 26, 2010, April 29, 2011, and amended and restated on December 21, 2012 (the "Bank Facility Agreement") which is the subject of amended and restated guarantees by Mr. Edwards dated as of December 21, 2012 and an amended and restated undertaking between Mr. Edwards and the Corporation in respect of the fees payable by the Corporation to Mr. Edwards in consideration of providing the guarantees, dated December 21, 2012. See "*General Development of the Business – Financing Matters*" and "*Borrowings – Bank Credit Facility*".

For more information, see Note 10 to the Corporation's consolidated financial statements for the year ended December 31, 2013 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.

### 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 will be contained in the Corporation's Management Information Circular which relates to the annual meeting of shareholders of the Corporation to be held on Tuesday, May 13, 2014. Additional financial information is provided in the Corporation's consolidated financial statements for the year ended December 31, 2013 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 consolidated 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.