

MAGELLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2014



Magellan Aerospace Corporation – Management’s Discussion & Analysis

June 30, 2014

This Management’s Discussion and Analysis (“MD&A”) of the financial condition and results of operations of Magellan Aerospace Corporation (“Magellan” or the “Corporation”) should be read in conjunction with the unaudited condensed consolidated interim financial statements and the notes thereto for the three and six months ended June 30, 2014, and the audited annual consolidated financial statements for the year ended December 31, 2013 (available on SEDAR at www.sedar.com). Unless otherwise noted, all financial information has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), specifically International Accounting Standard (“IAS”) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”), which is within the framework of International Financial Reporting Standards (“IFRS”). This MD&A provides a review of the significant developments that have impacted the Corporation’s performance during the three month period ended June 30, 2014 relative to the three month period ended June 30, 2013. The information contained in this report is as at August 12, 2014. All financial references are in Canadian dollars unless otherwise noted.

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

The MD&A presents certain non-IFRS financial measures to assist readers in understanding the Corporation’s performance. Non-IFRS financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with GAAP. Throughout this discussion, reference is made to EBITDA (defined as net income before interest, income taxes, depreciation and amortization), which the Corporation considers to be an indicative measure of operating performance and a metric to evaluate profitability. EBITDA is not a generally accepted earnings measure and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating this measure, the Corporation’s EBITDA may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA to net income (loss) reported in accordance with IFRS are included in this MD&A.

1. Overview

A summary of Magellan’s business and significant updates

Magellan is a diversified supplier of components to the aerospace industry and in certain circumstances for power generation projects. Through its wholly owned subsidiaries, Magellan engineers and manufactures aeroengine and aerostructure components for aerospace markets, 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 and supplies in certain circumstances parts and equipment for power generation projects.

The Corporation’s strategy has been to focus on several core competencies within the aerospace industry. These include precision machining of a wide variety of aerospace material, composites, complex high technology magnesium and aluminum alloy castings, repair and overhaul technologies and design of structures. The Corporation is now seeking to leverage these core competencies by achieving growth in applications where these abilities are critical in meeting customer needs.

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Business Update

During the second quarter of 2014, the Corporation announced that it had been awarded a contract for the repair and overhaul of the F404 engine that powers Canada’s fleet of CF18 Hornet aircraft. The estimated revenues include \$16 million for the initial one-year term, an additional estimated \$16 million for a one-year option period and include material content of \$23 million over the contracted term and the option period. The work will be carried out at Magellan’s Mississauga, Ontario facility.

On 20 May 2014, Magellan also announced that in partnership with the University of Manitoba, it will establish an advanced satellite integration facility at its location in Winnipeg, Manitoba. The facility will accommodate the simultaneous assembly, integration and testing of three satellite buses and will enhance the training opportunities for engineering students at the University. Magellan will invest approximately \$2 million in the project.

In the Power Generation Segment, Magellan is working closely with Ghana on the existing power generation project and is supplying on-going operational and maintenance support. The Corporation continues to pursue additional opportunities for similar projects.

For additional information, please refer to the “Management’s Discussion and Analysis” section of the Corporation’s 2013 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan’s operating results for second quarter ended June 30, 2014

The Corporation reported higher revenue in both its Aerospace segment and its Power Generation Project segment in the second quarter of 2014 when compared to the second quarter of 2013. Gross profit and net income for the second quarter of 2014 were \$34.5 million and \$13.6 million, respectively, an increase from the second quarter of 2013 gross profit of \$28.8 million and from the second quarter of 2013 net income of \$11.2 million.

Consolidated Revenue

Overall, the Corporation’s consolidated revenues in the second quarter of 2014 increased by 16.4% when compared to the second quarter of 2013.

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2014	2013	Change	2014	2013	Change
Aerospace	219,461	189,863	15.6%	429,827	371,678	15.6%
Power Generation Project	1,589	—	100.0%	1,725	3,478	(50.4)%
Revenues	221,050	189,863	16.4%	431,552	375,156	15.0%

Consolidated revenues of \$221.1 million for the second quarter ended June 30, 2014 were higher than the \$189.9 million of revenue in the second quarter of 2013. Increased revenues of 15.6% year over year in the Aerospace segment were due to higher volumes of production on several commercial aircraft platforms and the appreciation of the United States dollar and the British Pound over the Canadian dollar when compared to the prior year quarter. The increase in the Power Generation Project segment represents revenue earned on an additional scope of work package signed in the second quarter of 2014 with the Republic of Ghana.

Aerospace Segment

Revenues for the Aerospace segment were as follows:

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2014	2013	Change	2014	2013	Change
Canada	90,615	73,388	23.5%	168,078	146,774	14.5%
United States	68,109	60,395	12.8%	135,796	118,048	15.0%
Europe	60,737	56,080	8.3%	125,953	106,856	17.9%
Total revenues	219,461	189,863	15.6%	429,827	371,678	15.6%

Consolidated Aerospace revenues for the second quarter of 2014 of \$219.5 million were 15.6% higher than revenues of \$189.9 million in the second quarter of 2013. Revenues in Canada in the second quarter of 2014 increased 23.5% from the

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same period in 2013 primarily due to higher revenue earned on the Corporation’s space programs. The favourable movement in the United States dollar in comparison to the Canadian dollar also contributed to the increased revenues in Canada in the second quarter of 2014 when compared to the same period in 2013. Revenues increased by 12.8% in the United States in the second quarter of 2014 in comparison to the second quarter of 2013. Increased shipments on several of the Corporation’s single aisle and wide body commercial aircraft programs, in particular the Boeing 787 and 737 programs and strength in the United States dollar in comparison to the Canadian dollar during the same periods in 2014 versus 2013 were the primary contributors to the increased revenues quarter over quarter. Higher production volume on new and existing Airbus statements of work and favourable movements of the British Pound in comparison to the Canadian dollar contributed to the increase of 8.3% in European revenues in the second quarter of 2014 over revenues in the same period in 2013.

Power Generation Project Segment

Revenues for the Power Generation Project segment were as follows:

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2014	2013	Change	2014	2013	Change
Power Generation Project	1,589	—	100.0%	1,725	3,478	(50.4)%
Total revenues	1,589	—		1,725	3,478	

The original statement of work on the Ghana Power Generation Project (the “Project”) was substantially completed and all revenue was recognized as at March 31, 2013. In the second quarter of 2014, the Corporation signed an amendment to the original Project contract which increased the statement of work for the Project. Revenues recorded in the quarter represent the progress made to date on the additional statement of work.

Gross Profit

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2014	2013	Change	2014	2013	Change
Gross profit	34,497	28,770	19.9%	63,973	53,582	19.4%
Percentage of revenues	15.6%	15.2%		14.8%	14.3%	

Gross profit of \$34.5 million (15.6% of revenues) was reported for the second quarter of 2014 compared to \$28.8 million (15.2% of revenues) during the same period in 2013. Increased gross profit in the second quarter of 2014 over the same period in 2013 was primarily due to higher volumes, favourable product mix and the strengthening year over year of the United States dollar and British Pound against the Canadian dollar, offset somewhat by higher costs experienced on the introduction of new programs.

Administrative and General Expenses

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2014	2013	Change	2014	2013	Change
Administrative and general expenses	11,802	11,329	4.2%	23,272	22,064	5.5%
Percentage of revenues	5.3%	6.0%		5.4%	5.9%	

As a percentage of revenues, administrative and general expenses decreased to 5.3% of revenues for the quarter ended June 30, 2014 from 6.0% for the quarter ended June 30, 2013. In absolute terms, administrative and general expenses increased during the current quarter relative to the same quarter of the prior year as a result of the impact upon translation of the weaker Canadian dollar in the second quarter of 2014 when compared to the same period of 2013.

Other

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2014	2013	2014	2013
Foreign exchange loss (gain)	610	(22)	314	926
Loss on disposal of property, plant and equipment	811	182	764	214
Total other	1,421	160	1,078	1,140

Other expense of \$1.4 million in the second quarter of 2014 consisted of realized and unrealized foreign exchange losses and losses recorded on the retirement and disposal of property, plant and equipment.

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Interest Expense

	Three month period ended June 30		Six month period ended June 30	
	2014	2013	2014	2013
Expressed in thousands of dollars				
Interest on bank indebtedness and long-term debt	1,212	1,737	2,431	3,547
Accretion charge for borrowings and long-term debt	1,050	(176)	1,360	(22)
Discount on sale of accounts receivable	206	171	375	331
Total interest expense	2,468	1,732	4,166	3,856

Interest expense of \$2.5 million in the second quarter of 2014 was higher than the second quarter of 2013 amount of \$1.7 million primarily as a result of an increase in non-cash accretion expense in the current quarter due to changes in the long-term bond rate. The decrease in interest on bank indebtedness and long-term debt quarter over quarter is mainly due to the Corporation repaying a significant portion of its long-term debt in the last quarter of 2013.

Provision for Income Taxes

	Three month period ended June 30		Six month period ended June 30	
	2014	2013	2014	2013
Expressed in thousands of dollars				
Expense of current income taxes	1,014	1,337	2,238	2,541
Expense of deferred income taxes	4,186	3,049	7,534	4,803
Total expense of income taxes	5,200	4,386	9,772	7,344
Effective tax rate	27.7%	28.2%	27.6%	27.7%

The Corporation recorded an income tax expense of \$5.2 million in the second quarter of 2014 compared to an income tax expense of \$4.4 million in the second quarter of 2013. Current income taxes for the second quarter of 2014 consisted primarily of the tax expense in jurisdictions with current taxes payable. Deferred income taxes for the second quarter of 2014 consisted primarily of net deferred income tax expense for changes in temporary differences in various jurisdictions.

3. Selected Quarterly Financial Information

A summary view of Magellan’s quarterly financial performance

	2014		2013			2012		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Expressed in millions of dollars, except per share amounts								
Revenues	221.0	210.5	195.9	181.0	189.9	185.3	186.4	161.4
Income before taxes	18.8	16.7	21.0	13.2	15.5	11.0	18.0	18.0
Net Income	13.6	12.1	16.8	9.5	11.2	8.0	21.8	14.9
Net Income per share								
Basic and diluted	0.23	0.21	0.29	0.16	0.19	0.14	0.37	0.26
EBITDA	30.2	27.1	31.0	22.9	25.6	21.3	28.9	27.7

¹Certain 2012 figures have been restated due to the implementation of IFRS 11, *Joint Arrangements* and revised IAS 19, *Employee Benefits* in 2013. Please refer to note 2 to the 2013 audited consolidated financial statements.

The Corporation reported its highest quarterly revenues in its history in the second quarter of 2014. Revenues and net income reported in the quarterly information were impacted positively by the fluctuations in the Canadian dollar exchange rate in comparison to the United States dollar and British Pound. The United States dollar/Canadian dollar exchange rate in the second quarter of 2014 fluctuated reaching a low of 1.0661 and a high of 1.1048. During the second quarter of 2014, the British Pound relative to the Canadian dollar fluctuated reaching a low of 1.8146 and a high of 1.8542. Had the foreign exchange rates remained at levels experienced in the second quarter of 2013, reported revenues in the second quarter of 2014 would have been lower by \$15.7 million.

Net income in the third quarter of 2012 included the recognition of an after tax gain on bargain purchase of \$7.4 million on an acquisition as the consideration paid was lower than the fair value of the identifiable tangible assets acquired at the time of purchase. Net income for the fourth quarter of 2013 and 2012 of \$16.8 million and \$21.8 million, respectively, was higher than all other quarterly net income disclosed in the table above. In the fourth quarter of 2013 and 2012 the Corporation recognized partial reversals of previous impairment losses against intangible assets relating to various commercial aircraft programs and in the fourth quarter of 2012 the Corporation recognized previously unrecognized investment tax credits and other deferred tax assets as the Corporation determined that it will be able to benefit from these assets. Continued improvements in gross margin have contributed to higher net income in the current quarter of 2014.

4. Reconciliation of Net Income to EBITDA

A description and reconciliation of certain non-IFRS measures used by management

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

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2014	2013	2014	2013
Net income	13,606	11,163	25,685	19,178
Interest	2,468	1,732	4,166	3,856
Taxes	5,200	4,386	9,772	7,344
Depreciation and amortization	8,917	8,311	17,698	16,485
EBITDA	30,191	25,592	57,321	46,863

EBITDA for the second quarter of 2014 was \$30.2 million, compared to \$25.6 million in the second quarter of 2013, an increase of 18.0% on a year-over-year basis. Increased revenue for the second quarter of 2014 relative to the same quarter of 2013 is the primary cause for the current increase in EBITDA.

5. Liquidity and Capital Resources

A discussion of Magellan’s cash flow, liquidity, credit facilities and other disclosures

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

Cash Flow from Operations

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2014	2013	2014	2013
Increase in accounts receivable	(3,206)	(1,113)	(16,684)	(22,647)
Decrease (increase) in inventories	256	(6,624)	(3,746)	(7,464)
Increase in prepaid expenses and other	(660)	(231)	(367)	(2,263)
(Decrease) increase in accounts payable, accrued liabilities and provisions	(1,563)	4,366	(5,238)	6,018
Changes to non-cash working capital balances	(5,173)	(3,602)	(26,035)	(26,356)
Cash provided by operating activities	21,709	17,747	23,659	11,749

In the second quarter ended June 30, 2014, the Corporation generated \$21.7 million in cash from operations, compared to \$17.7 million generated in the second quarter of 2013. The increase in cash generated from operations was primarily due to increased net income in the second quarter of 2014 compared to the same period in 2013. Changes in accounts receivable reflects increased volumes and the change in accounts payable and accrued liabilities was primarily driven by the timing of purchases and payments.

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Investing Activities

	Three month period ended June 30		Six month period ended June 30	
	2014	2013	2014	2013
Expressed in thousands of dollars				
Purchase of property, plant and equipment	(4,966)	(4,217)	(11,530)	(8,318)
Proceeds of disposals of property plant and equipment	259	81	330	127
Increase in intangibles and other assets	(5,672)	(1,731)	(8,771)	(4,443)
Cash used in investing activities	(10,379)	(5,867)	(19,971)	(12,634)

The Corporation’s capital expenditures for the second quarter of 2014 were \$5.0 million compared to \$4.2 million in the second quarter of 2013. The Corporation continues to invest in capital expenditures to enhance its manufacturing capabilities in various geographies and to support new customer programs. Higher deposits on property, plant and equipment and increased long-term receivables accounted for the majority of the increase in intangible assets and other assets.

Financing Activities

	Three month period ended June 30		Six month period ended June 30	
	2014	2013	2014	2013
Expressed in thousands of dollars				
Decrease in bank indebtedness	(9,624)	(11,342)	(4,127)	(4,861)
Increase in debt due within one year	402	280	6,145	779
Decrease in long-term debt	(1,170)	(2,914)	(2,515)	(5,349)
Decrease in long-term liabilities and provisions	(536)	(78)	(429)	(119)
(Decrease) increase in borrowings	(534)	268	(534)	586
Common share dividends	(2,328)	—	(4,656)	—
Cash used by financing activities	(13,790)	(13,786)	(6,116)	(8,964)

On December 21, 2012, the Corporation amended its operating credit agreement with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was decreased to a Canadian dollar limit of \$115.0 million (down from \$125.0 million) plus a United States dollar limit of \$35.0 million (down from United States \$50.0 million), with a maturity date of December 21, 2014. The Bank Facility Agreement also includes a Canadian \$50.0 million uncommitted accordion provision which will provide Magellan with the option to increase the size of the operating credit facility to \$200.0 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 the Chairman of the Board of the Corporation in consideration of the continued payment by the Corporation of an annual fee, payable monthly, equal to 0.50% (down from 0.63%) of the loan amount.

As at June 30, 2014 the Corporation has made contractual commitments to purchase \$17.3 million of capital assets.

Dividends

During the second quarter of 2014, the Corporation declared and paid quarterly cash dividends of \$0.04 per common share representing an aggregating dividend payment of \$2.3 million.

On August 12th 2014, the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of \$0.04 per common share. The dividend will be payable on September 30, 2014 to shareholders of record at the close of business on September 12, 2014.

Outstanding Share Information

The authorized capital of the Corporation consists of an unlimited number of Preference Shares, issuable in series, and an unlimited number of common shares. As at August 1, 2014, 58,209,001 common shares were outstanding.

6. Financial Instruments

A summary of Magellan’s financial instruments

Derivative Contracts

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders’ equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange

rates and because the non-Canadian dollar denominated financial statements of the Corporation’s subsidiaries may vary on consolidation into the reporting currency of Canadian dollars. The Corporation from time to time may use derivative financial instruments to help manage foreign exchange risk with the objective of reducing transaction exposures and the resulting volatility of the Corporation’s earnings. The Corporation does not trade in derivatives for speculative purposes. Under these contracts the Corporation is obligated to purchase specified amounts at predetermined dates and exchange rates. These contracts are matched with anticipated cash flows in United States dollars. The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. The Corporation had no foreign exchange contracts outstanding as at June 30, 2014.

Off Balance Sheet Arrangements

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

7. Related Party Transactions

A summary of Magellan’s transactions with related parties

During the three month period ended June 30, 2014, the Corporation paid guarantee fees, in respect to a guarantee of the Corporation’s operating credit facility, in the amount of \$0.2 million to the Chairman of the Board of the Corporation.

8. Risk Factors

A summary of risks and uncertainties facing Magellan

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

For more information in relation to the risks inherent in Magellan’s business, reference is made to the information under “Risk Factors” in the Corporation’s Management’s Discussion and Analysis for the year ended December 31, 2013 and to the information under “Risks Inherent in Magellan’s Business” in the Corporation’s Annual Information Form for the year ended December 31, 2013, which have been filed with SEDAR at www.sedar.com.

9. Changes in Accounting Policies

A description of accounting standards adopted in the current year

The following new standards, and amendments to standards and interpretations, are effective for the first time for interim periods beginning on or after January 1, 2014 and have been applied in preparing the consolidated interim financial statements.

Financial Assets and Liabilities

In December 2011, amendments to IAS 32, *Financial Instruments: Presentation* were issued by the IASB to clarify the existing requirements for offsetting financial assets and financial liabilities. The amendments specify that the right of set-off has to be legally enforceable even in the event of bankruptcy and that it must be available on the current date and cannot be contingent on a future date. The adoption of this pronouncement had no material impact on the condensed consolidated interim financial statements.

Levies

In May 2013, the IASB issued International Financial Reporting Interpretations Committee (“IFRIC”) 21, *Levies*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is to be applied retrospectively. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs, which may be at a point in time or over a period of time. The adoption of this pronouncement had no material impact on the condensed consolidated interim financial statements.

Impairment of Assets

In May 29, 2013, the IASB published amendments to IAS 36, *Impairment of Assets* which reduce the circumstances in which the recoverable amount of a cash generating unit is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The adoption of the amendments had no material impact on the condensed consolidated interim financial statements.

10. Future Changes in Accounting Policies

A description of new accounting standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the interim period ended June 30, 2014, and have not been applied in preparing these condensed consolidated interim financial statements. The following standards have been issued by the IASB with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

Employee Benefits

In November 2013, Defined Benefit Plans: Employee Contributions was issued to amend IAS 19, Employee Benefits. These narrow scope amendments simplify the accounting for contributions to defined benefit plans. These amendments are effective for annual periods beginning on or after July 1, 2014, with earlier application permitted. The Corporation is in the process of evaluating the impact the adoption of this standard may have on the Corporation’s consolidated financial statements.

Financial Instruments – Recognition and Measurement

In July 2014, the IASB issued the final amendments to IFRS 9, Financial Instruments (“IFRS 9”) which provides guidance on the classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. The Classification and measurement portion of the standard determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. The amended IFRS 9 introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. In addition, the amended IFRS 9 includes a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Corporation is in the process of evaluating the impact of adopting these amendments on the Corporation’s consolidated financial statements.

Joint Arrangements

In May 2014, the IASB issued amendments to IFRS 11, Joint Arrangements (“IFRS 11”) to address the accounting for acquisitions of interests in joint operations. The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11, as amended, now requires that such transactions shall be accounted for using the principles related to business combinations accounting as outlined in IFRS 3, Business Combinations. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Corporation is in the process of evaluating the impact of adopting this amendment may have on the Corporation’s consolidated financial statements.

Revenue Recognition

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers (“IFRS 15”), which supersedes IAS 18, Revenue, IAS 11, Construction Contracts and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principle based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments and lease contracts, which fall in the scope of other IFRSs. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard’s requirements will also apply to the recognition and measurement of gains and losses on the sale of some nonfinancial assets that are not an output of the entity’s ordinary activities. IFRS 15 is to be applied on either a full or modified retrospective approach and is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Corporation is in the process of evaluating the impact that IFRS 15 may have on the Corporation’s consolidated financial statements.

Depreciation and amortization

In May 2014, the IASB issued amendments to IAS 16, Property, Plant and Equipment (“IFRS 16”) and IAS 38, Intangible Assets (“IAS 38”) to clarify acceptable methods of depreciation and amortization. The amended IAS 16 eliminates the use of a revenue-based depreciation method for items of property, plant and equipment. Similarly, amendments to IAS 38

eliminate the use of a revenue-based amortization model for intangible assets except in certain specific circumstances. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Corporation is in the process of evaluating the impact of adopting these amendments on the Corporation’s consolidated financial statements.

11. Critical Accounting Estimates

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

In the 2013 annual audited consolidated financial statements and management’s discussion and analysis, the Corporation identified the accounting policies and estimates that are critical to the understanding of the business and results of operations. Please refer to note 1 to the audited consolidated financial statements for the year ended December 31, 2013 for a discussion regarding the critical accounting estimates.

12. Controls and Procedures

A description of Magellan’s disclosure controls and internal controls over financial reporting

Based on the current Canadian Securities Administrators (the “CSA”) rules under National Instrument 52-109 Certification of Disclosure in Issuers’ Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at June 30, 2014 that they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting.

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

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

13. Outlook

The outlook for Magellan’s business in 2014

In the commercial aircraft market, Boeing and Airbus are focusing on managing the ramp-up of their new programs and improving efficiencies to free up capacity and stave off competition from new players in the market such as Bombardier, Mitsubishi and COMAC. With combined single and twin aisle aircraft build rates forecast at 150 per month for 2018, if achieved, both Boeing and Airbus will be delivering an unprecedented 1,800 aircraft per year. While some industry opinions suggest that the OEM’s may be overbuilding and setting up for an inevitable downturn, others have suggested that depending upon fuel prices and interest rates, the net aircraft forecast to be delivered is in line with expected growth in seat demand and accelerated worldwide aircraft replacement with more fuel efficient platforms.

The single aisle Boeing B737 production rate is currently at 42 aircraft per month with announced plans to increase to 47 aircraft per month in 2017. Airbus’ A320 is similarly forecasted to reach 46 aircraft per month by 2016 from a current rate of 42 aircraft per month. Both companies have aggressive ramp up plans to transition from legacy model production to the new models (Boeing B737MAX and Airbus A320NEO) over the next several years.

Airbus’ A350XWB continues on plan despite a recent cancellation of 70 aircraft orders by Emirates Airline. The current A350 backlog stands at 742 firm orders, one half year before the expected aircraft’s entry into service. Boeing’s B777 is in steady state production at 8.3 aircraft per month with the B777X in development. The Boeing B787 is at 10 aircraft per month projecting possible rate increases to 14 aircraft per month as the B787-9 variant launches into production. Airbus’ A380 is also in steady-state production at 30 aircraft annually.

Magellan Aerospace Corporation – Management’s Discussion & Analysis

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A new competitor has entered the regional turboprop market, with China’s AVIC announcing the MA700 powered by Pratt & Whitney Canada’s PW127 engine. This aircraft will join Bombardier’s Q400 and ATR’s ATR-72 in 2019 as a third propeller-driven option for customers and it is said to be designed for stretching to a 90-seat configuration. Meanwhile, Bombardier had hoped to finalize a tentative deal with Russian conglomerate ROSTEC for 100 (Q400) aircraft including a joint venture production facility in Russia. This deal has not yet been finalized. Fortunately, other orders for Q400 are being secured by Bombardier to sustain production rates of approximately 35 aircraft per year. ATR meanwhile is increasing its current production rates as their ATR-72 backlog grows.

In the US defense market, certain programs such as F-18, MH-60 and C130 may see more protection from budget cuts than initially thought as the US Senate Appropriations subcommittee is recommending bolstering funds on a range of legacy priority programs. As a part of this decision, they are requesting an independent cost analysis of the Army Aviation restructuring plan to ensure full fiscal implications of divesting certain programs is considered. The subcommittee is recommending \$11.7 billion in cuts to shift money to higher priority programs. The reprieve is temporary as sequestration is still a fiscal reality for fiscal 2016 and beyond. Besides looking to foreign military sales options to help mitigate the effects of future cuts, some OEM’s like Lockheed Martin are commercializing platforms such as C130, thereby extending their production life.

Specifically on the F-35 Lightning II program (“F-35”), Lockheed Martin remains confident that the program is on track despite declining military budgets, development delays and a recent engine fire. This was demonstrated during the second quarter with Australia committing to purchase an additional 58 aircraft and Turkey finalizing their commitment to purchase the aircraft. An agreement between the US Department of Defense and the principals producing the aircraft (Lockheed Martin, Pratt and Whitney, Northrop Grumman, and BAE Systems) was signed during the quarter to focus on reducing the cost of the F-35. Known as the Blueprint for Affordability, this agreement is designed to reduce the price of a new F-35 to under \$80 million in then-year dollars by 2019, which is at or below the price of the current fourth generation fighters.

Following a series of new commercial helicopter launches in recent years, the rotorcraft market is slow again. Manufacturers are now focused on program execution. Oil and gas markets are expected to be the main driver for new commercial helicopters going forward according to Sikorsky Aircraft, with search and rescue, parapublic and VIP applications becoming secondary drivers. On the defense side, volume contraction due to budget constraints remains a headwind causing OEM’s to seek more volumes through foreign military sales.

Finally, the current climate is changing with regard to the way OEM’s are contracting with the aerospace supply base. They are (i) seeking longer contract terms of up to 10+ years versus the traditional 3 – 5 years contract periods; (ii) looking to secure their share of manufacturing capacity in order to protect their programs in the face of across the board market demands on capacity; and (iii) looking to secure surety of cost by requesting that suppliers commit to certain levels of cost reduction as a ticket-to-entry into new programs. Boeing’s “Partnering for Success” and United Technologies Corporation’s “Value X Velocity” programs are typical examples of these initiatives. Magellan is presently well positioned to participate in this competitive market.