

MAGELLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2016



Magellan Aerospace Corporation – Management’s Discussion & Analysis

June 30, 2016

This Management’s Discussion and Analysis (“MD&A”) of the financial condition and results of operations of Magellan Aerospace Corporation (“Magellan” or the “Corporation”) should be read in conjunction with the unaudited condensed consolidated interim financial statements and the notes thereto for the three and six month periods ended June 30, 2016, and the audited annual consolidated financial statements for the year ended December 31, 2015 (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, 2016 relative to the three month period ended June 30, 2015. The information contained in this report is as at August 10, 2016. 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 designs, 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

On May 10, 2016, Magellan announced an agreement between Magellan and GKN Aerospace (“GKN Aerospace”) for a contract extension to deliver precision aluminium and titanium components and assemblies to GKN Aerospace’s Filton facility where complex wing structures are manufactured and assembled for the A320, A330 and A380 aircraft programs. This contract extension is projected to generate revenues in excess of CDN \$130 million through to December 2020 and the components and assemblies will be supplied from Magellan facilities located in the United Kingdom and Poland and its joint ventures in India. Magellan was also awarded a new contract to supply A350 outboard flap precision machine details and assemblies. This new contract is projected to generate revenues of CDN \$36 million to December 2020.

On May 26, 2016, the Corporation announced the signing of a Memorandum of Understanding with ATLAS ELEKTRONIK Canada to collaborate on the development of rocket motor sections for the SeaSpider[®] Anti-Torpedo-Torpedo. SeaSpider[®] will combine the best technology and experiences of two worlds – the experience of ATLAS ELEKTRONIK in naval systems like the SeaHake[®] mod4 heavyweight torpedo and the leading rocket technology of Magellan Aerospace as chosen by NASA.

Magellan attended the Farnborough International Air Show which was held from July 11th through July 17th 2016 in Farnborough, United Kingdom. The Corporation’s goal at this show was to further its strategy of aligning with customers’ strategies for future growth.

For additional information, please refer to the “Management’s Discussion and Analysis” section of the Corporation’s 2015 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan’s operating results for second quarter ended June 30, 2016

The Corporation operates substantially all of its activities in one reportable segment, Aerospace, which includes the design, development, manufacture, repair and overhaul and sale of systems and components for defence and civil aviation. The Corporation continues to provide services to the Power Generation segment, however the Corporation has removed the disclosure of this segment as the activity in relation to these services was not material in the current quarter and, at present, it is not expected to be material in future periods.

The Corporation reported higher revenue in the second quarter of 2016 of \$252.7 million when compared to the second quarter of 2015 of \$234.4 million. Gross profit and net income for the second quarter of 2016 were \$45.9 million and \$22.3 million, respectively, an increase from the gross profit of \$40.8 million and net income of \$16.5 million for the second quarter of 2015.

Consolidated Revenue

	Three month period ended June 30			Six month period ended June 30		
Expressed in thousands of dollars	2016	2015	Change	2016	2015	Change
Canada	81,515	78,295	4.1%	173,857	156,846	10.8%
United States	89,176	84,726	5.3%	177,533	167,432	6.0%
Europe	81,980	71,418	14.8%	167,339	138,414	20.9%
Total revenues	252,671	234,439	7.8%	518,729	462,692	12.1%

Consolidated revenues for the three months ended June 30, 2016 were \$252.7 million, \$18.3 million or 7.8% higher than \$234.4 million recorded for the same period in 2015. Revenues in Canada increased 4.1% in the second quarter of 2016 compared to the same period in 2015, primarily due to volume increase in aeroengine and aerostructure products, and the strengthening, on a year over year basis, of the United States dollar against the Canadian dollar, partially offset by lower revenues related to space and specialty products. On a currency neutral basis, Canadian revenues in the second quarter of 2016 slightly increased by 1.1% over the same period of 2015.

Revenues in United States increased 5.3% in the second quarter of 2016 in comparison to the second quarter of 2015 when measured in Canadian dollars mainly due to favourable foreign exchange impact. On a currency neutral basis, revenues in the United States was relatively flat on a year over year basis.

European revenues increased \$10.6 million or 14.8% to \$82.0 million in the second quarter of 2016 compared to \$71.4 million during the same period in 2015, primarily due to higher revenues as a result of increased production build rates and

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the acquisition of Euravia Engineering & Supply Co. Limited (“Euravia”), by the Corporation in mid-2015. On a constant currency basis, revenues in the second quarter of 2016 in Europe increased by 17.1% compared to the same period in 2015.

Gross Profit

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2016	2015	Change	2016	2015	Change
Gross profit	45,946	40,832	12.5%	94,471	80,027	18.0%
Percentage of revenues	18.2%	17.4%		18.2%	17.3%	

Gross profit increased \$5.1 million to \$45.9 million for the second quarter of 2016 compared to \$40.8 million for the second quarter of 2015 and gross profit as a percentage of revenues increased to 18.2% for the second quarter of 2016 compared to 17.4% for the same period in 2015. Increase in gross profit was primarily driven by operations in Canada and United States due to the strengthening year over year of the United States dollar against the Canadian dollar, favourable product mix and production efficiencies. The acquisitions of Euravia and Ripak also contributed to the increased gross profit in the second quarter of 2016 when compared to the same period in 2015. However, the weakening British pound in comparison to the Canadian dollar slightly decreased the gross profit for the period.

Administrative and General Expenses

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2016	2015	Change	2016	2015	Change
Administrative and general expenses	13,583	14,603	(7.0%)	28,782	27,718	3.8%
Percentage of revenues	5.4%	6.2%		5.5%	6.0%	

Administrative and general expenses as a percentage of revenues of 5.4% for the second quarter of 2016 were 0.8% lower than that in the corresponding period of 2015. Administrative and general expenses decreased \$1.0 million or 7.0% to \$13.6 million in the second quarter of 2016 compared to \$14.6 million in the second quarter of 2015 mainly due to \$1.3 million legal settlement recovery, net of tax, relating to a rental agreement. In addition, there was \$0.5 million acquisition related transaction costs recorded in the three month period ended June 30, 2015. The overall decrease was partially offset by unfavourable foreign exchange and general increases in various categories of administrative and general expenses.

Other

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2016	2015	2016	2015
Foreign exchange (gain) loss	(962)	2,251	(849)	72
Business closure costs	2,208	–	2,208	–
Loss on disposal of property, plant and equipment	61	375	185	476
Total other	1,307	2,626	1,544	548

Other expense of \$1.3 million for the second quarter of 2016 decreased \$1.4 million or 50.2% compared to \$2.6 million for the second quarter of 2015. The Corporation recorded a foreign exchange gain of \$1.0 million in the second quarter of 2016, in contrast to a \$2.3 million foreign exchange loss in the same period of 2015. The movements in balances denominated in the foreign currencies and the fluctuations of the foreign exchange rates impact the net foreign exchange loss or gain recorded in a quarter. During the second quarter of 2016, the Corporation also recorded a \$2.2 million charge related to closure of a small operating facility in the United States.

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Interest Expense

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2016	2015	2016	2015
Interest on bank indebtedness and long-term debt	890	1,002	2,171	1,973
Accretion charge on borrowings and long-term debt	260	268	467	480
Discount on sale of accounts receivable	316	225	647	432
Total interest expense	1,466	1,495	3,285	2,885

Total interest expense of \$1.5 million in the second quarter of 2016 was consistent with that in the second quarter of 2015. On a year over year basis, interest on bank indebtedness and long-term debt of \$0.9 million decreased \$0.1 million or 11.1% mainly as a result of lower principal amounts outstanding on bank indebtedness and long term debt during the second quarter of 2016 than those in the second quarter of 2015. Discount on sale of accounts receivable of \$0.3 million increased \$0.1 million due to a larger volume of receivables transferred under the securitization program for the second of quarter of 2016 compared to the same period in the prior year.

Provision for Income Taxes

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2016	2015	2016	2015
Current income tax expense	4,159	2,792	7,747	4,282
Deferred income tax expense	3,110	2,849	7,364	8,905
Income tax expense	7,269	5,641	15,111	13,187
Effective tax rate	24.6%	25.5%	24.8%	27.0%

Income tax expense for the three months ended June 30, 2016 was \$7.3 million, representing an effective income tax rate of 24.6% compared to 25.5% for the same period of 2015. The decrease in effective tax rate year over year was primarily due to an adjustment in corporation taxation rates in the income tax jurisdictions in which the Corporation operates. The increase in current income taxes expense during the current quarter was mainly due to full utilization of the net operating loss carry-forwards and certain tax credits in the United States than in the second quarter of 2015.

3. Selected Quarterly Financial Information

A summary view of Magellan’s quarterly financial performance

Expressed in millions of dollars, except per share amounts	2016		2015			2014		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Revenues	252.7	266.1	252.6	236.2	234.4	228.4	208.9	202.5
Income before taxes	29.6	31.3	27.1	24.8	21.8	26.8	23.9	17.7
Net Income	22.3	23.4	25.5	18.5	16.2	19.2	17.9	13.0
Net Income per share								
Basic and diluted	0.38	0.40	0.44	0.32	0.28	0.33	0.31	0.22
EBITDA ¹	44.7	45.8	43.1	37.8	33.5	37.4	34.7	28.3

¹ EBITDA is not an IFRS financial measure. Please see the “Reconciliation of Net Income to EBITDA” section for more information.

The Corporation reported its highest quarterly revenues in its history in the first quarter of 2016. The Corporation has been reporting a steady uptrend of revenue over the periods presented in the table above, partially due to favourable foreign exchange impact driven by a relatively stronger United States dollar and British pound against the Canadian dollar. The average exchange rate of United States dollar relative to the Canadian dollar fluctuated between a high of 1.3748 and a low of 1.0893. The average exchange rate of British pound relative to the Canadian dollar fluctuated between a high of 2.0280 and a low of 1.7974.

Revenue for the second quarter of 2016 of \$252.7 million was \$13.4 million or 5% lower than that in the first quarter of 2016 mainly due to unfavourable foreign exchange impact. The average exchange rate of United States dollar against the Canadian dollar moved from 1.3748 during the first quarter of 2016 to 1.2885 during the current quarter. The average exchange rate of British pound relative to the Canadian dollar moved from 1.9674 during the first quarter of 2016 to 1.8487 during the second quarter of 2016. Had the foreign exchange rates remained at levels experienced in the first quarter of

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2016, reported revenues in the second quarter of 2016 would have increased by \$14.8 million. Revenue for the second quarter of 2016 of \$252.7 million was \$18.3 million or 7.8% higher than \$234.4 million recorded in the second quarter of 2015. On a constant currency basis, revenue for the second quarter of 2016 would have been lower by \$4.8 million.

Net income for the first quarter of 2016 and fourth quarter of 2015 of \$23.4 million and \$25.5 million, respectively, was higher than all other quarterly net income shown in the table above. As discussed above, net income reported in the quarterly information was also positively impacted by the favourable foreign exchange movements. During the first and second quarter of 2016, the Corporation recorded higher income taxes due to full utilization of the net operating loss carry-forwards and certain tax credits in the United States in the second quarter of 2015. In the second quarter of 2015, the Corporation recorded a loss on translation of its foreign currency liabilities within Canada and Europe. In the fourth quarter of 2014, the Corporation recognized previously unrecognized investment tax credits.

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 and 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.

	Three month period ended June 30		Six month period ended June 30	
Expressed in thousands of dollars	2016	2015	2016	2015
Net income	22,321	16,467	45,749	35,689
Interest	1,466	1,495	3,285	2,885
Taxes	7,269	5,641	15,111	13,187
Depreciation and amortization	13,686	9,918	26,423	19,112
EBITDA	44,742	33,521	90,568	70,873

EBITDA increased \$11.2 million or 33.5% to \$44.7 million for the second quarter of 2016, compared to \$33.5 million in the second quarter of 2015 primarily as a result of higher net income and higher taxes and depreciation and amortization expenses.

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.

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Cash Flow from Operations

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2016	2015	2016	2015
Decrease (increase) in accounts receivable	293	2,728	(18,143)	(23,931)
Increase in inventories	(7,798)	(942)	(10,117)	(7,759)
(Increase) decrease in prepaid expenses and other	(133)	(2,549)	506	(1,716)
(Decrease) increase in accounts payable, accrued liabilities and provisions	(7,089)	8,168	(491)	14,153
Changes in non-cash working capital balances	(14,727)	7,405	(28,245)	(19,253)
Cash provided by operating activities	22,360	36,070	47,761	43,032

For the three months ended June 30, 2016, the Corporation generated \$22.4 million from operating activities, compared to \$36.1 million in the second quarter of 2015. The decrease in cash flow from operations was significantly impacted by the increased working capital investment in the second quarter of 2016, partially offset by higher net income and non-cash items, such as depreciation and amortization expenses, and impairment of property, plant and equipment.

Investing Activities

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2016	2015	2016	2015
Business combinations	–	(50,462)	–	(50,462)
Purchase of property, plant and equipment	(7,956)	(8,921)	(11,590)	(14,980)
Proceeds of disposals of property, plant and equipment	4	107	163	299
Increase in other assets	(2,410)	(921)	(7,055)	(3,533)
Change in restricted cash	4,449	–	5,225	–
Cash used in investing activities	(5,913)	(60,197)	(13,257)	(68,676)

Cash used in investing activities for the second quarter of 2016 was \$5.9 million compared to \$60.2 million in the same quarter of 2015, a significant decrease of \$54.3 million primarily due to \$50.5 million invested in the acquisition of Euravia in May 2015, and a \$4.5 million change in restricted cash. The Corporation continues to invest in capital expenditures to enhance its manufacturing capabilities in various geographies and to support new customer programs. Total capital expenditures for the three month period ended June 30, 2016 were \$8.0 million, \$1.0 million lower than those invested in the same period of the prior year.

Financing Activities

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2016	2015	2016	2015
(Decrease) increase in bank indebtedness	(18,509)	39,748	(29,213)	41,115
Increase in debt due within one year	4,923	323	2,706	3,292
Decrease in long-term debt	(1,143)	(2,961)	(2,251)	(3,955)
Increase in long-term debt	–	–	–	276
Increase in long-term liabilities and provisions	461	28	208	768
Increase in borrowings	697	99	807	184
Common share dividend	(3,347)	(3,201)	(6,694)	(6,403)
Cash (used in) provided by financing activities	(16,918)	34,036	(34,437)	35,277

The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian dollar limit of \$95,000, a US dollar limit of US\$35,000 and a British pound limit of £11,000. Under the terms of the credit agreement, the operating credit facility expires on September 30, 2018. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a Canadian \$50,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility. The credit agreement was amended on December 4, 2015 to include a short term bridge credit facility that increased the operating credit facility by a US dollar limit US\$10,000, which expired on March 4, 2016.

The Corporation used \$17.0 million in financing activities in the second quarter of 2016 mainly due to the repayment of the bank indebtedness.

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As at June 30, 2016 the Corporation has made contractual commitments to purchase \$18.5 million of capital assets.

Dividends

During the second quarter of 2016, the Corporation declared and paid quarterly cash dividends of \$0.0575 per common shares representing an aggregating dividend payment of \$3.3 million.

Subsequent to June 30, 2016 the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of \$0.0575 per common share. The dividend will be payable on September 30, 2016 to shareholders of record at the close of business on September 9, 2016.

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 10, 2016, 58,209,001 common shares were outstanding and no preference 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 material foreign exchange contracts outstanding as at June 30, 2016.

Off Balance Sheet Arrangements

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

7. Related Party Transactions

A summary of Magellan’s transactions with related parties

For the three and six month periods ended June 30, 2016, the Corporation had no material transactions with related parties as defined in IAS 24 - *Related Party Disclosures*.

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, 2015 and to the information under “Risks Inherent in Magellan’s Business” in the Corporation’s Annual Information Form for the year ended December 31, 2015, 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, 2016 and have been applied in preparing the consolidated interim financial statements.

Property, Plant and Equipment and Intangibles Assets

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

Joint Arrangements

In 2014, the IASB issued amendments to IFRS 11, *Joint Arrangements* (“IFRS 11”) to address the accounting for acquisitions of interests in joint operations. The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11, as amended, now requires that such transactions shall be accounted for using the principles related to business combinations accounting as outlined in IFRS 3, *Business Combinations*. As at January 1, 2016, the Corporation adopted the amendments and there was no impact on the 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, 2016, and have not been applied in preparing these condensed consolidated interim financial statements. These changes are not yet adopted by the Corporation and could have an impact on future periods. These changes are described in detail in the Corporation’s 2015 audited annual consolidated financial statements.

- IFRS 15, *Revenue from Contracts with Customers*
- IFRS 9, *Financial Instruments*
- IFRS 16, *Leases*
- Amendments to IAS 12, *Recognition of Deferred Tax Assets for Unrealised Losses*
- Amendments to IAS 7, *Disclosure Initiative*
- Amendments to IFRS 2, *Classification and Measurement of Share-based Payment Transactions*

The Corporation is in the process of evaluating the impact of adopting these standards 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 2015 audited annual 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, 2015 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, 2016

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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 2016

The commercial aircraft market continues to be robust with single-aisle aircraft production ramp rates dominating discussions. Aircraft manufacturers are focused on executing schedules, on meeting cost challenges, and on ensuring the supply chain is sufficiently prepared to support them.

Airbus’s A320 build rate increased from 44 aircraft per month in the first quarter of 2016 to 46 aircraft per month beginning in the second quarter of 2016. Airbus is planning to build 600 aircraft in 2017 at a rate of 50 aircraft per month. That rate is expected to grow to 55 aircraft per month in 2018 and 60 aircraft per month by the end of 2018. Boeing’s 737 build rate is currently at 42 aircraft per month and is expected to grow to 47 aircraft per month during 2017 and 52 aircraft per month in 2018. Airbus is also ramping up its new A350XWB wide body production. It is expected that they will build 70 aircraft in 2016, 95 aircraft in 2018, and 116 aircraft in 2019. A380 production will peak at 26 aircraft in 2016 and then begin to decline as order backlogs diminish. Boeing’s 787 build rate is now at 12 aircraft per month.

In the regional market this quarter, Embraer achieved first flight for its new E190-E2 aircraft and Bombardier handed over the first CS100 aircraft to Swiss Air. This 90 to 110 seat regional segment is currently the strongest in this market. The regional turboprop segment remains down.

Orders for small to medium business jets began to rebound in 2015 as continuing improvement in the United States economy unlocked latent demand. In the large business jet market, Bombardier was the first to react to a decline in demand by cutting their Global Series production rates from 80 aircraft annually down to 50 aircraft, and postponing entry into service of the new Global 7000 by two years. It is expected that Dassault and Gulfstream will follow suit with similar cuts. Overall, deliveries in this market fell by 8% in 2015, representing the largest dip over the last 10 years. Some suggest the reason for the dip is that wealthy owners of large-cabin jets in emerging markets such as Brazil, China and Russia, have been hit hard by the crash in oil and commodity prices coupled with the rising strength of the dollar. Others have speculated that traditional buyers of larger jets are holding out for a new developing class of mid-size jet that offers an inter-continental range with desired amenities.

Defence aerospace news has been widely populated with reports of international competitions for new equipment, weighing requirements/capabilities against affordability. Recently, Denmark announced that the fifth generation F-35A emerged as the winner against Eurofighter and Boeing’s F/A-18F Super Hornet in their comprehensive fighter competition. In other examples, legacy platforms emerged as winners. This reinforces the importance of being strategically positioned on major competing platforms, as is the strategy of Magellan.

In 2016, the F-35 Joint Strike Fighter program plans to deliver 53 aircraft. By 2018 deliveries are expected to approach 100 aircraft and reach 145 aircraft by 2020. On May 2, 2016, F-35 Fighter pilots from Hill Air Force Base began flying routine four-ship combat training missions at the Utah Test and Training Range. This marked a key milestone in getting the USAF’s newest fighter jet to reach initial operational capability (IOC) later this year. The first operational F-35 arrived at Hill AFB in September 2015. The base will be home to three operational F-35 fighter squadrons with a total of 78 aircraft by the end of 2019. With Denmark’s recent F-35 announcement, Canada is the only remaining partnering country on the F-35 Joint Strike Fighter program which has not committed to purchase F-35. Magellan is a member of the Canadian JSF Industrial Group

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(CJIG) and has been supporting efforts to promote the current and future benefits of Canada’s participation on the F-35 Joint Strike Fighter program.

Finally, OEM’s are attempting to find reason for optimism in the commercial helicopter market which has softened much more than most anticipated. A significant contributor to this softening has been the slump in oil and gas. It is believed that this market will continue to be slow through 2017 before any true signs of rebound appear. Activity remains steady if not slightly improved for defence helicopters, as international budgets are prioritized and as pressure comes on NATO countries to pull their weight and commit to spending 2% of GDP towards defence.