

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

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 audited consolidated financial statements and the notes thereto for the years ended December 31, 2017 and 2016 prepared in accordance with International Financial Reporting Standards ("IFRS"), and the Annual Information Form for the year ended December 31, 2017 (available on SEDAR at www.sedar.com). This MD&A provides a review of the significant developments that have impacted the Corporation's performance during the year ended December 31, 2017 relative to the year ended December 31, 2016. The information contained in this report is as at March 2, 2018. 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," "2017 and Recent Updates," "Outlook," "Consolidated Revenues," "Liquidity and Capital Resources," "Risk Factors," "Critical Accounting Estimates" and "Future Changes in Accounting Policies." In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "could," "expects," "forecasts," "believes," "projects," "plans," "anticipates," and similar expressions. The projections, estimates and beliefs contained in such forward-looking statements are based on management's assumptions relating to the production performance of Magellan's assets and competition throughout the aerospace industry in 2017 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 a result of new information, future events or otherwise.

The MD&A presents certain non-IFRS financial measures to assist readers in understanding the Corporation's performance. Non-IFRS financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with Generally Accepted Accounting Principles ("GAAP"). Throughout this discussion, reference is made to EBITDA (defined as net income before interest, income taxes, depreciation 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 2017 events

Magellan is a diversified supplier of components to the aerospace industry. 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 ("R&O").

During 2017 the Corporation focused on improving its overall execution at all of its divisions. Adherence to business plans with an emphasis on meeting customer expectations was the common theme adopted throughout the Magellan organization. Business reviews are now well established in all divisions utilizing a standardized set of management tools; the Corporation believes that this approach is clearly driving improved performance in all aspects of its business. These

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improvements are being accomplished through the constant monitoring and management response to key indicators effectively at both the Corporate and divisional levels.

It is expected that the Corporation will continue to improve its overall performance and continue down this path using these management techniques which have been incorporated into the Magellan Operating System ("MOS™"). In 2018 the Corporation has committed to establishing a zero defect, 100% schedule compliance culture. Management will continue to focus on reducing inventories while increasing inventory turns and improving cash management, thereby ultimately continuing to reduce internal cost.

Magellan operates substantially all of its activities in one reportable segment, Aerospace, which is viewed as one segment by the chief operating decision-makers for the purpose of resource allocations, assessing performance and strategic planning. The Aerospace segment includes the design, development, manufacture, R&O and sale of systems and components for defence and civil aviation. The Corporation supplies both the commercial and defence sectors of the Aerospace segment. In the commercial sector, the Corporation is active in the large commercial jet, business jet, regional aircraft, and helicopter markets. On the defence side, the Corporation provides parts and services for major military aircraft.

Within the Aerospace segment, the Corporation has two major product groupings: aerostructures and aeroengines. Aerostructure and aeroengine products are used both in new aircraft and for spares and replacement parts.

Within the aerostructures product grouping, the Corporation supplies international customers by producing components to aerospace tolerances using conventional and high-speed automated machining centres. Capabilities include precision casting of airframe-mounted components. Management believes that Magellan's dedication to technological innovation combined with low cost sourcing from emerging markets will position the Corporation to capture targeted complex assembly programs.

Within the aeroengines product grouping, the Corporation manufactures complex casting, fabricated and machined gas turbine engine components, both static and rotating, and integrated nacelle components, flow paths and engine exhaust systems for the world's leading aeroengine manufacturers. The Corporation also performs R&O services for jet engines and related components.

In 2017, 73% of revenues were derived from commercial markets (2016 – 73%, 2015 – 75%) while 27% of revenues related to defence markets (2016 – 27%, 2015 – 25%).

2017 and Recent Updates

- On February 3, 2017, Magellan announced a contract award from Public Services and Procurement Canada ("PSPC") for engine repair and overhaul and fleet management services on the F404 engine that powers Canada's fleet of CF-188 Hornet aircraft. The contract commenced in January 2017 and work will be carried out until the terms expire at the end of March 2021. A preliminary funding amount of \$45 million has been approved to launch this multi-year agreement. The contract includes options to extend the duration of the agreement beyond 2021, based on performance. Magellan will service the F404 engines at its facility in Mississauga, Ontario and at Royal Canadian Air Force ("RCAF") bases located in Bagotville, Quebec and Cold Lake, Alberta.
- On February 14, 2017, the Corporation announced plans to construct a new manufacturing facility in India. The new 140,000 square foot building will be constructed on seven acres in Hitech Defence and Aerospace Park (Aerospace SEZ Sector) in Devanahalli, Bengaluru, near the Bangalore International Airport, already an established presence in India's aerospace sector for more than a decade. The Corporation will invest more than \$28 million in this state-of-the-art manufacturing and assembly plant, which will be constructed in two phases. An announcement was made on

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November 15, 2017 that Magellan had hosted a ground-breaking ceremony for the Corporation's new manufacturing and assembly facility in India. The plant will employ approximately 120 high technology and support positions, and will be equipped with a comprehensive range of high speed 4 and 5-axis machining centres, selected to optimize manufacturing efficiency.

- An announcement was made on March 8, 2017 about an agreement between Magellan and Airbus for the supply of complete crown module assemblies for all variants of the A350 XWB aircraft. This contract extension, valued at approximately \$140 million, will see the provision of complex assemblies from Magellan facilities in the United Kingdom, Poland and India to the Airbus assembly lines in Germany and France.
- Magellan announced on April 3, 2017 the sale of the land and building of its Mississauga facility as at Friday, March 31, 2017. The sale generated net cash proceeds of approximately \$32.7 million. Magellan will lease a new facility that will be constructed by the buyer on the existing site. The facility rationalization is being driven by the need to improve Magellan's manufacturing efficiencies, operational performance, profit margins and cash flow. The move to the newly constructed facility is expected to be completed and operational in the early part of 2019.
- On September 20, 2017, the Corporation announced that it was selected by Airbus to provide exhaust systems for the A320neo PW family of aircraft. Magellan will design, develop and manufacture exhaust systems for the A320neo PW1100G-JM nacelle with the first unit scheduled to enter into service in 2022. Revenue generated from this life-of-program contract is estimated to exceed \$200 million over the first ten years of the contract. The fabricated metallic exhaust systems will be produced at Magellan's North American facilities in Winnipeg, Manitoba and Middletown, Ohio and will be delivered directly to Airbus assembly lines across the globe.
- Magellan announced on January 22, 2018 that it had delivered the first of three Power Control Units ("PCU's") for a planned space mission. In 2016, Magellan was selected by the Laboratory for Atmospheric and Space Physics ("LASP") at the University of Colorado in Boulder, Colorado to provide satellite technology for a future Deep Space Interplanetary Mission. Under the contract, Magellan's facility in Winnipeg, Manitoba will deliver three PCU's and subsystems for three jointly developed Control and Data Handling ("C&DH") units. Magellan will provide its flight-proven PCU's and C&DH subsystems that utilize expertise developed by Magellan for past and current Canadian Space Agency missions.
- On February 22, 2018, Magellan and Robinson announced that a WSPS™ is now available for the Robinson R66 helicopter platform. The WSPS™ is designed to provide a measure of protection for helicopters in level flight in the event of an encounter with horizontally strung wires and cables, using the concept of guiding wires over the fuselage into high tensile cutting blades. The R66 WSPS™ is comprised of upper cutter, lower cutters, and a windshield detector. Magellan's WSPS™ R66 platform is available as a field kit option for all R66 helicopters.

Labour Matters

During the year ended December 31, 2017, one labour agreement was successfully re-negotiated with an expiry date on December 31, 2018. Two other collective agreements were successfully re-negotiated in 2017, so that they now expire on December 31, 2019. Further, three labour agreements at two of the Corporation's facilities that expired during 2017 were ratified, so that they now expire on March 31, 2020, and October 23, 2020 respectively. In the first quarter of 2018, three labour agreements at two of the Corporation's facilities will expire, negotiations have commenced. One labour agreement at a newly unionized facility of the Corporation is also currently in negotiations. The Corporation anticipates that all negotiations will result in an extension of the expiry dates or a mutually satisfactory agreement, as applicable.

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Financing Matters

The Corporation entered into the Bank Facility Agreement with a syndicate of lenders. The Bank Facility Agreement provides for an operating credit facility to be available to Magellan in a maximum aggregate amount of Cdn\$95 million, US\$35 million and £11 million British pounds. The Bank Facility Agreement also includes a Cdn\$50 million uncommitted accordion provision which provides Magellan with the option to increase the size of the operating credit facility to Cdn\$200 million. Under the terms of the Bank Facility Agreement, the operating credit facility expires on September 30, 2018. Extensions of the operating credit facility are subject to mutual consent of the lenders and the Corporation.

2. OUTLOOK

The outlook for Magellan's business in 2018

It was another record year for commercial aircraft in 2017. The worldwide commercial fleet grew by 4% during the year resulting in a new total of 31,000 aircraft in service. Boeing booked 912 orders and Airbus booked 1,109 orders building backlogs of 8.7 years and 10.4 years respectively, the highest of any time.

According to industry experts, this unprecedented commercial jetliner production supercycle will continue through to the end of the decade at which point annual deliveries will have reached US\$138 billion in value, 3.5 times that which was experienced in 2004. Although order bookings in 2017 were lower than the peak in 2014, Boeing and Airbus continue to fulfill their record orders with steadily increasing monthly build rates. Boeing's combined production rates for B737 and B737 MAX programs are planned to increase from the current 47 aircraft per month to 52 aircraft per month mid-2018, and then 57.7 aircraft per month in 2019. Airbus' build rate for the A320 and its variants steps up from 54 aircraft to 57 aircraft in 2018, and then to 60 aircraft per month in 2019. Boeing's B787 and B777 programs remain steady at 12 aircraft per month and 5 aircraft per month respectively. Airbus' new A350XWB and Boeing's B777X continue their ramp up towards full rate production. The A350XWB rate is currently at 8.4 aircraft per month and is planned to hit 13 aircraft per month by 2020. Boeing is building 3 B777X's in 2018 and is expected to reach between 8 aircraft and 9 aircraft per month by 2024. Wide body market recent sales announcements have added to Airbus' A380 and Boeing's B747-8 backlogs stabilizing production rates going forward.

The commercial aerospace market is currently going through some changes, the first being vertical integration and the second being emerging new partnership agreements. For various reasons original equipment manufacturers are pursuing vertical integration strategies which will ultimately challenge lower tier suppliers to realign their strategies, including those that rely heavily on aftermarket for their profits. The second change comes with announcements that Airbus has partnered with Bombardier on the C-Series program, and Boeing and Embraer are in talks to reach a possible merger agreement. The impact of these initiatives on Magellan's market positions is not expected to be material. Magellan currently has supply agreements on all Airbus and Boeing commercial fixed wing platforms.

With new business jets about to enter service and more set for certification in 2018, the business jet industry hopes to see deliveries begin to recover after hitting another low point in 2017. The industry continues to introduce new models that are more attractive and more competitive than the previous ones in an attempt to stimulate demand, however some argue it is getting more difficult to find a niche to target. The latest focus by some manufacturers is on aircraft speed, such as with Bombardier's new Global platform and the new Gulfstream offerings which are capable of flying close to supersonic speeds. This may provide some stimulus in the market however experts continue to struggle in identifying new leading indicators that will signal that this market is in sustained recovery.

In the rotorcraft market, helicopter manufacturers are finally seeing signs of stability. Airbus predicts that the global market would need at least 22,000 helicopters over the next 20 years, with emerging economies providing most of the growth potential. Commercial sales increased by 3% in 2017 driven mainly by a preference for smaller lighter upper-medium

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models such as Bell's 525 and Leonardo's AW189. Further growth opportunity comes as a result of the opening up of the Chinese civil helicopter market, which is generating a boom in sales for light single and twin rotorcraft. In contrast, large helicopters for the oil and gas industry such as Airbus' H225 and Sikorsky's S-92 appear unlikely to fully recover to the volumes expected prior to the downturn in the energy market. Magellan services the rotorcraft industry through its engine maintenance, repair and overhaul capabilities and Wire Strike Protection System™ products. In addition, the Corporation's casting facilities in Haley, Ontario and Glendale, Arizona provides aeroengine castings in support of both the business jet and helicopter markets.

In the defense market, the United States market is entering its second consecutive year of growth. United States lawmakers acknowledge that their forces require fleet modernization and repair, and are therefore recommending funding increases for almost every aviation platform. For example, the Pentagon asked for an additional 70 F-35's and Congress wants to fund 90 of them. Allied nations' budgets are also expected to grow similarly to that of the United States.

Lockheed Martin's F-35 Lightning II aircraft ("F-35") completed a successful year in 2017. By the end of the year, 241 F-35's were in service worldwide and international final assembly lines in Italy and Japan had begun operations. In November, Denmark purchased the first of its 27 planned F-35's after selecting it over the Eurofighter and Super Hornet. In 2018, the U.S. Navy is set to declare the F-35C operational, the United Kingdom will begin F-35B carrier testing and Turkey will take delivery of its first F-35 fighters. Although Lockheed did not secure any new customers in 2017 for F-35, the fighter is expected to be successful in several upcoming next-generation fighter competitions such as in Belgium, Austria, Finland, Switzerland and Poland. Late in 2017, Canada announced that a tender for a new fighter would be put out in 2019, with the new fighter entering service by the mid 2020's. The competition will be open to all qualified bidders including Lockheed and Boeing. The Corporation has been a long term supplier to both the Boeing F-18 and Lockheed F-35 programs.

While some aerospace markets remain depressed, the industry outlook overall continues to be positive. Commercial airline markets are maintaining record levels of production output and defense markets are beginning to rebound. Growth opportunities are developing as current new programs ramp up to full production and a spate of innovative new programs variants emerge. Considering its diversified capabilities, Magellan is well positioned to benefit from current and future market opportunities.

3. SELECTED ANNUAL INFORMATION

A summary of selected annual financial information for 2017, 2016 and 2015

Expressed in millions of dollars, except per share information	2017	2016	2015
Revenues	969.0	1,003.8	951.5
Net income for the year	111.3	88.6	79.4
Net income per common share – Basic and Diluted	1.91	1.52	1.36
EBITDA	181.5	174.3	151.7
EBITDA per common share – Diluted	3.12	2.99	2.61
Total assets	983.9	992.9	1,049.7
Total non-current financial liabilities	35.1	101.5	196.0

Revenues for the year ended December 31, 2017 decreased from 2016 and increased from 2015 levels. The decrease in revenues from 2016 is primarily attributable to volume decreases and unfavourable foreign exchange impact. Net income increased in 2017 from 2016 mainly due to gain on sale of Mississauga property, and lower interest and income taxes (see "Results of Operations").

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During 2017 the Corporation paid quarterly dividends on common shares of \$0.065 per share for the first three quarters and \$0.085 per share in the fourth quarter, amounting to \$16.3 million in total for the year. During 2016, the Corporation paid quarterly dividends on common shares of \$0.0575 per share in the first three quarters and \$0.065 per share in the fourth quarter, amounting to \$13.8 million in total for the year.

4. RESULTS OF OPERATIONS

A discussion of Magellan's operating results for 2017 and 2016

Consolidated Revenues

Consolidated revenues for the year ended December 31, 2017 were \$969.0 million, a 3.5% decrease from the \$1,003.8 million last year. Volume decreases and unfavourable foreign exchange impact contributed to the year over year decrease in sales.

Twelve-months ended December 31, expressed in thousands of dollars	2017	2016	Change
Canada	315,398	341,006	(7.5%)
United States	314,767	338,969	(7.1%)
Europe	338,789	323,868	4.6%
Total revenues	968,954	1,003,843	(3.5%)

Consolidated revenues are significantly impacted by the fluctuation of United States dollar and British pound against the Canadian dollar when the Corporation translates its foreign operations to Canadian dollars. Further, the fluctuation of the British pound relative to United States dollar impacts the performance of the Corporation's European operations. If the average exchange rates for both the United States dollar and British pound experienced in 2016 remained constant in 2017, consolidated revenues for 2017 would have been approximately \$988.3 million.

On a currency neutral basis, in comparison to 2016, revenues in Canada in 2017 decreased 5.3% primarily driven by volume decreases. Revenues in the United States decreased by 6.5% largely due to volume decreases in wide body aircraft and rotorcraft market. Revenues in Europe increased 7.5% mainly due to higher production build rates for single aisle aircraft.

Gross Profit

Twelve-months ended December 31, expressed in thousands of dollars	2017	2016	Change
Gross Profit	175,847	178,886	(1.7%)
Percentage of revenue	18.1%	17.8%	

Gross profit was \$175.8 million in 2017, \$3.1 million lower than 2016 of \$178.9 million. Gross profit, as a percentage of revenues, was slightly higher than the prior year. Decrease in gross profit was primarily driven by volume decreases in a number of programs.

Administrative and General Expenses

Twelve-months ended December 31, expressed in thousands of dollars	2017	2016	Change
Administrative and general expenses	59,549	57,557	3.5%
Percentage of revenue	6.1%	5.7%	

Administrative and general expenses as a percentage of revenue were 6.1% in 2017 as compared to 5.7% in 2016. Administrative and general expenses of \$59.5 million in 2017 were \$1.9 million or 3.5% higher than \$57.6 million in the prior year mainly due to the recognition of a \$1.3 million legal settlement recovery recorded in the prior year.

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Other

Twelve-months ended December 31, expressed in thousands of dollars	2017	2016
Foreign exchange loss (gain)	6,034	(4,630)
Business closure costs	–	1,954
(Gain) loss on disposal of property, plant and equipment	(26,533)	442
Gain on investment property	(2,183)	–
Other	4,010	–
Other	(18,672)	(2,234)

In 2017, the Corporation sold the land and building of its Mississauga facility and recorded a gain of \$26.6 million. The Corporation recorded \$4.0 million of costs associated with the sale. In addition, the Corporation sold one of its investment properties in 2017 and recorded a gain of \$2.2 million. Included in other income is also a foreign exchange loss of \$6.0 million compared to a gain of \$4.6 million in the prior year. The movements in balances denominated in foreign currencies and the fluctuations of the foreign exchange rates impact the net foreign exchange loss or gain recorded during the year.

Interest Expense

Twelve-months ended December 31, expressed in thousands of dollars	2017	2016
Interest on bank indebtedness and long-term debt	2,435	4,249
Accretion charge on long-term debt and borrowings	611	842
Discount on sale of trade receivables	1,665	1,058
Interest expense	4,711	6,149

Total interest costs of \$4.7 million for 2017 decreased by \$1.4 million from \$6.1 million in 2016. Interest on bank indebtedness and long-term debt of \$2.4 million in 2017 was \$1.8 million lower mainly driven by lower principal amounts outstanding during 2017 when compared to 2016. The Corporation sells a portion of its trade receivables through securitization and factoring programs. Discount on sale of trade receivables was \$1.7 million, an increase of \$0.6 million over the prior year largely due to higher volumes of receivables sold during the year.

Income Taxes

Twelve-months ended December 31, expressed in thousands of dollars	2017	2016
Current income tax expense	15,557	12,780
Deferred income tax expense	3,425	16,054
Income tax expense	18,982	28,834
Effective tax rate	14.6%	24.6%

The Corporation recorded an income tax expense in 2017 of \$19.0 million on pre-tax income of \$130.3 million, representing an effective tax rate of 14.6%, compared to an income tax expense of \$28.8 million on a pre-tax income of \$117.4 million in 2016 for an effective tax rate of 24.6%.

During 2017 and 2016, the Corporation recognized investment tax credits totalling \$9.0 million and \$7.0 million, respectively, as a reduction of cost of revenues, as the Corporation has determined that it will be able to benefit from these investment tax credits. The decrease in the effective tax rate to 14.6% in 2017 from 24.6% in 2016 is primarily attributed to the reduction in the deferred tax liability in the United States as a result of new legislation which lowered the United States federal corporate income tax rate. In addition, the lower tax rate applicable to the capital gain on the sale of the Mississauga property and the investment property in 2017 further decreased the effective tax rate. The change in mix of income across the different jurisdictions in which the Corporation operates also impacts the change in the effective tax rate.

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5. 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, income taxes and depreciation and amortization) in this MD&A. 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 component of this measure is 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.

Twelve-months ended December 31, expressed in thousands of dollars	2017	2016
Net income	111,277	88,580
Interest	4,711	6,149
Taxes	18,982	28,834
Depreciation and amortization	46,516	50,713
EBITDA	181,486	174,276

EBITDA for the year ended 2017 of \$181.5 million increased by \$7.2 million when compared to \$174.3 million in 2016, primarily as a result of higher net income offset by lower interest, taxes and depreciation and amortization expenses.

6. SELECTED QUARTERLY FINANCIAL INFORMATION

A summary view of Magellan's quarterly financial performance

Expressed in millions of dollars except per share information	2017				2016			
	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
Revenues	247.2	253.5	232.6	235.6	266.1	252.7	238.0	247.1
Income before taxes	48.5	26.9	25.4	29.5	31.3	29.6	25.2	31.3
Net income	39.4	20.4	19.3	32.1	23.4	22.3	18.8	24.0
Net income per common share								
Basic and Diluted	0.68	0.35	0.33	0.55	0.40	0.38	0.32	0.41
EBITDA ¹	62.3	40.4	37.6	41.2	45.8	44.7	38.4	45.3

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

Revenues and net income reported in the table above were impacted by the movements in the Canadian dollar relative to the United States dollar and British pound when the Corporation translates its foreign operations to Canadian dollars. Further, the movements in the United States dollar relative to British pound impact the Corporation's United States dollar exposures in its European operations. During the periods reported, the average exchange rate of United States dollar relative to the Canadian dollar fluctuated between a high of 1.3748 in the first quarter of 2016 and a low of 1.2526 in the third quarter of 2017. The average exchange rate of British pound relative to the Canadian dollar moved from a high of 1.9674 in the first quarter of 2016 to a low of 1.6398 in the third quarter of 2017. The average exchange rate of the British pound relative to the United States dollar reached its high of 1.4347 in the second quarter of 2016 and hit a low of 1.2395 in the first quarter of 2017. Had exchange rates remained at levels experienced in 2016, reported revenues in 2017 would have been lower by \$7.8 million in the second quarter; higher by \$9.4 million, \$8.6 million and \$9.4 million in the first, third and fourth quarters, respectively.

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As discussed above, net income reported in the quarterly information was also impacted by the foreign exchange movements. The Corporation reported its highest net income in the first quarter of 2017 mainly driven by the recognition of the gain on the sale of Mississauga property. In the third quarter of 2017, the Corporation recorded a gain of \$2.2 million on the disposition of an investment property. In the fourth quarter of 2017, the Corporation recognized the deferred tax recovery attributable to the reduction in the United States federal corporate income tax rate as a result of new legislation. The Corporation recorded business closure costs related to the closure of a small operating facility in the United States in the second quarter of 2016, and a margin adjustment related to one of its construction contracts in the third quarter of 2016.

7. 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 trade receivables securitization program, and long-term debt and equity capacity. Principal uses of cash are to fund liabilities as they become due, finance capital expenditures, fund debt repayments, pay dividends and provide flexibility for new investment opportunities. 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 costs for 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.

In 2017, \$129.9 million of cash was generated by operations, \$20.7 million was used in investing activities and \$76.4 million was used in financing activities.

Cash Flow from Operating Activities

Twelve-months ended December 31, expressed in thousands of dollars	2017	2016
Decrease (increase) in trade receivables	6,766	(13,460)
Decrease (increase) in inventories	8,011	(7,548)
Decrease (increase) in prepaid expenses and other	3,992	(2,762)
(Decrease) increase in accounts payable, accrued liabilities and provisions	(17,320)	30,427
Net change in non-cash working capital items	1,449	6,657
Net cash from operating activities	129,949	155,001

The Corporation generated \$129.9 million in 2017 from operating activities, compared to \$155.0 million in the prior year. Changes in non-cash working capital items provided cash of \$1.4 million attributed to the decreases in trade receivables, inventories, prepaid expenses and other, offset by the decrease in accounts payable, accrued liabilities and provisions. The decrease in trade receivables resulted from the sale of receivables under a new factoring program. Lower inventory levels in 2017 resulted from lower production volumes on a number of programs and timing of shipment. The decrease in accounts payable, accrued liabilities and provisions was due to timing of purchases and payments. In 2016, changes in non-cash working capital items provided cash of \$6.7 million as a result of an increase in accounts payable, accrued liabilities and provisions offset by increases in trade receivables, inventories, prepaid expenses and other.

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Cash Flow from Investing Activities

Twelve-months ended December 31, expressed in thousands of dollars	2017	2016
Purchase of property, plant and equipment	(64,151)	(45,421)
Proceeds from disposal of property, plant and equipment	32,742	760
Proceeds on disposition of investment property	3,900	–
Change in restricted cash	3,665	5,657
Decrease (increase) in intangibles and other assets	3,105	(7,580)
Net cash used in investing activities	(20,739)	(46,584)

The Corporation invested \$64.2 million in capital assets during the year in comparison to \$45.4 million in 2016. The Corporation continues to invest in advanced technology production equipment and information technology systems, both designed to increase productivity, reduce cycle time and improve technology capability. During the year, the Corporation sold the land and building of its Mississauga facility and one investment property for proceeds of \$32.7 million and \$3.9 million respectively. Restricted cash relates to amounts deposited in escrow accounts in connection with the 2015 acquisitions. In 2017, the Corporation released funds from the escrow accounts in settlement of contingent liabilities.

Cash Flow from Financing Activities

Twelve-months ended December 31, expressed in thousands of dollars	2017	2016
Decrease increase in bank indebtedness	(43,159)	(88,873)
Decrease increase in debt due within one year	(7,951)	(3,718)
Decrease in long-term debt	(13,520)	(4,526)
Increase (decrease) in long-term liabilities and provisions	1,071	(183)
Increase in borrowings, net	3,493	5,391
Common share dividend	(16,299)	(13,825)
Net cash used in investing activities	(76,365)	(105,734)

The Corporation used \$76.4 million in 2017 mainly to repay bank indebtedness, debt due within one year, and long-term debt, and to pay dividends. The Corporation also received \$3.5 million proceeds, as compared to \$5.4 million in 2016, from Canadian Government agencies related to the development of its technologies and processes.

Contractual Obligations

As at December 31, 2017, expressed in thousands of dollars	Less than			After	
	1 year	1-3 Years	4-5 Years	5 Years	Total
Trade receivables securitization	36,675	–	–	–	36,675
Long-term debt	15,159	4,977	4,451	2,880	27,467
Equipment leases	909	1,239	755	221	3,124
Facility leases	4,931	5,721	5,838	21,768	38,258
Other long-term liabilities	147	501	504	1,225	2,377
Borrowings subject to specific conditions	1,296	1,709	2,066	20,091	25,162
Total Contractual Obligations	59,117	14,147	13,614	46,185	133,063

Major cash flow requirements for 2018 include the repayment of trade receivables securitization of \$36.7 million which is expected to be refinanced, repayment of long-term debt of \$15.2 million, payments of equipment and facility leases of \$5.8 million and borrowings subject to specific conditions of \$1.3 million.

On September 30, 2014, the Corporation amended and restated its Bank Facility Agreement with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was amended to a

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Canadian dollar limit of \$95.0 million plus a United States dollar limit of \$35.0 million, and the addition of a £11.0 million British pound limit with a maturity date of September 30, 2018. The Bank Facility Agreement also includes a Canadian \$50.0 million uncommitted accordion provision which provides Magellan with the option to increase the size of the operating credit facility to \$200.0 million. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement was amended on December 4, 2015 to include a short term bridge credit facility that increased the operating credit facility by US\$10 million. The bridge credit facility expired on March 4, 2016. As of December 31, 2017, the Corporation is debt-free under its credit facility.

As at December 31, 2017, the Corporation had made contractual commitments to purchase \$12.4 million of capital assets. In addition, the Corporation had purchase commitments, largely for materials required for the normal course of operations, of \$324.0 million as at December 31, 2017. The Corporation plans to fund all of these capital commitments with operating cash flow and the existing credit facility.

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 March 2, 2018, 58,209,001 common shares were outstanding and no preference shares were outstanding. More information on the Corporation's share capital is provided in note 18 of the Corporation's consolidated financial statements.

On March 31, 2017, June 30, 2017, and September 30, 2017 the Corporation paid quarterly dividends on 58,209,001 common shares of \$0.065 per common share, representing an aggregate dividend payment of \$11.4 million. On December 29, 2017 the Corporation paid quarterly dividends on 58,209,001 common shares of \$0.085 per common share, amounting to \$4.9 million.

For the year ended December 31, 2016, the Corporation declared and paid dividends on common shares on March 31, 2016, June 30, 2016 and on September 30, 2016 of \$0.0575 per share amounting to \$10.0 million and on December 30, 2016 of \$0.065 per share amounting to \$3.8 million.

In the first quarter of 2018, the Corporation declared cash dividends of \$0.085 per common share payable on March 30, 2018 to shareholders of record at the close of business on March 16, 2018.

8. 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 at December 31, 2017.

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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.

9. RELATED PARTY TRANSACTIONS

A summary of Magellan's transactions with related parties

During the year, the Corporation incurred consulting costs of \$0.1 million [2016 - \$0.1 million] payable to a corporation controlled by the Chairman of the Board of Directors of the Corporation.

10. RISK FACTORS

A summary of risks and uncertainties facing Magellan

The Corporation's performance may be affected by a number of risks and uncertainties. Magellan's senior management identifies key risks and has processes in place to help monitor, manage, and mitigate these risks. Additional risks and uncertainties not presently known by the Corporation, or that the Corporation does not currently anticipate, may be material and may impair the Corporation's performance.

The following risks and uncertainties apply to the Corporation. Information relating to additional risks and uncertainties are set forth in the Corporation's Annual Information Form on SEDAR at www.sedar.com.

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

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 acquisitions; 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 the Corporation competes. In addition, acts of terrorism, natural disasters, global health risks, political instability or the outbreak of war or

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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.

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. In situations where the Corporation is not fully hedged, 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 could affect the translation of the Corporation's results and profitability shown in its consolidated financial statements. The Corporation also may not be able to manage its currency exposure on commercially reasonable terms.

Political uncertainty could result in a decrease in revenues or have other material adverse effects on the Corporation.

In the last several years, the United States and certain European countries have experienced significant political events that have cast uncertainty on global financial and economic markets. During the last year under the new federal administration of the United States a number of election promises were pushed forward and the new American administration has taken steps to implement some of them. These include the renegotiation of the terms of the North American Free Trade Agreement, withdrawal of the United States from the Trans-Pacific Partnership, and possible imposition of a tax on the importation of goods into the United States. Additionally newly adopted tax legislation changes in the United States may affect strategies for US corporations. The potential introduction of laws to reduce immigration and restrict access into the United States for citizens of certain countries may also present future challenges to non-US corporations. It is presently unclear exactly what actions the new administration in the United States will be successful implementing, and if implemented, how these actions may impact the aerospace industry.

On June 23, 2016, the United Kingdom held a referendum in which a majority of voters voted to exit the European Union ("Brexit"). The effects of Brexit will depend on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. Brexit could adversely affect European and global economic or market conditions and could contribute to instability in global financial markets. Any of these effects of Brexit, and others the Corporation cannot anticipate, may have a negative effect and may adversely affect the Corporation's business.

To the extent that certain political actions taken in North America, Europe and elsewhere in the world result in a marked decrease in free trade, access to personnel and freedom of movement it could have an adverse effect on the Corporation's ability to market its products and services internationally, increase costs for goods and services required for the Corporation's operations, reduce access to skilled labour and negatively impact the Corporation's business, operations, financial conditions and the market value of its Common Shares.

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.

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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.

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 that of the Corporation and this constitutes 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 Magellan faces will not adversely affect the Corporation's operating revenues and, in turn, the Corporation's business and financial condition.

The aerospace and defense industry is experiencing significant consolidation, including the Corporation's customers, competitors, and suppliers. Consolidation among Magellan's customers may result in delays in awarding new contracts and losses of existing business. Consolidation among the Corporation's competitors may result in larger competitors with greater resources and market share which could adversely affect the Corporation's ability to compete successfully. Consolidation among Magellan's suppliers may result in fewer sources of supply and increased costs to the Corporation.

11. CRITICAL ACCOUNTING ESTIMATES

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

The preparation of consolidated financial statements requires management to make critical judgements, estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses recorded during the reporting period. The critical estimates and judgements utilized in preparing the Corporation's consolidated financial statements affect the assessment of net recoverable amounts, net realizable values and fair values, depreciation and amortization rates and useful lives, value of intangible assets, ability to utilize tax losses and other tax measurements, determination of functional currency, determination of the degree of control that exists in determining the corresponding accounting basis, and the selection of accounting policies. Any changes in estimates and assumptions could have a material impact on the Corporation's future income and/or the amounts reported in its statement of financial position. The Corporation reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgement in making these estimates and assumptions.

The main assumptions and estimates that were used in preparing the Corporation's consolidated financial statements relate to:

Financial instruments

The valuation of the Corporation's derivative instruments and certain other financial instruments requires estimation of the fair value of each instrument at the reporting date. Details of the basis on which fair value is estimated are provided in note 20 to the consolidated financial statements.

Impairments

The recoverable amount of intangible assets and property, plant and equipment is based on estimates and assumptions regarding the expected market outlook and cash flows from each cash generating unit ("CGU") or group of CGUs.

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In order to estimate the fair value of indefinite-lived intangible assets and goodwill resulting from business combinations, the Corporation typically estimates future revenue, considers market factors and estimates future cash flows. Based on these key assumptions, judgments and estimates, the Corporation determines whether to record an impairment charge to reduce the value of the asset carried on the consolidated statements of financial position to its estimated fair value. Assumptions, judgments and estimates about future values are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the Corporation's business strategy or internal forecasts. Although the Corporation believes the assumptions, judgments and estimates made in the past have been reasonable and appropriate, different assumptions, judgments and estimates could materially affect the Corporation's reported financial results.

Deferred taxes

Income taxes are determined based on estimates of the Corporation's current income taxes and estimates of deferred income taxes resulting from temporary differences. Deferred tax assets are assessed to determine the likelihood that they will be realized from future taxable income before they expire.

Government assistance

Investment tax credits and scientific research and experimental development tax credits are determined based on estimates of the Corporation's current year expenditures on qualifying programs. The investment tax credits are assessed to determine the likelihood that they will be applied against federal income taxes.

Capitalization of development costs

When capitalizing development costs the Corporation must assess the technical and commercial feasibility of the projects and estimate the useful lives of resulting products. Determining whether future economic benefits will flow from the assets and therefore the estimates and assumptions associated with these calculations are instrumental in (i) deciding whether project costs can be capitalized, and (ii) accurately calculating the useful life of the projects for the Corporation.

Income (loss) on completion of contracts accounted for under the percentage-of-completion method

To estimate income (loss) on completion, the Corporation takes into account factors inherent to the contract by using historical and/or forecast data. When total contract costs are likely to exceed total contract revenue, the expected loss is recognized within cost of revenues.

Repayable government grants

The forecast repayment of grants received from government authorities is based on income from future sales. As the forecast repayments are closely related to forecasts of future sales set out in business plans prepared by the operating divisions, the estimates and assumptions underlying these business plans are instrumental in determining the timing of these repayments.

Employee benefits

The Corporation considers a number of factors in developing the pension assumptions, including an evaluation of relevant discount rates, plan asset allocations, mortality, expected changes in wages and retirement benefits, analysis of current market conditions, economic benefits available and input from actuaries and other consultants. Costs of the programs are based on actuarially determined amounts and are accrued over the period from the date of hire to the full eligibility date of employees who are expected to qualify for these benefits.

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12. CHANGES IN ACCOUNTING POLICIES

A description of accounting standards adopted in 2017

The Corporation has adopted the following new and amended standards in 2017.

Disclosure Initiative

In 2016, the IASB issued amendments to IAS 7, *Statement of Cash Flows* ("IAS 7"). The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Corporation has provided the information in note 16 to the 2017 consolidated financial statements.

13. 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 year ended December 31, 2017, and have not been applied in preparing these consolidated financial statements. The following standards and interpretations have been issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committees ("IFRIC") with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

Revenue Recognition

In 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 permits either a full or modified retrospective approach for the adoption and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The Corporation plans to adopt the new standard on the required effective date using the full retrospective method, that is, restate each prior period presented and recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at the beginning of the earliest period presented, subject to certain practical expedients the Corporation anticipates adopting.

The Corporation's revenue recognition methodology is determined on a contract-by-contract basis. The Corporation has undertaken a project in 2017 to assess the effects of applying the new standard on the Corporation's consolidated financial statements. The Corporation collected and reviewed an inventory of significant contracts with customers in scope for IFRS 15 assessment and identified the following areas that will be affected:

Sale of goods

The Corporation engineers and manufactures aeroengine and aerostructure components for the aerospace market. Presently, sales of goods are recognized when the goods are dispatched or made available to the customer, except for the sale of consignment products located at customers' premises where revenue is recognized on notification that the product has been used.

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The Corporation has identified contracts in which performance obligations are satisfied over time under IFRS 15 as control transfers during production. For these contracts, the revenue recognition pattern will change with revenue being recognized earlier in the year of adoption as compared to under the legacy accounting policy. Contracts that do not meet the criteria for over time recognition will continue to be recognized at a point in time. The Corporation expects to use an input method as the basis for recognizing revenue for performance obligations satisfied over time. Input methods recognize revenue on the basis of an entity's efforts or inputs toward satisfying a performance obligation (for example, resources consumed, labor hours expended, costs incurred, time lapsed, or machine hours used) relative to the total expected inputs to satisfy the performance obligation.

Rendering services

The Corporation supports the aftermarket through the supply of spare parts as well as through repair and overhaul services. Currently, the Corporation recognizes revenues for certain repair and overhaul services using the percentage-of-completion units-of-delivery method as the basis for measuring the progress on the contract. The Corporation concluded that the repair and overhaul services are satisfied over time under IFRS 15 given that the customer simultaneously receives and consumes the benefits provided by the Corporation. However, under IFRS 15, units-of-delivery method is not appropriate if there is material work-in-process at the end of the reporting period. Therefore, on adoption of IFRS 15, the Corporation expects to use an input method as the basis for recognizing the revenue from repair and overhaul services.

Variable consideration

Some contracts with customers included a liquidated damage provision, which gives rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception and updated thereafter. Currently, the Corporation recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of any trade discounts and liquidated damages. If revenue cannot be reliably measured, the Corporation defers revenue recognition until the uncertainty is resolved. Consequently, under IFRS 15 the Corporation would continue the current practice.

With respects to certain long-term contracts for the sales of goods, revenue is recognized using the percentage-of-completion method. The liquidated damages once reasonably estimated are included in the total estimated costs for the contracts to determine the contract progress.

Presentation of contract assets or contract liabilities

IFRS 15 requires separate presentation of contract assets and contract liabilities in the balance sheet. Under IFRS 15, earned consideration that is conditional should be recognized by the entity as a contract asset (i.e., unbilled receivables) rather than receivable. When the customer performs first, for example, by prepaying its promised consideration, the entity has a contract liability (i.e., customer advances and amounts in excess of costs incurred). This will result in some reclassifications as of January 1, 2018 in relation to contracts that are recognized under percentage-of-completion input method.

Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Corporation's consolidated financial statements.

The Company is completing the execution of its implementation plan and will adopt IFRS 15 on January 1, 2018 on a retrospective basis subject to permitted and elected practical expedients. The Corporation expects that the adoption of this standard will have a material impact to the Corporation's revenue and cost of sales, however, the net impact to the Corporation's opening retained earnings as at January 1, 2018 will not be material.

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Financial Instruments — Recognition and Measurement

In 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 adoption of the standard will not result in a significant impact on the Corporation’s consolidated financial statements.

Classification and Measurement of Share-based Payment Transactions

In 2016, the IASB issued the final amendments to IFRS 2, *Share-based Payments* (“IFRS 2”) that clarify the classification and measurement of share-based transactions, consisting of: accounting for cash-settled share-based payment transactions that include a performance condition; classification of share-based payment transactions with net settlement features; accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The amendments are to be applied prospectively. However, retrospective application is allowed if this is possible without the use of hindsight. The Corporation does not expect the adoption of the standard will result in a significant impact on the Corporation’s consolidated financial statements.

Foreign Currency Transactions and Advance Consideration

In 2016, the IASB issued IFRIC Interpretation 22, *Foreign Currency Transactions and Advance Consideration* (“IFRIC 22”), which provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance. IFRIC 22 clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. On initial application, entities have the option to apply either retrospectively or prospectively. The Corporation does not expect the adoption of the standard will result in a significant impact on the Corporation’s consolidated financial statements.

Transfer of Investment Property

In 2016, the IASB issued the narrow scope amendments to IAS 40, *Investment Property* (“IAS 40”) to reinforce the principle for transfers into, or out of, investment property in IAS 40 to specify that: a transfer into, or out of investment property should be made only when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. That change in use should be supported by evidence. The new amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The amendments will have an impact on the Corporation’s consolidated financial statements only when there is a change in use of the Corporation’s investment properties.

Leases

In 2016, the IASB issued IFRS 16, *Leases* (“IFRS 16”), replacing IAS 17, *Leases* and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is

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permitted if IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") has been adopted. The Corporation is in the process of evaluating the impact that IFRS 16 may have on the Corporation's consolidated financial statements.

Uncertainty over Income Tax Treatments

In June 2017, IASB issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23"), which clarifies application of recognition and measurement requirements in IAS 12, *Income Taxes* when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Corporation is in the process of evaluating the impact that IFRIC 23 may have on the Corporation's consolidated financial statements.

Prepayment Features with Negative Compensation and Modifications of Financial Liabilities (Amendments to IFRS 9)

In October 2017, IASB issued amendments to IFRS 9 that cover two issues:

- What financial assets may be measured at amortised cost. The amendment permits more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets with negative compensation.

Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. However, to qualify for amortised cost measurement, the negative compensation must be "reasonable compensation for early termination of the contract". In addition, to qualify for amortised cost measurement, the asset must be held within a 'held to collect' business model.

- How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss.

The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the remainder of IFRS 9. The Corporation does not expect the amendments will have an impact on the Corporation's consolidated financial statements.

Annual Improvements to IFRS Standards 2015 – 2017

In December 2017, IASB issued the following amendments from the 2015-2017 annual improvement cycle. The Corporation is in the process of evaluating the impact that these amendments may have on the Corporation's consolidated financial statements

IFRS 3 Business Combination ("IFRS 3")

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019. Earlier application is permitted.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

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14. 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 are required to certify as at December 31, 2017 that they are responsible for establishing and maintaining, and have assessed the design and operating effectiveness of 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 judgments 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.

In preparation for this certification, Magellan has dedicated resources in place to document and evaluate the design and operating effectiveness of disclosure controls and procedures and internal control over financial reporting. As of December 31, 2017, an evaluation was carried out, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer and Corporate Secretary, of the effectiveness of the Corporation's disclosure controls and internal controls over financial reporting, as those terms are defined in National Instrument 52-109. Based on that evaluation, the Corporation's management concluded that the Corporation's design and operating disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2017.

No changes were made in the Corporation's internal control over financial reporting during the year ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Additional information relating to Magellan Aerospace Corporation, including the Corporation's Annual Information Form is on SEDAR at www.sedar.com.