MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Magellan Aerospace Corporation ("Magellan" or the "Corporation") has been prepared in accordance with International Financial Reporting Standards ("IFRS"). Accordingly, the Corporation commenced reporting on this basis in its 2011 consolidated financial statements. The MD&A should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2011 (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, 2011 relative to the year ended December 31, 2010. The 2010 prior period comparative financial information throughout this report has been restated to conform with current period presentation, which has been prepared in accordance with IFRS. The information contained in this report is as at March 23, 2012. All financial references are in Canadian dollars unless otherwise noted.

The MD&A contains forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance. All statements other than statements of historical facts may be forward-looking statements. In particular and without limitation there are forward looking statements under the heading "Company Overview," "Outlook," "Consolidated Revenues," "2011 Updates," "Liquidity and Capital Resources" and "Future Changes in Accounting Policies." In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "expects," "projects," "plans," "anticipates," and similar expressions. The projections, estimates and beliefs contained in such forward-looking statements are based on management's assumptions relating to the production performance of Magellan's assets and competition throughout the aerospace industry in 2011 and continuation of the current regulatory and tax regimes in the jurisdictions in which the Corporation operates, and necessarily involve known and unknown risks and uncertainties, including the business risks discussed in this MD&A, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Except as required by law, the Corporation does not undertake to update any forward-looking information in this document whether as to new information, future events or otherwise.

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

COMPANY OVERVIEW

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

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

Magellan is organized and managed as two business segments and is viewed as two operating segments by the chief operating decision-makers, for the purpose of resource allocations, assessing performance, and strategic planning. These two segments are: Aerospace and Power Generation Project. The Corporation supplies both the commercial and military sectors of the Aerospace segment. In the commercial sector, the Corporation is active in the business jet, regional aircraft, helicopter and large commercial jet markets. On the military side, the Corporation provides parts and services for major military aircraft. Magellan's sole product for the Power Generation Project segment is an electric power generation project in the Republic of Ghana.

The Corporation's percentages of revenues by segment are as follows:

	2011	2010
Aerospace	**88%**	86%
Power Generation Project	**12%**	14%
	100%	100%

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.

The Corporation supplies aerostructure products to an international customer base in the civil and defence markets. Components are produced 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 cast, 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 repair and overhaul services for jet engines and related components.

The Power Generation Project segment is a specialty product complementary to the Corporation's principal business. The Corporation's sole product for the Power Generation Project segment is an electric power generation project in the Republic of Ghana that is expected to be completed in 2012. While a number of power generation project opportunities are being considered, at this time the Corporation does not have any other committed projects.

The Corporation serves both the commercial and defence markets. In 2011, 67.0% of revenues were derived from the commercial markets (2010 – 64.4%, 2009 – 63.9%) while 33.0% of revenues related to defence markets (2010 – 35.6%, 2009 – 36.1%).

OUTLOOK

In 2011 Magellan benefited from the sustained growth in demand for commercial aircraft and its continued efforts to implement and expand the Magellan Operating System™ ("MOS") throughout the organization. The Corporations expects that the MOS initiatives will continue to have a growing and positive effect on Magellan's future performance.

It is expected that the civil airline production rates will continue to increase in 2012 with peak rates now being projected into 2013 and 2014. This growth is fueled by the pent-up and growing demand in the Asian countries and the worldwide airline demand for cleaner, more fuel efficient aircraft. The Corporation has invested in and is well positioned in this sector with participation levels on many of the major Boeing and Airbus platforms including the A350, B747-8 and the B787 and new variants of the A320 and B737.

In the defence sector, as expected, worldwide economic factors are negatively impacting defence budgets. Fiscal restraints are in many cases affecting the launch and ramp-up of new programs. The Corporation, having invested in the F-35 Lightning II Program, remains confident that its position as an active global supplier on this international program remains solid. Presently five Magellan locations (Winnipeg, New York, Kitchener, Haley and Phoenix) are manufacturing products in support of the F-35 Program. In 2011 the F-35, as it ramped up into production, completed or surpassed all scheduled project performance milestones. Partially as a result of the slower-than-anticipated emergence of the new programs, legacy work in support of 3rd and 4th generation defence aircraft is now projected to stay strong. The

Corporation enjoys a direct and balancing benefit from these programs, both in the aeroengine and aerostructure parts of its business.

In 2012, Magellan expects to complete the facilitization of its location in Haverhill, MA home of the Corporation's aeroengine shaft facility. Significant effort is underway to support the investment made in this facility in support of Rolls-Royce. Additional business opportunities for the shaft center in Haverhill are in the discussion stages.

The space market in the United States and Canada has stabilized for ongoing projects specifically with respect to Radarsat in Canada and the next generation weather and communication missions. Funding for these missions is expected to be sustained.

Magellan's Power Generation business has continued to evolve with its efforts in the Republic of Ghana. The Corporation is anticipating completion of the initial electric power generation plant later this year. While interest in additional and complementary business opportunities in this sector remains high, at this time the Corporation does not have any additional committed projects .

The Corporation remains sensitive to, and closely monitors uncertainties in the world that could destabilize and impact its market sectors. Economic challenges and political unrest continue to be the major areas of concern. Magellan has assessed a shrinking worldwide capacity in some areas of the aerospace supply chain which is currently and will in the future drive capital investment demand in the industry. Magellan is constantly evaluating the capacity and more importantly the utilization of capital within each of its locations in order to ensure that any investment made is prudent and matched strategically to both customer's needs and the Corporation's core competencies.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective January 1, 2011, the Corporation began reporting its financial results in accordance with International Financial Reporting Standards. Accordingly, these IFRS results and all future results will be reported under IFRS and prior period comparative amounts, including the opening statement of financial position at January 1, 2010, have been conformed to reflect results as if the Corporation had always prepared its financial statements using IFRS.

Please refer to Note 30 of the Audited Consolidated Financial Statements for the years ended December 31, 2011 and 2010 for a discussion regarding the Corporation's accounting choices with regards to IFRS and the impact of this transition on the financial statements.

SELECTED ANNUAL FINANCIAL INFORMATION

Expressed in millions of dollars except per share information	**2011**	2010	2009[1]
Revenues	**691.4**	731.6	686.6
Net income for the year	**37.4**	34.3	26.0
Net income per common share			
Basic	**2.04**	1.86	1.34
Diluted	**0.73**	0.66	0.61
Total assets	**661.7**	638.5	680.6
Total long term liabilities	**260.5**	98.4	132.0

[1]The Corporation's IFRS transition date was January 1, 2010, comparative information for 2009 has not been restated and the 2009 results shown are in accordance with Canadian GAAP ("CGAAP").

Revenues for the year ended December 31, 2011 decreased from 2010 and increased over 2009. The decrease in revenues from 2010 is mainly due to lower revenues earned on the Corporation's power generation project. The Corporation has not paid dividends on its common shares in the past four years. During 2011, the Corporation redeemed all of the outstanding 8.0% Cumulative Redeemable First Preference Shares Series A ("Preference Shares Series A"). The Corporation declared dividends thereon at an annual rate of $0.80 per share during each of 2011 and 2010.

2011 UPDATES

- Magellan announced on February 7, 2011 that an agreement has been reached between Airbus and Magellan Aerospace (UK) Limited securing a further work package on Airbus' new A350 XWB. It is expected to generate revenues in excess of US$20.0 million over the next ten years. The contract requires the machining and treatment of complex machined aluminium lithium detail components, and delivery to the final assembly line in Toulouse, France.
- On February 7, 2011 Magellan announced an agreement with Hindustan Aeronautics Limited ("HAL") in Bangalore, India for a new Wire Strike Protection System® ("WSPS®"). The agreement includes the design and development of a WSPS® for the HAL Advanced Light Helicopter ("ALH"). The ALH system is comprised of an upper and lower cutter, and windshield deflector, designed by Magellan's Winnipeg facility to be integrated into the unique structure of the ALH.
- On March 8, 2011 Magellan announced a new agreement with Bell Helicopter for a WSPS® kit development. The helicopter to be fitted with WSPS® will be the Bell UH-1Y. The design and production of the WSPS® will be carried out at Magellan's Winnipeg, Manitoba location for delivery of the prototype kits in 2011.
- On June 30, 2011 Magellan announced that its facility in Haverhill, MA has achieved the globally recognized ISO 14001 certification for its environmental management system.
- Magellan held a ceremonial ribbon cutting event on October 25, 2011 celebrating the final stages of completion of the Corporation's new Advanced Composite Manufacturing Centre in Winnipeg to support the Joint Strike Fighter ("JSF") program. A year following an official ground breaking, the Corporation hosted this ceremony to acknowledge the support and dedicated efforts of all three levels of government, major funding partners, their customer, and all of the other stakeholders in this major new undertaking.
- Magellan announced on December 20, 2011 that an agreement has been reached between GKN Aerospace and Magellan Aerospace (UK) Limited securing a contract extension to deliver aluminum and titanium components from Magellan's facilities in Bournemouth and Chalfont St Peter, UK. The components are destined to GKN's Filton facility, which manufactures and assembles wing structures. This contract is projected to generate revenues in excess of £200.0 million through to December 2017. To support this program Magellan will make further investments in high speed 5-axis machining technology. These future investments demonstrate Magellan's commitment to world class manufacturing facilities focused on core competencies.

LABOUR MATTERS

Labour agreements at one of the Corporation's facilities were successfully negotiated during 2011 after a seven week labour disruption. Two labour agreements at two of the Corporation's facilities expired December 31, 2011 and two other labour agreements at another of the Corporation's facilities expired March 15, 2012. The Corporation is currently in negotiation on these four labour agreements.

FINANCING MATTERS

On April 28, 2011, the Corporation extended and restated the 11% loan payable ("Original Loan") to Edco Capital Corporation ("Edco"), a corporation controlled by the Chairman of the Board of the Corporation. The Original Loan was amended decreasing the interest rate from 11% per annum to 7.5% per annum commencing July 1, 2011 and was extended to July 1, 2013 in consideration of the payment of a fee to Edco equal to 1% of the principal amount outstanding on July 1, 2011. The Corporation has the right to repay the Original Loan at any time without penalty.

On April 29, 2011, the Corporation amended its credit agreement with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was reallocated to a Canadian dollar limit of $125.0 million (up from $105.0 million) plus a US dollar limit of $50.0 million (down from US $70.0 million), with a maturity date of April 29, 2013. The facility is extendable for unlimited one-year renewal periods by the agreement of the Corporation and the lenders and continues to be guaranteed by the Chairman of the Board of the Corporation.

The terms of the amended operating credit facility permit the Corporation to (i) repay, in whole or in part, the Original Loan outstanding from Edco and (ii) retract all (approximately $12.0 million) of the Preference Shares Series A outstanding on or after April 30, 2011, together with accrued and unpaid dividends on the shares to be retracted provided there is no current default or event of default under the operating credit facility and after the repayment of the loan and the payment of the retraction amount the Corporation has at least $25.0 million in availability under the operating credit facility.

As at December 31, 2011, the Corporation had retracted all outstanding Preference Shares Series A and the outstanding principal amount of the Original Loan was $33.5 million.

On December 31, 2011, the Chairman of the Board exercised his conversion rights under the debenture agreement and $38.0 million principal amount of the 10% convertible secured subordinated debentures ("Convertible Debentures") were converted into 38,000,000 common shares of the Corporation. As at December 31, 2011, $2.0 million [2010 - $40.0 million] of the Convertible Debentures were outstanding. Given that the conversion price of the Convertible Debentures is in the money, it is likely that the remaining $2.0 million Convertible Debentures will be converted into common shares of the Corporation on or before their maturity.

RESULTS FROM OPERATIONS

Consolidated Revenues

Overall, the Corporation's revenues decreased when compared to the prior year. While the global economy improved throughout 2011, the Corporation continued to experience customer delays in the supply of products in the support of new programs that it has been investing in over the past several years.

The Corporation's revenues by segment were as follows:

Twelve-months ended December 31, expressed in thousands of dollars	2011	2010	Change
Aerospace	609,942	627,113	(2.7)%
Power Generation Project	81,468	104,522	(22.1)%
Total revenues	691,410	731,635	(5.5)%

Consolidated revenues for the year ended December 31, 2011 decreased 5.5% to $691.4 million from $731.6 million last year, due mainly to decreased revenues earned on the Corporation's Power Generation Project as well as reduced revenues in the aerospace segment. Revenues in the aerospace segment were primarily impacted by the movement in the Canadian dollar, against the US dollar and British Pound.

Aerospace Segment

Revenues for the Aerospace segment were as follows:

Twelve-months ended December 31, expressed in thousands of dollars	2011	2010	Change
Canada	284,385	317,342	(10.4)%
United States	187,658	187,555	(0.0)%
United Kingdom	137,899	122,216	12.8%
Total revenues	609,942	627,113	(2.7)%

Aerospace revenues for the year ended December 31, 2011 were $609.9 million, a decrease of $17.2 million or 2.7% over the previous year. Revenues in Canada in 2011 decreased 10.4% in comparison to revenues earned in 2010 resulting from a work stoppage in one the Corporation's locations, reduced volumes experienced in the year for proprietary products and the strengthening of the Canadian dollar against the US dollar. Revenues in the United States were also impacted negatively by the movement of the Canadian dollar in comparison to the US dollar. In native currency, revenues in the United States were higher in 2011 when compared to 2010 as the Corporation's volumes continued to increase on several single aisle aircraft programs. Revenues in the United Kingdom increased in 2011 in comparison to 2010 revenues mainly as a result of higher customer demand in 2011 when compared to 2010. Overall Aerospace revenues were impacted negatively by the movement of the Canadian dollar in comparison to both the US dollar and the British Pound. If average exchange rates for both the US dollar and British Pound experienced in 2010 remained constant in 2011, consolidated revenues for 2011 would have been approximately $627.5 million or approximately $17.6 million higher than actually realized in 2011.

Power Generation Segment

Revenues for the Power Generation segment were as follows:

Twelve-months ended December 31, expressed in thousands of dollars	2011	2010	Change
Power Generation Project	81,468	104,522	(22.1)%
Total revenues	81,468	104,522	

Revenues earned in 2011 and in 2010 resulted from the Ghana electric power generation project. The Corporation recognizes revenue on this project on a percentage of completion basis, hence the decrease in revenue over the prior year represents the Corporation's progress made towards completion of the project during the year. As the Corporation moves into 2012, revenue from the power generation project will decrease on a year over year basis unless the Corporation receives further contracts in this area.

Gross Profit

Twelve-months ended December 31, expressed in thousands of dollars	2011	2010	Change
Gross Profit	**97,410**	103,282	(5.7)%
Percentage of revenue	**14.1%**	14.1%	

Gross profit in 2011 was $97.4 million, a decrease of $5.9 million from 2010 levels of $103.3 million. As a percentage of revenues, gross profit was consistent at 14.1% in 2011 and 2010. The decline in both the US dollar and British Pound against the Canadian dollar, over the exchange rates prevailing in 2010, contributed negatively to the gross margin in 2011. The negative impact of the movement in exchange rates in 2011 when compared to 2010 was offset by changes in revenue mix, negotiated price increases and continued operational performance improvements.

Administrative and General Expenses

Twelve-months ended December 31, expressed in thousands of dollars	2011	2010	Change
Administrative and general expenses	**38,264**	39,770	(3.8)%
Percentage of revenue	**5.5%**	5.4%	

Administrative and general expenses decreased from $39.8 million in 2010 to $38.3 million in 2011. The decrease in administrative and general expenses reflects the ongoing efforts of the Corporation to manage expenses and the effect on translation of the weakening US dollar and British Pound exchange rates against the Canadian dollar.

Other

Twelve-months ended December 31, expressed in thousands of dollars	2011	2010
Foreign exchange loss	**238**	680
Loss on disposal of property, plant and equipment	**198**	267
Plant and program closure recoveries	**–**	(820)
Other	**436**	127

Included in other income is a foreign exchange loss of $0.2 million in 2011 versus a loss of $0.7 million in 2010, resulting from the change in foreign exchange rates on the Corporation's US denominated working capital balances and debt in Canada and foreign exchange contracts. In 2011 and 2010, the Corporation retired assets for a loss on disposal of approximately $0.2 million and $0.3 million respectively.

Due to the decline in the financial markets in 2008, the Corporation recorded a provision for plant and program closure costs in 2008 in the amount of $3.8 million relating to the pension obligation on a pension plan that was in the process of being wound-up. In 2010, as a result of the market performance of the pension plan assets in each year, the Corporation reversed a portion of the 2008 pension charge in the amount of $0.8 million on this pension plan that was wound-up in 2010.

Interest Expense

Twelve-months ended December 31, expressed in thousands of dollars	2011	2010
Interest on bank indebtedness and long-term debt	**9,397**	14,799
Convertible debenture interest	**4,000**	4,006
Accretion costs	**3,155**	1,093
Discount on sale of accounts receivable	**447**	254
Total interest expense	**16,999**	20,152

Interest costs for 2011 were $17.0 million, a decrease of $3.2 million from 2010. Interest on bank indebtedness and long-term debt in 2011 decreased as principal amounts outstanding during 2011 were lower than 2010 levels. A reduced interest rate on long-term debt and lower interest rate spreads on bank indebtedness also contributed to the reduction in interest expense in 2011 when compared to 2010. Accretion costs related to the Convertible Debentures, long-term provisions and borrowings under specific conditions were $3.2 million in 2011 and $1.1 million in 2010. During 2011, the Corporation sold $167.1 million of accounts receivable at an annualized interest rate of 1.73% compared to $65.4 million of receivables sold in 2010 at an annualized interest rate of 2.35%.

Provision for (Recovery of) Income Taxes

Twelve-months ended December 31, expressed in thousands of dollars	2011	2010
Current income tax expense (recovery)	280	(331)
Future income tax expense	3,708	8,340
Total income tax expense	3,988	8,009
Effective tax rate	9.6%	18.9%

The Corporation recorded an income tax expense in 2011 of $4.0 million on pre-tax income of $41.4 million, representing an effective tax rate of 9.6%, compared to a tax expense of $8.0 million on a pre-tax income of $42.4 million in 2010 for an effective tax rate of 18.9%.

During 2011 and 2010, the Corporation recognized additional deferred tax assets in Canada totalling $7.9 million and $4.4 million respectively, as a reduction of cost of revenues, as the Corporation has determined that it will be able to benefit from a portion of its previously unrecorded future tax assets. In 2011, the Corporation continued to have unrecognized deferred tax assets in Canada where recovery of the loss carry forwards or other future tax assets were not "more likely than not."

Cash Flow from Operating Activities

Twelve-months ended December 31, expressed in thousands of dollars	2011	2010
(Increase) decrease in accounts receivable	(10,908)	869
Decrease (increase) in inventories	24,704	(8,221)
Decrease in prepaid expenses and other	6,559	26,289
Decrease in accounts payable, accrued liabilities and provisions	(32,881)	(1,396)
Net change in non-cash working capital items	(12,526)	17,541
Cash provided by operating activities	51,444	80,371

Operating activities for 2011 generated cash flows of $51.4 million compared to $80.4 million in the prior year. Changes in non-cash working capital used cash of $12.5 million as a result of a decrease in accounts payable and accrued liabilities charges and increases accounts receivable offset by a decrease in inventory and prepaid expense and other. Prepaid expenses decreased during the year as advance payments made to suppliers to support the Corporation's electric power generation project in Ghana were taken into expense during the year. The increase in accounts receivable during the year resulted from a net decrease in the amount of receivables drawn under the Corporation's securitization facilities at the end of the year when compared to 2010. During 2011, inventory levels decreased as a result of operational efficiencies. In 2010, changes in non-cash working capital of $17.5 million were principally a result of a decrease prepaid expenses and other offset by an increase in inventory.

Cash Flow from Investing Activities

Twelve-months ended December 31, Expressed in thousands of dollars	2011	2010
Purchase of property, plant and equipment	(59,260)	(16,571)
Proceeds from disposals of property, plant and equipment	514	206
Decrease (increase) in other assets	10,381	(20,241)
Cash used in investing activities	(48,365)	(36,606)

The Corporation invested $59.3 million in capital assets during the year, of which $43.5 million represented the Corporation's investment in an advanced composite manufacturing centre in Winnipeg, Manitoba to support the JSF program. A portion of the costs of the advanced

composite manufacturing centre was financed through a mortgage in the amount of $16.1 million. Capital additions were for advanced technology production equipment and information technology systems, both designed to increase productivity, reduce cycle time and improve technology capability.

SELECTED QUARTERLY FINANCIAL INFORMATION

Expressed in millions of dollars except per share information				2011				2010
	Mar 31	**Jun 30**	**Sep 30**	**Dec 31**	Mar 31	Jun 30	Sep 30	Dec 31
Revenues	**170.5**	**186.0**	**161.6**	**173.3**	177.6	181.4	184.7	187.9
Net income	**7.2**	**4.9**	**8.6**	**16.7**	3.8	7.1	8.0	15.4
Net income per common share								
Basic	**0.40**	**0.27**	**0.47**	**0.90**	0.21	0.39	0.44	0.85
Diluted	**0.14**	**0.10**	**0.17**	**0.31**	0.07	0.14	0.16	0.29

Revenues and net income reported in the quarterly information was impacted by the fluctuations in the Canadian dollar exchange rate in comparison to the US dollar and British Pound. The US dollar/Canadian dollar exchange rate in 2011 fluctuated reaching a low of 0.9440 and a high of 1.0561. During 2010, the US dollar relative to the Canadian dollar moved from an exchange rate of 1.0505 at the start of the year to 0.999 by December 31, 2010. The British Pound/Canadian dollar exchange rate in 2011 fluctuated reaching a low of 1.5302 and a high of 1.6354. During 2010, the British Pound relative to the Canadian dollar moved from an exchange rate of 1.6940 at the start of the year to 1.5467 by December 31, 2010. Had exchange rates remained at levels experienced in 2010, reported revenues in 2011 would have been higher by $6.7 million in the first quarter, $5.3 million in the second quarter and $6.5 million in the third quarter and were $1.2 million lower in the fourth quarter. Net income for the fourth quarter of 2010 and 2011 of $15.4 million and $16.7 million respectively was higher than any other quarterly net income disclosed in the table above. In the fourth quarter of each year, the Corporation recognized a reversal of previous impairment losses against intangible assets relating to various civil aircraft programs and recognized a portion of previously unrecognized deferred tax asset as the Corporation determined that it will be able to benefit from these assets.

RECONCILIATION OF NET INCOME TO EBITDA

Twelve-months ended December 31, expressed in thousands of dollars	**2011**	2010
Net income	**37,413**	34,344
Interest	**16,999**	20,152
Dividends on preference shares	**310**	880
Taxes	**3,988**	8,009
Stock based compensation	**68**	268
Depreciation and amortization	**32,835**	34,599
EBITDA	**91,613**	98,252

EBITDA for the year ended 2011 was $91.6 million, compared to $98.3 million in 2010. As previously discussed decreased revenue levels resulted in decreased EBITDA for the year.

LIQUIDITY AND CAPITAL RESOURCES

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

Contractual Obligations

As at December 31, 2011, expressed in thousands of dollars	Less than 1 year	1-3 Years	4-5 Years	After 5 Years	Total
Bank indebtedness	–	120,674	–	–	120,674
Long-term debt[1]	10,064	43,791	10,235	29,739	93,829
Finance lease obligations	463	–	–	–	463
Equipment leases	229	249	39	3	520
Facility leases	1,386	2,693	2,520	6,541	13,140
Other long-term liabilities	1,000	85	83	1,354	2,522
Borrowings subject to specific conditions	601	1,052	1,279	16,516	19,448
Convertible debentures	2,000	–	–	–	2,000
Total Contractual Obligations	**15,743**	**168,544**	**14,156**	**54,153**	**252,596**

[1] The Corporation's accounts receivable securitization program is included in long-term debt in the less than 1 year category

Major cash flow requirements for 2012 include the repayment of long-term debt of $10.1 million of which $6.0 million is expected to be refinanced, payments of equipment and facility leases of $1.6 million and the repayment of convertible debentures in the amount of $2.0 million. On April 29, 2011, the operating credit facility was extended for an additional two year period with the new expiry date of April 29, 2013. On April 28, 2011 the Original Loan was extended to July 1, 2013. The convertible debentures become due on April 30, 2012 and are convertible, at the option of the holder at any time prior to April 30, 2012, in whole or in multiples of $1.0 thousand, into fully paid and non-assessable common shares of the Corporation at a conversion rate of $1.00 per common share.

The Corporation has made contractual commitments to purchase $16.6 million of capital assets. The Corporation also has purchase commitments, largely for materials made through the normal course of operations, of $212.3 million. The Corporation plans to finance all of these capital commitments with operating cash flow and the existing credit facility.

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.

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 uses 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 US dollars.

As at December 31, 2011, the Corporation has foreign exchange contracts outstanding as follows:

Foreign exchange collars	Amount	Floor	Ceiling
Maturity – less than 1 year	17,000	1.0000	1.1111

Foreign exchange forward contracts	Amount	FX Rate
Maturity – less than 1 year – US dollar	18,700	1.0400
Maturity – less than 1 year – Euros	1,292	1.3400

The fair values of the Corporation's foreign exchange forward contracts are based on the current market values of similar contracts with the same remaining duration as if the contracts had been entered into on December 31, 2011.

The mark-to-market on these financial instruments as at December 31, 2011 was an unrealized gain of $0.5 million [2010 – $1.1 million] which has been recorded in other expenses in the year.

RELATED PARTY TRANSACTIONS

On April 28, 2011, the Original Loan was extended and restated. During 2011, the Corporation incurred interest of $3.7 million [2010 - $5.5 million] in relation to the Original Loan and prepaid the Original Loan by $12.5 million [2010 - $19.0 million]. At December 31, 2011, the Corporation owed Edco interest of $0.2 million [2010 - $1.0 million].

On April 30, 2009, the Chairman of the Board of the Corporation subscribed to $40.0 million of the Convertible Debentures. On December 31, 2011, the Chairman of the Board exercised his conversion rights under the debenture agreement and $38.0 million principal amount of the Convertible Debentures, the entire amount of Convertible Debentures then held by the Chairman, were converted into 38,000,000 common shares of the Corporation. Interest incurred during the year ended December 31, 2011 on the Convertible Debentures was $4.0 million [2010 - $4.0 million]. As at december 31, 2011, Convertible Debentures in the principal amount of $2.0 million were held by a director of the Corporation.

The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the Corporation's operating credit facility. An annual fee averaging 0.8% [2010 – 1.2%] of the guaranteed amount or $1.4 million [2010 - $2.1 million] was paid in consideration for the guarantee.

During the year, the Corporation incurred consulting costs of $0.1 million [2010 - $0.1 million] payable to a corporation controlled by the Chairman of the Board of the Corporation. As well, the Corporation paid legal fees of $0.1 million [2010 - $0.1 million] to a law firm in which a director is a chairman emeritus.

RISK FACTORS

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. Additional information relating to risks and uncertainties are set forth in the Corporation's Annual Information Form on SEDAR at www.sedar.com.

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

Heightened sovereign debt issues in the European Union have created instability and volatility in the international credit and financial markets and has caused a number of countries in the European Union to focus on their respective recurring yearly deficit budgeting practices, resultant aggregate debt levels and to implement austerity measures. Likewise the governments in the United States and Canada have recognized the need to reduce budget deficits. The United States is the principal purchaser under the JSF program and the JSF program represents a significant item in the budget. Canada is also a participant in the JSF program and has invested in an Advanced Composite Manufacturing Facility at Magellan's Winnipeg facility, primarily in support of the JSF program.

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

The Corporation faces risks from downturns in the domestic and global economies.
Market events and conditions that occurred in 2007 and 2008, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, caused significant volatility in the credit and financial markets. These conditions continued in 2011 and linger in 2012 resulting in a lack of confidence in the broader U.S. and global credit and financial markets. While global financial conditions and outlook have improved, these factors continue to impact the performance of the global economy going forward. Political unrest in the countries of North Africa and the Middle East may create more volatility in the price of oil and may threaten the ongoing recovery of the global economy or may have other unforeseen consequences. Sovereign debt issues in Europe continue to create uncertainty in the marketplace.

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

Factors that have an adverse impact on the aerospace industry may adversely affect the Corporation's results of operations.
The majority of the Corporation's gross profit and operating income 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 has increased the pressure on the operating margins of aircraft companies which will reduce their ability to finance capital expenditures. 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 to the aerospace industry or general economic factors that might affect the aerospace industry may have an adverse impact on the Corporation's results of operations.

Potentially volatile capital markets may reduce the Corporation's financial flexibility and may result in less than optimal financing results.
As future capital expenditures will be financed out of cash generated from operations, borrowings and possible future equity sales, the Corporation's ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the aerospace industry and Magellan's securities in particular.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, the Corporation's ability to make capital investments may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

Alternatively, the Corporation may need to issue additional Common Shares or other convertible securities from treasury at low prices to refinance existing debt or to finance the capital costs of significant projects or may wish to borrow to finance significant projects to accomplish Magellan's long-term objectives on less than optimal terms or in excess of its optimal capital structure.

Based on current funds available and expected cash flow from operating activities, management believes that the Corporation has sufficient funds available to fund its projected capital expenditures. However, if cash flow from operating activities is lower than expected or capital costs for these projects exceed current estimates, or if the Corporation incurs major unanticipated expenses, it may be required to seek additional capital to maintain its capital expenditures at planned levels. Failure to obtain any financing necessary for the Corporation's capital expenditure plans may affect it in a materially adverse manner.

Fluctuations in the value of foreign currencies could result in currency exchange losses.
A large portion of the Corporation's revenues and expenses are not currently denominated in Canadian dollars, and it is expected that some revenues and expenses will continue to be based in currencies other than the Canadian dollar. Therefore, fluctuations in the Canadian dollar exchange rate will impact the Corporation's results of operations and financial condition from period to period. In addition, such fluctuations affect the translation of the Corporation's results for purposes of its consolidated financial statements. The Corporation's activities to manage its currency exposure may not be successful.

CRITICAL ACCOUNTING ESTIMATES

The preparation of 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 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 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 earnings 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 interim 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 estimated are provided in note 18 of the audited 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.

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 tax.

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, as well as contractual indexes. When total contract costs are likely to exceed total contract revenue, the expected loss is recognized within losses on completion.

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 (as regards programs and fluctuations in exchange rates, particularly the US dollar) 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, expected long-term returns on plan assets, 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 programmes 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.

CHANGES IN ACCOUNTING POLICIES

Transition to and initial adoption of IFRS

Starting January 1, 2010, the Corporation is applying IFRS as issued by the International Accounting Standards Board ["IASB"]. The preparation of the consolidated financial statements for the year ended December 31, 2011 includes the initial adoption of accounting policies under IFRS which are different than the accounting policies used to prepare the most recent consolidated financial statements prepared under Canadian generally accepted accounting principles ["Canadian GAAP"].

The accounting policies as set out in Note 2 to the audited consolidated financial statements for the year ended December 31, 2011 have been applied consistently to all periods beginning on or after January 1, 2010 presented in these financial statements. Comparative information for the year ended December 31, 2010 has thus been adjusted from amounts previously reported under Canadian GAAP. They also have been applied in preparing an opening IFRS balance sheet at January 1, 2010 for the purpose of the transition to IFRS, as required by IFRS 1, First-time Adoption of International Financial Reporting Standards.

Details on the changes to previously reported amounts as a result of the transition to IFRS were included in Note 30 to the audited consolidated financial statements for the year ended December 31, 2011. The financial statements were filed on SEDAR and are also available on Magellan's website www.magellan.aero.

Impact of IFRS on the Corporation

The conversion to IFRS impacts the way the Corporation presents its financial results. The impact of the conversion to IFRS on the accounting systems has been minimal due to limited changes in accounting policies. The internal and disclosure control processes, as currently designed, have not required significant modifications as a result of the conversion to IFRS. The Corporation has assessed the impact of adopting IFRS on its contractual arrangements, and has not identified any material compliance issues. The Corporation has also considered the impact that the transition will have on its internal planning process and compensation arrangements and has not identified any significant issues.

FUTURE CHANGES IN ACCOUNTING POLICIES

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these unaudited interim consolidated financial statements. The following standards and interpretations have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

International Accounting Standards		Effective Date
IAS 12 – Income taxes	In December 2010, IAS 12, *Income Taxes* was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, *Income taxes—recovery of revalued non-depreciable assets*, will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.	January 1, 2012
IFRS 7 – Financial Instruments, Disclosures	IFRS 7 has been amended to provide more extensive quantitative disclosures for financial instruments that are offset in the statement of financial position or that are subject to enforceable master netting or similar arrangements.	January 1, 2013
IFRS 9 – Financial Instruments, Recognition and Measurement	In November 2009, as part of the IASB project to replace IAS 39, *Financial Instruments: Recognition and Measurement,* the IASB issued the first phase of IFRS 9, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities.	January 1, 2015
IFRS 10 – Consolidation	IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation—Special* Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.	January 1, 2013
IFRS 11 – Joint Arrangements	IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions.*	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.	January 1, 2013
IFRS 13 – Fair Value Measurement	IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.	January 1, 2013

International Accounting Standards		Effective Date
IAS 1 – Presentation of Financial Statements	The IASB amended IAS 1 with a new requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss.	January 1, 2013
IAS 19 – Employee Benefits	A number of amendments have been made to IAS 19, which included eliminating the use of the "corridor" approach and requiring remeasurements to be presented in OCI. The standard also includes amendments related to termination benefits as well as enhanced disclosures.	January 1, 2013
IAS 27 – Separate Financial Statements	As a result of the issue of the new consolidation suite of standards, IAS 27 has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	January 1, 2013
IAS 28 – Investments in Associates and Joint Ventures	As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.	January 1, 2013
IAS 32 – Financial Instruments, Presentation	In December 2011, IAS 32 was been amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future event.	January 1, 2014

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

CONTROLS AND PROCEDURES

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at December 31, 2011 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, 2011, an evaluation was carried out, under the supervision of the President and Chief Executive Officer and the Vice-President, Finance 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, 2011.

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.

OTHER 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 23, 2012, 56,209,001 common shares were outstanding.

At December 31, 2011, the Corporation had outstanding $2.0 million of 10.0% convertible secured subordinated debentures, due April 30, 2012. The convertible debentures are convertible, at the option of the holder at any time prior to April 30, 2012, in whole or in multiples of $1.0 thousand, into fully paid and non-assessable common shares of the Corporation at the conversion price of $1.00 per common share which is equal to the issuance on conversion of approximately 2,000,000 common shares in total.

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