Management's Discussion and Analysis

December 31, 2012

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"). The MD&A should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2012 (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, 2012 relative to the year ended December 31, 2011. The information contained in this report is as at March 22, 2013. 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," "2012 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 2012 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.

1. OVERVIEW

A summary of Magellan's business and significant 2012 events

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

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

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 defence 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 defence 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:

	2012	2011
Aerospace	**94%**	88%
Power Generation Project	**6%**	12%
	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 commercial 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 in the Power Generation Project segment is an electric power generation project in the Republic of Ghana that is expected to be completed in 2013. 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 2012, for the Aerospace segment, 70% of revenues were derived from commercial markets (2011 – 67.0%, 2010 – 64.4%) while 30% of revenues related to defence markets (2011 – 33.0%, 2010 – 35.6%).

2012 Updates

- On May 10, 2012 Magellan announced that it has been awarded a contract with The Boeing Company for the continuation of the production of complex, hard metal structural assemblies for the Next-Generation 737, 747– 8, 767, 777, and the production of such assemblies for the new 787 Dreamliner airplanes. These integrated assemblies are being manufactured and delivered from Magellan's New York, NY and Kitchener, Ontario operating facilities beginning in 2013. This long term contract will continue Magellan's revenues from work for Boeing beginning in the first quarter 2013 and into the next decade and provides a fundamental pillar of support to Magellan's core commercial platform.

- An agreement between Magellan Aerospace (UK) Limited and Airbus was announced on July 10, 2012 for a contract extension to deliver aluminum and titanium structural wing components from Magellan UK operating facilities located in Wrexham and Bournemouth. This contract is comprised of components for use on the A320, A330 and A380 aircraft programs and is projected to generate revenues in excess of £370 million through to December 2019. The scope of work of this contract complements the new A350 work packages that Magellan had previously been awarded and is currently developing, thereby, securing Magellan as a supplier on every Airbus commercial program. To maintain Magellan's competitive position and support this long-term commitment to Airbus, Magellan expects to invest up to £15 million in capital equipment over the term of contract extension.

- Magellan completed the acquisition of John Huddleston Engineering Limited ("JHE") on August 31, 2012. JHE is a leading European supplier of precision machined aerospace components with facilities in Great Britain, Northern Ireland and Poland. With the acquisition of JHE, Magellan is strengthening and enhancing its core manufacturing capabilities and further expanding its European operations. Over the last five years, JHE has made significant investments in the latest high speed 5-axis machining equipment. In addition, JHE has been a supplier to Magellan of precision machined structural components. JHE's revenues for the financial year ending March 31, 2012 were approximately $25 million, which includes approximately $3.6 million revenue from deliveries to Magellan. The acquisition was funded out of Magellan's working capital. JHE operations will be integrated and managed through Magellan's UK operations.

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

Labour Matters

Labour agreements at two of the Corporation's facilities were successfully negotiated during 2012. In addition, labour agreements for one of the Corporation's facilities were successfully negotiated after a six week labour disruption. Three labour agreements at three of the Corporation's facilities expire in 2013. The Corporation will begin negotiations on these three labour agreements in the second quarter of 2013.

Financing Matters

On December 21, 2012, the Corporation amended its operating credit agreement with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was decreased to a Canadian dollar limit of $115.0 million (down from $125.0 million) plus a US dollar limit of $35.0 million (down from US

$50.0 million), with a maturity date of December 21, 2014. The credit agreement also includes a $50 million uncommitted accordion provision which will provide Magellan with the option to increase the size of the operating credit facility to $200 million. The facility is extendible for unlimited one year renewal periods, subject to mutual consent of the syndicate of lenders and the Corporation. The operating credit facility continues to be fully guaranteed until December 21, 2014 by Mr. Edwards in consideration of the continued payment by the Corporation of an annual fee, payable monthly, equal to 0.50% (down from 0.63%) of the loan amount.

On December 21, 2012, the Corporation also extended the 7.5% loan payable ("Original Loan") to Edco Capital Corporation ("Edco"), a corporation controlled by the Chairman of the Board of the Corporation to January 1, 2015 in consideration of the payment of a fee to Edco equal to 0.75% of the principal amount outstanding at the time of extension. The Corporation has the right to repay the Original Loan at any time without penalty.

The terms of the amended operating credit facility continue to permit the Corporation to repay, in whole or in part, the Original Loan from Edco provided there is no current default or event of default under the operating credit facility and after the repayment of the Original Loan 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 8% Cumulative Redeemable First Preference Shares Series A ("Preference Shares Series A") and reduced the outstanding principal amount of the Original Loan to $33.5 million. During 2012, the Corporation repaid an additional $3.5 million resulting in an outstanding principal amount on the Original Loan of $30.0 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. On April 30, 2012, an additional $2 million of the Convertible Debentures were converted into 2,000,000 Common Shares of the Corporation.

2. OUTLOOK

The outlook for Magellan's business in 2013

Over the next number of years the global commercial aerospace market is expected to reach record levels of production based on the need to replace older aircraft with new more fuel efficient models and on passenger travel growth in Asia and the Middle East. In contrast, the global defence market is in decline as the pressure to realize budget cuts is at the forefront of most government agendas.

The global defence market is expected to see a decline due to decreased spending in the US and European markets. With the US representing 50% of global defence procurement any growth in other countries is unable to effectively offset the potential reductions. Uncertainty in the US defence market is perpetuated by the unknowns of sequestration. In the absence of absolute directives, the US Department of Defense recently issued a memo suggesting that budgets focus primarily on readiness and urgent operational needs. It also suggested the cutting of future units, freezing civilian hiring and canceling certain maintenance activities. All procurement programs are expected to see reduced buys in the magnitude of 10 to 15%. European markets are similarly facing the challenge of reallocating expenditures as a consequence of the current financial and budgetary crisis. As the Western defence industry reacts to the shrinking market new competitive pressures will emerge as the focus shifts towards South American, Middle East and Asian markets.

In contrast to defence, the global commercial aerospace market is in a strong up cycle. Backlogs are expected to continue growing, as airlines update their fleets with new fuel-efficient aircraft in order to stay competitive. Boeing and Airbus delivered 601 and 588 aircraft respectively in 2012, as compared with 477 and 534 aircraft delivered in 2011. Production rates for 2013 are forecasted to increase again to 665 and 641 respectively. The 737 program is scheduled to increase to 38 per month in the second quarter of 2013 and the A320 is running at 42 per month. The B787 program will no doubt experience some delay due to the recent battery issues, however, firm orders of just under 800 aircraft should see Boeing ramp from 5 per month to 7 per month in 2013 and then to 10 per month in 2014. Airbus has the A330 rate planned to ramp up from 9 per month to 11 per month by the fourth quarter of 2014 and the A380 to increase from 3 per month to 3.5 per month.

Prospects exist for regional aircraft market growth with the greatest opportunity to come from Asia/Pacific, Latin America and the Middle East regions. In the near term, two regional segments are expected to be particularly dynamic, the first being the 70 seat turboprop segment and the second the 90 to 120 seat jet market. The first segment has continued to grow due to persistently high fuel prices and the need for larger aircraft to accommodate increasing passenger traffic. Although the Bombardier Q400 is currently suffering a lower order backlog of less than one year, ATR is increasing 72 Series annual production to 80 aircraft in 2013 to satisfy an almost three year backlog. This market is better positioned to grow considering new scope clause agreements between regional airlines and pilots unions. Regional airlines will be replacing their older 35 to 50 seat, in-service fleet with larger turboprop or regional jet aircraft.

The 90 to 120 seat regional jet segment is somewhat limited by pilot scope clause agreements, however some predict that the market is poised for growth as Asia/Pacific regions could overtake Europe as the second largest market for regional aircraft. With the 50 seat segment disappearing, this will force airlines to replace this older in-service fleet (52% of the total) with larger turboprops and regional jets. As well, an American/US Air merger is expected to result in additional new orders as the airline adds seats to its regional fleet. It is expected that new fuel-efficient platforms entering this segment such as the Bombardier C-Series, the Mitsubishi MRJ, the Irkuit MS-21 will increase market competition.

Forecast International describes the current business jet market as "sluggish" and "struggling to recover from the wake of the global and financial collapse." The industry is frustrated that recovery has not yet happened despite that all key indicators continue to point in the right direction. Current forecasts suggest that the market is expected to pick up somewhat in the second half of 2013 as equity markets stabilize and corporate profits continue to grow. A positive sign in the market is that Bombardier reported net orders of 343 business jets in 2012 versus 191 in 2011. The medium to large cabin jets continue to be more resilient than light jets during this cycle as buyers of the latter are much more sensitive to the economic environment. China is in the process of liberalizing its air space which could lead the growth in business jet aircraft due to the increasing number of wealthy individuals in that country. The Middle East is expected to follow the same pattern. Overall, recovery in this market is expected to be gradual in its year-to-year growth.

Finally, the global helicopter market has experienced some contraction because its largest segment, that of defence at 72% of the total, is being trimmed. The combination of the Iraq/Afghanistan withdrawal and US sequestration budget cuts will cause further contraction before recovery can be expected. Prior to this reversal, the industry was experiencing good growth and was anticipating a strong five year period to follow. Where North America dominated the industry to date, rise in defence spending and economic growth amongst BRIC (Brazil, Russia, India & China) nations is expected to drive future industry growth.

3. SELECTED ANNUAL INFORMATION

A summary of selected annual financial information for 2012, 2011 and 2010

Expressed in millions of dollars except per share information[1]	2012	2011	2010
Revenues	**704.6**	691.4	731.6
Net income for the year	**58.3**	37.4	34.3
Net income per common share – Diluted	**1.00**	0.73	0.66
Total assets	**755.8**	661.7	638.5
Total long-term liabilities	**267.2**	260.5	98.4

[1]All amounts presented have been prepared in accordance with IFRS

Revenues for the year ended December 31, 2012 increased from 2011 levels and decreased over 2010. The increase in revenues from 2011 is attributable to increased volume in the global commercial aerospace market. Net income increased in 2012 from 2011 due to an after tax gain on bargain purchase of $7.4 million recognized on the purchase of JHE as the consideration paid was lower than the fair value of the identifiable tangible assets acquired at the time of purchase and the recognition of previously unrecognized investment tax credits (see "Results of Operations – Gross Profit") and deferred tax assets (see "Results of Operations – Income Taxes"). The Corporation has not paid dividends on its common shares in the past four years. During 2011, the Corporation redeemed all of the outstanding Preference Shares Series A. The Corporation declared dividends thereon at an annual rate of $0.80 per share during each of 2011 and 2010.

4. RESULTS OF OPERATIONS

A discussion of Magellan's operating results for 2012 and 2011

Consolidated Revenues

The Corporation's revenues by segment were as follows:

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011	Change
Aerospace	**659,301**	609,942	8.1%
Power Generation Project	**45,278**	81,468	(44.4)%
Total revenues	**704,579**	691,410	1.9%

Consolidated revenues for the year ended December 31, 2012 increased 1.9% to $704.6 million from $691.4 million last year, due mainly to increased revenues earned in the Corporation's Aerospace segment offset, in part, by reduced revenues in the Corporation's Power Generation Project segment. Revenues in the Aerospace segment were primarily impacted by increased volumes experienced in the global commercial aerospace market.

Aerospace Segment

Revenues for the Aerospace segment were as follows:

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011	Change
Canada	**292,754**	284,385	2.9%
United States	**199,917**	187,658	6.5%
Europe	**166,630**	137,899	20.8%
Total revenues	**659,301**	609,942	8.1%

Aerospace revenues for the year ended December 31, 2012 were $659.3 million, an increase of $49.4 million or 8.1% over the previous year. Revenues in Canada in 2012 increased 2.9% in comparison to revenues earned in 2011 resulting from higher volumes experienced in the year for proprietary products as well as increased demand from aircraft manufacturers as their production rates continued to increase over 2011 levels. The strengthening of the US dollar against the Canadian dollar on average also contributed to the increased sales. Revenues in the United States were also impacted positively by the movement of the Canadian dollar in comparison to the US dollar. In native currency, revenues in the United States were higher in 2012 when compared to 2011 as the Corporation's volumes continued to increase on several single aisle aircraft programs as well as on certain business jet programs. Revenues in Europe increased in 2012 in comparison to 2011 revenues mainly as a result of higher customer demand in 2012 on both single aisle and wide body aircraft when compared to 2011. If average exchange rates for both the US dollar and British Pound experienced in 2011 remained constant in 2012, consolidated revenues for 2012 would have been approximately $655.7 million or approximately $3.6 million lower than actually realized in 2012.

Power Generation Project Segment

Revenues for the Power Generation Project segment were as follows:

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011	Change
Power Generation Project	**45,278**	81,468	(44.4)%
Total revenues	**45,278**	81,468	

Revenues earned in 2012 and 2011 are from the Corporation's 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. Unless the Corporation receives further contracts in this area the Corporation's revenues from the power generation project in 2013 will decrease significantly as the current project is nearing completion.

Gross Profit

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011	Change
Gross Profit	**100,692**	97,410	3.4%
Percentage of revenue	**14.3%**	14.1%	

Gross profit increased by $3.3 million from 2011 levels of $97.4 million to $100.7 million in 2012. As a percentage of revenues, gross profit was slightly higher in 2012 at 14.3% than 14.1% in 2011. Increased gross profit in 2012 was partially attributed to the non-recurring recognition of unrecognized investment tax credits from previous fiscal years of $10.4 million in 2012 versus $5.2 million in 2011 offset somewhat by additional costs incurred in the period as a result of the work stoppage at one location and higher start-up costs associated with new programs.

Administrative and General Expenses

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011	Change
Administrative and general expenses	**39,203**	38,264	2.5%
Percentage of revenue	**5.6%**	5.5%	

Administrative and general expenses increased to $39.2 million in 2012 from $38.3 million in 2011. Increased administrative and general expenses were mainly attributed to acquisition costs incurred in 2012.

Other

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011
Foreign exchange (gain) loss	**(623)**	238
Loss on disposal of property, plant and equipment	**363**	198
Other	**(260)**	436

Included in other income is a foreign exchange gain of $0.6 million in 2012 versus a loss of $0.2 million in 2011, resulting from the change in foreign exchange rates on the Corporation's US dollar denominated working capital balances and debt in Canada and foreign exchange contracts. In 2012 and 2011, the Corporation retired assets for a loss on disposal of approximately $0.4 million and $0.2 million, respectively.

Gain on Bargain Purchase

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011
Gain on bargain purchase	**(9,597)**	–
Gain on bargain purchase	**(9,597)**	–

On August 31, 2012, the Corporation purchased all of the issued and outstanding shares of the capital stock of JHE. As a result of such purchase, the Corporation recognized a gain on bargain purchase in 2012 of $9.6 million on such acquisition of JHE as the consideration paid for the identifiable tangible assets acquired was lower than the fair value, as determined by an independent valuation specialist.

Interest Expense

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011
Interest on bank indebtedness and long-term debt	**7,982**	9,397
Convertible debenture interest	**66**	4,000
Accretion charge on convertible debenture, long-term debt and borrowings	**541**	3,155
Discount on sale of accounts receivable	**648**	447
Interest expense	**9,237**	16,999

Interest costs for 2012 were $9.2 million, a decrease of $7.8 million from 2011 levels. Interest on bank indebtedness and long-term debt in 2012 decreased as principal amounts outstanding during 2012 were lower than 2011 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 2012 when compared to 2011. Accretion costs related to the Convertible Debentures, long-term debt and borrowings under specific conditions were $0.5 million in 2012 a decrease from $3.2 million in 2011 as the majority of the Convertible Debentures were converted into common shares at the end of 2011. During 2012, the Corporation sold $227.7 million of accounts receivable at an annualized interest rate of 1.83% compared to the sale of $167.1 million of receivables in 2011 at an annualized interest rate of 1.73%.

Income Taxes

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011
Current income tax expense	**2,925**	280
Deferred income tax expense	**889**	3,708
Income tax expense	**3,814**	3,988
Effective tax rate	**6.1%**	9.6%

The Corporation recorded an income tax expense in 2012 of $3.8 million on pre-tax income of $62.1 million, representing an effective tax rate of 6.1%, compared to an income tax expense of $4.0 million on a pre-tax income of $41.4 million in 2011 for an effective tax rate of 9.6%.

During each of 2012 and 2011, the Corporation recognized investment tax credits in Canada totalling $16.4 million and $9.2 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. In addition, the Corporation recognized in each of 2012 and 2011, $13.0 million and $10.5 million, respectively, of deferred tax assets in Canada as a reduction of deferred income tax expense as the benefit from previously unrecorded loss carry forwards and other deferred tax assets were assessed as recoverable.

5. RECONCILIATION OF NET INCOME TO EBITDA

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

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011
Net income	**58,295**	37,413
Interest	**9,237**	16,999
Dividends on preference shares	**–**	310
Taxes	**3,814**	3,988
Stock-based compensation	**3**	68
Depreciation and amortization	**31,029**	32,835
EBITDA	**102,378**	91,613

EBITDA for the year ended 2012 was $102.4 million, compared to $91.6 million in 2011. Increased revenue levels in 2012 over 2011, the gain on bargain purchase of JHE of $9.6 million and the recognition of approximately $10.4 million (approximately $5.2 million in 2011) of additional non-recurring unrecognized investment tax credits from previous fiscal years resulted in increased EBITDA for 2012 over 2011 levels.

6. SELECTED QUARTERLY FINANCIAL INFORMATION

A summary view of Magellan's quarterly financial performance

Expressed in millions of dollars, except per share information				2012				2011
	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
Revenues	**187.0**	**169.5**	**161.6**	**186.5**	170.5	186.0	161.6	173.3
Income before taxes	**14.0**	**11.3**	**18.4**	**18.4**	10.1	7.0	10.4	13.8
Net income	**11.8**	**9.2**	**15.2**	**22.1**	7.2	4.9	8.6	16.6
Net income per common share								
Basic	**0.21**	**0.16**	**0.26**	**0.38**	0.40	0.27	0.47	0.9
Diluted	**0.20**	**0.16**	**0.26**	**0.38**	0.14	0.10	0.17	0.31
EBITDA	**23.5**	**21.7**	**28.1**	**29.1**	22.7	18.5	20.8	29.6

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 2012 fluctuated reaching a low of 0.9675 and a high of 1.0413. During 2012, the US dollar relative to the Canadian dollar moved from an exchange rate of 1.0170 at the start of the 2012 calendar year to an exchange rate of 0.9949 by December 31, 2012. The British Pound/Canadian dollar exchange rate in 2012 fluctuated reaching a low of 1.5515 and a high of 1.6162. During 2012, the British Pound relative to the Canadian dollar moved from an exchange rate of 1.5799 at the start of the 2012 calendar year to an exchange rate of 1.6178 by December 31, 2012. Had exchange rates remained at levels experienced in 2011, reported revenues in 2012 would have been lower by $1.2 million in the first quarter, $5.6 million in the second quarter and $3.3 million in the third quarter and $1.7 million higher in the fourth quarter.

Net income in the third quarter of 2012 was higher than each of the first two quarters of 2012 as the Corporation recognized an after tax gain on bargain purchase of $7.4 million on the acquisition of JHE as the consideration paid was lower than the fair value of the identifiable tangible assets acquired at the time of purchase. Net income for the fourth quarter of 2011 and 2012 of $16.6 million and $22.1 million respectively were higher than most other quarterly net income disclosed in the table above. In the fourth quarter of 2011 the Corporation recognized a reversal of previous impairment losses against intangible assets relating to various commercial aircraft programs and in both the fourth quarter of 2011 and 2012 the Corporation recognized previously unrecognized investment tax credits as discussed above in "Results of Operations–Gross Profit," and recognized other deferred tax assets as discussed above in "Results of Operations–Income Taxes" as the Corporation determined that it will be able to benefit from these assets.

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 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 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 2012, $35.9 million of cash was generated by operations, $53.9 million was used in investing activities and $14.0 million was generated in financing activities. Cash decreased by $4.1 million in the year from $26.5 million to $22.4 million.

Cash Flow from Operating Activities

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011
Increase in accounts receivable	**(20,114)**	(10,908)
(Increase) decrease in inventories	**(17,310)**	24,704
(Increase) decrease in prepaid expenses and other	**(1,792)**	6,559
Increase (decrease) in accounts payable, accrued liabilities and provisions	**13,861**	(32,881)
Net change in non-cash working capital items	**(25,355)**	(12,526)
Cash provided by operating activities	**35,890**	51,444

Operating activities for 2012 generated cash flows of $35.9 million compared to $51.4 million in the prior year. Changes in non-cash working capital items used cash of $25.5 million as a result of increases in accounts receivable and inventories offset in part by an increase in accounts payable, accrued liabilities and provisions. The increase in accounts receivable during the year resulted primarily from the purchase of JHE and the movement in accrued receivables. During 2012, inventory levels increased to support volume increases on a number of programs. In 2011, changes in non-cash working capital of $12.5 million were principally a result of a decrease in accounts payable, accrued liabilities and provisions offset by a decrease in inventory.

Cash Flow from Investing Activities

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011
Acquisition of JHE	**(13,641)**	–
Purchase of property, plant and equipment	**(33,829)**	(59,260)
Proceeds from disposals of property, plant and equipment	**187**	514
(Increase) decrease in other assets	**(6,654)**	10,381
Cash used in investing activities	**(53,937)**	(48,365)

On August 31, 2012, the Corporation purchased all of the issued and outstanding shares of the capital stock of JHE for $13.6 million, net of cash of $2.0 million. The Corporation invested $33.8 million in capital assets during the year in comparison to $59.3 million in 2011. Capital additions were for advanced technology production equipment and information technology systems, both designed to increase productivity, reduce cycle time and improve technology capability.

Contractual Obligations

As at December 31, 2012, expressed in thousands of dollars	1 year	Less than 1-3 Years	4-5 Years	After 5 Years	Total
Bank indebtedness	–	112,666	–	–	112,666
Long-term debt[1]	32,425	42,167	10,891	29,030	114,513
Equipment leases	348	422	197	21	988
Facility leases	1,592	3,136	2,618	5,531	12,877
Other long-term liabilities	1,489	1,275	1,234	3,580	7,578
Borrowings subject to specific conditions	672	1,671	1,390	17,707	21,440
Total Contractual Obligations	**36,526**	**161,337**	**16,330**	**55,869**	**270,062**

[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 2013 include the repayment of long-term debt of $32.4 million of which $26.5 million is expected to be refinanced, payments of equipment and facility leases of $1.9 million and other long-term liabilities of $1.5 million. On December 21, 2012, the operating credit facility was extended for an additional two year period with the new expiry date of December 21, 2014. On December 21, 2012 the Original Loan was extended to January 1, 2015.

The Corporation has made contractual commitments to purchase $11.8 million of capital assets. The Corporation also has purchase commitments, largely for materials required for the normal course of operations, of $202.7 million. The Corporation plans to finance 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 22, 2013, 58,209,001 common shares were outstanding. More information on the Corporation's share capital is provided in Note 17 of the consolidated financial statements.

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 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.

The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. The Corporation had no foreign exchange contracts outstanding as at December 31, 2012.

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

On December 21, 2012, the Original Loan was extended to January 1, 2015. During 2012, the Corporation incurred interest of $2.3 million [2011 – $3.7 million] in relation to the Original Loan and prepaid the Original Loan by $3.5 million [2011 – $12.5 million]. At December 31, 2012, the Corporation owed Edco interest of $0.2 million [2011 – $0.2 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 the Convertible Debentures then held by the Chairman, were converted into 38,000,000 common shares of the Corporation. On April 30, 2012, Convertible Debentures in the principal amount of $2.0 million held by a director of the Corporation were converted into 2,000,000 common shares of the Corporation. Interest incurred during the year ended December 31, 2012 on the Convertible Debentures was $0.1 million [2011 – $4.0 million].

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 0.63% [2011 – 0.8%] of the guaranteed amount or $1.1 million [2011 – $1.4 million] was paid in consideration for the guarantee.

During the year, the Corporation incurred consulting costs of $0.1 million [2011– $0.1 million] payable to a corporation controlled by the Chairman of the Board 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. 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 have caused a number of countries in the European Union to focus on their respective recurring yearly deficit budgeting practices, resultant aggregate debt levels and to implement austerity measures. Likewise concerns about the national debt issue in the United States and actions taken by the government of the United States could lead to reductions in spending, including defence spending. Sequestration, which refers to United States federal budget cuts to certain categories of federal spending that began on March 1, 2013, is expected to cut defence spending in the 2014–2023 period by approximately US$500 billion. In addition, the governments in Canada and other countries have recognized the need to reduce budget deficits.

The United States is the principal purchaser under the Joint Strike Fighter ("JSF") program which represents a significant item in their 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 Canadian government has also announced plans to consider other options for replacing its aging CF-18 fighter jets. In addition, other countries who are part of the JSF program have announced plans to delay orders for the JSF aircraft.

The Corporation relies on sales to defence customers particularly in the United States. A significant reduction in defence expenditures by the United States or other countries with which the Corporation has material contracts, such as the 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 in which the Corporation participates, such as the JSF program, could also materially adversely affect sales and earnings.

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

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

Market events and conditions, including disruptions in the international credit markets and other financial systems and the American and European sovereign debt levels have caused volatility in credit and financial markets. These events and conditions have caused a decrease in confidence in the broader United States, European and global credit and financial markets and have created a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. While there are signs of economic recovery, these factors have negatively impacted company valuations and are likely to continue to impact the performance of the global economy going forward.

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 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. Constraints in the credit market may reduce the ability of airlines and others to purchase new aircraft, negatively affecting the demand for the Corporation's products. When these economic and other factors adversely affect the aerospace industry, they tend to reduce the overall customer demand for the Corporation's products and services, which decreases the Corporation's operating income.

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

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.

11. CRITICAL ACCOUNTING ESTIMATES

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

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 19 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. 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 (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.

12. CHANGES IN ACCOUNTING POLICIES

A description of accounting standards adopted in the current year

IAS 12 – Income Taxes, Amendments Regarding Deferred Tax: Recovery of Underlying Assets

On January 1, 2012, the Corporation adopted revised IAS 12, *Income Taxes*. The revised standard was amended in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax asset relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The adoption of the standard did not have a material impact on the 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, 2012, 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 with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

Financial Instruments – Recognition and Measurement

In October 2010, the IASB published amendments to IFRS 9, *Financial Instruments* ("IFRS 9") which provides added guidance on the classification and measurement of financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Corporation intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

Financial Assets and Liabilities

In December 2011, the IASB published amendments to IAS 32, *Financial Instruments: Presentation* ("IAS 32") and issued new disclosure requirements in IFRS 7. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.

The amendments to IAS 32 clarify when an entity has a legally enforceable right to off-set as well as clarify, when a settlement mechanism provides for net settlement, or gross settlement that is equivalent to net settlement. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar arrangements. The Corporation intends to adopt the amendments to IFRS 7 in its consolidated financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its consolidated financial statements for the annual period beginning January 1, 2014. The Corporation will include the additional disclosures required by the amendments to IFRS 7 in its 2013 consolidated financial statements. The extent of the impact of adoption of the amendments to IAS 32 has not yet been determined.

Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements* ("IFRS 10"). IFRS 10 replaces portions of IAS 27, Consolidated and Separate Financial Statements, that addresses consolidation, and supersedes SIC-12, *Consolidation – Special Purpose Entities* ("SPE"), in its entirety. IFRS 10 provides a single model to be applied in the analysis of control of all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures specified in IFRS 10 are carried forward substantially unmodified from IAS 27.

Joint Arrangements

In May 2011, the IASB issued IFRS 11, *Joint Arrangements* ("IFRS 11"). IFRS 11 supersedes IAS 31, Interest in Joint Ventures and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions.* Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement, which are classified as either joint operations or joint ventures, and provides guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly. Investments in joint ventures are required to be accounted for using the equity method. As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, Investments in Associates and Joint Ventures, has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), which contains 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.

IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adoption of IFRS 10, IFRS 11, amendments to IAS 27 and IAS 28. The Corporation intends to adopt IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 in its consolidated financial statements for the annual period beginning on January 1, 2013. The impact of the adoption of IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 is not expected to be material to the financial statements.

Fair Value Measurement

In May 2011, the IASB published IFRS 13, *Fair Value Measurement* ("IFRS 13"), which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The Corporation intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Corporation will provide required additional disclosures on fair valued items beginning with its first quarter 2013 consolidated financial statements.

Presentation of Financial Statements

In June 2011, the IASB published amendments to IAS 1, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*, which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. Early adoption is permitted. These amendments require that a Corporation present separately the items of other comprehensive income ("OCI") that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2013.

Employee Benefits

In June 2011, the IASB published an amended version of IAS 19, *Employee Benefits* ("IAS 19"). Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted. The amendment is generally applied retrospectively with certain exceptions. 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 and the requirement for the calculation of expected return on plan assets to be based on the rate used to discount the defined benefit obligation. The amendment also requires other changes and additional disclosures. As part of its transition to

IFRS, the Corporation elected to present remeasurements in OCI. The Corporation intends to adopt the other amendments in its financial statements for the annual period beginning on January 1, 2013.

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, 2012 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, 2012, 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, 2012.

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.

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