This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Magellan Aerospace Corporation ("Magellan" or the "Corporation") should be read in conjunction with the audited consolidated financial statements and the notes thereto for the years ended December 31, 2013 and 2012, and the Annual Information Form for the year ended December 31, 2013 (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, 2013 relative to the year ended December 31, 2012. The information contained in this report is as at March 21, 2014. All financial references are in Canadian dollars unless otherwise noted.

The MD&A contains forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance. All statements other than statements of historical facts may be forward-looking statements. In particular and without limitation there are forward looking statements under the heading "Overview", "2013 and Recent Updates", "Outlook", "Consolidated Revenues", "Liquidity and Capital Resources", "Risk Factors" 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 2013 and continuation of the current regulatory and tax regimes in the jurisdictions in which the Corporation operates, and necessarily involve known and unknown risks and uncertainties, including the business risks discussed in this MD&A, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Except as required by law, the Corporation does not undertake to update any forward-looking information in this document whether as a result of new information, future events or otherwise.

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

1. OVERVIEW

A summary of Magellan's business and significant 2013 events

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

The Corporation has focused on improving operations, improving its balance sheet and on leveraging core competencies in its strategic business development activities. During 2013, key performance indicators reflected the success of the Corporation's MOS™ program. MOS™ is the Magellan Operating System adopted in 2007 which standardizes and instills best practices in the Corporation's divisions. This program and its policies and procedures have been firmly embedded in daily operations and continue to produce positive results. Through cash generation from improved operating performance, the balance sheet has improved year over year. Management, in utilizing the positive cash generation, has maintained a year over year focus on debt retirement. Recent new program awards have confirmed the value of the Corporation's core competency strategy as it pursues new work opportunities.

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 large commercial jet, business jet, regional aircraft and helicopter 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:

	2013	2012
Aerospace	**99.7%**	94%
Power Generation Project	**0.3%**	6%
	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 was substantially 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 2013, for the Aerospace segment, 73% of revenues were derived from commercial markets (2012 – 70%, 2011 – 67%) while 27% of revenues related to defence markets (2012 – 30%, 2011 – 33%).

2013 and Recent Updates

– On June 17, 2013, Magellan announced that it had signed a Memorandum of Agreement ("MOA") with BAE Systems for work on the F-35 Lightning II program ("F-35 program"). Under the agreement Magellan will produce more than 1,000 sets of horizontal tails for the Conventional Take Off and Landing ("CTOL") variant of the F-35 program over a 20-year period. The agreement formalizes the continuation of the strategic relationship between BAE Systems and Magellan. Magellan will produce F-35A horizontal tail assemblies using components that require advanced composite manufacturing, machining capabilities, and strict quality standards. The majority of the components used for the assembly are produced at various Magellan facilities. The F-35A horizontal tail production under the MOA has a potential value of over Cdn$1.2 billion over the life of the program. Magellan has achieved sales of more than Cdn$121M on the F-35 as at December 31, 2013.

– Magellan announced on September 4, 2013 the award of a Cdn$110 million contract from MacDonald, Dettwiler and Associates Ltd. of Richmond, British Columbia for the RADARSAT Constellation Mission ("RCM") satellite bus manufacture. The RCM is comprised of three low earth orbit spacecraft, each carrying a C-band Synthetic Aperture Radar payload. RCM is a Canadian Space Agency mission that will provide twenty-four-hour-a-day C-Band data to augment and extend the data that RADARSAT-2 users currently rely on. The mission will support maritime surveillance (ship detection, ice monitoring and oil spill detection), disaster management and ecosystem monitoring. The primary areas of coverage are Canada and its surrounding Arctic, Pacific and Atlantic maritime areas. The launch is planned in 2018.

– On September 30, 2013, Magellan announced the first launch of its MAC-200 Bus on the Cascade SmallSat and IOnospheric Polar Explorer ("CASSIOPE") satellite from the Vandenberg Air Force Base, California on a Falcon 9 launch vehicle. CASSIOPE is a multi-purpose mission carrying 8 unique instruments to conduct space environment research (collectively called e-POP) and advanced telecommunications technology demonstration (termed Cascade).

– Magellan announced on October 16, 2013, that the first complete ship set of F-35A horizontal tail assemblies produced at its Winnipeg manufacturing division was successfully installed onto the aircraft at Lockheed Martin's final assembly line in Fort Worth, Texas. This successful installation of Magellan's F-35A horizontal tail assemblies was a key program milestone for the Corporation and demonstrated the many contributions being made by Canadian aerospace companies in the early stages of the F-35 program.

– An announcement was made on November 8, 2013 that an agreement had been reached between Airbus and Magellan securing a major work package on the Airbus A350 XWB. The package, which is in addition to other supply contracts Magellan has on the A350 XWB, consists of a series of machined and assembled structural components for the fuselage structure in this aircraft which supports the cabin storage bins and aircraft systems and is worth approximately United States $45 million over the next 4 years.

– The Corporation announced on January 22, 2014 that an agreement had been reached between Airbus and Magellan securing a significant work package to manufacture and supply complex, 5-axis machined wing ribs for Airbus' single aisle A320 product family including the A320neo. This additional work package complements the existing A320 wing ribs manufactured by Magellan. The work package is expected to generate revenues of approximately United States $20 million over the next 5 years. Magellan will invest in a new high-speed, 5-axis machining centre to be located in its facility in Greyabbey, Northern Ireland, enhancing the capabilities of the existing machining facilities.

– On March 3, 2014, Magellan announced that the first Magellan-manufactured horizontal tail assembly installed on an F-35A Lightning II aircraft was successfully flown for the first time on February 26, 2014. The Magellan horizontal tail assembly flew on aircraft AF-46, an F-35A CTOL variant, from Lockheed Martin's final assembly line in Fort Worth, Texas. The first flight of this Canadian-manufactured tail assembly marks an important milestone for Magellan as a major Canadian supplier to the international F-35 program.

Labour Matters

Labour agreements at five of the Corporation's facilities expired during the year ended December 31, 2013. Three of those labour agreements were successfully re-negotiated with new contract periods ending in 2016. The Corporation is currently in negotiations on the two remaining labour agreements that expired on December 31, 2013. Three labour agreements at two of the Corporation's facilities expire in 2014. The Corporation has commenced negotiation at one facility as the agreement expires March 31, 2014.

Financing Matters

On December 21, 2012, the Corporation extended the 7.5% loan payable ("Original Loan") to Edco Capital Corporation ("Edco"), a corporation controlled by the Chairman of the Board of Directors of the Corporation (the "Board") 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. During 2013, the Corporation fully repaid the Original Loan.

On December 21, 2012, the Corporation also 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 decreased to a Canadian dollar limit of $115.0 million (down from $125.0 million) plus a United States dollar limit of $35.0 million (down from United States $50.0 million), with a maturity date of December 21, 2014. The credit agreement also includes a Cdn$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, the Chairman of the Board, 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.

The terms of the 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.

On April 30, 2012, $2 million Convertible Debentures then outstanding and held by a director of the Corporation were converted into 2,000,000 Common Shares of the Corporation.

2. OUTLOOK

The outlook for Magellan's business in 2014

The Corporation remains confident in the strength of its present market position and is encouraged by the market trends observed in 2013. Magellan's participation on new platforms such as the A320neo and the A350, the B737 MAX and the B787 and the F-35 are providing good counterbalance to maturing legacy programs. Ongoing efforts to secure further work on next generation aircraft platforms are achieving success, as evidenced by a recent announcement awarding Magellan additional wing ribs on the A320neo platform.

Boeing's single aisle aircraft production rates continue to be strong with B737 production now at 42 aircraft per month with a plan to increase to 45 aircraft per month by late 2015. Airbus expects to maintain their A320 production rate at 42 aircraft per month through 2014 and then increase to 44 aircraft per month by March 2015. Magellan's participation on these platforms bodes well for the foreseeable future.

Wide-body aircraft rates remain strong with Boeing's B787 now achieving a production rate of 10 aircraft per month. Boeing is presently forecasting an increase to 12 aircraft per month in 2016 and possibly 14 aircraft per month later in the decade. Airbus has also reached its planned A380 steady-state production rate of 30 aircraft per year. The A350 is scheduled to ramp up in 2014 starting with an annual production rate of 16 aircraft per year, going to 36 aircraft in 2015, 70 aircraft in 2016 and reaching an expected peak rate of 156 aircraft per year by 2018.

With continuing weak demand for small to medium business jets, the prevailing opinion is that this market will not achieve previous peak production levels in the next 10-year period. Since the market peak of 2008, larger, longer-range business jet models have outperformed their smaller counterparts. Magellan participates on some of the newer and more successful platforms in this global market.

In the regional jet and turboprop marketplace, there is significant competition. Bombardier and ATR have continued to work in a contracting turboprop market. Production rates for Magellan supported product are expected to remain at approximately 24 – 30 aircraft per year. In the regional jet market, Embraer and Bombardier are both developing programs to compete in the "100" seat class of the small single aisle commercial marketplace. Magellan provides some support in this sector primarily through its production of aero-engine castings.

Visibility in the United States defence market improved during 2013 as the United States government approved the 2014/2015 budget that permits the Pentagon to prioritize programs rather than have them cut indiscriminately by sequestration. As the conflict between budget capacity and operational capability has not been eliminated, fewer orders for more highly capable platforms remain a possible outcome. The Corporation, through a number of its divisions, continues to support some United States and Canadian legacy products in the defence market.

The Corporation continues to invest in technology and resources in support of Lockheed Martin's F-35 Strategic Fighter Program ("F-35 program"). This past year's successful completion of major program milestones by Lockheed and their partners is encouraging to the F-35 program's customers and the supply base. The Corporation will benefit from recently announced foreign military sales as they solidify the F-35 program's backlog. The Canadian government procurement decision for the next generation fighter is still under consideration and review. Magellan continues on track to mature its capabilities in support of the F-35 program requirements.

The North American helicopter market remains driven primarily by United States defence spending. The United States Army is planning to consolidate its helicopter force with a net effect of removing approximately 540 ageing aircraft from service. Including a few other rotorcraft retirements, the overall move is expected to save the United States military some $1 billion annually in direct operating costs and sustainment costs. Defence budget cuts are also being made by reducing the quantities in multi-year procurement agreements. On a positive note, Sikorsky/Boeing, Bell Helicopter and other helicopter manufacturers are encouraged that funding is still slated for the United States Army's Joint Multi Role technology demonstration program. This will be the precursor to the Future Vertical Lift program which is to replace H-60 Blackhawk and AH-64 Apache platforms beginning in 2035. Magellan's support to the helicopter marketplace comes primarily from its aeroengine and casting capabilities. In February 2014, the Canadian federal government released Canada's Space Policy Framework, a guide for the Canadian space program's future priorities and activities. By releasing this framework, the government has acknowledged the importance of Canadian innovation and industry. This type of government commitment is fundamental to supporting the domestic space industry and programs in which Magellan invests and participates.

In conclusion, the Corporation anticipates that 2014 will continue to exhibit results reflective of the strong backlogs in the commercial aerospace part of the business. The current market, which is supported by the continued development of a number of new programs, is expected to remain strong in the coming year. Magellan's activity in support of legacy defence work has stabilized and this stability, complimented by the continued maturing of the F-35 program, should assist the Corporation in managing risk in this market place. The Corporation continues to assess the marketplace to identify complimentary opportunities which are in line with its core competencies.

3. SELECTED ANNUAL INFORMATION

A summary of selected annual financial information for 2013, 2012 and 2011

Restatement of Comparatives

Effective January 1, 2013, the Corporation implemented the new IFRS 11, Joint Arrangements and the amended IAS 19, Employee Benefits. Certain comparative figures provided for the year ended December 31, 2012 have been restated to reflect the adoption of these accounting standards. The adjustments to the consolidated statements of financial position, net income, comprehensive income and cash flows as a result of the changes are discussed further in "Changes in Accounting Policies".

Expressed in millions of dollars, except per share information	2013	2012	2011
Revenues	**752.1**	704.0	691.4
Net income for the year	**45.5**	57.0	37.4
Net income per common share – Basic	**0.78**	0.99	2.04
Net income per common share – Diluted	**0.78**	0.98	0.73
EBITDA	**100.8**	100.8	91.6
EBITDA per common share – Diluted	**1.73**	1.73	1.57
Total assets	**791.9**	755.0	661.7
Total long-term liabilities	**99.3**	267.0	260.5

Revenues for the year ended December 31, 2013 increased from 2012 and 2011 levels. The increase in revenues from 2012 is largely attributable to increased delivery of new aircraft for the global commercial aerospace market. Net income decreased in 2013 from 2012 due to an after tax gain on bargain purchase of $7.4 million recognized in 2012 on the purchase of John Huddleston Engineering Limited ("JHE") as the consideration paid was lower than the fair value of the identifiable tangible assets acquired and the recognition in 2012 of previously non-recurring unrecognized investment tax credits (see "Results of Operations – Gross Profit") and deferred tax assets (see "Results of Operations – Income Taxes"). During 2013, the Corporation paid quarterly dividends on common shares of $0.03 per share in both the third and fourth quarter, amounting to $3.5 million. During 2011, the Corporation redeemed all of the outstanding Preference Shares Series A and declared dividends thereon at an annual rate of $0.80 per share.

4. RESULTS OF OPERATIONS

A discussion of Magellan's operating results for 2013 and 2012

The Corporation's revenues by segment were as follows:

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012	Change
Aerospace	**749,934**	658,762	13.8%
Power Generation Project	**2,192**	45,278	(95.2)%
Total revenues	**752,126**	704,040	6.8%

Consolidated Revenues

Consolidated revenues for the year ended December 31, 2013 increased 6.8% to $752.1 million from $704.0 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. Record backlogs and increased volumes experienced by the original equipment manufacturers ("OEM's") in the global commercial aerospace market contributed to the increased revenues in the Aerospace segment.

Aerospace Segment

Revenues for the Aerospace segment were as follows:

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012	Change
Canada	**299,297**	292,215	2.4%
United States	**232,260**	199,917	16.2%
Europe	**218,377**	166,630	31.1%
Total revenues	**749,934**	658,762	13.8%

Aerospace revenues for the year ended December 31, 2013 were $749.9 million, an increase of $91.2 million or 13.8% over the previous year. Increased revenues in Canada in 2013 of 2.4% in comparison to revenues earned in 2012 resulted from higher volumes experienced in the year for proprietary products offset in part by lower revenues in repair and overhaul. Revenues in the United States, in native currency, were higher in 2013 when compared to 2012 as the Corporation's volumes increased on several single aisle aircraft programs as well as on new programs introduced over the last few years. Revenues in Europe increased in 2013 in comparison to 2012 revenues mainly due to higher production levels resulting from increased order intake and the business acquisition of JHE in the third quarter of 2012.

Revenues increases in both the United States and in Europe were also attributed to the favourable foreign exchange impact on the translation of foreign operations to Canadian dollars resulting from a stronger United States dollar and British pound in 2013 against the Canadian dollar when compared to 2012 and higher revenue generated in United States and Europe in 2013. If average exchange rates for both the United States dollar and British Pound experienced in 2012 remained constant in 2013, consolidated revenues for 2013 would have been approximately $734.4 million or approximately $15.5 million lower than actually realized in 2013.

Power Generation Project Segment

Revenues for the Power Generation Project segment were as follows:

Twelve-months ended December 31,expressed in thousands of dollars	2013	2012	Change
Power Generation Project	**2,192**	45,278	(95.2)%
Total revenues	**2,192**	45,278	

Revenues earned in 2013 and 2012 are from the Corporation's Ghana electric power generation project. The Ghana Power Generation Project ("the Project") was substantially completed as at March 31, 2013. During 2013, the Corporation was notified of the mechanical breakdown of the turbines in the Project. The Corporation and Ghana have contracted with an independent arbitrator to assess the cause of the damage and are awaiting a final report of the findings. Repairs of the equipment are currently underway. Based on internal assessments of the cause of the failure, the Corporation has not recorded any provisions in 2013. Additional revenues may be recorded as the Corporation continues to support the commercial operation of the Project; however, revenues from the Power Generation Project segment will continue to decrease unless the Corporation receives further contracts in this area.

Gross Profit

Twelve-months ended December 31,expressed in thousands of dollars	2013	2012	Change
Gross Profit	**112,327**	98,798	13.7%
Percentage of revenue	**14.9%**	14.0%	

Gross profit increased by $13.5 million from 2012 levels of $98.8 million to $112.3 million in 2013. Gross profit, as a percentage of revenues, was higher in 2013 at 14.9% versus 14.0% in 2012. Increased gross profit in 2013 was attributed to improved efficiencies, product mix and increased volumes experienced at a number of the Corporations locations. Higher costs associated with the work stoppage at one location and higher start-up costs associated with new programs in 2012 was somewhat offset by the recognition of non-recurring unrecognized investment tax credits from previous fiscal years of $10.4 million.

Administrative and General Expenses

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012	Change
Administrative and general expenses	**45,481**	38,972	16.7%
Percentage of revenue	**6.0%**	5.5%	

Administrative and general expenses increased to $45.5 million in 2013 from $39.0 million in 2012. Administrative and general expenses increased to support services and as a result of the acquisition of JHE in the third quarter of 2012.

Other

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012
Foreign exchange gain	**(142)**	(540)
Gain on settlement of long-term liabilities	**(1,031)**	–
Loss on disposal of property, plant and equipment	**576**	363
Other	**(597)**	(177)

Included in other income is a foreign exchange gain of $0.1 million in 2013 compared to a gain of $0.6 million in 2012, resulting from the change in foreign exchange rates on the Corporation's United States dollar denominated working capital balances and debt in Canada, and foreign exchange contracts. The Corporation reached a favourable agreement in 2013 on the settlement of its borrowings subject to specific conditions and recorded a gain of $1.0 million. In 2013 and 2012, the Corporation retired assets for a loss on disposal of approximately $0.6 million and $0.4 million, respectively.

Gain on Bargain Purchase

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012
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 the 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	2013	2012
Interest on bank indebtedness and long-term debt	**6,935**	7,923
Convertible debenture interest	**–**	66
Accretion charge on long-term debt and borrowings	**(916)**	541
Discount on sale of accounts receivable	**702**	648
Interest expense	**6,721**	9,178

Interest costs for 2013 were $6.7 million, a decrease of $2.5 million from 2012 levels. Interest on bank indebtedness and long-term debt in 2013 decreased as principal amounts outstanding during 2013 were lower than 2012 levels. Lower interest rate spreads on bank indebtedness also contributed to the reduction in interest expense in 2013 when compared to 2012. Increased long-term bond rates resulted in a recovery of previously recorded accretion charge in 2013 when compared to 2012. During 2013, the Corporation sold $256.2 million of accounts receivable at an annualized interest rate of 1.73% compared to the sale of $227.7 million of receivables in 2012 at an annualized interest rate of 1.83%.

Income Taxes

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012
Current income tax expense	**3,893**	2,925
Deferred income tax expense	**11,346**	453
Income tax expense	**15,239**	3,378
Effective tax rate	**25.1%**	5.6%

The Corporation recorded an income tax expense in 2013 of $15.2 million on pre-tax income of $60.7 million, representing an effective tax rate of 25.1%, compared to an income tax expense of $3.4 million on a pre-tax income of $60.4 million in 2012 for an effective tax rate of 5.6%.

During each of 2013 and 2012, the Corporation recognized investment tax credits in Canada totalling $7.4 million and $16.4 million, respectively, as a reduction of cost of revenues, as the Corporation has determined that it will be able to benefit from these investment tax credits. The increase in the effective tax rate to 25.1% in 2013 when compared to 5.6% in 2012 was attributed to the recognition of an additional $13.0 million of non-recurring deferred tax assets in Canada as a reduction of the 2012 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

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

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012
Net income	**45,483**	57,044
Interest	**6,721**	9,178
Taxes	**15,239**	3,378
Depreciation and amortization	**33,309**	31,227
EBITDA	**100,752**	100,827

EBITDA for the year ended 2013 was consistent with 2012 at $100.8 million. Increased revenue levels and improved margins in 2013 over 2012 were partially offset by the gain on bargain purchase of JHE of $9.6 million and the recognition of approximately $10.4 million of additional non-recurring unrecognized investment tax credits recorded in 2012.

6. SELECTED QUARTERLY FINANCIAL INFORMATION

A summary view of Magellan's quarterly financial performance

Expressed in millions of dollars except per share information				2013				2012
	Mar 31	**Jun 30**	**Sep 30**	**Dec 31**	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**
Revenues	**185.3**	**189.9**	**181.0**	**195.9**	186.8	169.3	161.4	186.4
Income before taxes	**11.0**	**15.5**	**13.2**	**21.0**	13.5	10.9	18.0	18.0
Net income	**8.0**	**11.2**	**9.5**	**16.8**	11.5	8.9	14.9	21.8
Net income per common share								
Diluted	**0.14**	**0.19**	**0.16**	**0.29**	0.20	0.15	0.26	0.37
EBITDA[1]	**21.3**	**25.6**	**22.9**	**31.0**	23.0	21.2	27.7	28.9

[1] EBITDA is not an International Financial Reporting Standards ("IFRS") financial measure. Please see the "Reconciliation of Net Income to EBITDA" section for more information.

The Corporation recorded its highest quarterly revenue in the fourth quarter of 2013. Revenues and net income reported in the quarterly information was impacted favourably by the fluctuations in the Canadian dollar exchange rate in comparison to the United States dollar and British Pound. The United States dollar/Canadian dollar exchange rate in 2013 fluctuated reaching a low of 0.9837 and a high of 1.0711. During 2013, the United States dollar relative to the Canadian dollar moved from an exchange rate of 0.9949 at the start of the 2013 calendar year to an exchange rate of 1.0636 by December 31, 2013. The British Pound/Canadian dollar exchange rate in 2013 fluctuated reaching a low of 1.5291 and a high of 1.7986. During 2013, the British Pound relative to the Canadian dollar moved from an exchange rate of 1.6178 at the start of the 2013 calendar year to an exchange rate of 1.7627 by December 31, 2013. Had exchange rates remained at levels experienced in 2012, reported revenues in 2013 would have been impacted minimally in the first and second quarter and would have been lower by $5.5 million in the third quarter and $9.2 million 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 quarters of 2013 and 2012 of $16.8 million and $21.8 million, respectively, was higher than all other quarterly net income shown in the table above. In the fourth quarter of 2013 and 2012 the Corporation recognized a reversal of previous impairment losses against intangible assets relating to various commercial aircraft programs and in the fourth quarter of 2012 the Corporation recognized previously unrecognized investment tax credits 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 2013, $69.8 million of cash was generated by operations, $44.4 million was used in investing activities and $41.2 million was used in financing activities. Cash decreased by $14.6 million in the year from $22.4 million to $7.8 million.

Cash Flow from Operating Activities

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012
Increase in accounts receivable	**(8,126)**	(20,048)
Increase in inventories	**(6,698)**	(17,293)
Increase in prepaid expenses and other	**(5,886)**	(502)
Increase in accounts payable, accrued liabilities and provisions	**10,412**	14,872
Net change in non-cash working capital items	**(10,298)**	(22,971)
Cash provided by operating activities	**69,819**	38,473

Operating activities for 2013 generated cash of $69.8 million compared to $38.5 million in the prior year. Changes in non-cash working capital items used cash of $10.3 million as a result of increases in accounts receivable, inventories and prepaid expenses offset in part by an increase in accounts payable, accrued liabilities and provisions. The increase in accounts receivable during the year is attributed primarily to the movement in accrued receivables. Increased inventory levels in 2013 were to support higher production volumes on a number of programs. In 2012, changes in non-cash working capital of $23.0 million were principally a result of an increase in accounts receivable and inventories, offset by an increase in accounts payable, accrued liabilities and provisions.

Cash Flow from Investing Activities

Twelve-months ended December 31, expressed in thousands of dollars	2013	2012
Acquisition of JHE	**–**	(13,641)
Investment in joint venture	**(3,994)**	–
Purchase of property, plant and equipment	**(31,299)**	(33,699)
Proceeds from disposals of property, plant and equipment	**486**	187
Increase in other assets	**(9,582)**	(8,510)
Cash used in investing activities	**(44,389)**	(55,663)

The Corporation invested $31.3 million in capital assets during the year in comparison to $33.7 million in 2012. The Corporation continues to invest in advanced technology production equipment and information technology systems, both designed to increase productivity, reduce cycle time and improve technology capability.

In the third quarter of 2013, the Corporation invested $4.0 million in acquiring a 49% interest in Triveni Aeronautics Private Limited, an aerospace components manufacturing company based in India. In August 2012, the Corporation completed the acquisition of JHE. The final purchase price was $13.7 million, net of cash acquired. Investments made in both companies were financed from the Corporation's operating credit facility.

Contractual Obligations

As at December 31, 2013, expressed in thousands of dollars	Less than 1 year	1-3 Years	4-5 Years	After 5 Years	Total
Bank indebtedness	115,930	–	–	–	115,930
Long-term debt[1]	30,932	7,651	9,270	31,445	79,298
Equipment leases	397	700	319	101	1,517
Facility leases	1,691	3,146	2,449	5,338	12,624
Other long-term liabilities	1,565	1,484	1,268	1,887	6,204
Borrowings subject to specific conditions	1,711	2,310	1,716	13,610	19,347
Total Contractual Obligations	**152,226**	**15,291**	**15,022**	**52,381**	**234,920**

[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 $30.9 million of which $26.0 million is expected to be refinanced, payments of equipment and facility leases of $2.1 million and other long-term liabilities of $1.6 million.

On December 21, 2012, 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 decreased to a Canadian dollar limit of $115.0 million (down from $125.0 million) plus a United States dollar limit of $35.0 million (down from United States $50.0 million), with a maturity date of December 21, 2014. The credit agreement also includes a Cdn$50.0 million uncommitted accordion provision which provides the Corporation with the option to increase the size of the operating credit facility to $200.0 million. The facility is extendible for unlimited future one year renewal periods, subject to mutual consent of the syndicate of lenders and the Corporation. The operating credit facility continues to be fully guaranteed until December 21, 2014 by the Chairman of the Board of the Corporation in consideration of the continued payment by the Corporation of an annual fee, payable monthly, equal to 0.50% (down from 0.63%) of the loan amount.

As at December 31, 2013 the Corporation has made contractual commitments to purchase $11.9 million of capital assets. In addition, the Corporation also has purchase commitments, largely for materials required for the normal course of operations, of $299.3 million as at December 31, 2013. The Corporation plans to fund all of these capital commitments with operating cash flow and the existing credit facility.

Outstanding Share Information

The authorized capital of the Corporation consists of an unlimited number of Preference Shares, issuable in series, and an unlimited number of common shares. As at March 21, 2014, 58,209,001 common shares were outstanding. More information on the Corporation's share capital is provided in Note 16 of the consolidated financial statements.

In each of the third and fourth quarter of 2013, the Corporation declared and paid quarterly cash dividends of $0.03 per common share representing an aggregate dividend payment of $3.5 million (2012 – $nil).

In the first quarter of 2014, the Corporation declared cash dividends of $0.04 per common share payable on March 31, 2014 to shareholders of record at the close of business on March 14, 2014.

8. FINANCIAL INSTRUMENTS

A summary of Magellan's financial instruments

Derivative Contracts

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian dollar denominated financial statements of the Corporation's subsidiaries may vary on consolidation into the reporting currency of Canadian dollars. The Corporation from time to time may use derivative financial instruments to help manage foreign exchange risk with the objective of reducing transaction exposures and the resulting volatility of the Corporation's earnings. The Corporation does not trade in derivatives for speculative purposes. Under these contracts the Corporation is obligated to purchase specified amounts at predetermined dates and exchange rates. These contracts are matched with anticipated cash flows in United States dollars.

The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. The Corporation had no foreign exchange contracts outstanding as at December 31, 2013.

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 2013, the Corporation incurred interest of $2.0 million [2012 – $2.3 million] in relation to the Original Loan and prepaid the balance of the Original Loan in the amount of $30.0 million [2012 – $3.5 million]. At December 31, 2013, the Corporation owed Edco interest of $nil [2012 – $0.2 million].

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.

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 0.5% [2012 – 0.63%] of the guaranteed amount or $0.8 million [2012 – $1.1 million] was paid in consideration for the guarantee.

During the year, the Corporation incurred consulting costs of $0.1 million [2012 – $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.

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, 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.

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 recent 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 OEM's, decreased demand for air travel or projected market growth that may not materialize or be sustainable. The price of fuel in the past has increased the pressure on the operating margins of aircraft companies which reduces their ability to finance capital expenditures. Constraints in the credit market may reduce the ability of airlines and others to purchase new aircraft, negatively affecting the demand for the Corporation's products. When these economic and other factors adversely affect the aerospace industry, they tend to reduce the overall customer demand for the Corporation's products and services, which decreases the Corporation's operating income.

Economic and other factors both internal and external to the aerospace industry might affect the aerospace industry and may have an adverse impact on the Corporation's results of operations. More specifically, a number of additional external risk factors may include the financial condition of the airline industry, commercial aerospace customers and government aerospace customers; government policies related to import and export restrictions and business 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.

Cancellations, reductions or delays in customer orders may adversely affect the Corporation's results of operations.
The Corporation's overall operating results are affected by many factors, including the timing of orders from large customers and the timing of expenditures to manufacture parts and purchase inventory in anticipation of future sales of products and services. A large portion of the Corporation's operating expenses is relatively fixed. Because several of the Corporation's operating locations typically do not obtain long-term purchase orders or commitments from customers, the Corporation must anticipate the future volume of orders based upon the historic purchasing patterns of customers and upon discussions with customers as to their anticipated future requirements. These historic patterns may be disrupted by many factors, including changing economic conditions, inventory adjustments, work stoppages or labour disruptions. Cancellations, reductions or delays in orders by a customer or group of customers could have a material adverse effect on the Corporation's business, financial condition and results of operations.

A reduction in defence spending by the United States or other countries could result in a decrease in revenue.
Over the last several years, 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 has led to reductions in spending, including defence spending. The United States defence budget for 2014 has reduced spending by 15% over the previous year resulting in the elimination and/or reduction in some new defence programs. 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 F-35 program which represents a significant item in their budget. Canada is also a participant in the F-35 program and has invested in an Advanced Composite Manufacturing Facility at Magellan's Winnipeg facility, primarily in support of the F-35 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 F-35 program have announced plans to delay orders for the F-35 aircraft. This is somewhat balanced by recent announcements of new foreign military sales.

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 F-35 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 F-35 program, could also materially adversely affect sales and earnings.

The Corporation may be unable to successfully achieve "key supplier" status with OEM's, and may be required to risk capital to achieve key supplier status.

Many OEM's are moving toward developing strategic partnerships with their key suppliers. Each key supplier provides an array of integrated services including purchasing, warehousing and assembly for OEM customers. The Corporation has been designated as a key supplier by some OEM's and is striving to achieve a higher level of integrated supply with other OEM's. In order to achieve key status, the Corporation may need to expand the Corporation's existing capacities or capabilities, and there is no assurance that the Corporation will be able to do so.

Many new aircraft and aircraft engine programs require that major suppliers become risk-sharing partners, meaning that the cost of design, development and engineering work associated with the development of the aircraft or the aircraft engine is partially born by the supplier, usually in exchange for a life-time agreement to supply those critical parts once the aircraft or the aircraft engine is in production. In the event that the aircraft or the aircraft engine fails to reach the production stage, inadequate number of units is produced, or actual sales otherwise do not meet projections, the Corporation may incur significant costs without any corresponding revenues.

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 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 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 United States 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, plan asset allocations, mortality, expected changes in wages and retirement benefits, analysis of current market conditions, economic benefits available and input from actuaries and other consultants. Costs of the programs are based on actuarially determined amounts and are accrued over the period from the date of hire to the full eligibility date of employees who are expected to qualify for these benefits.

12. CHANGES IN ACCOUNTING POLICIES

A description of accounting standards adopted in the current year

Financial Assets and Liabilities
In December 2011, the International Accounting Standards Board ("IASB") published amendments to IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7") which require additional 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 new disclosures will require entities to disclose gross amounts subject to rights of set off, amounts set off, and the related net credit exposure. The disclosures are intended to help investors understand the effect or potential effect of offsetting arrangements on a company's financial position. The new disclosures are effective for annual periods beginning on or after January 1, 2013. As the Corporation is not offsetting financial instruments and does not have relevant offsetting arrangements, the retrospective adoption of these amendments to IFRS 7 did not have any impact on the disclosures of the Corporation.

Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements* ("IFRS 10"). IFRS 10 replaced portions of IAS 27, Consolidated and Separate Financial Statements, that addressed consolidation, and superseded 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. An investor must possess the following three elements to conclude if it controls an investee: power over the investee's financial and operating decisions, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee and its exposure or rights to variable returns.

The adoption of IFRS 10 had no impact on the consolidated financial statements for the period or prior periods presented as the adoption did not result in a change in the consolidation status of any of the Corporation's subsidiaries or investees or the identification of any subsidiaries.

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.

In a joint operation, the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the arrangement, and recognize their share of the assets, liabilities, revenues and expenses in accordance with applicable IFRS. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement and account for their interest using the equity method of accounting under IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Corporation has concluded that its joint arrangements are joint ventures under IFRS 11 and, accordingly, has recorded its investments using the equity method of accounting whereas prior to adoption of IFRS 11, the proportionate consolidation method was used. The Corporation has applied the new policy retrospectively in accordance with the transitional provisions of IFRS 11 and recognized the deemed cost of its investments in joint ventures at January 1, 2012, as the net of the carrying amounts of the assets and liabilities previously proportionately consolidated by the Corporation. Under the equity method, the Corporation's share of individual assets and liabilities are replaced with a net investment in joint ventures amount in the consolidated balance sheet and individual revenues and expenses are replaced with earnings from investment in joint ventures amount in the consolidated statement of income. More information on the impact of the adoption of IFRS 11 is provided in Note 2 of the consolidated financial statements.

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 subsidiaries, 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. The requirements of IFRS 12 relate to disclosures only and are applicable for the first annual period after adoption, and, accordingly, the additional disclosures about interests in other entities have been included in the consolidated financial statements.

The Corporation's subsidiaries are all wholly owned and as such the determination of whether to consolidate these entities or the identification of any subsidiaries did not involve any significant judgments or assumptions. There are no significant restrictions on the ability of the Corporation to access or use the assets, and settle the liabilities of the Corporation and its subsidiaries except for customary limitations in the Corporation's credit facility.

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 additional disclosure requirements for fair value measurements. The standard did not have a material measurement impact on the 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. These amendments require that a Corporation present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The Corporation has adopted the presentation amendments in its 2013 consolidated financial statements.

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. IAS 19 was amended to eliminate the 'corridor approach' previously permitted and accelerate the recognition of past service costs. As part of its transition to IFRS, the Corporation elected to present remeasurements in other comprehensive income. The Corporation replaced interest costs on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability measured by applying the same discount rate used to measure the defined benefit obligation at the beginning of the annual period. Interest expense or interest income on net post-employment benefit liabilities and assets continue to be recognized in net income. IAS 19 requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw an offer of termination benefits or recognizes any restructuring costs.

The amended version of IAS 19 was adopted with retrospective application and, accordingly, the comparative periods presented have been adjusted to reflect the reversal of any unamortized past service costs and the application of one discount rate to the net defined benefit asset or liability to determine the interest element of the defined benefit cost. More information on the impact of the adoption of IAS 19 is provided in Note 2 of 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, 2013, 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 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 will replace IAS 39 and will be completed in three phases: classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. This was the first phase of the project on classification and measurement of financial assets and liabilities. The IASB is discussing proposed limited amendments related to this phase of the project. The standard on general hedge accounting was issued and included as part of IFRS 9 in November 2013. The accounting for macro hedging is expected to be issued as a separate standard outside of IFRS 9. The impairment of financial assets phase of the project is currently in development. In November 2013, the mandatory effective date of IFRS 9 of January 1, 2015 was removed and the effective date will be determined when the

remaining phases of IFRS 9 are finalized. The Corporation is currently monitoring the developments of this standard and assessing the impact that the adoption of this standard may have on the consolidated financial statements.

Financial Assets and Liabilities
In December 2011, amendments to IAS 32, *Financial Instruments: Presentation* were issued to clarify the existing requirements for offsetting financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2014. The Corporation does not expect the adoption of these amendments to have a material impact on the consolidated financial statements.

Levies
In May 2013, International Financial Reporting Standards Interpretations Committee Interpretation 21, *Levies* ("IFRIC 21") was issued. IFRIC 21 addresses various accounting issues relating to levies imposed by a government. This interpretation is effective for annual periods beginning on or after January 1, 2014. The Corporation is currently assessing the impact the adoption of this interpretation may have on the consolidated financial statements.

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

Impairment of Assets
In May 29, 2013, the IASB published amendments to IAS 36, *Impairment of Assets* which reduce the circumstances in which the recoverable amount of the cash-generating unit is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. This amendment is effective for annual periods beginning on or after January 1, 2014. The Corporation does not expect the adoption of this amendment to have a material impact on its consolidated financial statements.

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, 2013 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, 2013, 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, 2013.

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.