MAGELLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2013

MAGELLAN AEROSPACE

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 unaudited condensed consolidated interim financial statements and the notes thereto for the three months ended March 31, 2013, and the audited annual consolidated financial statements 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 three month period ended March 31, 2013 relative to the three month period ended March 31, 2012. The information contained in this report is as at May 8, 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 "Overview", "Results of Operations", "Liquidity and Capital Resources", "Future Changes in Accounting Policies" and "Outlook". In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", and similar expressions. The projections, estimates and beliefs contained in such forward-looking statements are based on management's assumptions relating to the production performance of Magellan's assets and competition throughout the aerospace industry and continuation of the current regulatory and tax regimes in the jurisdictions in which the Corporation operates, and necessarily involve known and unknown risks and uncertainties, including the business risks discussed in this MD&A, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Except as required by law, the Corporation does not undertake to update any forward-looking information in this document whether as to new information, future events or otherwise.

The MD&A presents certain non-IFRS financial measures to assist readers in understanding the Corporation's performance. Non-IFRS financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with 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 updates

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

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

Business Update

Magellan's positioning in its commercial aircraft business remains as a pillar in the performance of the Corporation. With additional participation on new platforms such as the A350 and B787, continuing sales growth is expected in future years.

On the defence side, the Corporation expects a modest reduction in revenues in 2013 due to the effects of sequestration in the United States and continued downturn in global defence spending. It is anticipated that growth in the Corporation's commercial revenues will absorb the impact of these adjustments in the defence market. Magellan continues with its involvement in the Joint Strike Fighter ("F-35") program; specifically the Corporation has supported Lockheed Martin as they have been conducting cross-Canada information sessions to inform the media and general public about the positive merits of the F-35 program. Magellan participated in the Winnipeg and Toronto sessions and in December 2012, celebrated the completion of the first completed horizontal tail assembly for the F-35. Negotiations are currently under way for subsequent low rate initial production lots beyond those already secured by the Corporation.

The Corporation's Power Generation project in the Republic of Ghana has met and surpassed the contractual operational performance metrics and is proceeding through the final stages of completion and transfer to the customer. The Corporation remains actively engaged in discussions related to potential additional and complimentary opportunities.

Customer response towards Magellan Operating System's™ principles of standardization is positive throughout the Corporation's divisions. These disciplines have helped Magellan differentiate itself in a competitive environment where weaknesses have traditionally plagued certain markets. Measurable improvements compared to our competitors have been demonstrated and recognized by our customers.

Magellan is beginning preparations to participate in the 50th Paris International Air Show being held between June 17th and June 23rd.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2012 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan's operating results for first quarter ended March 31, 2013

The Corporation reported higher revenue in its Aerospace segment and lower revenue in its Power Generation Project segment in the first quarter of 2013 when compared to the first quarter of 2012. Gross profit and net income for the first quarter of 2013 were $24.8 million and $8.0 million, respectively, a decrease from the first quarter of 2012 gross profit of $25.5 million and net income of $11.5 million.

Consolidated Revenue

Overall, the Corporation's consolidated revenues remained stable when compared to the first quarter of 2012.

	Three month period ended March 31		
Expressed in thousands of dollars	**2013**	2012	Change
Aerospace	**181,815**	165,991	9.5%
Power Generation Project	**3,478**	20,856	(83.3%)
Total revenues	**185,293**	186,847	(0.8%)

Consolidated revenues of $185.3 million for the first quarter ended March 31, 2013 were slightly lower than $186.8 million in the first quarter of 2012. Higher volumes of production contributed to increased revenues in the Aerospace segment offset by the lower revenues earned in the Power Generation Project segment. As the Corporation moves through 2013, revenues earned from the Power Generation Project will continue to decrease on a year over year basis and are expected to be significantly lower than 2012 unless the Corporation receives further contracts in this area.

Aerospace Segment

Revenues for the Aerospace segment were as follows:

	Three month period ended March 31		
Expressed in thousands of dollars	**2013**	2012	Change
Canada	**73,385**	75,721	(3.1%)
United States	**57,654**	49,530	16.4%
Europe	**50,776**	40,740	24.6%
Total revenues	**181,815**	165,991	9.5%

Consolidated aerospace revenues for the first quarter of 2013 of $181.8 million were 9.5% higher than revenues of $166.0 million in the first quarter of 2012. Revenues in Canada in the first quarter of 2013 decreased 3.1% from the same period in 2012. The decrease was mainly attributed to the decline in volumes in the defence market, partially offset by increased volumes on proprietary products. Revenues increased by 16.4% in the United States in the first quarter of 2013 in comparison to the first quarter of 2012 primarily due to increased volumes on several of the Corporation's commercial aircraft programs and the movement of the stronger US dollar in comparison to the CDN dollar during the same periods in 2013 and 2012**.** Higher volumes of production and the business acquisition of John Huddleston Engineering Limited ("JHE") in the third quarter of 2012 contributed to the increase in revenues in Europe in the first quarter of 2013 over revenues in the same period in 2012.

Power Generation Project Segment

Revenues for the Power Generation Project segment were as follows:

	Three month period ended March 31		
Expressed in thousands of dollars	**2013**	2012	Change
Power Generation Project	**3,478**	20,856	(83.3%)
Total revenues	**3,478**	20,856	(83.3%)

Decreased revenues in first quarter of 2013 over the same period in 2012 represents the Corporation's reduced activity level on the Ghana Power Generation Project (the "Project") in the period in comparison to the activity level in the previous comparable quarter. The Corporation substantially completed the Project in the first quarter of 2013 and as the Corporation moves into 2013, revenue from the Power Generation Project segment will decrease on a year over year basis unless the Corporation receives further contracts in this area.

Gross Profit

	Three month period ended March 31		
Expressed in thousands of dollars	**2013**	2012	Change
Gross profit	**24,812**	25,537	(2.8%)
Percentage of revenues	**13.4%**	13.7%	

Gross profit of $24.8 million (13.4% of revenues) was reported for the first quarter of 2013 compared to $25.5 million (13.7% of revenues) during the same period in 2012. Gross profit varies from period to period and can be affected by a number of factors, including product mix, production efficiency, and new product introduction. Overall cost of revenues as a percentage of revenues increased in the three months ended March 31, 2013 to 86.6% compared to 86.3% in the same period last year, due to the impact of a change in product mix as the Corporation shipped product with slightly lower margins.

Administrative and General Expenses

	Three month period ended March 31	
Expressed in thousands of dollars	**2013**	2012
Administrative and general expenses	**10,735**	9,861
Percentage of revenues	**5.8%**	5.3%

Administrative and general expenses were $10.7 million (5.8% of revenues) in the first quarter of 2013 compared to $9.9 million (5.3% of revenues) in the first quarter of 2012. The increase is primarily a result of the acquisition of JHE in August 2012, which increased general and administrative expenses by approximately $0.4 million for the three months ended March 31, 2013.

Other

Expressed in thousands of dollars	Three month period ended March 31 2013	2012
Foreign exchange loss (gain)	**948**	(146)
Loss on disposal of property, plant and equipment	**32**	3
Total other	**980**	(143)

Other expense of $1.0 million in the first quarter of 2013 consisted of realized and unrealized foreign exchange losses and losses on the disposal of property, plant and equipment.

Interest Expense

Expressed in thousands of dollars	Three month period ended March 31 2013	2012
Interest on bank indebtedness and long-term debt	**1,810**	1,956
Convertible debenture interest	**—**	50
Accretion charge for convertible debenture, borrowings and long-term debt	**154**	150
Discount on sale of accounts receivable	**160**	139
Total interest expense	**2,124**	2,295

Interest expense of $2.1 million in the first quarter of 2013 was lower than the first quarter of 2012 amount of $2.3 million, as interest on bank indebtedness and long-term debt decreased mainly due to lower principal amounts outstanding during the first quarter of 2013 than those in the first quarter of 2012. Interest expense on convertible debentures was eliminated as the full amount of the $2,000 principal amount outstanding at the end of the first quarter of 2012 was converted by the end of the second quarter of 2012. Sentence

Provision for Income Taxes

Expressed in thousands of dollars	Three month period ended March 31 2013	2012
Expense of current income taxes	**1,204**	913
Expense of deferred income taxes	**1,754**	1,100
Total expense of income taxes	**2,958**	2,013
Effective tax rate	**27.0%**	14.9%

The Corporation recorded an income tax expense of $3.0 million in the first quarter of 2013 as compared to an income tax expense of $2.0 million in the first quarter of 2012. The change in effective tax rates quarter over quarter is a result of a changing mix of income across the different jurisdictions in which the Corporation operates and the reduction in deferred income tax in the first quarter of 2012, due to the recognition of previously unrecognized deferred tax assets, which did not recur in the first quarter of 2013.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

	2013	**2012**[1]				**2011**		
Expressed in millions of dollars, except per share amounts	**Mar 31**	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Revenues	**185.3**	186.4	161.4	169.3	186.8	173.3	161.6	186.0
Income before taxes	**11.0**	18.0	18.0	10.9	13.5	13.8	10.4	7.0
Net Income	**8.0**	21.8	14.9	8.9	11.5	16.6	8.6	4.9
Net Income per share								
Basic	**0.14**	0.37	0.26	0.15	0.20	0.90	0.47	0.27
Diluted	**0.14**	0.37	0.26	0.15	0.20	0.31	0.17	0.10
EBITDA	**21.3**	28.6	27.7	21.2	23.0	29.6	20.8	18.5

[1]Certain 2012 figures have been restated due to the implementation of IFRS 11, *Joint Arrangements* and revised IAS 19, *Employee Benefits*. See the "Changes in Accounting Policies" section on page 9 of this report.

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 the first quarter of 2013 fluctuated reaching a low of 0.9835 and a high of 1.0309. During the first quarter of 2013, the British Pound relative to the Canadian dollar fluctuated reaching a low of 1.5286 and a high of 1.6156. The movement of exchange rates between the first quarter of 2013 and the first quarter of 2012 had minimal impact on revenues in the first quarter of 2013. Net income in the third quarter of 2012 was higher than 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 2012 and 2011 of $21.8 million and $16.6 million respectively was higher than 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. In addition, in both the fourth quarter of 2011 and 2012 the Corporation recognized previously unrecognized investment tax credits and other deferred tax assets as the Corporation determined that it will be able to benefit from these assets.

4. Reconciliation of Net Income to EBITDA

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

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

	Three month period ended March 31	
Expressed in thousands of dollars	**2013**	2012
Net income	**8,015**	11,511
Interest	**2,124**	2,295
Taxes	**2,958**	2,013
Stock-based compensation	**–**	6
Depreciation and amortization	**8,174**	7,189
EBITDA	**21,271**	23,014

EBITDA for the first quarter of 2013 was $21.3 million, compared to $23.0 million in the first quarter of 2012. As previously discussed, increased administrative and general expenses, unrealized losses on forward foreign exchange contracts and decreased gross profits resulted in decreased EBITDA for the current quarter when compared to the same period in 2012.

5. Liquidity and Capital Resources

A discussion of Magellan's cash flow, liquidity, credit facilities and other disclosures

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

Cash Flow from Operations

Expressed in thousands of dollars	Three month period ended March 31 2013	2012
Increase in accounts receivable	**(21,534)**	(23,894)
Increase in inventories	**(840)**	(10,294)
Increase in prepaid expenses and other	**(2,032)**	(1,241)
Increase in accounts payable, accrued liabilities and provisions	**1,652**	22,151
Changes to non-cash working capital balances	**(22,754)**	(13,279)
Cash (used) provided by operating activities	**(5,998)**	5,085

In the quarter ended March 31, 2013, the Corporation used $6.0 million in cash in its operations, compared to $5.1 million generated in the first quarter of 2012. Increased accounts receivable offset by a slight increase in accounts payable, accrued liabilities and provisions resulted in the usage of cash by operating activities.

Investing Activities

Expressed in thousands of dollars	Three month period ended March 31 2013	2012
Purchase of property, plant & equipment	**(4,101)**	(3,982)
Proceeds of disposals of property plant & equipment	**46**	3
Increase in intangibles and other assets	**(2,712)**	(5,166)
Cash used in investing activities	**(6,767)**	(9,145)

In the first quarter of 2013, the Corporation invested $4.1 million in property, plant and equipment to upgrade and enhance capabilities for current and future programs and $2.7 million in intangibles and other assets, largely related to deposits placed on new property, plant and equipment to be acquired.

Financing Activities

Expressed in thousands of dollars	Three month period ended March 31 2013	2012
Increase (decrease) in bank indebtedness	**6,481**	(5,691)
Increase in debt due within one year	**499**	15,751
Decrease in long-term debt	**(2,435)**	(2,124)
(Decrease) increase in long-term liabilities and provisions	**(41)**	148
Increase in borrowings	**318**	182
Cash provided by financing activities	**4,822**	8,266

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 Bank Facility 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 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.

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 agreement 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 loan the Corporation has at least $25.0 million in availability under the operating 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 May 8, 2013, 58,209,001 common shares were outstanding.

6. Financial Instruments

A summary of Magellan's financial instruments

Derivative Contracts

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian dollar denominated financial statements of the Corporation's subsidiaries may vary on consolidation into the reporting currency of Canadian dollars.

The Corporation 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. As at March 31, 2013 the Corporation had foreign exchange contracts outstanding as follows:

Foreign exchange forward contracts	Amount	Rate
Maturity – less than 1 year – US dollar	28,500	1.0150

The fair values of the Corporation's foreign exchange forward contracts are based on the current market values of similar contracts with the same remaining duration as if the contract had been entered into on March 31, 2013.

The mark-to-market on these financial instruments as at March 31, 2013 was an unrecognized loss of $0.1 million which has been recorded in other expenses in the period.

Off Balance Sheet Arrangements

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

7. Related Party Transactions

A summary of Magellan's transactions with related parties

During the three month period ended March 31, 2013, the Corporation paid guarantee fees in the amount of $0.2 million to the Chairman of the Board of the Corporation. During the three month period ended March 31, 2013, the Corporation incurred interest of $0.6 million in relation to the Original Loan due to Edco, a corporation which is controlled by the Chairman of the Board of the Corporation which is due on January 1, 2015. At March 31, 2013, the Corporation owed Edco interest of $0.2 million.

8. Risk Factors

A summary of risks and uncertainties facing Magellan

The Corporation manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without hindering the ability to maximize returns. Management has procedures to help identify and manage significant operational and financial risks.

For more information in relation to the risks inherent in Magellan's business, reference is made to the information under "Risk Factors" in the Corporation's Management's Discussion and Analysis for the year ended December 31, 2012 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2012, which have been filed with SEDAR at www.sedar.com.

9. Changes in Accounting Policies

A description of accounting standards adopted in the current year

The Corporation has adopted the new and amended IFRS pronouncements listed below as at January 1, 2013, in accordance with the transitional provisions outlined in the respective standards.

Consolidated Financial Statements
IFRS 10, *Consolidated Financial Statements* ("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 interim 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 our subsidiaries or investees or the identification of any subsidiaries.

Joint Arrangements
IFRS 11, *Joint Arrangements* ("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 arrangement is a joint venture under IFRS 11 and, accordingly, has recorded its investment 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.

The Corporation has restated its consolidated interim financial statements for the comparative period to reflect the change in method of accounting for the joint venture. The Corporation's consolidated revenues and expenses are reduced and the geographic information no longer includes the financial information of the joint venture. There is no impact on net earnings or earnings per share and the disclosure requirements have been incorporated into the Corporation's condensed consolidated interim financial statements.

Disclosure of Interests in Other Entities
IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), 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 will be included in the annual consolidated financial statements for the year ended December 31, 2013.

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
IFRS 13, *Fair Value Measurement* ("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 adoption of IFRS 13 did not have an effect on the required disclosures in the consolidated interim financial statements for the current period. The annual disclosure requirements will be incorporated in the annual consolidated financial statements for the year ended December 31, 2013.

Presentation of Financial Statements
IAS 1, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* ("IAS 1"), requires 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 Corporation has amended its consolidated interim statements of comprehensive income for all periods presented in these consolidated interim financial statements to reflect the presentation changes required under the amended IAS 1. As these changes are reclassifications within the statement of comprehensive income, there is no net impact on comprehensive income.

Employee Benefits
IAS 19 *Employee Benefits* ("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 OCI. 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. The retrospective application of this amendment increased employee benefits expense by $422 for the three month period ended March 31, 2012. Net income for the three month period ended March 31, 2012 decreased by $313, net of income taxes of $109. Basic net income per share decreased by $0.01 for the three month period ended March 31, 2012.

10. Future Changes in Accounting Policies

A description of new accounting standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the interim period ended March 31, 2013, and have not been applied in preparing these condensed consolidated interim 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 with retrospective application.

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 Corporation intends to adopt the amendments to IAS 32 in its consolidated financial statements for the annual period beginning January 1, 2014. The extent of the impact of adoption of the amendments to IAS 32 has not yet been determined.

11. Critical Accounting Estimates

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

In the 2012 annual audited consolidated financial statements and management's discussion and analysis, the Corporation identified the accounting policies and estimates that are critical to the understanding of the business and results of operations. Please refer to note 2 to the audited consolidated financial statements for the year ended December 31, 2012 for a discussion regarding the critical accounting estimates.

12. Controls and Procedures

A description of Magellan's disclosure controls and internal controls over financial reporting

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at March 31, 2013 that they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting.

Management does not expect disclosure controls and procedures and internal control over financial reporting to prevent all errors, misstatements or fraud. In addition, internal control over financial reporting that management has designed and established may be circumvented and rendered ineffective as a result of unauthorized acts of individuals through collusion or management override. A system of control, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that control objectives are met. Due to the inherent limitations in a system of control, there is no absolute assurance that all controls issues, which may result in errors, misstatements, or fraud, can be prevented or detected. The inherent limitations include, amongst other things: (i) management's assumptions and judgements could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of isolated errors; (iii) assumptions about the likelihood of future events.

No changes were made in the Corporation's internal control over financial reporting during the Corporation's most recent interim period, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

13. Outlook

The outlook for Magellan's business in 2013

The strength of the global commercial market continues to be encouraging. With prolonged low interest rates and a growing demand for more fuel-efficient aircraft, the sales potential for commercial aircraft manufacturers remain positive. Boeing and Airbus are maintaining their forecasts for increased single aisle rates with the Boeing 737 program scheduled to increase to 38 aircraft per month in the second quarter of 2013 and the Airbus A320 program sustaining the current rate of 42 aircraft per month. With FAA approval in hand for the B787 modifications, Boeing is expected to focus on efforts to ramp up the rate of production from 5 aircraft per month to 10 aircraft per month by the end of 2013. Airbus has a planned A350 ramp-up to build 9 aircraft in 2013 and 20 aircraft in 2014.

The global defence market did not experience significant change in the first quarter of 2013 as uncertainty continues to affect market outlook. In the US, sequestration has precipitated the first in a series of furlough notices being issued to government employees. The end result is unknown as agencies and manufacturers have yet to determine what the total effect on their operations will be. The European defence industry is facing declining budgets and an over-capacity situation where consolidation or increased partnering on programs may be the only solution.

All signs remain positive for the regional aircraft market primarily due to the expected replacement by airlines of 35 to 50 seat aircraft for higher capacity planes, and due to the high average age of the fleet. The in-service fleet comprises of 52% older aircraft averaging approximately 11 years. This market is expected to grow 9.4% from 2012 through 2016.

The business jet market is still waiting for recovery. Used bizjets as a percentage of the fleet stands at approximately 12% in April 2013 from a high of 17.6% in 2009. Analysts maintain this market will pick up in the second half of 2013 as equity markets stabilize and corporate profits are expected to continue to grow.

Although the global helicopter market is contracting at this time, the diversity of the markets it serves has helped its buoyancy throughout lean times. An industry analyst at the recent HeliExpo show in Las Vegas forecast 24,000 new helicopters to be delivered over the next 10 years, with 75% of these being for non-military use. Eurocopter, AgustaWestland and Sikorsky are all working on next generation high speed rotorcraft.

The continued upswing in the Corporations commercial programs is expected to provide the ability to mitigate any negative exposure associated with defence spending cutbacks. This situation is projected to remain relatively stable through 2014.

Additional information relating to Magellan Aerospace Corporation, including the Corporation's annual information form, can be found on the SEDAR web site at www.sedar.com.