MAGELLAN QUARTERLY REPORT

MARCH 31, 2014

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") should be read in conjunction with the unaudited condensed consolidated interim financial statements and the notes thereto for the three month period ended March 31, 2014, and the audited annual consolidated financial statements for the year ended December 31, 2013 (available on SEDAR at www.sedar.com). Unless otherwise noted, all financial information has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), specifically International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"), which is within the framework of International Financial Reporting Standards ("IFRS"). 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, 2014 relative to the three month period ended March 31, 2013. The information contained in this report is as at May 13, 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", "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 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 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 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 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

In the first quarter of 2014, the Corporation announced that an agreement had been reached with Airbus securing a work package to manufacture and supply complex 5-axis machined wing ribs for the single aisle A320 product family, including the A320 NEO. The package is expected to generate revenues of approximately US $20 million over the next five years.

On March 3, 2014, the Corporation announced the first flight of a Magellan–manufactured horizontal tail assembly installed on an F-35A Lightening II aircraft. Magellan is under contract with BAE Systems to produce horizontal tail assemblies for the CTOL (Conventional Take Off and Landing) variant and is expected to produce more than 1,000 ship sets.

Also on April 7, 2014, Magellan announced the award of a contract for engine repair and overhaul (R&O) for the F404 engine that powers Canada's fleet of CF-188 Hornet aircraft. The anticipated revenues on this contract of CDN $55 million include CDN $16 million for the initial 1 year term, an additional estimated CDN $16 million for a one year option period and material content of CDN $23 million over the contracted term and the option period.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2013 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan's operating results for first quarter ended March 31, 2014

The Corporation reported higher revenue in its Aerospace segment and lower revenue in its Power Generation Project segment in the first quarter of 2014 when compared to the first quarter of 2013. Gross profit and net income for the first quarter of 2014 were $29.5 million and $12.1 million, respectively, an increase from the first quarter of 2013 gross profit of $24.8 million and from the first quarter of 2013 net income of $8.0 million.

Consolidated Revenue

Overall, the Corporation's consolidated revenues grew by 13.6% when compared to the first quarter of 2013.

	Three month period ended March 31		
Expressed in thousands of dollars	**2014**	2013	Change
Aerospace	**210,366**	181,815	15.7%
Power Generation Project	**136**	3,478	(96.1)%
Total revenues	**210,502**	185,293	13.6%

Consolidated revenues of $210.5 million for the first quarter ended March 31, 2014 were higher than the $185.3 million of revenue in the first quarter of 2013. Increased revenues of 15.7% year over year in the Aerospace segment were due to the higher demand, volumes and the appreciation of the United States dollar and the British Pound over the Canadian dollar in the quarter. The increase in the Aerospace segment was slightly offset by the fall off of revenues earned in the Power Generation Project segment.

Aerospace Segment

Revenues for the Aerospace segment were as follows:

	Three month period ended March 31		
Expressed in thousands of dollars	**2014**	2013	Change
Canada	**77,462**	73,385	5.6%
United States	**67,687**	57,654	17.4%
Europe	**65,217**	50,776	28.4%
Total revenues	**210,366**	181,815	15.7%

Consolidated Aerospace revenues for the first quarter of 2014 of $210.4 million were 15.7% higher than revenues of $181.8 million in the first quarter of 2013. Revenues in Canada in the first quarter of 2014 increased 5.6% from the same period in 2013. Higher revenues generated in the first quarter of 2014 from the Corporation's proprietary products, in particular the space programs, were partially offset by the decline in volumes in the defence market. The favourable movement of the United States dollar in comparison to the Canadian dollar also contributed to the increased revenues in Canada in the first quarter of 2014 when compared to the same period in 2013. Increased revenues of 17.4% in the United States in the first quarter of 2014 in comparison to the first quarter of 2013 were due to increased volumes on several of the Corporation's single aisle and wide body commercial aircraft programs and due to the movement of the stronger United States dollar in comparison to the Canadian dollar during the same periods in 2014 and 2013. Production volume increases on new and existing Airbus statements of work and favourable movements of the GBP in comparison to the Canadian dollar contributed to a significant quarter-over-quarter increase of 28.4% in revenues in Europe in the first quarter of 2014 over revenues in the same period in 2013.

__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	**2014**	2013	Change
Power Generation Project	**136**	3,478	(96.1)%
Total revenues	**136**	3,478	(96.1)%

Revenues on the Ghana Power Generation Project (the “Project”) decreased significantly quarter over quarter as the Project was substantially completed as at March 31, 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 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	**2014**	2013	Change
Gross profit	**29,476**	24,812	18.8%
Percentage of revenues	**14.0%**	13.4%	

Gross profit of $29.5 million (14.0% of revenues) was reported for the first quarter of 2014 compared to $24.8 million (13.4% of revenues) during the same period in 2013. Increased gross profit in the first quarter of 2014 over the same period in 2013 was primarily due to the weaker Canadian dollar in the first quarter of 2014 in comparison to the same period in the prior year. Increased volumes and favourable product mix also contributed to the improved margins.

Administrative and General Expenses

	Three month period ended March 31		
Expressed in thousands of dollars	**2014**	2013	Change
Administrative and general expenses	**11,470**	10,735	6.8%
Percentage of revenues	**5.5%**	5.8%	

Administrative and general expenses were $11.5 million (5.5% of revenues) in the first quarter of 2014 compared to $10.7 million (5.8% of revenues) in the first quarter of 2013. Increased expenses were partially due to the growth in the Corporation’s administrative support services and as a result of the impact upon translation of the weaker Canadian dollar in the first quarter of 2014 when compared to the same period of 2013.

Other

	Three month period ended March 31	
Expressed in thousands of dollars	**2014**	2013
Foreign exchange (gain) loss	**(296)**	948
(Gain) loss on disposal of property, plant and equipment	**(47)**	32
Total other	**(343)**	980

Other income of $0.3 million in the first quarter of 2014 consisted of realized and unrealized foreign exchange gains and gains recorded on the disposal of property, plant and equipment.

Interest Expense

	Three month period ended March 31	
Expressed in thousands of dollars	**2014**	2013
Interest on bank indebtedness and long-term debt	**1,359**	1,810
Accretion charge for borrowings and long-term debt	**80**	154
Discount on sale of accounts receivable	**259**	160
Total interest expense	**1,698**	2,124

Interest expense of $1.7 million in the first quarter of 2014 was lower than the first quarter of 2013 amount of $2.1 million, as interest on bank indebtedness and long-term debt decreased mainly due to lower principal amounts outstanding during the first quarter of 2014 than those in the first quarter of 2013. Increased volumes of receivables sold in first quarter of 2014 in comparison to those to the same quarter in the prior year resulted in higher interest charges in the quarter.

Provision for Income Taxes

	Three month period ended March 31	
Expressed in thousands of dollars	**2014**	2013
Expense of current income taxes	**1,224**	1,204
Expense of deferred income taxes	**3,348**	1,754
Total expense of income taxes	**4,572**	2,958
Effective tax rate	**27.5%**	27.0%

The Corporation recorded an income tax expense of $4.6 million in the first quarter of 2014 as compared to an income tax expense of $3.0 million in the first quarter of 2013. Current income taxes for the first quarter of 2014 consisted primarily of the tax expense in jurisdictions with current taxes payable. Deferred income taxes for the first quarter of 2014 consisted primarily of net deferred income tax recoveries for changes in temporary differences in various jurisdictions.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

	2014	2013				2012		
Expressed in millions of dollars, except per share amounts	**Mar 31**	Mar 31	Jun 30	Sep 30	Dec 31	Jun 30	Sep 30	Dec 31
Revenues	**210.5**	185.3	189.9	181.0	196.0	169.3	161.4	186.4
Income before taxes	**16.7**	11.0	15.5	13.2	21.0	10.9	18.0	18.0
Net Income	**12.1**	8.0	11.2	9.5	16.8	8.9	14.9	21.8
Net Income per share								
Basic and diluted	**0.21**	0.14	0.19	0.16	0.29	0.15	0.26	0.37
EBITDA	**27.1**	21.3	25.6	22.9	31.0	21.2	27.7	28.9

[1]Certain 2012 figures have been restated due to the implementation of IFRS 11, *Joint Arrangements* and revised IAS 19, *Employee Benefits* in 2013. Please refer to note 2 to the 2013 audited consolidated financial statements.

The Corporation reported its highest quarterly revenues in its history in the first quarter of 2014. Revenues and net income reported in the quarterly information were impacted positively 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 the first quarter of 2014 fluctuated reaching a low of 1.0627 and a high of 1.1019. During the first quarter of 2014, the British Pound relative to the Canadian dollar fluctuated reaching a low of 1.7429 and a high of 1.8234. Had the foreign exchange rates remained at levels experienced in the first quarter of 2013, reported revenues in the first quarter of 2014 would have been lower by $18.5 million.

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 an acquisition 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 2013 and 2012 of $16.8 million and $21.8 million, respectively, was higher than all other quarterly net income disclosed 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 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 EBITDA (earnings before interest expense, income taxes and depreciation and amortization) in this quarterly 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 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 income 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	**2014**	2013
Net income	**12,079**	8,015
Interest	**1,698**	2,124
Taxes	**4,572**	2,958
Depreciation and amortization	**8,781**	8,174
EBITDA	**27,130**	21,271

EBITDA for the first quarter of 2014 was $27.1 million, compared to $21.3 million in the first quarter of 2013, an increase of 27.5% on a year-over-year basis. Increased gross profit and gains recognized on foreign exchange in the first quarter of 2014 resulted in higher EBITDA when compared to the first quarter of 2013.

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

	Three month period ended March 31	
Expressed in thousands of dollars	**2014**	2013
Increase in accounts receivable	**(13,478)**	(21,534)
Increase in inventories	**(4,002)**	(840)
Decrease (increase) in prepaid expenses and other	**293**	(2,032)
(Decrease) increase in accounts payable, accrued liabilities and provisions	**(3,675)**	1,652
Changes to non-cash working capital balances	**(20,862)**	(22,754)
Cash provided by operating activities	**1,950**	(5,998)

In the quarter ended March 31, 2014, the Corporation generated $1.9 million in cash from operations, compared to $6.0 million used in the first quarter of 2013. The increase in cash generated from operations was primarily due to favorable changes to the Corporation's working capital requirements in the first quarter of 2014 compared to the same period in 2013. Changes in accounts receivable reflects increased volumes, the change in accounts payable and accrued liabilities was primarily driven by the timing of purchases and payments, and the change in inventories reflects increased inventory levels primarily to support new customer programs and increased customer forecasts.

Investing Activities

	Three month period ended March 31	
Expressed in thousands of dollars	**2014**	2013
Purchase of property, plant and equipment	**(6,564)**	(4,101)
Proceeds of disposal of property plant and equipment	**71**	46
Increase in other assets	**(3,099)**	(2,712)
Cash used in investing activities	**(9,592)**	(6,767)

The Corporation's capital expenditures for the first quarter of 2014 were $6.6 million compared to $4.1 million in the first quarter of 2013. The Corporation continues to invest in capital expenditures to enhance its manufacturing capabilities in various geographies and to support new customer programs.

Financing Activities

Expressed in thousands of dollars	Three month period ended March 31	
	2014	2013
Increase in bank indebtedness	**5,497**	6,481
Increase in debt due within one year	**5,743**	499
Decrease in long-term debt	**(1,345)**	(2,435)
Increase (decrease) in long-term liabilities and provisions	**107**	(41)
Increase in borrowings	**—**	318
Common share dividend	**(2,328)**	—
Cash provided by financing activities	**7,674**	4,822

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 United States dollar limit of $35.0 million (down from United States $50.0 million), with a maturity date of December 21, 2014. The Bank Facility Agreement also includes a Canadian $50.0 million uncommitted accordion provision which will provide Magellan 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 March 31, 2014 the Corporation has made contractual commitments to purchase $18.9 million of capital assets.

Dividends

During the first quarter of 2014, the Corporation declared and paid quarterly cash dividends of $0.04 per common shares representing an aggregating dividend payment of $2.3 million.

On May 13th 2014, the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of $0.04 per common share. The dividend will be payable on June 30, 2014 to shareholders of record at the close of business on June 13, 2014.

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 1, 2014, 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 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 March 31, 2014.

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, 2014, the Corporation paid guarantee fees in the amount of $0.2 million to the Chairman of the Board of the Corporation.

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, 2013 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2013, 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 following new standards, and amendments to standards and interpretations, are effective for the first time for interim periods beginning on or after January 1, 2014 and have been applied in preparing the consolidated interim financial statements.

Financial Assets and Liabilities
In December 2011, amendments to IAS 32, *Financial Instruments: Presentation* were issued by the IASB to clarify the existing requirements for offsetting financial assets and financial liabilities. The amendments specify that the right of set-off has to be legally enforceable even in the event of bankruptcy and that it must be available on the current date and cannot be contingent on a future date. The adoption of this pronouncement had no material impact on the consolidated interim financial statements.

Levies
In May 2013, the IASB issued International Financial Reporting Interpretations Committee ("IFRIC") 21, *Levies*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is to be applied retrospectively. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs, which may be at a point in time or over a period of time. The adoption of this pronouncement had no material impact on the consolidated interim 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 a 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. The adoption of the amendments had no material impact on its consolidated interim financial statements.

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, 2014, and have not been applied in preparing these condensed consolidated interim financial statements. The following standards have been issued by the IASB 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 February 2014, the IASB tentatively decided that the mandatory effective date for these amendments to be January 1, 2018. The Corporation intends to adopt IFRS 9 in its consolidated statements for the annual period of January 1, 2018. The Corporation is assessing the impact that the adoption of this standard 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 assessing the impact the adoption of this standard may have on the consolidated financial statements.

11. Critical Accounting Estimates

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

In the 2013 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 1 to the audited consolidated financial statements for the year ended December 31, 2013 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, 2014 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 2014

Magellan's participation on new aircraft platforms such as the Airbus A320 NEO and A350, the Boeing B737 MAX, B787 and the F-35 remains as a good counterbalance to maturing legacy programs and budget-reduced United States defence programs. One of Magellan's key messages to be conveyed at the upcoming 2014 Farnborough International Air Show will be that the Corporation is strategically positioning itself on new future platforms leveraging its investment in centres of excellence and technology development.

In the commercial aerospace market, positive momentum continues as Boeing and Airbus manage increasing rates for current generation aircraft platforms, and prepare for an aggressive ramp-up of new generation platform production rates. The Airbus A320 NEO and the Boeing B737 MAX rates are planned to achieve peak rates in 2014 and beyond over a compressed period of time to meet the growing demand for more fuel-efficient aircraft.

Within the United States defence market, prioritization of programs continues to be the focus. The conflict between budget capacity and operational capability is forcing the Pentagon to focus on fewer orders for more highly capable equipment. This focus should bode well for programs such as F-35. It also benefits H-60 Blackhawk and AH-64 Apache rotorcraft programs that are critical to current operations. Magellan is fortunate to participate on a number of these prioritized programs.

The business jet market has now been clearly truncated into two distinct markets, one being light jets with the other medium to long range jets. While the light jet market demand appears to have been reset at new lower levels compared to the peak in 2008, the larger jets are now experiencing a decent recovery. Magellan benefits from participation in the latter market through aeroengine manufacturers such as Pratt & Whitney Canada.

Civil helicopter and para-public markets are growing with OEM's like AgustaWestland, Bell Helicopter and Eurocopter (now Airbus Helicopters) benefiting from this momentum. Magellan in turn benefits through sales of its proprietary Wire Strike Protection Systems (WSPS™) outfitted on certain of these aircraft.

The Corporation anticipates that with strong backlogs in the commercial aerospace part of the business, 2014 will continue to exhibit results reflecting that strength. In addition, Magellan will continue leveraging core competencies and technology development to position itself on new future platforms and seek complimentary opportunities to enhance core capabilities.

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Notes	Three month period ended March 31 **2014**	2013
Revenues	9	**210,502**	185,293
Cost of revenues		**181,026**	160,481
Gross profit		**29,476**	24,812
Administrative and general expenses		**11,470**	10,735
Other		**(343)**	980
Income before interest and income taxes		**18,349**	13,097
Interest		**1,698**	2,124
Income before income taxes		**16,651**	10,973
Income taxes			
Current	5	**1,224**	1,204
Deferred	5	**3,348**	1,754
		4,572	2,958
Net income		**12,079**	8,015
Other comprehensive income (loss)			
Other comprehensive income (loss) that may be reclassified to profit and loss in subsequent periods:			
Foreign currency translation		**9,301**	(384)
Other comprehensive loss that may be reclassified to profit and loss in subsequent periods:			
Actuarial losses on defined benefit pension plans, net of tax		**(3,203)**	—
Total comprehensive income, net of tax		**18,177**	7,631
Net income per share			
Basic and diluted	6	**0.21**	0.14

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited) **(expressed in thousands of Canadian dollars)**	Notes	**March 31 2014**	December 31 2013
Current assets			
Cash		**8,124**	7,760
Trade and other receivables		**163,472**	146,969
Inventories		**167,991**	160,269
Prepaid expenses and other		**12,580**	12,461
		352,167	327,459
Non-current assets			
Property, plant and equipment		**339,698**	331,940
Investment properties		**4,470**	4,663
Intangible assets		**60,830**	60,365
Other assets		**25,473**	24,472
Deferred tax assets		**43,538**	43,011
		474,009	464,451
Total assets		**826,176**	791,910
Current liabilities			
Bank indebtedness	4	**122,267**	115,930
Accounts payable and accrued liabilities and provisions		**137,665**	137,625
Debt due within one year		**36,942**	30,932
		296,874	284,487
Non-current liabilities			
Long-term debt		**46,015**	46,154
Borrowings subject to specific conditions		**17,837**	17,637
Other long-term liabilities and provisions		**19,300**	15,713
Deferred tax liabilities		**22,143**	19,761
		105,295	99,265
Equity			
Share capital		**254,440**	254,440
Contributed surplus		**2,044**	2,044
Other paid in capital		**13,565**	13,565
Retained earnings		**136,012**	129,464
Accumulated other comprehensive income		**17,946**	8,645
		424,007	408,158
Total liabilities and equity		**826,176**	791,910

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(unaudited) (expressed in thousands of Canadian dollars)	Share capital	Contributed surplus	Other paid in capital	Retained earnings	Foreign currency translation	Total equity
December 31, 2013	254,440	2,044	13,565	129,464	8,645	408,158
Net income for the period	-	-	-	12,079	-	12,079
Other comprehensive (loss) income for the period	-	-	-	(3,203)	9,301	6,098
Common share dividend	-	-	-	(2,328)	-	(2,328)
March 31, 2014	254,440	2,044	13,565	136,012	17,946	424,007

December 31, 2012	254,440	2,044	13,565	71,682	(7,197)	334,534
Net income for the period	-	-	-	8,015	-	8,015
Other comprehensive loss for the period	-	-	-	-	(384)	(384)
March 31, 2013	254,440	2,044	13,565	79,697	(7,581)	342,165

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

(unaudited) (expressed in thousands of Canadian dollars)	Notes	Three month period Ended March 31 2014	2013
Cash flow from operating activities			
Net income		**12,079**	8,015
Amortization/depreciation of intangible assets and property, plant and equipment		**8,781**	8,174
(Gain) loss on disposal of property, plant and equipment		**(47)**	32
Decrease in defined benefit plans		**(421)**	(18)
Accretion		**290**	153
Deferred taxes		**2,210**	400
Loss on investment in joint venture		**(80)**	-
Decrease in working capital		**(20,862)**	(22,754)
Net cash provided (used) by operating activities		**1,950**	(5,998)
Cash flow from investing activities			
Purchase of property, plant and equipment		**(6,564)**	(4,101)
Proceeds from disposal of property, plant and equipment		**71**	46
Increase in other assets		**(3,099)**	(2,712)
Net cash used in investing activities		**(9,592)**	(6,767)
Cash flow from financing activities			
Increase in bank indebtedness	4	**5,497**	6,481
Increase in debt due within one year		**5,743**	499
Decrease in long-term debt		**(1,345)**	(2,435)
Increase (decrease) in long-term liabilities and provisions		**107**	(41)
Increase in borrowings		-	318
Common share dividend	6	**(2,328)**	-
Net cash provided by financing activities		**7,674**	4,822
Increase (decrease) in cash during the period		**32**	(7,943)
Cash at beginning of the period		**7,760**	22,423
Effect of exchange rate differences		**332**	(134)
Cash at end of the period		**8,124**	14,346

See accompanying notes to condensed consolidated interim financial statements

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Magellan Aerospace Corporation (the "Corporation") is a publicly listed company incorporated in Ontario, Canada under the Ontario Business Corporations Act and its shares are listed on the Toronto Stock Exchange. The registered and head office of the Corporation is located at 3160 Derry Road East, Mississauga, Ontario, Canada, L4T 1A9.

The Corporation is a diversified supplier of components to the aerospace industry and in certain circumstances 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 supply of spare parts as well as through repair and overhaul services and supplies in certain circumstances parts and equipment for power generation projects.

2. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS 34"), *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") and using the same accounting policies and methods as were used for the Corporation's consolidated financial statements and the notes thereto for the year ended December 31, 2013, except for the any new accounting pronouncements which have been adopted (See Note 3). Certain comparative figures have been reclassified to conform to the current presentation.

These condensed consolidated interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the Corporation's annual financial statements for the year ended December 31, 2013, which are available at www.sedar.com and on the Corporation's website at www.magellan.aero.

The timely preparation of the condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the condensed consolidated interim financial statements.

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors of the Corporation on May 13, 2014.

3. ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS

The Corporation has adopted the new and amended International Financial Reporting Standards ("IFRS") pronouncements listed below as at January 1, 2014, in accordance with the transitional provisions outlined in the respective standards.

a) 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 specify that the right of set-off has to be legally enforceable even in the event of bankruptcy and that it must be available on the current date and cannot be contingent on a future date.

As at January 1, 2014, the Corporation adopted this pronouncement and there was no material impact on the condensed consolidated interim financial statements.

b) Levies
In May 2013, the IASB issued International Financial Reporting Interpretations Committee ("IFRIC") 21, *Levies*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is to be applied retrospectively. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs, which may be at a point in time or over a period of time.

As at January 1, 2014, the Corporation adopted this pronouncement and there was no material impact on the condensed consolidated interim financial statements.

c) 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 a 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. As at January 1, 2014, the Corporation adopted the amendments and there was no material impact on its condensed consolidated interim financial statements.
d) New standards and interpretations not yet adopted
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. In February 2014, the IASB tentatively decided that the mandatory effective date for these amendments to be January 1, 2018. The Company intends to adopt IFRS 9 in its consolidated financial instruments for the annual periods beginning January 1, 2018.
The Corporation is assessing the impact that the adoption of this standard may have on the consolidated financial statements.

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 assessing the impact the adoption of this standard may have on the consolidated financial statements.

4. BANK INDEBTEDNESS

During 2012, the Corporation amended its credit agreement with its existing lenders. The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian dollar limit of $115,000 plus a US dollar limit of US$35,000 [$153,693 at March 31, 2014]. Under the terms of the amended credit agreement, the operating credit facility expires on December 21, 2014 and is extendable for unlimited one-year periods subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a $50,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility to $200,000. Bank indebtedness as at March 31, 2014 of $122,267 [December 31, 2013 - $115,930] bears interest at the bankers' acceptance or LIBOR rates, plus 1.20% [2.12% at March 31, 2014 (2013 – bankers' acceptance or LIBOR rates plus 1.20% or 2.09%)]. Included in the amount outstanding at March 31, 2014 is US$25,081 [December 31, 2013 - US$26,797]. At March 31, 2014, the Corporation had drawn $125,050 under the operating credit facility, including letters of credit totalling $2,783 such that $28,643 was unused and available. A fixed and floating charge debenture on accounts receivable, inventories and property, plant and equipment is pledged as collateral for the operating credit facility. The Chairman of the Board of Corporation has provided a guarantee for the full amount of the operating credit facility.

5. TAXATION

The Corporation's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Corporation operates in, adjusted for the main permanent differences identified. The effective tax rate for the three month period ended March 31, 2014 was 27.5% [27.0% for the three month period ended March 31, 2013]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the change in mix of income across the different jurisdictions in which the Corporation operates.

6. SHARE CAPITAL

Net income per share

						Three month period ended March 31
			2014			2013
	Amount	Weighted average no. of shares	Per share amount ($)	Amount	Weighted average no. of shares	Per share amount ($)
Basic and diluted net income per share						
At March 31	12,079	58,209	0.21	8,015	58,209	0.14

Dividends
On March 31, 2014, the Corporation paid quarterly dividends on 58,209,001 common shares of $0.04 per common share, amounting to $2,328.

Subsequent to March 31, 2014, the Corporation declared dividends to holders of common shares in the amount of $0.04 per common share payable on June 30, 2014, for shareholders of record at the close of business on June 13, 2014.

7. FINANCIAL INSTRUMENTS

Fair value hierarchy

The Corporation's financial assets and liabilities recorded at fair value on the consolidated statement of financial position have been categorized into three categories based on a fair value hierarchy. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Fair values

The Corporation has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgement is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described as follows:

Cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities

Due to the short period to maturity of these instruments, the carrying values as presented in the consolidated statement of financial positions are reasonable estimates of their fair values.

Foreign exchange contracts

The Corporation enters into foreign forward exchange contracts to mitigate future cash flow exposures in United States dollars and Euros. Under these contracts the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in United States dollars and Euros. The Corporation does not have any forward foreign exchange contracts outstanding as at March 31, 2014.

Long-term debt

The fair value of the Corporation's long-term debt is $51,913 at March 31, 2014. The fair value was determined by discounting the expected future cash flows based on current rates for debt with similar terms and maturities which is categorized as a Level 2 in the fair value hierarchy.

Borrowings subject to specific conditions

As at March 31, 2014, the Corporation has recognized $17,837 as the estimated fair value amount repayable to Canadian government agencies. The fair value was determined by discounting the expected future cash outflows based on current rates for debt with similar terms and maturities which is categorized as a Level 3 in the fair value hierarchy.

Collateral

As at March 31, 2014, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $171,596.

8. RELATED PARTY TRANSACTIONS

During the three month period ended March 31, 2014, the Corporation paid guarantee fees in the amount of $192 [three month period ended March 31, 2013 - $188] to the Chairman of the Board of the Corporation. During the three month period ended March 31, 2014, the Corporation incurred interest of $nil [three month period ended March 31, 2013 - $550] in relation to a $50,000 loan provided by Edco, a corporation which is controlled by the Chairman of the Board of the Corporation. The loan was fully repaid as at December 31, 2013.

9. SEGMENTED INFORMATION

Based on the nature of the Corporation's markets, two main operating segments were identified: Aerospace and Power Generation Project. The Aerospace segment includes the design, development, manufacture, repair and overhaul and sale of systems and components for defence and civil aviation, while the Power Generation Project segment includes the supply of gas turbine power generation units. Revenues in the Power Generation Project segment arise solely from the power generation project in Ghana and the revenue is included in Canada export revenue.

The Corporation evaluated the performance of its operating segments primarily based on income before interest expense and income tax expense.

The Corporation accounts for intersegment and related party sales and transfers, if any, at the exchange amount.

The Corporation's primary sources of revenue are as follows:

	Three month period ended March 31	
	2014	2013
Sale of goods	175,392	156,503
Construction contracts	18,029	6,625
Services	17,081	22,165
	210,502	185,293

At March 31, 2014, aggregate costs incurred under open construction contracts and recognized profits, net of recognized losses, amounted to $310,493 [December 31, 2013 - $292,465]. Advance payments received for construction contracts in progress at March 31, 2014 was $17,832 [December 31, 2013 - $19,073]. Retention in connection with construction contracts at March 31, 2014 was $1,106 [December 31, 2013 - $1,064]. Advance payments and retentions are included in accounts payable, accrued liabilities and provisions.

Segmented information consists of the following:

Activity segments:

					Three month period ended March 31	
			2014			2013
	Aerospace	Power Generation Project	Total	Aerospace	Power Generation Project	Total
Revenues	210,366	136	210,502	181,815	3,478	185,293
Income (loss) before interest and income taxes	18,793	(444)	18,349	13,309	(212)	13,097
Interest expense			1,698			2,124
Income before income taxes			16,651			10,973
Total assets	808,764	17,412	826,176	735,496	34,711	770,207
Total liabilities	397,538	4,631	402,169	406,808	21,234	428,042
Additions to property, plant and equipment	6,564	-	6,564	4,101	-	4,101
Depreciation and amortization	8,781	-	8,781	8,174	-	8,174

Geographic segments:

							Three month period ended March 31	
				2014				2013
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	77,598	67,687	65,217	210,502	76,863	57,654	50,776	185,293
Export revenue[1]	44,081	17,014	6,498	67,593	55,462	15,187	4,073	74,722

[1]Export revenue is attributed to countries based on the location of the customers

				March 31, 2014				December 31, 2013
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment and intangible assets	182,838	136,680	81,010	400,528	185,818	131,043	75,444	392,305

The major customers for the Corporation are as follows:

	Three month period ended March 31	
	2014	2013
Major customers		
Canadian operations		
- Number of customers	2	2
- Percentage of total Canadian revenue	34%	29%
US operations		
- Number of customers	2	2
- Percentage of total US revenue	57%	54%
UK operations		
- Number of customers	2	2
- Percentage of total UK revenue	85%	85%

10. MANAGEMENT OF CAPITAL

The Corporation's objective is to maintain a capital base sufficient to maintain investor, creditor and market confidence and to sustain future development of the business. Management defines capital as the Corporation's shareholders' equity and interest bearing debt, including the debt and equity components of the convertible debentures.

Total managed capital as at March 31, 2014 of $629,231 is comprised of shareholders' equity of $424,007 and interest-bearing debt of $205,224.

The Corporation manages its capital structure and makes adjustments to it in light of economic conditions, the risk characteristics of the underlying assets and the Corporation's working capital requirements. In order to maintain or adjust its capital structure, the Corporation, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares through the normal course issuer bid, pay dividends or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets. There were no changes in the Corporation's approach to capital management during the period.

11. CONTINGENT LIABILITES AND COMMITMENTS

In the ordinary course of business activities, the Corporation may be contingently liable for litigation and claims with, among other, customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although, it is not possible to accurately estimate the extent of the potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Corporation.

At March 31, 2014 capital commitments in respect of purchase of property, plant and equipment totalled $18,913, all of which had been ordered. There were no other material capital commitments at the end of the period.