MAGELLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTH PERIOD ENDED JUNE 30, 2015

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 and six month periods ended June 30, 2015, and the audited annual consolidated financial statements for the year ended December 31, 2014 (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 June 30, 2015 relative to the three month period ended June 30, 2014. The information contained in this report is as at August 7, 2015. 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

Magellan Aerospace exhibited at the 2015 Paris International Air Show held in June in Le Bourget, France. Magellan considers this event as one of its primary venues to meet key customers and discuss alignment of business strategies. The theme in Paris this year was less about announcing new programs and orders, and more about new program demands and execution. OEM's are acutely focused on the global supply chain's capacity and readiness to manage the growth in both the commercial and military aircraft market, with particular concern in supporting the steep ramp up of new single aisle production. This show was the first opportunity for the Corporation to promote the added maintenance, repair and overhaul ("MRO") capabilities of Euravia Engineering & Supply Co. ("Euravia"), which was acquired by Magellan in May 2015. Also during the show, Magellan announced the signing of a Memorandum of Understanding with Mahindra Aerospace, establishing a framework to offer mutual customers major structural assemblies, machined components and fabrications for the global market.

During the quarter, the Corporation announced the acquisition of Euravia, an aviation company that provides MRO solutions for a wide range of aircraft and helicopter gas turbine engines. Euravia is located in Lancashire, UK and holds 19 international approvals supporting over 150 civil and defence customers in 50 countries. Euravia's revenues for the fiscal year ending December 31, 2014 were approximately $25.5M (£14.0M). This acquisition complements Magellan's existing repair and overhaul capability in North America. On June 29, 2015, Magellan announced that Euravia had been selected to provide PT6T and PT6C engine MRO for Petroleum Air Services ("PAS"). The contract is expected to generate US $6 million over a 3 year period. PAS is a major airline providing oil industry support and commercial passenger services across Egypt.

On the space side, Magellan continues to make progress on the Canadian Space Agency's RADARSAT Constellation Mission (RCM) satellite bus contract. The Company has delivered two of three payload modules to the customer. The first bus is assembled and undergoing testing with the second in assembly. Magellan is leveraging its expertise in this field and targeting new markets for satellite buses, spacecraft avionics and potentially satellites providing broadband internet services.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2014 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan's operating results for the second quarter ended June 30, 2015

The Corporation operates substantially all of its activities in one reportable segment, Aerospace, which include the design, development, manufacture, repair and overhaul and sale of systems and components for defence and civil aviation. The Corporation continues to provide services to the Power Generation segment; however, the Corporation has removed the disclosure of this segment as the activity in relation to these services were not material in the three and six month periods ended June 30, 2015 and, at present, they are not expected to be material in future periods.

The Corporation reported higher revenue in the second quarter of 2015 of $234.4 million when compared to the second quarter of 2014 of $221.1 million. Gross profit and net income for the second quarter of 2015 were $40.8 million and $16.5 million, respectively, an increase from the second quarter of 2014 gross profit of $34.5 million and net income of $13.6 million.

Consolidated Revenue

	Three month period ended June 30			Six month period ended June 30		
Expressed in thousands of dollars	**2015**	2014	Change	**2015**	2014	Change
Canada	**78,295**	92,204	(15.1%)	**156,846**	169,803	(7.6%)
United States	**84,726**	68,109	24.4%	**167,432**	135,796	23.3%
Europe	**71,418**	60,737	17.6%	**138,414**	125,953	9.9%
Total revenues	**234,439**	221,050	6.1%	**462,692**	431,552	7.2%

Consolidated revenues for the second quarter of 2015 of $234.4 million were 6.1% higher than revenues of $221.1 million in the second quarter of 2014. Revenues in Canada in the second quarter of 2015 decreased 15.1% from the same period in 2014. Decreased revenues were mainly attributed to a decline in volumes on the Corporation's proprietary products and in the defence market. The lower revenues were partially offset by higher production volumes on the Corporation's commercial aircraft programs and the appreciation of the US dollar in comparison to the Canadian dollar. On a constant currency basis, Canadian revenues decreased in the second quarter of 2015 by 21.1% over the same period of 2014 as a result of lower revenues earned. Increased revenues of 24.4% in the United States in the second quarter of 2015 in comparison to the second quarter of 2014 were primarily due the stronger United States dollar in comparison to the Canadian dollar during the same periods in 2015 and 2014, and higher production volumes on several of the Corporation's commercial aircraft programs. On a constant currency basis, revenues in the United States increased by 10.3% in the second quarter of 2015 over the same period in 2014. European revenues in the second quarter of 2015 increased 17.6% over revenues in the same period in 2014 partially due to an increase in revenues on the Airbus statement of work and the strengthening of the British pound in comparison to the Canadian dollar. On a constant currency basis, revenues in the second quarter of 2015 in Europe increased by 14.4% over the same period in 2014. The acquisition of Euravia, which was included in operations from May 15, 2015, also contributed to the higher revenues earned in Europe in the second quarter of 2015.

Gross Profit

	Three month period ended June 30			Six month period ended June 30		
Expressed in thousands of dollars	**2015**	2014	Change	**2015**	2014	Change
Gross profit	**40,832**	34,497	18.3%	**80,027**	63,973	25.1%
Percentage of revenues	**17.4%**	15.6%		**17.3%**	14.8%	

Gross profit of $40.8 million (17.4% of revenues) was reported for the second quarter of 2015 compared to $34.5 million (15.6% of revenues) during the same period in 2014. Increased gross profit in the second quarter of 2015 over the same period in 2014 was primarily due to the strengthening year over year of the United States dollar and British pound against the Canadian dollar and the change in mix of revenues across the Corporation's geographic locations.

Administrative and General Expenses

	Three month period ended June 30			Six month period ended June 30		
Expressed in thousands of dollars	**2015**	2014	Change	**2015**	2014	Change
Administrative and general expenses	**14,603**	11,802	23.7%	**27,718**	23,272	19.1%
Percentage of revenues	**6.2%**	5.3%		**6.0%**	5.4%	

Administrative and general expenses were $14.6 million (6.2% of revenues) in the second quarter of 2015 compared to $11.8 million (5.3% of revenues) in the second quarter of 2014. In absolute terms, administrative and general expenses increased during the current quarter relative to the same quarter of the prior year largely as a result of the effect on translation of the strengthening United States dollar and British pound exchange rates against the Canadian dollar. In addition, the acquisition of Euravia, including acquisition related transaction costs of $0.5 million, increased administrative and general expenses in the three months ended June 30, 2015 versus the same period in 2014.

Other

	Three month period ended June 30		Six month period ended June 30	
Expressed in thousands of dollars	**2015**	2014	**2015**	2014
Foreign exchange loss	**2,251**	610	**72**	314
Loss on disposal of property, plant and equipment	**375**	811	**476**	764
Total other	**2,626**	1,421	**548**	1,078

Other expense of $2.7 million in the second quarter of 2015 consisted of realized and unrealized foreign exchange losses and losses recorded on the disposal of property, plant and equipment.

Interest Expense

	Three month period ended June 30		Six month period ended June 30	
Expressed in thousands of dollars	**2015**	2014	**2015**	2014
Interest on bank indebtedness and long-term debt	**1,002**	1,212	**1,973**	2,431
Accretion charge on borrowings and long-term debt	**268**	1,050	**480**	1,360
Discount on sale of accounts receivable	**225**	206	**432**	375
Total interest expense	**1,495**	2,468	**2,885**	4,166

Interest expense of $1.5 million in the second quarter of 2015 was lower than the second quarter of 2014 amount of $2.5 million, primarily as a result of a decrease in non-cash accretion expense in the current quarter when compared to the same period in 2014. The decrease in interest on bank indebtedness and long-term debt quarter over quarter is mainly due to repayment of debt resulting in lower principal amounts outstanding during the second quarter of 2015 than those in the second quarter of 2014. In addition, the Corporation did not incur any guarantee fees for the operating credit facility during the second quarter of 2015.

Provision for Income Taxes

	Three month period ended June 30		Six month period ended June 30	
Expressed in thousands of dollars	**2015**	2014	**2015**	2014
Current income tax expense	**2,792**	1,014	**4,282**	2,238
Deferred income tax expense	**2,849**	4,186	**8,905**	7,534
Income tax expense	**5,641**	5,200	**13,187**	9,772
Effective tax rate	**25.5%**	27.7%	**27.0%**	27.6%

The Corporation recorded an income tax expense of $5.6 million in the second quarter of 2015 as compared to an income tax expense of $5.2 million in the second quarter of 2014. 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. The decrease in deferred income tax expense in the second quarter of 2015 consisted primarily of changes in temporary differences in various jurisdictions.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

	2015		2014				2013	
Expressed in millions of dollars, except per share amounts	**Jun 30**	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Revenues	**234.4**	228.3	208.9	202.5	221.0	210.5	195.9	181.0
Income before taxes	**22.1**	26.8	23.9	17.7	18.8	16.7	21.0	13.2
Net Income	**16.5**	19.2	17.9	13.0	13.6	12.1	16.8	9.5
Net Income per share								
Basic and diluted	**0.28**	0.33	0.31	0.22	0.23	0.21	0.29	0.16
EBITDA	**33.5**	37.4	34.7	28.3	30.2	27.1	31.0	22.9

The Corporation reported its highest quarterly revenues in its history in the second quarter of 2015. 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 second quarter of 2015 fluctuated reaching a low of 1.1957 and a high of 1.2699. During the second quarter of 2015, the British pound relative to the Canadian dollar fluctuated reaching a low of 1.8237 and a high of 1.9626. Had the foreign exchange rates remained at levels experienced in the second quarter of 2014, reported revenues in the second quarter of 2015 would have been lower by $17.1 million.

Net income for the second quarter of 2015, the first quarter of 2015, and the fourth quarters of 2014 and 2013 of $16.5 million, $19.2 million, $17.9 million and $16.8 million, respectively, were higher than all other quarterly net income shown in the table above. In the second and first quarter of 2015, movements of the US dollar and British pound in relation to the Canadian dollar favourably impacted net income. Somewhat offsetting the favourable transactional currency movement in the second quarter of 2015, the Corporation recorded a loss on translation of its foreign currency liabilities within Canada and Europe. In the fourth quarter of 2013 the Corporation recognized a reversal of previous impairment losses against intangible assets relating to various commercial aircraft programs and in the fourth quarter of 2013 and 2014 the Corporation recognized previously unrecognized investment tax credits.

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 June 30		Six month period ended June 30	
Expressed in thousands of dollars	**2015**	2014	**2015**	2014
Net income	**16,467**	13,606	**35,689**	25,685
Interest	**1,495**	2,468	**2,885**	4,166
Taxes	**5,641**	5,200	**13,187**	9,772
Depreciation and amortization	**9,918**	8,917	**19,112**	17,698
EBITDA	**33,521**	30,191	**70,873**	57,321

EBITDA for the second quarter of 2015 was $33.5 million, compared to $30.2 million in the second quarter of 2014, an increase of 11.0% on a year-over-year basis. Increased gross profit in the second quarter of 2015, offset somewhat by foreign exchange losses on translation, resulted in higher EBITDA when compared to the second quarter of 2014.

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 to fund liabilities as they become due, finance capital expenditures, fund debt repayments, pay dividends and provide flexibility for new investment opportunities. 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 June 30		Six month period ended June 30	
Expressed in thousands of dollars	**2015**	2014	**2015**	2014
Decrease (increase) in accounts receivable	**2,728**	(3,206)	**(23,931)**	(16,684)
(Increase) decrease in inventories	**(942)**	256	**(7,759)**	(3,746)
Increase in prepaid expenses and other	**(2,549)**	(660)	**(1,716)**	(367)
Increase (decrease) in accounts payable, accrued liabilities and provisions	**8,168**	(1,563)	**14,153**	(5,238)
Changes in non-cash working capital balances	**7,405**	(5,173)	**(19,2534)**	(26,035)
Cash provided by operating activities	**36,070**	21,709	**43,032**	23,659

In the quarter ended June 30, 2015, the Corporation generated $36.1 million in cash from operations, compared to $21.7 million in the second quarter of 2014. The increase in cash generated from operations was primarily due to improvement in working capital balances. Decreased accounts receivables, an increase in accounts payable, accrued liabilities and provisions, offset in part by an increase in prepaid expenses and other resulted in a $12.6 million increase in cash provided by changes in non-cash working capital balances.

Investing Activities

	Three month period ended June 30		Six month period ended June 30	
Expressed in thousands of dollars	**2015**	2014	**2015**	2014
Acquisition	**(50,462)**	—	**(50,462)**	—
Purchase of property, plant and equipment	**(8,921)**	(4,966)	**(14,980)**	(11,530)
Proceeds of disposals of property plant and equipment	**107**	259	**299**	330
Increase in intangibles and other assets	**(921)**	(5,672)	**(3,533)**	(8,771)
Cash used in investing activities	**(60,197)**	(10,379)	**(68,676)**	(19,971)

In May 2015, the Corporation invested $50.5 million, net of cash acquired, in the acquisition of Euravia. The Corporation's capital expenditures for the second quarter of 2015 were $8.9 million compared to $5.0 million in capital expenditures in the second quarter of 2014. The capital expenditures were incurred primarily to enhance the Corporation's manufacturing capabilities in various geographies and to support new customer programs.

Financing Activities

	Three month period ended June 30		Six month period ended June 30	
Expressed in thousands of dollars	**2015**	2014	**2015**	2014
Increase (decrease) in bank indebtedness	**39,748**	(9,624)	**41,115**	(4,127)
Increase in debt due within one year	**323**	402	**3,292**	6,145
Decrease in long-term debt	**(2,961)**	(1,170)	**(3,955)**	(2,515)
Increase in long-term debt	**—**	—	**276**	—
Increase (decrease) in long-term liabilities and provisions	**28**	(536)	**768**	(429)
Increase (decrease) in borrowings	**99**	(534)	**184**	(534)
Common share dividend	**(3,201)**	(2,328)	**(6,403)**	(4,656)
Cash provided by (used in) financing activities	**34,036**	(13,790)	**35,277**	(6,116)

On September 30, 2014, 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 amended to a Canadian dollar limit of $95.0 million (down from $115.0 million) plus a US dollar limit of US$35.0 million, and the addition of a British pound limit of £11.0 million with a maturity date of September 30, 2018. The operating credit agreement also includes a Canadian $50.0 million uncommitted accordion provision which provides the Corporation with the option to increase the size of the operating credit facility. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. Pursuant to the amendment of the operating credit agreement, the guarantee of the facility by the Chairman of the Board of the Corporation, which had supported the Corporation since 2005, was released.

The Corporation's operating credit facility was drawn during the second quarter of 2015 to finance the acquisition of Euravia.

As at June 30, 2015 the Corporation has made contractual commitments to purchase $12.9 million of capital assets.

Dividends

During the second quarter of 2015, the Corporation declared and paid quarterly cash dividends of $0.055 per common shares representing an aggregating dividend payment of $3.2 million.

Subsequent to June 30, 2015 the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of $0.055 per common share. The dividend will be payable on September 30, 2015 to shareholders of record at the close of business on September 11, 2015.

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 August 1, 2015, 58,209,001 common shares were outstanding and no preference 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. As at June 30, 2015 the Corporation had foreign exchange contracts outstanding as follows:

Foreign exchange forward contracts	Amount	Rate
Maturity – less than 1 year – US Dollar - buy	3,500	1.2229

The fair values of the Corporation's forward foreign exchange 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 June 30, 2015.

The mark-to-market on these financial instruments as at June 30, 2015 was an unrealized gain of $0.1 million which has been recorded in other income 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 June 30, 2014, the Corporation paid guarantee fees in the amount of $0.2 million to the Chairman of the Board of the Corporation. Upon renewal of the operating credit facility on September 30, 2014, the guarantee provided by the Chairman of the Board of the Corporation was released.

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, 2014 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2014, 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, 2015 and have been applied in preparing the consolidated interim 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. As at January 1, 2015, the Corporation adopted the amendments and there was no material impact on the condensed interim financial statements.

Operating Segments
The Annual Improvements to IFRSs 2010-2012 included amendments to IFRS, *Operating Segments*. This standard has been amended to require (i) disclosure of judgements made by a company's management in aggregating segments, and (ii) a reconciliation of segment assets to the entity's assets when a measure of segment is reported to the Chief Operating Decision Maker. These amendments are effective for annual periods beginning on or after July 1, 2014. As at January 1, 2015, the Corporation adopted this pronouncement and there was no material impact on the condensed 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 June 30, 2015, and have not been applied in preparing these condensed consolidated interim financial statements. These changes are not yet adopted by the Corporation and could have an impact on future periods. These changes are described in detail in the Corporation's 2014 audited annual consolidated financial statements.

- IFRS 15, *Revenue from Contracts with Customers*
  - The IASB deferred the effective date of the standard by one year to January 1, 2018.
- IFRS 9, *Financial Instruments*
- Amendments to IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets*
- Amendments to IFRS 11, *Joint Arrangements*
- Amendments to IFRS 10, *Consolidated Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures*

The Corporation is in the process of evaluating the impact of adopting these standards on the Corporation's consolidated financial statements.

11. Critical Accounting Estimates

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

In the 2014 audited annual 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 annual consolidated financial statements for the year ended December 31, 2014 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 June 30, 2015 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 2015

Boeing's June 2015 Current Market Outlook confirmed a "strong, growing market being driven by expansion and emerging economies". The commercial aircraft backlog currently reflects an estimated nine years' worth of production orders. Boeing predicts that the global commercial fleet will double in the next 20 years requiring approximately 38,000 new aircraft. Pure market growth will account for 58% of this number with replacements representing 42%. The new fleet of over 43,000 aircraft by 2034, will be comprised of 70% single-aisle aircraft from what is 65% today.

Boeing previously announced a B737 build rate of 52 aircraft per month for 2018 and maintains that this record rate reflects the appetite of a strong global market demand. This compares to the current rate of 42 aircraft per month in 2015 and a planned rate of 47 aircraft per month in 2017. In the first quarter of 2015 Airbus announced a rate increase from the current A320 production rate of 42 aircraft per month to 50 aircraft per month beginning in the first quarter of 2017 to match market demand.

In the wide-body market, Airbus is considering a rate of 13 or 14 aircraft per month in 2018 for their A350XWB, an increase from the planned build of 32 aircraft in 2015. Airbus plans to build 29 A380's in 2015 with reductions to the rate to 2 per month in the following year. Airbus announced it will reduce the rate for its A330 family to 6 aircraft per month from the current rate of 8.5 aircraft per month commencing in the first quarter of 2016 as it transitions toward the A330 NEO. Boeing is forecasting 787 build rates to reach 12 aircraft per month in 2016 and then reach 14 aircraft per month thereafter from the current rate of 10 aircraft per month. The 777 build rate remains at 8.3 aircraft per month. In June 2015, Boeing announced a 747 build rate cut to 1 aircraft per month from 1.3 aircraft per month, effective March 2016 to account for the soft cargo market demand. Finally, the 767 build rate will be at 1.5 aircraft per month through the first quarter of 2016 after which it will step to 2 aircraft per month.

The regional turbofan aircraft market has traditionally been led by Bombardier and Embraer, but new entrants to the market, such as COMAC's ARJ21, Mitsubishi's MRJ and Sukhoi's S100, are expected to challenge them for market share in certain regions. The established two are developing their latest new platforms, Bombardier with the C-Series and Embraer with the new E2 lines, both of which use the new Pratt & Whitney PW1000 Geared Turbofan engine. In the regional turboprop market Bombardier and ATR dominate the market, with ATR holding the larger market share. They too are being challenged by new aircraft such as AVIC's MA700 turboprop, which will enter the 60 – 99 seat market with a goal to gain a third of the market share. This aircraft will use a derivative of the PW150 engine that Bombardier uses in its Q400. Both Bombardier and ATR were considering a move to enter the upper (90-seat) end of this segment, but neither is expected to do so at this time.

It is well recognized that global defence spending is in decline due to reduced armed conflict in Iraq and Afghanistan. According to Deloitte's 2015 Industry Outlook, the top 20 US defence companies experienced a 2.5% decline in revenues in 2013 and a 2.1% decline in 2014. Overall there has been a 9.7% decline since 2010. Deloitte says that the "global defence industry…will be challenged in two major ways: how to grow profitably in a declining market and what actions are necessary to cut costs to maintain acceptable financial performance." One approach being taken in the defence helicopter segment, is where companies are teaming together to share development costs on new programs, such as Boeing and Sikorsky on the Joint Multi-Role (JMR) helicopter program Other actions are more drastic, such as United Technologies Corporation's (UTC) decision to spin off their Sikorsky Aircraft division. Defence companies may also be forced to invest their own funds into new programs. What this all means for the supply chain, is added pressure to cut costs, to share in new program development costs and to possibly consolidate to obtain the necessary critical mass to participate in future defence programs.

The F-35 program continues to gain momentum. Production is ramping up to deliver annual quantities of over 100 aircraft by 2019 and Magellan's participation will be growing accordingly. The F-35 program surpassed 30,000 flight hours recently, doubling the previous expended hours in one year. Extensive testing and training has been applied in support of the U.S. Marines target date for reaching Initial Operating Capacity The first of 72 F-35A's required at Hill AFB will likely be completed in September 2015. The F-35 Joint Strike Fighter was on display at this year's Experimental Aircraft Association AirVenture event in Oshkosh, Wisconsin.

Civil helicopter markets, according to Honeywell's 2015 Global Outlook, are "stable despite a pullback in 2014 deliveries and ongoing concerns with the energy sector." Their forecast shows a moderate improvement over the next five year period which is driven by increased utilization rates and replacement cycles in the tourism and parapublic sectors. The energy sector shows near term volatility due to energy markets with a longer term positive outlook coming from the emerging super-medium class helicopters such as AW189, Bell 525 and EC175. On the defence helicopter side, Airbus with its EC175, won from Poland one of the largest European procurement programs since the economic crisis. They beat out Sikorsky and AgustaWestland on a US $3.0 billion deal to replace Poland's Soviet-era military helicopters. Otherwise, the defence helicopter market continues to deal with global defence budget cuts.

Overall the Corporation continues to be confident in its positioning in the aerospace market. Magellan intends to be conservative in its approach and commitments to sectors of the industry that are experiencing stress from reduced demands and it is expected that current demands for high volume Magellan commodities will offset these known weaknesses.