This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Magellan Aerospace Corporation ("Magellan" or the "Corporation") should be read in conjunction with the audited consolidated financial statements and the notes thereto for the years ended December 31, 2018 and 2017 prepared in accordance with International Financial Reporting Standards ("IFRS"), and the Annual Information Form for the year ended December 31, 2018 (available on SEDAR at www.sedar.com). This MD&A provides a review of the significant developments that have impacted the Corporation's performance during the year ended December 31, 2018 relative to the year ended December 31, 2017. The information contained in this report is as at March 8, 2019. 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," "2018 and Recent Updates," "Outlook," "Consolidated Revenues," "Liquidity and Capital Resources," "Risk Factors," "Critical Accounting Estimates" and "Future Changes in Accounting Policies." In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "could," "expects," "forecasts," "believes," "projects," "plans," "anticipates," and similar expressions. The projections, estimates and beliefs contained in such forward-looking statements are based on management's assumptions relating to the production performance of Magellan's assets and competition throughout the aerospace industry in 2018 and continuation of the current regulatory and tax regimes in the jurisdictions in which the Corporation operates, and necessarily involve known and unknown risks and uncertainties, including the business risks discussed in this MD&A, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Except as required by law, the Corporation does not undertake to update any forward-looking information in this document whether as a result of new information, future events or otherwise.

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

1. OVERVIEW

A summary of Magellan's business and significant 2018 events

Magellan is a diversified supplier of components to the aerospace industry. Through its wholly owned subsidiaries, Magellan engineers and manufactures aeroengine and aerostructure components for aerospace markets, including advanced products for defence and space markets and complementary specialty products. The Corporation also supports the aftermarket through the supply of spare parts as well as through repair and overhaul services ("R&O").

During 2018, the Corporation revised its Vision, Mission and Values statements to reflect an updated set of guiding principles for the achievement of the Corporation's goals and objectives. The Vision in particular, states the goal is to be the supplier of choice to the global aerospace industry. To that end, the Corporation began a focused effort in 2018 to establish a zero defect, 100% schedule compliance culture across the organization. In parallel there was a continued emphasis on reducing inventories while increasing inventory turns and improving cash management. Achieving these goals is vital considering that aerospace is an increasingly competitive market where success is highly dependent upon meeting the customer's expectations of supplier performance, including cost. Finally, the Corporation invested in a new ERP system in 2018 which will become an important tool in the transformation of its business. When the system is fully implemented it will aid the Corporation in delivering globally competitive, best value solutions to its customers.

Magellan operates substantially all of its activities in one reportable segment, Aerospace, which is viewed as one segment by the chief operating decision-makers for the purpose of resource allocations, assessing performance and strategic planning. The Aerospace segment includes the design, development, manufacture, R&O and sale of systems and components for defence and civil aviation. The Corporation supplies both the commercial and defence sectors of the Aerospace segment. In the commercial sector, the Corporation is active in the large commercial jet, business jet, regional aircraft, and helicopter markets. On the defence side, the Corporation provides parts and services for major military aircraft.

Within the Aerospace segment, the Corporation has two major product groupings: aerostructures and aeroengines. Aerostructure and aeroengine products are used both in new aircraft and for spares and replacement parts.

Within the aerostructures product grouping, the Corporation supplies international customers by producing components to aerospace tolerances using conventional and high-speed automated machining centres. Capabilities include precision casting of airframe-mounted components. Management believes that Magellan's dedication to technological innovation combined with low cost sourcing from emerging markets will position the Corporation to capture targeted complex assembly programs.

Within the aeroengines product grouping, the Corporation manufactures complex castings, fabricated and machined gas turbine engine components, both static and rotating, integrated nacelle components, flow path and engine exhaust systems for the world's leading aeroengine manufacturers. The Corporation also performs R&O services for jet engines and related components.

In 2018, 69% of revenues were derived from commercial markets (2017–73%, 2016–73%) while 31% of revenues related to defence markets (2017 – 27%, 2016 – 27%).

2018 and Recent Updates

- Magellan announced on January 22, 2018 that it had delivered the first of three Power Control Units ("PCU's") for a planned space mission. In 2016, Magellan was selected by the Laboratory for Atmospheric and Space Physics at the University of Colorado in Boulder, Colorado to provide satellite technology for a future Deep Space Interplanetary Mission. Under the contract, Magellan's facility in Winnipeg, Manitoba will deliver three PCU's and subsystems for three jointly developed Control and Data Handling ("C&DH") units. Magellan will provide its flight-proven PCU's and C&DH subsystems that utilize expertise developed by Magellan for past and current Canadian Space Agency missions.

- On February 22, 2018, Magellan and Robinson Helicopter Company ("Robinson") announced that a Wire Strike Protection System™ (WSPS™) is now available for the Robinson R66 helicopter platform. The WSPS™ is designed to provide a measure of protection for helicopters in level flight in the event of an encounter with horizontally strung wires and cables, using the concept of guiding wires over the fuselage into high tensile cutting blades. The R66 WSPS™ is comprised of an upper cutter, lower cutters, and a windshield detector. Magellan's WSPS™ R66 platform is available as a field kit option for all R66 helicopters.

- The Corporation announced on April 19, 2018 that it had secured a 5-year agreement with Airbus to supply wing ribs for the A330 aircraft. Magellan will manufacture ribs 2 through 5, the largest ribs in the skeletal structure of the aircraft wing. Revenue generated from production of these wing ribs is estimated to exceed $48 million over the term of the contract. These ribs will be produced by Magellan in the United Kingdom facility for the Airbus wing assembly.

- On April 24, 2018 the Corporation announced that it had signed a 5-year agreement with an undisclosed commercial aeroengine customer to manufacture complex magnesium and aluminium castings and finished, machined engine shafts for gas turbine engines. The castings will be produced by Magellan's facilities in Haley, Ontario and Glendale, Arizona, and Magellan's facility in Haverhill, Massachusetts will manufacture the engine shafts. The new agreement is expected to generate approximately $53 million in revenue for Magellan through 2023.

- On April 30, 2018, the Corporation announced that a number of major contract extensions and new awards were made by The Boeing Company ("Boeing") to Magellan. Multi-year contract renewals were agreed to for the manufacture of titanium wing fittings for the Boeing 787 Dreamliner and the detail manufacture and assembly of the tanker door for the Boeing 767-2C aircraft. In addition, Magellan was also awarded a new multi-year contract to manufacture winglet components for the Boeing 737 MAX. The components and assemblies associated with these multiple contracts will be delivered from Magellan's facilities in New York, New York and Middletown, Ohio.

- Magellan announced on May 11, 2018 the funding of $625,000 for an Industrial Research Chair in the area of satellite development, and a further $120,000 contribution towards a second Chair for Design Engineering, both at the University of Manitoba ("U of M"). Magellan's Winnipeg division and the U of M have a long and established collaboration and a shared vision to establish a world-leading space capability in Manitoba at the university. The research and development activities of these Chairs are fully funded by industry sponsor(s), the U of M, and the Natural Sciences and Engineering Research Council.

- The Corporation announced on May 22, 2018 the signing of an agreement with Hamilton Sundstrand Corporation, a UTC Aerospace Systems Company ("Hamilton Sundstrand"), to manufacture complex magnesium and aluminium castings for various military and commercial aerospace platforms. The castings will be produced by Magellan's facilities in Haley, Ontario and Glendale, Arizona. This new long-term agreement with Hamilton Sundstrand provides the framework for a new level of strategic alignment with Magellan; in addition to the F-15, F-16, and F-18 for Hamilton Sundstrand's current fighter engine platforms, the agreement also encompasses the production of castings to support the JSF, PW1100, A320, 787 and 777 programs.

- On August 13, 2018 Magellan made an announcement of the signing of a six year agreement with Pratt & Whitney to manufacture aluminum castings for their Next Generation Product Family of engines, powering the Airbus A320neo, Airbus A220 (formerly known as Bombardier C-Series), Embraer E2 series and Mitsubishi MRJ aircraft. The castings will be produced at Magellan's facilities in Haley, Ontario and Glendale, Arizona. The agreement is expected to generate approximately $81 million in revenue for Magellan through 2023.

- Magellan and Aeromet International Ltd. ("Aeromet") announced on October 15, 2018 that Magellan's Haley, Ontario site has joined a global network of foundries licensed to manufacture cast parts using the advanced A20X™ aluminium alloy. Developed and patented by Aeromet in the UK, A20X™ is the world's strongest aluminium casting alloy and is used in aerospace, defence, and space applications by major original equipment manufacturers ("OEMs").

- The Corporation announced on October 17, 2018 the completion of all hardware deliveries to Macdonald, Dettwiler and Associates Ltd. ("MDA"), a Maxar Technologies company, for the RADARSAT Constellation Mission ("RCM") being built for the Canadian Space Agency. In late September 2018, the Multi-Layered Insulation blankets were installed on the final satellite bus, marking the completion of this major contractual milestone. These thermal blankets for the spacecraft prevent it from freezing while in space. Over the course of the RCM program Magellan has delivered three satellite buses, three payload module structures, as well as associated software, ground support equipment, and launch vehicle adaptors to MDA. Magellan is under contract by MDA to manufacture these assemblies for the Canadian Space Agency's RCM program, a three-satellite constellation that will provide around-the-clock C-band synthetic aperture radar data to support maritime surveillance, disaster management, and ecosystem monitoring for Canada and its surrounding Arctic, Pacific, and Atlantic maritime areas.

– On November 5, 2018 Magellan announced it had extended its agreement with Airbus for a further six years for the manufacture of A350 XWB centre wing box and keel beam detail parts. It is estimated that revenue generated from this work package will exceed $140 million dollars over the term of the contract. The package consists of a number of large structural, machined components, and will be manufactured by Magellan in the United Kingdom and supplied to the Airbus assembly facility in Nantes, France.

– The Corporation announced on February 19, 2019 the opening of its new manufacturing and assembly facility in India. The 100,000 square foot Magellan Aerospace (India) Pvt. Ltd. facility, constructed on seven acres in Hitech Defence and Aerospace Park (Aerospace SEZ Sector) in Devanahalli, India, near the Bangalore International Airport, was completed at the end of 2018 and the process of installing and commissioning of high speed machining centres is underway. Magellan's new cellular machining and assembly plant will specialize in high speed milling and turning of aerostructure and aeroengine components produced from both aluminium and hard metal materials. Combined with comprehensive processing and hard metal machining capabilities from Magellan's two longstanding joint ventures in India, API Surface Treatments and Triveni Aeronautics Pvt. Ltd. ("Triveni"), Magellan will be one of the largest suppliers of "Make in India" manufactured commercial aircraft components.

– On February 20, 2019 Magellan announced it has increased its investment in Triveni to 75%. Triveni specializes in hard metal machining of aeroengine and aerostructure components. Magellan's investment in Triveni commenced in 2013 when it acquired a 49% share of the business. Since then Triveni has grown, prospered and played a major role in Magellan's overall strategy in India.

Labour Matters

As at December 31, 2018 the Corporation had approximately 3,800 employees. Approximately 40% of the Corporation's employees are unionized and covered by collective agreements. The Corporation has 13 collective agreements in place as at December 31, 2018. During the year ended December 31, 2018 labour agreements at four of the Corporation's facilities were successfully re-negotiated so that they now expire on December 31, 2020. and February 28, 2021, and March 15, 2021, respectively. Labour agreements at three of the Corporation's facilities will expire in the third quarter and fourth quarter of 2019; negotiations will commence in the second and third quarter of 2019. The Corporation anticipates that all negotiations will result in an extension of the expiry dates or a mutually satisfactory agreement, as applicable.

Financing Matters

On September 13, 2018 the Corporation entered into the Bank Credit Facility Agreement with a syndicate of lenders. The Bank Credit Facility Agreement provides for a multi-currency global operating credit facility to be available to Magellan in a maximum aggregate amount of $75 million. The Bank Credit Facility Agreement also includes a $75 million uncommitted accordion provision, which provides Magellan with the option to increase the size of the operating credit facility to $150 million. Under the terms of the Bank Credit Facility Agreement, the operating credit facility expires on September 13, 2020. Extensions of the operating credit facility are subject to mutual consent of the lenders and the Corporation.

2. OUTLOOK

The outlook for Magellan's business in 2019

After an unprecedented 14 years of growth, the commercial aerospace market is expected to continue growing in 2019. Industry experts suggest that subject to any significant economic factors such as a global recession, this market will maintain its strength until at least 2022 considering current order backlogs. As of December 31, 2018, Airbus set a new all-time order backlog record with 7,577 jets on order, representing 9.5 years at 2018 rates. Boeing set its all-time high order backlog in August 2018 when it recorded 5,964 aircraft or 7.4 years of production at 2018 rates. Market analysts believe the probability is high that these aircraft orders will be delivered, particularly while global airlines remain profitable.

Boeing ended 2018 with the 737 production rate at 52 aircraft per month and with plans to reach 57.7 aircraft per month in the second half of 2019. They have been considering potentially higher rates for 2020. Airbus ended 2018 with the A320 build rate at 56 aircraft per month and with plans to reach 63 aircraft per month by September 2019. Supply chain issues plagued both single-aisle programs throughout 2018 which resulted in a number of incomplete aircraft being parked at the OEM's assembly lines. With supply issues materially resolved by the end of the year, both OEM's met their 2018 delivery targets.

In the large commercial aircraft market, Boeing's 787 program build rates are expected to increase from 12 aircraft per month to 14 aircraft per month by the second quarter of 2019. The 777 program rate remains steady at 5 aircraft per month. Boeing plans to build six 747's in 2019. The A350XWB rate increased from 8.8 aircraft per month to 9.8 aircraft per month in late 2018. Consideration is being made to hit 13 aircraft per month in 2020. Boeing delivered 3 777X's in 2018 and is expected to deliver 3 in 2019. The 777X production ramp up begins in 2020. Airbus' A330 build rate is at a stable 4.5 per month.

On February 14, 2019 Airbus announced that it will wind down the A380 program following the cancelation of 39 aircraft orders by the program's largest customer, Emirates. Emirates will take delivery of only 14 more aircraft over the next two years and will instead order 40 of the A330-900 and 30 of the A350-900 twin-engine widebody aircraft. Airbus stated that the final program deliveries will be in 2021. Airbus' remaining order backlog for the A380 is between 17 and 20 aircraft. The Corporation has participation in the aircraft at a shipset value of approximately $2.3 million and is currently assessing the impact of the A380 program termination.

The competitive landscape within the commercial aircraft industry has been changing as vertical integration strategies and mergers and acquisitions shift market advantage. With UTC's recent acquisition of Collins Aerospace, UTC is now capable of supplying all major aircraft systems except for the airframe. UTC could effectively compete with the OEMs by partnering with an independent airframe supplier to build an aircraft. It is said that Boeing's outsourcing strategy on the 787 program seeded this new type of super Tier I. Boeing is moving away from that strategy on the 777X program in favour of in-sourcing and using non-Tier I suppliers. Boeing also made a vertical integration move by forming a joint venture with Safran that will see them compete with UTC and Honeywell in the auxilliary power unit market. Finally, the Airbus/Bombardier and Boeing/Embraer deals have reaffirmed the duopoly in the commercial aircraft market. These deals not only serve to expand market share for Airbus and Boeing, but they also strengthen their ability to leverage the supply base when competing a program.

Persistently low fuel prices have been a disruptive factor in the regional turboprop market. However, according to ATR's market outlook, 30% of future traffic will come from routes that do not exist today. They predict there will be 2,770 new turboprop routes created primarily in emerging markets. ATR is the leader in this market. While Bombardier held second place, that position was transferred to Canadian-based Viking Air ("Viking") following Bombardier's 2018 sale of the Dash 8 program to Viking. The transition of ownership is expected to help improve market share opportunities for the Dash 8 as it is felt that Viking can provide a renewed and undistracted focus to the program. The current build rate for the Q400 turboprop is 2 per month.

It has now been a decade since the business jet market peaked. For several years the industry has been predicting a market recovery based on various leading indicators, the latest being a strong United States economy and the lowest inventory of used jets for sale as a percentage of the total fleet in 19 years. Based on these indicators the industry is predicting several years of growth.

In the defence market, the United States defence priorities have been focused primarily on the Middle East and Afghanistan since 9/11. Resurging threats from Russia and China are now causing the United States to shift priorities from ground forces to higher end capabilities. Experts are calling this an era of "Great Power Competition". In this environment, past underinvestment in fleet modernization is considered a liability in the United States' ability to maintain defence superiority, especially as technology advancements are being made by both Russia and China. The fiscal year 2020 U.S. defence budget is expected to rise over the next two years, which will secure growth for the United States defence prime contractors through at least 2023.

In Canada, the Future Fighter Replacement Program is progressing with four of the original five aircraft continuing in the competition, Lockheed Martin's F-35, Boeing's Super Hornet, the Eurofighter Typhoon, and Saab's Gripen. Dassault dropped out. A draft request for proposal ("RFP") was issued to the bidders for review and comment in 2018 with a final RFP expected to come in the second quarter of 2019. Bid responses will be requested for the fourth quarter of 2019, with a down select expected 2020/2021 followed by a contract award in 2022. The first aircraft delivery would be sometime in 2025.

Regarding the F-35 Lightening II program, Lockheed Martin announced that it had met its 2018 target by delivering 91 F-35 aircraft last year. This represented a 40% increase over 2017 deliveries and 100% over 2016. For 2019, Lockheed is set to deliver over 130 planes. Lockheed also announced that it delivered targeted cost reductions across all three variants of the aircraft. They continue to record new orders for the F-35 with Japan announcing at the end of 2018, a commitment to acquire 105 additional aircraft beyond the 42 F-35's already approved. Singapore also announced in January 2019 a decision to select the F-35 as a successor to their fleet of F-16's. A final decision will not be reached until later in the year.

Magellan is performing final modifications to its facilities to accommodate increased F-35 production rates. By the end of 2019, Magellan will be capable of supporting 60 shipsets of horizontal tails per year.

The global helicopter industry expects to see some growth in 2019. The largest growth is forecasted to come from the Emergency Medical Services ("EMS") segment which could account for 18 to 20 percent of global demand. China in particular is expected to generate a significant portion of this new demand for EMS helicopters. The oil and gas helicopter market remains flat as it is still dealing with an underutilized fleet. On the defence helicopter side, the United States Army continues its work on Future Vertical Lift ("FVL") and Future Attack ("FA") programs as well as the Improved Turbine Engine Program ("ITEP"), which is meant to re-engine the Boeing AH64 and Sikorsky UH-60 helicopters. A decision is expected soon regarding the ITEP competition between General Electric's T901 engine and the Pratt & Whitney/Honeywell's T900 engine. The FVL and FA program decisions are further out in the future. Increased defence spending in other countries is not expected to generate many orders for new helicopter platforms in the near term as most are focusing on operations, maintenance and readiness. However, it is recognized that half of the world's military helicopters in operation are over 20 years old, meaning that replacement programs will be required.

3. SELECTED ANNUAL INFORMATION

A summary of selected annual financial information for 2018, 2017 and 2016

Expressed in millions of dollars, except per share information	**2018**	2017 (restated)	2016
Revenues	**966.8**	955.5	1,003.8
Net income for the year	**89.1**	109.5	88.6
Net income per common share – Basic and Diluted	**1.53**	1.88	1.52
EBITDA	**162.1**	178.3	174.3
EBITDA per common share – Basic and Diluted	**2.78**	3.06	2.99
Total assets	**1,072.9**	982.7	992.9
Total non-current financial liabilities	**86.4**	77.3	101.5

As described in "Changes in Accounting Policies" section of this MD&A, the Corporation's results of operations for the year ended December 31, 2017 have been restated to reflect the impact of adoption of IFRS 15, *Revenue from Contracts with Customers.*

Revenues for the year ended December 31, 2018 increased from 2017 and decreased from 2016 levels. The increase in revenues from 2017 was primarily attributable to volume increases. Net income decreased in 2018 from 2017 mainly due to gain on sale of the Mississauga property in 2017 and higher income taxes in 2018 (see "Results of Operations").

During 2018 the Corporation paid quarterly dividends on common shares of $0.085 per share for the first three quarters and $0.10 per share in the fourth quarter, amounting to $20.7 million in total for the year. During 2017, the Corporation paid quarterly dividends on common shares of $0.065 per share in the first three quarters and $0.085 per share in the fourth quarter, amounting to $16.3 million in total for the year.

4. RESULTS OF OPERATIONS

A discussion of Magellan's operating results for 2018 and 2017

Consolidated Revenues

Consolidated revenues for the year ended December 31, 2018 were $966.8 million, a 1.2% increase from the $955.5 million last year, mainly driven by volume increases.

Twelve-months ended December 31, expressed in thousand of dollars	**2018**	2017 (restated)	Change
Canada	**320,838**	305,466	5.0%
United States	**325,739**	311,315	4.6%
Europe	**320,176**	338,680	(5.5%)
Total revenues	**966,753**	955,461	1.2%

Consolidated revenues are impacted by the fluctuation of the United States dollar and British pound against the Canadian dollar when the Corporation translates its foreign operations to Canadian dollars. Further, the fluctuation of the British pound relative to the United States dollar impacts the performance of the Corporation's European operations. If the average exchange rates for both the United States dollar and British pound experienced in 2017 remained constant in 2018, consolidated revenues for 2018 would have been approximately $967.3 million.

On a currency neutral basis, in comparison to 2017, revenues in Canada in 2018 increased 5.5% primarily driven by volume increases and higher repair and overhaul services. Revenues in the United States increased by 4.6% largely due to volume increases. Revenues in Europe decreased 5.7% mainly due to low production build rates for wide body aircraft.

Gross Profit

Twelve-months ended December 31, expressed in thousands of dollars	**2018**	2017 (restated)	Change
Gross Profit	**163,275**	172,707	(5.5%)
Percentage of revenue	**16.9%**	18.1%	

Gross profit was $163.3 million in 2018, $9.4 million lower than 2017 of $172.7 million. Gross profit, as a percentage of revenues was lower than the prior year by 1.2%. Decrease in gross profit was primarily driven by volume decreases in a number of programs and product mix.

Administrative and General Expenses

Twelve-months ended December 31, expressed in thousands of dollars	**2018**	2017	Change
Administrative and general expenses	**57,337**	59,549	(3.7%)
Percentage of revenue	**5.9%**	6.2%	

Administrative and general expenses as a percentage of revenue were 5.9% in 2018 as compared to 6.2% in 2017. Administrative and general expenses of $57.3 million in 2018 were $2.2 million or 3.7% lower than $59.5 million in the prior year mainly due to lower consulting and employee expenses. In addition, $0.5 million was recorded in other income in 2018 as a result of an early termination of a rental agreement.

Other

Twelve-months ended December 31, expressed in thousands of dollars	**2018**	2017
Foreign exchange (gain) loss	**(2,993)**	6,034
Loss (gain) on disposal of property, plant and equipment	**313**	(26,533)
Gain on investment property	**–**	(2,183)
Other	**(9,676)**	4,010
Other	**(12,356)**	(18,672)

Included in other income is a foreign exchange gain of $3.0 million compared to a loss of $6.0 million in the prior year. The movements in balances denominated in foreign currencies and the fluctuations of the foreign exchange rates impact the net foreign exchange loss or gain recorded during the year. In 2018, the Corporation recognized a net gain of $9.7 million in relation to prior acquisitions. In the prior year, the Corporation recorded a gain of $26.5 million on sale of the land and building of the Corporation's Mississauga facility and $4.0 million of associated sale costs. In addition, a $2.2 million gain on disposal of an investment property was recorded.

Interest Expense

Twelve-months ended December 31, expressed in thousands of dollars	**2018**	2017
Interest on bank indebtedness and long-term debt	**884**	2,435
Accretion charge on long-term debt and borrowings	**1,006**	611
Discount on sale of trade receivables	**2,224**	1,665
Interest expense	**4,114**	4,711

Total interest costs of $4.1 million for 2018 decreased by $0.6 million from $4.7 million in 2017, primarily driven by lower interest on bank indebtedness and long-term debt as a result of lower principal amounts outstanding during 2018 when compared to 2017. The Corporation sells a portion of its trade receivables through securitization and factoring programs. Discount on sale of trade receivables was $2.2 million, an increase of $0.6 million over the prior year largely due to higher volumes of receivables sold during the year.

Income Taxes

Twelve-months ended December 31, expressed in thousands of dollars	**2018**	2017 (restated)
Current income tax expense	**9,402**	15,557
Deferred income tax expense	**15,658**	2,074
Income tax expense	**25,060**	17,631
Effective tax rate	**21.9%**	13.9%

The Corporation recorded an income tax expense in 2018 of $25.1 million on pre-tax income of $114.2 million, representing an effective tax rate of 21.9%, compared to an income tax expense of $17.6 million on a pre-tax income of $127.1 million in 2017.

During 2018 and 2017, the Corporation recognized investment tax credits totalling $10.0 million and $9.0 million, respectively, as a reduction of cost of revenues, as the Corporation has determined that it will be able to benefit from these investment tax credits. The increase in the effective tax rate to 21.9% in 2018 from 13.9% in 2017 is primarily attributed to the reduction in the deferred tax liability in the prior year as a result of new legislation which lowered the United States federal corporate income tax rate. In addition, the lower tax rate applicable to the capital gain on the sale of the Mississauga property and the investment property in 2017 further decreased the effective tax rate. The change in mix of income across the different jurisdictions in which the Corporation operates also impacts the change in the effective tax rate.

5. RECONCILIATION OF NET INCOME TO EBITDA

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

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

Twelve-months ended December 31, expressed in thousands of dollars	**2018**	2017 (restated)
Net income	**89,120**	109,488
Interest	**4,114**	4,711
Taxes	**25,060**	17,631
Depreciation and amortization	**43,809**	46,516
EBITDA	**162,103**	178,346

EBITDA for the year ended 2018 of $162.1 million decreased by $16.2 million when compared to $178.3 million in 2017, primarily as a result of lower net income, interest, and depreciation and amortization expenses offset by higher taxes. Net income in 2018 included a net gain of $9.7 million in relation to prior acquisitions, and in 2017 included a $22.5 million net gain on sale of the land and building of the Corporation's Mississauga facility net of associated costs. Backing out the two amounts in respective years, EBITDA in 2018 would have been $152.4 million versus $155.8 million in the prior year.

6. SELECTED QUARTERLY FINANCIAL INFORMATION

A summary view of Magellan's quarterly financial performance

Expressed in millions of dollars except per share information				**2018**				2017
	Mar 31	**Jun 30**	**Sep 30**	**Dec 31**	Mar 31[2]	Jun 30[2]	Sep 30[2]	Dec 31[2]
Revenues	**244.6**	**241.2**	**226.5**	**254.5**	248.2	252.0	222.6	232.7
Income before taxes	**22.5**	**29.8**	**23.4**	**38.5**	48.8	26.3	23.6	28.4
Net income	**17.5**	**23.5**	**18.6**	**29.5**	39.6	19.9	18.1	31.9
Net income per common share								
Basic and Diluted	**0.30**	**0.40**	**0.32**	**0.51**	0.68	0.34	0.31	0.55
EBITDA[1]	**34.1**	**41.8**	**35.5**	**50.7**	62.6	39.8	35.8	40.1

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

[2] Restated using revenue recognition policies in accordance with IFRS 15, *Revenue from Contracts with Customers*

Revenues and net income reported in the table above were impacted by the movements in the Canadian dollar relative to the United States dollar and British pound when the Corporation translates its foreign operations to Canadian dollars. Further, the movements in the United States dollar relative to British pound impact the Corporation's United States dollar exposures in its European operations. During the periods reported, the average exchange rate of United States dollar relative to the Canadian dollar fluctuated between a high of 1.3448 in the second quarter of 2017 and a low of 1.2526 in the third quarter of 2017. The average exchange rate of British pound relative to the Canadian dollar moved from a high of 1.7607 in the first quarter of 2018 to a low of 1.6398 in the third quarter of 2017. The average exchange rate of the British pound relative to the United States dollar reached its high of 1.3920 in the first quarter of 2018 and hit a low of 1.2395 in the first quarter of 2017. Had exchange rates remained at levels experienced in 2017, reported revenues in 2018 would have been higher by $7.6 million and $9.2 million in the first and second quarters respectively; lower by $9.0 million and $7.3 million in the third and fourth quarters, respectively.

As discussed above, net income reported in the quarterly information was also impacted by the foreign exchange movements. The Corporation reported its highest net income in the first quarter of 2017 mainly driven by the recognition of the gain on the sale of the land and building of its Mississauga facility. In the third quarter of 2017, the Corporation recorded a gain of $2.2 million on the disposition of an investment property. In the fourth quarter of 2017, the Corporation recognized the future tax benefit attributable to a reduction in the United States federal corporate income tax as a result of new legislation. In the fourth quarter of 2018, the Corporation recorded a net gain of $9.7 million related to prior acquisitions.

7. LIQUIDITY AND CAPITAL RESOURCES

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

The Corporation's liquidity needs can be met through a variety of sources including cash on hand, cash provided by operations, short-term borrowings from its credit facility and trade receivables 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 costs for projects exceed current estimates, or if the Corporation incurs major unanticipated expenses, it may be required to seek additional capital in the form of debt or equity or a combination of both.

In 2018, $100.0 million of cash was generated by operations, $47.3 million was used in investing activities and $31.8 million was used in financing activities.

Cash Flow from Operating Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2018**	2017 (restated)
(Increase) decrease in trade receivables	**(13,224)**	6,766
(Increase) decrease in contract assets	**(18,335)**	15,791
Decrease in inventories	**1,868**	2,658
(Increase) decrease in prepaid expenses and other	**(5,412)**	3,992
Decrease in accounts payable, accrued liabilities and provisions	**(6,046)**	(24,618)
Net change in non-cash working capital items	**(41,149)**	4,589
Net cash from operating activities	**99,997**	129,949

The Corporation generated $100.0 million in 2018 from operating activities, compared to $129.9 million in the prior year. Changes in non-cash working capital items used cash of $41.1 million attributed to the increase in trade receivables, contract assets, prepaid expenses and other, and the decrease in accounts payable, accrued liabilities and provisions, partially offset by the decrease in inventories. The increase in trade receivables resulted from higher sales and change in payment terms. Higher contract assets resulted from timing of production and billing related to products transferred over time. Lower inventory levels in 2018 resulted from lower production rates on a number of programs and timing of shipment. The decrease in accounts payable, accrued liabilities and provisions was due to timing of purchases and payments. In 2017, changes in non-cash working capital items provided cash of $4.6 million as a result of a decrease in trade receivables, contracts assets, inventories, and prepaid expenses and other, offset by decrease in accounts payable, accrued liabilities and provisions.

Cash Flow from Investing Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2018**	2017
Purchase of property, plant and equipment	**(48,346)**	(64,151)
Proceeds from disposal of property, plant and equipment	**411**	32,742
Proceeds on disposition of investment property	**–**	3,900
Change in restricted cash	**3,329**	3,665
(Increase) decrease in intangibles and other assets	**(2,728)**	3,105
Net cash used in investing activities	**(47,334)**	(20,739)

The Corporation invested $48.3 million in capital assets during the year in comparison to $64.2 million in 2017. The Corporation continues to invest in advanced technology production equipment and information technology systems, both designed to increase productivity, reduce cycle time and improve technology capability. In the prior year, the Corporation sold the land and building of its Mississauga facility and one investment property for proceeds of $32.7 million and $3.9 million respectively.

Cash Flow from Financing Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2018**	2017
Decrease in bank indebtedness	**(264)**	(43,159)
Increase (decrease) in debt due within one year	**3,892**	(7,951)
Decrease in long-term debt	**(15,165)**	(13,520)
(Decrease) increase in long-term liabilities and provisions	**(945)**	1,071
Increase in borrowings, net	**1,302**	3,493
Common share dividend	**(20,664)**	(16,299)
Net cash used in financing activities	**(31,844)**	(76,365)

The Corporation used $31.8 million in 2018 mainly to repay long-term debt and bank indebtedness, and to pay dividends, which was partially offset by the proceeds of the sales of trade receivables. The Corporation received in 2018 $1.8 million net of repayment of $1.0 million from Canadian Government agencies related to the development of its technologies and processes as compared to $3.5 million received in 2017.

Contractual Obligations

As at December 31, 2018, expressed in thousands of dollars	**Less than 1 year**	**1-3 Years**	**4-5 Years**	**After 5 Years**	**Total**
Trade receivables securitization	41,877	–	–	–	41,877
Long-term debt	2,516	4,773	4,320	720	12,329
Equipment leases	593	543	271	4	1,411
Facility leases	5,283	6,812	6,430	17,948	36,473
Other long-term liabilities	141	494	351	1,196	2,182
Borrowings subject to specific conditions	917	1,368	1,580	21,562	25,427
Total Contractual Obligations	**51,327**	**13,990**	**12,952**	**41,430**	**119,699**

Major cash flow requirements for 2019 include the repayment of trade receivables securitization of $41.9 million which is expected to be refinanced, repayment of long-term debt of $2.5 million, payments of equipment and facility leases of $5.9 million and borrowings subject to specific conditions of $0.9 million.

On September 13, 2018, the Corporation amended its credit agreement with its existing lenders. The Corporation has a multi-currency operating credit facility with a syndicate of banks, with a Canadian dollar limit of $75 million. Under the terms of the amended credit agreement, the operating credit facility expires on September 13, 2020. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a $75 million uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility.

As at December 31, 2018, the Corporation had made contractual commitments to purchase $6.4 million of capital assets. In addition, the Corporation had purchase commitments, largely for materials required for the normal course of operations, of $387.0 million as at December 31, 2018. The Corporation plans to fund all of these capital commitments with operating cash flow and the existing credit facility.

Outstanding Share Information

The authorized capital of the Corporation consists of an unlimited number of preference shares, issuable in series, and an unlimited number of common shares. As at March 8, 2019, 58,209,001 common shares were outstanding and no preference shares were outstanding. More information on the Corporation's share capital is provided in note 19 of the Corporation's consolidated financial statements.

On March 30, 2018, June 29, 2018, and September 28, 2018 the Corporation paid quarterly dividends on 58,209,001 common shares of $0.085 per common share, representing an aggregate dividend payment of $14.8 million. On December 31, 2018 the Corporation paid quarterly dividends on 58,209,001 common shares of $0.10 per common share, amounting to $5.8 million.

For the year ended December 31, 2017, the Corporation declared and paid dividends on common shares on March 31, 2017, June 30, 2017 and on September 30, 2017 of $0.065 per share amounting to $11.4 million and on December 29, 2017 of $0.085 per share amounting to $4.9 million.

In the first quarter of 2019, the Corporation declared cash dividends of $0.010 per common share payable on March 29, 2019 to shareholders of record at the close of business on March 22, 2019.

8. FINANCIAL INSTRUMENTS

A summary of Magellan's financial instruments

Derivative Contracts

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian dollar denominated financial statements of the Corporation's subsidiaries may vary on consolidation into the reporting currency of Canadian dollars. The Corporation from time to time may use derivative financial instruments to help manage foreign exchange risk with the objective of reducing transaction exposures and the resulting volatility of the Corporation's earnings. The Corporation does not trade in derivatives for speculative purposes. Under these contracts the Corporation is obligated to purchase specified amounts at predetermined dates and exchange rates. These contracts are matched with anticipated cash flows in United States dollars. The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. As at December 31, 2018, the Corporation had $41.0 million USD/CAD foreign exchange contracts outstanding with a fair value liability of $0.8 million, expiring monthly until January 2020.

Off-Balance Sheet Arrangements

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

9. RELATED PARTY TRANSACTIONS

A summary of Magellan's transactions with related parties

During the year, the Corporation incurred consulting and cost recovery fees of $0.1 million [2017–$0.1 million] payable to a corporation controlled by the Chairman of the Board of Directors of the Corporation.

10. RISK FACTORS

A summary of risks and uncertainties facing Magellan

The Corporation's performance may be affected by a number of risks and uncertainties. Magellan's senior management identifies key risks and has processes in place to help monitor, manage, and mitigate these risks. Additional risks and uncertainties not presently known by the Corporation, or that the Corporation does not currently anticipate, may be material and may impair the Corporation's performance.

The following risks and uncertainties apply to the Corporation. Information relating to additional risks and uncertainties are set forth in the Corporation's Annual Information Form on SEDAR at www.sedar.com.

Factors that have an adverse impact on the aerospace industry may adversely affect the Corporation's results of operations.

The Corporation's gross profit is derived from the aerospace industry. The Corporation's aerospace operations are focused on engineering and manufacturing aircraft components for new manufactured aircraft, and selling spare parts and performing repair and overhaul services on existing aircraft and aircraft components. Therefore, the Corporation's business is directly affected by economic factors and other trends that affect the Corporation's customers in the aerospace industry, including possible changes in sourcing strategies by aircraft operators and OEMs, decreased demand for air travel or projected market growth that may not materialize or be sustainable. Although fuel prices have remained low, since it is a significant cost factor for aircraft operators, any sizeable price increases can affect their operating margins and reduce their ability to finance capital expenditures. Constraints in the credit market may reduce the ability of airlines and others to purchase new aircraft, negatively affecting the demand for the Corporation's products. When these economic and other factors adversely affect the aerospace industry, they tend to reduce the overall customer demand for the Corporation's products and services, which decreases the Corporation's operating income.

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

Fluctuations in the value of foreign currencies could result in currency exchange losses.

A large portion of the Corporation's revenues and expenses are not currently denominated in Canadian dollars, and it is expected that some revenues and expenses will continue to be based in currencies other than the Canadian dollar. In situations where the Corporation is not fully hedged, fluctuations in the Canadian dollar exchange rate will impact the Corporation's results of operations and financial condition from period to period. In addition, such fluctuations could affect the translation of the Corporation's results and profitability shown in its consolidated financial statements. The Corporation also may not be able to manage its currency exposure on commercially reasonable terms.

Political uncertainty could result in a decrease in revenues or have other material adverse effects on the Corporation.

The United States and certain European countries have been experiencing significant political events that have cast uncertainty on global financial and economic markets. Notable examples that occurred in 2018 included the renegotiation of the terms of the North American Free Trade Agreement (now the United States-Mexico-Canada Agreement), which has not yet been ratified in Canada or the United States, the withdrawal of the United States from the Trans-Pacific Partnership and the imposition by the United States of tariffs on the importation of certain goods, such as aluminum and steel. Most recently the United States withdrew from the Intermediate-range Nuclear Forces Treaty and then Russia also withdrew. Additionally newly adopted tax legislation changes in the United States may affect strategies for United States corporations. The potential introduction of laws to reduce immigration and restrict access into the United States for citizens of certain countries may also present future challenges to non-U.S. corporations. It remains unclear exactly what actions the administration in the United States will be successful implementing, and if implemented, how these actions may impact the aerospace industry.

During 2016, the referendum by British voters to exit the European Union ("Brexit") adversely impacted global markets and resulted in a sharp decline in the British pound against the US dollar. In February 2017, the British Parliament voted in favor of allowing the British government to begin the formal process of Brexit and discussions with the European Union began in March 2017. In the short-term, volatility in the British pound could continue as the United Kingdom negotiates its anticipated exit from the European Union, which is scheduled to occur on March 29, 2019. In the longer term, any impact from Brexit on Magellan's United Kingdom operations will depend, in part, on the outcome of tariff, trade, regulatory, and other negotiations. Any of these effects of Brexit and others the Corporation cannot anticipate, may have a negative effect and may adversely affect the Corporation's business.

To the extent that certain political actions taken in North America, Europe and elsewhere in the world result in a marked decrease in free trade, access to personnel and freedom of movement it could have an adverse effect on the Corporation's ability to market its products and services internationally, increase costs for goods and services required for the Corporation's operations, reduce access to skilled labour and negatively impact the Corporation's business, operations, financial conditions and the market value of its Common Shares.

Cancellations, reductions or delays in customer orders may adversely affect the Corporation's results of operations.

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

Competitive pressures may adversely affect the Corporation.

The Corporation competes in the aerospace industry primarily in support of OEMs and the manufacturers that supply them, some of which are divisions or subsidiaries of OEMs, and other large companies that manufacture aircraft components and subassemblies. Competition for the repair and overhaul of aerospace components comes from three primary sources: OEMs, major commercial airlines and other independent repair and overhaul companies. Some of the competitors' financial and other resources and name recognition are substantially greater than that of the Corporation and this constitutes significant competitive advantages. There can be no assurance that Magellan will be able to compete successfully against current and future competitors or that the competitive pressures that Magellan faces will not adversely affect the Corporation's operating revenues and, in turn, the Corporation's business and financial condition.

The aerospace and defence industry continues to experience significant consolidation through mergers and acquisitions, and vertical integration strategies. This trend also affects the Corporation's customers, competitors, and suppliers. Consolidation among Magellan's customers may result in delays in awarding new contracts and losses of existing business. Consolidation among the Corporation's competitors may result in larger competitors with greater resources and market share which could adversely affect the Corporation's ability to compete successfully. Consolidation among Magellan's suppliers may result in fewer sources of supply and increased costs to the Corporation.

11. CRITICAL ACCOUNTING ESTIMATES

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

The preparation of consolidated financial statements requires management to make critical judgements, estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses recorded during the reporting period. The critical estimates and judgements utilized in preparing the Corporation's consolidated financial statements affect the assessment of net recoverable amounts, net realizable values and fair values, depreciation and amortization rates and useful lives, value of intangible assets, ability to utilize tax losses and other tax measurements, determination of functional currency, determination of the degree of control that exists in determining the corresponding accounting basis, and the selection of accounting policies. Any changes in estimates and assumptions could have a material impact on the Corporation's future income and/or the amounts reported in its statement of financial position. The Corporation reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgement in making these estimates and assumptions.

The main assumptions and estimates that were used in preparing the Corporation's consolidated financial statements relate to:

Financial instruments
The valuation of the Corporation's derivative instruments and certain other financial instruments requires estimation of the fair value of each instrument at the reporting date. Details of the basis on which fair value is estimated are provided in note 21 to the consolidated financial statements.

Impairments
The recoverable amount of intangible assets and property, plant and equipment is based on estimates and assumptions regarding the expected market outlook and cash flows from each cash generating unit ("CGU") or group of CGUs.

In order to estimate the fair value of indefinite-lived intangible assets and goodwill resulting from business combinations, the Corporation typically estimates future revenue, considers market factors and estimates future cash flows. Based on these key assumptions, judgments and estimates, the Corporation determines whether to record an impairment charge to reduce the value of the asset carried on the consolidated statements of financial position to its estimated fair value. Assumptions, judgments and estimates about future values are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the Corporation's business strategy or internal forecasts. Although the Corporation believes the assumptions, judgments and estimates made in the past have been reasonable and appropriate, different assumptions, judgments and estimates could materially affect the Corporation's reported financial results.

Deferred taxes
Income taxes are determined based on estimates of the Corporation's current income taxes and estimates of deferred income taxes resulting from temporary differences. Deferred tax assets are assessed to determine the likelihood that they will be realized from future taxable income before they expire.

Government assistance
Investment tax credits and scientific research and experimental development tax credits are determined based on estimates of the Corporation's current year expenditures on qualifying programs. The investment tax credits are assessed to determine the likelihood that they will be applied against federal income taxes.

Capitalization of development costs
When capitalizing development costs the Corporation must assess the technical and commercial feasibility of the projects and estimate the useful lives of resulting products. Determining whether future economic benefits will flow from the assets and therefore the estimates and assumptions associated with these calculations are instrumental in (i) deciding whether project costs can be capitalized, and (ii) accurately calculating the useful life of the projects for the Corporation.

Income (loss) on completion of contracts
To estimate income (loss) on completion, the Corporation takes into account factors inherent to the contract by using historical and/or forecast data.

Repayable government grants
The forecast repayment of grants received from government authorities is based on future sales. As the forecast repayments are closely related to forecasts of future sales set out in business plans prepared by the operating divisions, the estimates and assumptions underlying these business plans are instrumental in determining the timing of these repayments.

Employee benefits
The Corporation considers a number of factors in developing the pension assumptions, including an evaluation of relevant discount rates, plan asset allocations, mortality, expected changes in wages and retirement benefits, analysis of current market conditions, economic benefits available and input from actuaries and other consultants. Costs of the programs are based on actuarially determined amounts and are accrued over the period from the date of hire to the full eligibility date of employees who are expected to qualify for these benefits.

12. CHANGES IN ACCOUNTING POLICIES

A description of accounting standards adopted in 2018

The Corporation has adopted the following new and amended standards in 2018.

IFRS 15 Revenue from Contracts with Customers
IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue* and related interpretations and applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

IFRS 15 was adopted effective January 1, 2018. The Corporation adopted IFRS 15 using the full retrospective method of adoption, which requires the restatement of the Corporation's 2017 results and an opening adjustment to equity as at January 1, 2017. Practical expedients for completed contracts were elected upon adoption.

The Corporation reviewed its revenue contracts to evaluate the effect of the new standard on Magellan's revenue recognition practices. The adoption of the new standard changed the Corporation's revenue recognition for certain performance obligations from previously accounted for using the completed contract method to using the percentage-of-completion method. The Corporation previously presented contract assets and liabilities related to construction contracts in accrued receivables and deferred revenue. All contract balances, on a contract-by-contract basis, are now presented in contract assets or contract liabilities.

Impact on the statement of income and comprehensive income for the twelve months period ended December 31, 2017:

Expressed in thousands of dollars	As reported	Decrease	Restated
Revenues	968,954	(13,493)	955,461
Cost of revenues	793,107	(10,353)	782,754
Gross profit	175,847	(3,140)	172,707
Income taxes	18,982	(1,351)	17,631
Net income	111,277	(1,789)	109,488
Total comprehensive income	103,200	(1,789)	101,411
Basic and diluted net income per share	1.91	(0.03)	1.88

Impact on the statement of financial position as at January 1, 2017 and December 31, 2017:

Expressed in thousands of dollars	As at January 1, 2017			As at December 31, 2017		
	As reported	Increase (Decrease)	Restated	As reported	Increase (Decrease)	Restated
Trade and other receivables	205,609	(8,853)	196,756	189,867	(20,174)	169,693
Contract assets	–	44,426	44,426	–	46,196	46,196
Inventories	208,964	(32,156)	176,808	197,857	(26,803)	171,054
Current assets	447,311	3,417	450,728	445,506	(781)	444,725
Deferred tax assets	22,007	(1,066)	20,941	14,313	(490)	13,823
Non-current assets	545,591	(1,066)	544,525	538,426	(490)	537,936
Total assets	992,902	2,351	995,253	983,932	(1,271)	982,661
Accounts payable and accrued liabilities and provisions	178,566	(6,240)	172,326	161,575	(7,298)	154,277
Current liabilities	229,353	(6,240)	223,113	213,409	(7,298)	206,111
Deferred tax liabilities	36,056	1,786	37,842	26,070	1,011	27,081
Total long-term liabilities	156,218	1,786	158,004	76,291	1,011	77,302
Retained earnings	310,664	6,805	317,469	405,976	5,016	410,992
Total liabilities and equity	992,902	2,351	995,253	983,932	(1,271)	982,661

While the timing of contract revenue and profit recognition is impacted, there is no change to cash flows.

IFRS 9 Financial Instruments

IFRS 9, *Financial Instruments* ("IFRS 9") provides guidance on the classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. The classification and measurement portion of the standard determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. The amended IFRS 9 introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. In addition, the amended IFRS 9 includes a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new standard is effective for annual periods beginning on or after January 1, 2018. The Corporation measures loss allowances for trade receivables and contract assets at an amount equal to lifetime expected credit losses. The Corporation has determined that the adoption of the standard resulted in a loss allowance of $1.0 million net of tax of $0.3 million, on trade and other receivables as at December 31, 2017. As a result, the opening retained earnings as at January 1, 2018 decreased by $1.0 million.

Amendment to IFRS 2 Classification and Measurement of Share-based Payment Transactions

In 2016, the IASB issued the final amendments to IFRS 2, *Share-based Payments* ("IFRS 2") that clarify the classification and measurement of share-based transactions, consisting of: accounting for cash-settled share-based payment transactions that include a performance condition; classification of share-based payment transactions with net settlement features;

accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The amendments are to be applied prospectively. However, retrospective application is allowed if this is possible without the use of hindsight. The adoption of the amendment did not have an impact on the Corporation's consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This adoption of this interpretation did not have an impact on the Corporation's consolidated financial statements.

Amendment to IAS 40 Transfer of Investment Property
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments did not have an impact on the Corporation's consolidated financial statements.

13. FUTURE CHANGES IN ACCOUNTING POLICIES

A description of new accounting standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2018, and have not been applied in preparing these consolidated financial statements. The following standards and interpretations have been issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committees ("IFRIC") with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

Leases
In 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"), replacing IAS 17, *Leases* and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15 has been adopted.

The Corporation plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that existing lease contracts will not need to be reassessed.

As a lessee, the Corporation will apply IFRS 16 using a modified retrospective approach. The cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings as at January 1, 2019, with no restatement of comparative information.

The Corporation will recognize right-of-use assets and lease liabilities for its facility and equipment leases with a remaining lease term of more than 12 months as at January 1, 2019. The actual impact of applying IFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the Corporation's borrowing rate at January 1, 2019, the composition of the Corporation's lease portfolio at that date, the Corporation's latest assessment of whether it will exercise any lease renewal options and the extent to which the Corporation chooses to use practical expedients and recognition exemptions.

In addition, the nature of expenses related to those leases previously classified as operating leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The Corporation is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sublease.

The Corporation is on track on its implementation plan and in the process of finanlizing the transition adjustments. The Corporation expects material increases in the assets and liabilities reported on the balance sheet. In addition, the Corporation expects the statement of earnings to be impacted for the amortization of right-of-use assets and interest expense, with corresponding decreases in operating and administrative expenses. Under the new standard, cash outflows for repayment of the principal portion of the lease liability will be classified as cash flows from financing activities. The interest portion of the lease payments will continue to be classified as cash flows from operating activities.

Uncertainty over Income Tax Treatments
In June 2017, IASB issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23"), which clarifies application of recognition and measurement requirements in IAS 12, *Income Taxes* when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Corporation is in the process of evaluating the impact that IFRIC 23 may have on the Corporation's consolidated financial statements.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement
In February 2018, the IASB issued amendments to IAS 19, *Employee Benefits* ("IAS 19") which address the accounting for plan amendments, curtailments or settlements during the reporting period. The amendments to IAS 19 require an entity to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and to recognize in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognized because of the impact of the asset ceiling. The amendments apply to plan amendments, curtailments or settlements that occur on or after January 1, 2019, with earlier application permitted. The amendments will have an impact on the Corporation's consolidated financial statements when there are plan amendments, curtailments or settlements after the effective date.

Annual Improvements to IFRS Standards 2015–2017
In December 2017, IASB issued the following amendments from the 2015-2017 annual improvement cycle.

IFRS 3 Business Combination
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019. Earlier application is permitted. These amendments will apply on business combinations of the Corporation after January 1, 2019.

IAS 12 Income Taxes
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally

recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. The Corporation does not expect these amendments will have an impact on the Corporation's consolidated financial statements

14. CONTROLS AND PROCEDURES

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

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings,* the Chief Executive Officer and Chief Financial Officer are required to certify as at December 31, 2018 that they are responsible for establishing and maintaining, and have assessed the design and operating effectiveness of disclosure controls and procedures and internal control over financial reporting.

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

In preparation for this certification, Magellan has dedicated resources in place to document and evaluate the design and operating effectiveness of disclosure controls and procedures and internal control over financial reporting. As of December 31, 2018, an evaluation was carried out, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer of the effectiveness of the Corporation's disclosure controls and internal controls over financial reporting, as those terms are defined in National Instrument 52-109. Based on that evaluation, the Corporation's management concluded that the Corporation's design and operating disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2018.

No changes were made in the Corporation's internal control over financial reporting during the year ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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