MAGELLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2018

MAGELLAN
AEROSPACE

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Magellan Aerospace Corporation ("Magellan" or the "Corporation") should be read in conjunction with the unaudited condensed consolidated interim financial statements and the notes thereto for the three month period ended March 31, 2018, and the audited annual consolidated financial statements for the year ended December 31, 2017 (available on SEDAR at www.sedar.com). Unless otherwise noted, all financial information has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), specifically International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"), which is within the framework of International Financial Reporting Standards ("IFRS"). This MD&A provides a review of the significant developments that have impacted the Corporation's performance during the three month period ended March 31, 2018 relative to the three month period ended March 31, 2017. The information contained in this report is as at May 1, 2018. 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 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 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.

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, repair and overhaul, and sale of systems and components for defence and civil aviation.

Business Update

On April 19, 2018, Magellan announced a new contract with Airbus for the supply of A330 Wing Ribs #2 thru #5 for a five year period and is expected to generate approximately $48 million over the term of the agreement. This contract will be fulfilled out of Magellan's UK facilities.

On April 25, 2018, Magellan announced that they have reached a strategic long term agreement with a current undisclosed customer. This five year agreement with anticipated revenues of $53 million is with a major aeroengine OEM. This contract secures the Corporation's current statement of work for both the production of complex magnesium and aluminum castings and the production of high tolerance critical rotating engine shafts. Magellan divisions supporting this contract include Magellan's Haley, Ontario, Glendale, Arizona, and Haverhill, Massachusetts facilities.

On April 27, 2018, Magellan announced major contract awards for both program extension and new work awards with Boeing Commercial Airplane Company. These awards include contract extensions for the B787, the B767-2C tanker door detail parts and assembly and legacy components and assemblies on the B747-800 and B767 programs.

In addition, Magellan was awarded a new multi-year contract to manufacture winglet components for the B737 MAX. The components and assemblies associated with these Boeing contracts will be delivered from Magellan's facilities in New York, New York and Middletown, Ohio.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2017 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan's operating results for first quarter ended March 31, 2018

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

The Corporation reported revenue of $244.6 million in the first quarter of 2018 as compared to $248.2 million in the first quarter of 2017. Gross profit and net income for the first quarter of 2018 were $40.4 million and $17.4 million, respectively, in comparison to gross profit of $43.5 million and net income of $39.6 million for the first quarter of 2017.

Consolidated Revenue

Overall, the Corporation's consolidated revenues decreased slightly when compared to the first quarter of 2017.

	Three month period ended March 31		
Expressed in thousands of dollars	**2018**	2017 (restated)	Change
Canada	**78,656**	74,860	5.1%
United States	**79,576**	81,093	(1.9%)
Europe	**86,393**	92,266	(6.4%)
Total revenues	**244,625**	248,219	(1.4%)

Consolidated revenues for the three month period ended March 31, 2018 were $244.6 million, $3.6 million or 1.4% lower than $248.2 million recorded for the same period in 2017. Revenues in Canada increased 5.1% in the first quarter of 2018 compared to the first quarter of 2017, primarily due to higher repair and overhaul services offset in part by lower production volumes and the weakening of the United States dollar relative to the Canadian dollar. On a currency neutral basis, Canadian revenues in the first quarter of 2017 increased by 8.1% over the corresponding period of 2017.

Revenues in United States decreased 1.9% in the first quarter of 2018 in comparison to the first quarter of 2017 when measured in Canadian dollars mainly due to unfavourable foreign exchange impact due to the weakening United States dollar against the Canadian dollar. On a currency neutral basis, revenues in the United States increased by 2.2% in the first quarter of 2018 over the first quarter of 2017.

European revenues decreased $5.9 million or 6.4% to $86.4 million in the first quarter of 2018 compared to $92.2 million during the first quarter of 2017, primarily driven by lower production rate for wide-body aircraft and unfavourable foreign exchange impact due to the weakening United States dollar relative to the British pound. On a constant currency basis, revenues in the first quarter of 2017 in Europe decreased by 4.2% compared to the same period in 2017.

Gross Profit

Expressed in thousands of dollars	2018	2017 (restated)	Change
	Three month period ended March 31		
Gross profit	**40,428**	43,495	(7.1%)
Percentage of revenues	**16.5%**	17.5%	

Gross profit decreased $3.1 million to $40.4 million for the first quarter of 2018 compared to $43.5 million for the first quarter of 2017 and gross profit as a percentage of revenues decreased to 16.5% for the first quarter of 2018 from 17.5% recorded in the same period in 2017. Decrease in gross profit was primarily due to volume decrease, changes in product mix and unfavourable foreign exchange impact primarily driven by the weakening of the United States dollar relative to British pound and Canadian dollars.

Administrative and General Expenses

Expressed in thousands of dollars	2018	2017	Change
	Three month period ended March 31		
Administrative and general expenses	**14,628**	15,087	(3.0%)
Percentage of revenues	**6.0%**	6.1%	

Administrative and general expenses as a percentage of revenues were 6.0% for the first quarter of 2018, consistent with that in the corresponding period of 2017. Administrative and general expenses were $0.5 million lower than prior year.

Other

Expressed in thousands of dollars	2018	2017
	Three month period ended March 31	
Foreign exchange loss	**2,170**	876
Loss (gain) on disposal of property, plant and equipment	**88**	(26,593)
Other	**-**	4,010
Total other expenses (income)	**2,258**	(21,707)

Other expenses in the first quarter of 2018 were driven by the foreign exchange loss recognized due to the movements in balances denominated in foreign currencies and the fluctuations of the foreign exchange rates. Other income of $21.7 million in the first quarter of 2017 consisted of $26.6 million gain on sale of the land and building of the Corporation's Mississauga facility, $4.0 million of associated sale costs and $0.9 million foreign exchange loss recognized in the first quarter of 2017.

Interest Expense

Expressed in thousands of dollars	2018	2017
	Three month period ended March 31	
Interest on bank indebtedness and long-term debt	**388**	869
Accretion charge for borrowings and long-term debt	**262**	234
Discount on sale of accounts receivable	**428**	252
Total interest expense	**1,078**	1,355

Interest expense of $1.1 million in the first quarter of 2018 was $0.3 million lower than the first quarter of 2017 amount of $1.4 million, mainly due to decreased interest on bank indebtedness and long-term debt as principal amounts were lower during the quarter. The decrease was partially offset by higher discount interest on the sale of accounts receivables as a higher volume of receivables were sold under factoring programs during the first quarter of 2018 as compared to the first quarter of 2017.

Provision for Income Taxes

	Three month period ended March 31	
Expressed in thousands of dollars	**2018**	2017 (restated)
Expense of current income taxes	**3,878**	4,562
Expense of deferred income taxes	**1,122**	4,558
Total expense of income taxes	**5,000**	9,120
Effective tax rate	**22.3%**	18.7%

Income tax expense for the first quarter ended March 31, 2018 was $5.0 million, representing an effective income tax rate of 22.3% compared to 18.7% for the first quarter of 2017. The increase in effective tax rate quarter over quarter was primarily due to the lower tax rate applicable to the capital gain on the sale of the land and building in Mississauga facility in the first quarter of 2017. The effective tax rate in current quarter was impacted by the reduction in the deferred tax liability in the United States as a result of new legislation which lowered the United States federal corporate income 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 and the current and deferred income taxes expenses

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

	2018	2017						2016
Expressed in millions of dollars, except per share amounts	**Mar 31**	Dec 31	Sep 30	Jun 30	Mar 31[2]	Dec 31	Sep 30	Jun 30
Revenues	**244.6**	235.6	232.6	253.5	248.2	247.1	238.0	252.7
Income before taxes	**22.5**	29.5	25.4	26.9	48.8	31.3	25.2	29.6
Net Income	**17.5**	32.1	19.3	20.4	39.6	24.0	18.8	22.3
Net Income per share								
Basic and diluted	**0.30**	0.55	0.33	0.35	0.68	0.41	0.32	0.38
EBITDA[1]	**34.1**	41.2	37.6	40.4	62.6	45.3	38.4	44.7

[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.*

Effective January 1, 2018, the Corporation adopted IFRS 15, *Revenue from contracts with customers* that are discussed in "Changes in Accounting Policies" in this MD&A. The adoption of the standard does not have a significant effect on the Corporation's reported profit and loss.

Revenues and net income reported in the quarterly information 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 1.8487 in the second quarter of 2016 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 1.4347 in the second quarter of 2016 and hit a low of 1.2395 in the first quarter of 2017.

The average exchange rate of the United States dollar relative to the Canadian dollar in the first quarter of 2018 was 1.2681 versus 1.3237 in the same period of 2017. The average exchange rate of British pound relative to the Canadian dollar moved to 1.7639 during the current quarter from 1.6414 in the first quarter of 2017. The average exchange rate of the British pound relative to the United States dollar increased to 1.3924 in the current quarter from 1.2409 in the first quarter of 2017. Had the foreign exchange rates remained at levels experienced in the first quarter of 2017, reported revenues in the first quarter of 2018 would have been higher by $7.6 million.

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 the reduction in the United States federal corporate income tax as a result of new legislation. The Corporation recorded business closure costs related to the closure of a small operating facility in the United States in the second quarter of 2016, and a margin adjustment related to one of its construction contracts in the third quarter of 2016.

4. Reconciliation of Net Income to EBITDA

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

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

	Three month period ended March 31	
Expressed in thousands of dollars	**2018**	2017 (restated)
Net income	**17,464**	39,640
Interest	**1,078**	1,355
Taxes	**5,000**	9,120
Depreciation and amortization	**10,596**	12,471
EBITDA	**34,138**	62,586

EBITDA decreased $28.4 million or 45.5% to $34.1 million for the first quarter of 2018, compared to $62.6 million in the first quarter of 2017 as a result of lower net income, interest, income taxes expenses and depreciation and amortization expenses. Net income in the first quarter of 2017 included $22.6 million net gain on sale of the land and building of the Corporation's Mississauga facility net of associated costs. Backing out the gain on sale of $22.6 million, EBITDA in the first quarter of 2017 would have been $40.0 million versus $34.1 million in the first quarter of 2018.

5. Liquidity and Capital Resources

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

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

Cash Flow from Operations

Expressed in thousands of dollars	Three month period ended March 31 2018	2017 (restated)
Increase in trade receivables	**(16,203)**	(27,478)
Increase in contract assets	**(6,799)**	(1,009)
Decrease (increase) in inventories	**3,864**	(4,068)
(Increase) decrease in prepaid expenses and other	**(3,062)**	861
Decrease in accounts payable, accrued liabilities and provisions	**(14,327)**	(10,403)
Changes to non-cash working capital balances	**(36,527)**	(42,097)
Cash used in operating activities	**(8,595)**	(10,772)

For the first quarter ended March 31, 2018, the Corporation used $8.6 million in operations, less than the $10.8 million used in the first quarter of 2017. The Corporation generated more cash from operating activities primarily driven by favourable changes in non-cash working capital balances and higher net income after adjusting for the impact of disposal of the Mississauga Property, offset by lower amortization and depreciation and deferred taxes.

Investing Activities

Expressed in thousands of dollars	Three month period ended March 31 2018	2017
Purchase of property, plant and equipment	**(7,566)**	**(16,592)**
Proceeds of disposal of property plant and equipment	**21**	**32,661**
(Increase) decrease in intangible and other assets	**(754)**	**3,120**
Change in restricted cash	**(2,714)**	**(21)**
Cash (used in) provided by investing activities	**(11,013)**	**19,168**

The Corporation's capital expenditures for the first quarter of 2018 were $7.6 million compared to $16.6 million in the first quarter of 2017. The Corporation continues to invest in capital expenditures to enhance its manufacturing capabilities in various geographies and to support new customer programs. In the first quarter of 2017, the Corporation sold the land and building of its Mississauga facility and generated net cash proceeds of $32.7 million..

Financing Activities

Expressed in thousands of dollars	Three month period ended March 31 2018	2017
Increase (decrease) in bank indebtedness	**15,446**	(13,062)
(Decrease) increase in debt due within one year	**(7,033)**	5,361
Decrease in long-term debt	**(13,266)**	(1,114)
(Decrease) increase in long-term liabilities and provisions	**(74)**	1,054
Increase in borrowings subject to specific conditions	**25**	530
Common share dividend	**(4,948)**	(3,784)
Cash used in financing activities	**(9,850)**	(11,015)

The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian dollar limit of $95.0 million, a US dollar limit of US$35.0 million and a British pound limit of £11.0 million. Under the terms of the amended credit agreement, the operating credit facility expires on September 30, 2018. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a Canadian $50.0 million uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility.

The Corporation used $9.8 million net after the utilization of the operating facility in the first quarter of 2018 mainly to repay debt due within one year and long-term debt and pay dividends.

As at March 31, 2018 the Corporation has made contractual commitments to purchase $14.4 million of capital assets.

Dividends

During the first quarter of 2018, the Corporation declared and paid quarterly cash dividends of $0.085 per common share representing an aggregate dividend payment of $4.9 million.

Subsequent to March 31, 2018 the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of $0.085 per common share. The dividend will be payable on June 29, 2018 to shareholders of record at the close of business on June 15, 2018.

Outstanding Share Information
The authorized capital of the Corporation consists of an unlimited number of Preference Shares, issuable in series, and an unlimited number of common shares. As at May 1, 2018, 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. The Corporation had no material foreign exchange contracts outstanding as at March 31, 2018.

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

For the three month period ended March 31, 2018, the Corporation had no material transactions with related parties as defined in IAS 24 - *Related Party Disclosures*.

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, 2017 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2017, 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, 2018 and have been applied in preparing the consolidated interim financial statements.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

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.

The Corporation adopted IFRS 15 using the full retrospective method of adoption. The effect of adopting IFRS 15 is as follows:

Impact on the statement of income and comprehensive income for the three month period ended March 31, 2017:

	As reported	Increase (Decrease)	Restated
Revenues	247,210	1,009	248,219
Cost of revenues	204,002	722	204,724
Gross profit	43,208	287	43,495
Income taxes	9,060	60	9,120
Net income and comprehensive income	39,413	227	39,640
Basic and diluted net income per share	0.68	0.00	0.68

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

	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**

There is no material impact on the consolidated statement of cash flows.

The Corporation's revenue recognition methodology is determined on a contract-by-contract basis. Significant changes to the Corporation's revenue recognition accounting policy as a result of adopting of IFRS 15 are set out below.

(i) *Sale of goods*
The majority of the Corporation's revenue is generated from the manufacture of aeroengine and aerostructure components for the aerospace market. Prior to adoption of IFRS 15, sales of goods were recognized when the goods were dispatched or made available to the customer, except for the sale of consignment product where revenue is recognized on notification that the product has been used. Under IFRS 15, revenues are recognized when control of promised goods is transferred to customers in an amount that reflects the consideration the Corporation expects to be entitled to receive in exchange for those goods. The Corporation accounts for contracts with customers when it has approval and commitment from both parties, each party's rights have been identified, payment terms are defined, the contract has commercial substance and collection is probable. The Corporation recognizes revenue over time using the percentage-of-completion input method, which recognizes revenue as performance of the contract progresses. Contracts that do not meet the criteria for over time recognition are recognized at a point in time. The sale of consignment products are recognized on notification that the product has been used.

Rendering services
The Corporation supports the aftermarket through the supply of spare parts as well as through repair and overhaul services. The repair and overhaul services are satisfied over time as customers simultaneously receive and consume the benefits provided by the Corporation. The Corporation recognizes revenues for repair and overhaul services using the percentage-of-completion input method as the basis for measuring the progress on the contract.

Input methods recognize revenue on the basis of an entity's efforts or inputs toward satisfying a performance obligation (for example, resources consumed, labor hours expended, costs incurred, time lapsed, or machine hours used) relative to the total expected inputs to satisfy the performance obligation. The estimation of revenue and costs-to-complete is complex, subject to variables and requires significant judgement. The contract value may include fixed amounts, variable amounts or both. The Corporation estimates variable consideration at the most likely amount to which the Corporation expects to be entitled. The estimated variable amount is included in the transaction price to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The estimation of variable consideration is largely based on assessment of the Corporation's historical, current and forecasted information that is reasonably available.

Other revenues
Other revenues are recognized at a point in time or over time as performance obligations are satisfied, depending on the nature of the contract.

(ii) *Presentation of contract assets or contract liabilities*

Contract Assets — Contract assets include unbilled amounts typically resulting from sales under long-term contracts when over time method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer, and right to payment is not just subject to the passage of time. Amounts may not exceed their net realizable value. Contract assets are generally classified as current. Upon transition to IFRS 15, the Corporation reclassed to contract assets $8,853 and $20,174 of trade receivables as at January 1, 2017 and December 31, 2017, respectively in relation to contracts that are recognized under percentage-of-completion input method.

Contract Liabilities — Contract liabilities consist of advance payments and billings in excess of revenue recognized and deferred revenue. Contract assets and liabilities are reported in a net position on a contract by-contract basis at the end of each reporting period. Advance payments and billings in excess of revenue recognized are classified as current or noncurrent based on the timing of when revenue is expected to be recognized. The current portion of contract liabilities is included in accounts payable and accrued liabilities and provisions and the noncurrent portion is included in other long-term liabilities and provisions in the consolidated statement of financial position.

(iii) *Disclosure requirements*
As required for the condensed interim financial statements, the Corporation disaggregated revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to note 8 for the disclosure on disaggregated revenue.

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 $999 net of tax of $348, on Trade and other receivables as at December 31, 2017. As a result, the opening retained earnings as at January 1, 2018 decreased by $999.

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 recognises 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.

10. Future Changes in Accounting Policies

A description of new accounting standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the interim period ended March 31, 2018, 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 2017 audited annual consolidated financial statements.

- IFRS 16 *Leases*
- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*
- Annual Improvements to IFRS Standards 2015-2017
- 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 recognise 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 recognised 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 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 2017 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 consolidated financial statements for the year ended December 31, 2017 for a discussion regarding the critical accounting estimates.

12. Controls and Procedures

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

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at March 31, 2018 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 2018

According to industry experts, the current commercial jetliner production "supercycle" will continue through to the end of the decade, at which at that point annual deliveries are estimated to reach US$138 billion in value, 3.5 times that which the industry experienced in 2004. Although order bookings in 2017 were lower than the peak in 2014, Boeing and Airbus continue to fulfill their record orders with steadily increasing monthly build rates. Boeing's combined production rates for B737 and B737 MAX programs are increasing from 48 aircraft to 52 aircraft with plans to increase again to 57.7 aircraft per month in early 2019. Airbus' build rate for the A320 and its variants is stepping up to 57 aircraft in 2018, and then to 60 aircraft per month in 2019. Boeing's B787 and B777 programs remain steady at 12 and 5 aircraft per month respectively. Airbus' new A350XWB and Boeing's B777X continue their ramp up towards full rate production. The A350XWB rate is currently at 8.4 aircraft per month and is planned to hit 13 aircraft per month by 2020. Boeing is building 3 B777X's in 2018 and is expected to reach between 8 and 9 aircraft per month by 2024. In the wide body market, recent sales announcements have added to the Airbus' A380 and Boeing's B747-8 backlogs stabilizing production rates going forward.

The commercial aerospace market is continuing to change and transform as demonstrated by increasing examples of vertical integration and the emerging new partnership agreements. For various reasons original equipment manufacturers are pursuing vertical integration strategies which will challenge lower tier suppliers to realign their strategies, including those that rely heavily on aftermarket for their profits. The second change comes with announcements that Airbus has partnered with Bombardier on the C-Series program, and Boeing and Embraer are in talks to reach a possible merger agreement. The impact of these initiatives on Magellan's market positions is not expected to be material. Magellan currently has supply agreements on all Airbus and Boeing commercial fixed wing platforms.

With new business jets about to enter service and more set for certification in 2018, the business jet industry hopes to see deliveries begin to recover after hitting another low point in 2017. The industry continues to introduce new models that are more attractive and more competitive than the previous ones in an attempt to stimulate demand; however some argue it is getting more difficult to find a niche to target. The latest focus by some manufacturers is on aircraft speed, such as with Bombardier's new Global platform and the new Gulfstream offerings which are capable of flying close to supersonic speeds. This may provide some stimulus in the market however experts continue to struggle in identifying new leading indicators that will signal that this market is in sustained recovery.

In the rotorcraft market, helicopter manufacturers are finally seeing signs of recovery and stability. Airbus predicts that the global market would need at least 22,000 helicopters over the next 20 years, with emerging economies providing most of the growth potential. Commercial sales increased by 3% in 2017 driven mainly by a preference for smaller lighter upper-medium models such as Bell's 525 and Leonardo's AW189. Further growth opportunity comes as a result of the opening up of the Chinese civil helicopter market, which is generating a boom in sales for light single and twin rotorcraft. In contrast, large helicopters for the oil and gas industry such as Airbus' H225 and Sikorsky's S-92 appear unlikely to fully recover to the volumes expected prior to the downturn in the energy market. Magellan services the rotorcraft industry through its engine maintenance, repair and overhaul capabilities and Wire Strike Protection System products. In addition, the Corporation's casting facilities in Haley, Ontario and Glendale, Arizona provide aeroengine castings in support of both the business jet and helicopter markets.

In the defense market, the United States market has entered its second consecutive year of growth. United States lawmakers acknowledge that their forces require fleet modernization and repair, and are therefore recommending funding increases for almost every aviation platform. For example, the Pentagon asked for an additional 70 F-35's and Congress wants to fund 90 of them. Allied nations' budgets are also expected to grow similarly to that of the United States.

Lockheed Martin's F-35 Lightening II aircraft ("F-35") completed a successful year in 2017. By the end of the year, 241 F-35's were in service worldwide and international final assembly lines in Italy and Japan had begun operations. In November, Denmark purchased the first of its 27 planned F-35's after selecting it over the Eurofighter and Super Hornet. In 2018, the U.S. Navy is set to declare the F-35C operational, the United Kingdom will begin F-35B carrier testing and Turkey will take delivery of its first F-35 fighters. Although Lockheed did not secure any new customers in 2017 for F-35, the fighter is expected to be successful in several upcoming next-generation fighter competitions such as in Belgium, Austria, Finland, Switzerland and Poland. Late in 2017, Canada announced that a tender for a new fighter would be put out in 2019, with the new fighter entering service by the mid 2020's. The competition will be open to all qualified bidders including Lockheed and Boeing.

While some aerospace markets remain depressed, the industry outlook overall continues to be positive. Commercial airline markets are maintaining record levels of production output and defense markets are beginning to rebound. Growth opportunities are developing as current new programs ramp up to full production and a spate of innovative new program variants emerge. Considering its diversified capabilities, Magellan is well positioned to benefit from current and future market opportunities.