MAGELLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 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 and nine month periods ended September 30, 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 September 30, 2018 relative to the three month period ended September 30, 2017. The information contained in this report is as at November 2, 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. 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 August 13, 2018, Magellan announced the signing of a six-year agreement with Pratt & Whitney to manufacture aluminum castings for their Next Generation Product Family ("NGPF") of engines, powering the Airbus A320neo, Airbus A220, Embraer E2 series and the Mitsubishi MRJ aircraft. The castings will be produced at Magellan's facilities in Haley, Ontario, Canada and Glendale, Arizona, USA. The agreement is expected to generate approximately $81 million in revenue through 2023.

On October 15, 2018, Magellan and Aeromet International Ltd announced that Magellan Aerospace, Haley had joined a global network of foundries licensed to manufacture cast parts using the advanced A20X™ aluminum alloy. Developed and patented by Aeromet in the UK, A20X™ is the world's strongest aluminum casting alloy.

On October 17, 2018 Magellan announced the completion of all hardware deliveries to MDA, a Maxar Technologies company, for the RADARSAT Constellation Mission ("RCM") being built for the Canadian Space Agency. 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. The three satellites will be deployed on a single launch that is schedule for the week of February 18, 2019.

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 third quarter ended September 30, 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 September 30, 2017 have been restated to reflect the impact of adoption of IFRS 15, *Revenue from Contracts with Customers*.

The Corporation reported revenue in the third quarter of 2018 of $226.5 million, a $3.9 million increase from the third quarter of 2017 of $222.6 million. Gross profit and net income for the third quarter of 2018 were $37.7 million and $18.6 million, respectively, in comparison to gross profit of $39.6 million and net income of $18.1 million for the third quarter of 2017.

Consolidated Revenue

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2018**	2017 (restated)	Change	**2018**	2017 (restated)	Change
Canada	**74,288**	68,278	8.8%	**230,633**	225,091	2.5%
United States	**81,545**	71,316	14.3%	**244,630**	233,938	4.6%
Europe	**70,690**	82,979	(14.8%)	**237,106**	263,800	(10.1%)
Total revenues	**226,523**	222,573	1.8%	**712,369**	722,829	(1.4%)

Consolidated revenues for the three month period ended September 30, 2018 were $226.5 million, an increase of $3.9 million from $222.6 million recorded for the same period in 2017. Revenues in Canada increased 8.8% in the third quarter of 2018 compared to the corresponding period in 2017, primarily due to volume increases in defense and rotocraft markets, and the strengthening of the United States dollar relative to the Canadian dollar when compared to the prior period. On a currency neutral basis, Canadian revenues in the third quarter of 2018 increased by 6.9% over the same period of 2017.

Revenues in United States increased by 14.3% in the third quarter of 2018 compared to the third quarter of 2017 when measured in Canadian dollars mainly due to volume increases in wide body aircraft and rotocraft market and favourable foreign exchange impact due to the strengthening of the United States dollar against the Canadian dollar. On a currency neutral basis, 2018 third quarter revenues in the United States increased 9.4% over the same period in 2017.

European revenues in the third quarter of 2018 decreased 14.8% when compared to the corresponding period in 2017 primarily driven by decreased production rates for wide body aircraft offset by the favourable foreign exchange impact as a result of the strengthening of the British pound relative to the Canadian dollar, and the strengthening of the United States dollar relative to the British pound. On a constant currency basis, revenues in the third quarter of 2018 in Europe went down by 19.8% compared to the same period in 2017.

Gross Profit

Expressed in thousands of dollars	Three month period ended September 30			Nine month period ended September 30		
	2018	2017 (restated)	Change	**2018**	2017 (restated)	Change
Gross profit	**37,692**	39,574	(4.8%)	**119,393**	128,296	(6.9%)
Percentage of revenues	**16.6%**	17.8%		**16.8%**	17.7%	

Gross profit of $37.7 million for the third quarter of 2018 was $1.9 million lower than the $39.6 million for the third quarter of 2017, and gross profit as a percentage of revenues of 16.6% for the third quarter of 2018 decreased from 17.8% recorded in the same period in 2017. The gross profit in the current quarter was primarily impacted by production volume decreases offset partially by the favourable foreign exchange due to the strengthening of the United States dollar and British pound relative to the Canadian dollar, and the strengthening of the United States dollar relative to the British pound.

Administrative and General Expenses

Expressed in thousands of dollars	Three month period ended September 30			Nine month period ended September 30		
	2018	2017	Change	**2018**	2017	Change
Administrative and general expenses	**14,182**	13,990	1.4%	**42,994**	44,523	(3.4%)
Percentage of revenues	**6.3%**	6.3%		**6.0%**	6.2%	

Administrative and general expenses as a percentage of revenues of 6.3% for the third quarter of 2018 were consistent with the same period of 2017. Administrative and general expenses increased slightly by $0.2 million or 1.4% to $14.2 million in the third quarter of 2018 compared to $14.0 million in the corresponding quarter of 2017 mainly due to unfavourable foreign exchange offset by lower employee expenses.

Other

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2018	2017	**2018**	2017
Foreign exchange (gain) loss	**(908)**	2,790	**(2,512)**	5,882
Loss (gain) on disposal of property, plant and equipment	**16**	12	**128**	(26,576)
Gain on disposition of investment property	**—**	(2,183)	**—**	(2,183)
Other	**—**	–	**—**	4,010
Total other	**(892)**	619	**(2,384)**	(18,867)

Other gain for the third quarter of 2018 consisted of a $0.9 million foreign exchange gain compared to a $2.8 million loss in the prior year. The movements in balances denominated in the foreign currencies and the fluctuations of the foreign exchange rates impact the net foreign exchange gain or loss recorded in a quarter. In addition, a $2.2 million gain on disposal of one investment property was recorded in the prior year.

Interest Expense

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2018	2017	**2018**	2017
Interest on bank indebtedness and long-term debt	**208**	691	**882**	2,083
Accretion charge on borrowings and long-term debt	**204**	210	**714**	696
Discount on sale of accounts receivable	**592**	448	**1,556**	1,212
Total interest expense	**1,004**	1,349	**3,152**	3,991

Total interest expense of $1.0 million in the third quarter of 2018 was $0.3 million lower than the third quarter of 2017 amount of $1.3 million mainly due to decreased interest on bank indebtedness and long-term debt as principal amounts were lower during the quarter.

Provision for Income Taxes

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2018**	2017	**2018**	2017
Current income tax expense	**3,285**	3,407	**10,975**	12,039
Deferred income tax expense	**1,501**	2,091	**5,116**	8,995
Income tax expense	**4,786**	5,498	**16,091**	21,034
Effective tax rate	**20.5%**	23.3%	**21.3%**	21.3%

Income tax expense for the three months ended September 30, 2018 was $4.8 million, representing an effective income tax rate of 20.5% compared to 23.3% for the same period of 2017. The change in effective tax rate and current and deferred income tax expenses year over year was primarily due to the change in mix of income across the different jurisdictions in which the Corporation operates, the gain recognized in relation to a prior acquisition during the quarter and a reduction in the 2018 United States federal corporate income tax rate.

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	**Sep 30**	Jun 30	Mar 31	Dec 31	Sep 30[2]	Jun 30[2]	Mar 31[2]	Dec 31
Revenues	**226.5**	241.2	244.6	235.6	222.6	252.0	248.2	247.1
Income before income taxes	**23.4**	29.8	22.5	29.5	23.6	26.3	48.8	31.3
Net Income	**18.6**	23.5	17.5	32.1	18.1	19.9	39.6	24.0
Net Income per share								
Basic and diluted	**0.32**	0.40	0.30	0.55	0.31	0.34	0.68	0.41
EBITDA[1]	**35.5**	41.8	34.1	41.2	35.8	39.8	62.6	45.3

[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 financial 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 the British pound impact the Corporation's United States dollar exposures in its European operations. During the periods reported, the average exchange rate of the 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 the 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.

Revenue for the third quarter of 2018 of $226.5 million was higher than that in the third quarter of 2017. The average exchange rate of the United States dollar relative to the Canadian dollar in the third quarter of 2018 was 1.3066 versus 1.2501 in the same period of 2017. The average exchange rate of the British pound relative to the Canadian dollar moved from 1.6397 in the third quarter of 2017 to 1.7047 during the current quarter. The average exchange rate of the British pound relative to the United States dollar decreased from 1.2974 in the third quarter of 2017 to 1.2611 in the current quarter. Had the foreign exchange rates remained at levels experienced in the third quarter of 2017, reported revenues in the third quarter of 2018 would have been lower by $9.0 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 a reduction in the United States federal corporate income tax as a result of new legislation.

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 September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2018**	2017 (restated)	**2018**	2017 (restated)
Net income	**18,612**	18,118	**59,540**	77,615
Interest	**1,004**	1,349	**3,152**	3,991
Taxes	**4,786**	5,498	**16,091**	21,034
Depreciation and amortization	**11,060**	10,862	**32,603**	35,554
EBITDA	**35,462**	35,827	**111,386**	138,194

EBITDA in the third quarter of 2018 decreased $0.3 million or 0.8% to $35.5 million, in comparison to $35.8 million in the same quarter of 2017 mainly as a result of lower interest and taxes, offset by higher net income and depreciation and amortization expense.

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

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2018**	2017 (restated)	**2018**	2017 (restated)
Decrease (increase) in accounts receivable	**10,333**	25,267	**(3,966)**	11,613
Decrease (increase) in contract assets	**3,297**	(8,328)	**(20,615)**	(8,158)
Increase in inventories	**(8,645)**	(9,580)	**(7,147)**	(12,729)
(Increase) decrease in prepaid expenses and other	**(2,161)**	969	**(7,581)**	1,202
(Decrease) increase in accounts payable, accrued liabilities and provisions	**(2,057)**	5,368	**(15,522)**	(21,495)
Changes in non-cash working capital balances	**767**	13,696	**(54,831)**	(29,567)
Cash provided by operating activities	**30,606**	41,460	**39,185**	62,049

For the three months ended September 30, 2018 the Corporation generated $30.6 million from operating activities, compared to $41.5 million in the third quarter of 2017. The decrease in cash flow from operations was mainly impacted by the unfavourable change in non-cash working capital balances, largely resulted from the unfavourable change year over year in accounts receivable in that the Corporation started selling receivables under a new program from the third quarter of 2017. This was offset by the decrease in contract assets resulted from timing of production and billing related to products transferred over time.

Investing Activities

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2018**	2017	**2018**	2017
Purchase of property, plant and equipment	**(8,456)**	(11,330)	**(21,519)**	(37,472)
Proceeds of disposals of property, plant and equipment	**4**	43	**203**	32,721
Proceeds on disposition of investment property	**—**	3,900	**—**	3,900
Increase in intangible and other assets	**(5,939)**	(660)	**(3,862)**	(6,553)
Change in restricted cash	**—**	(3,900)	**—**	(235)
Cash used in investing activities	**(14,391)**	(11,947)	**(25,178)**	(7,639)

Investing activities used $14.4 million cash for the third quarter of 2018 compared to $11.9 million cash in the same quarter of the prior year, an increase of $2.5 million from the prior year primarily due to higher deposits recorded in other assets offset by lower level of investment in property, plant and equipment. The Corporation continues to invest in capital expenditures to enhance its manufacturing capabilities in various geographies and to support new customer programs.

Financing Activities

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2018**	2017	**2018**	2017
Decrease in bank indebtedness	**(7,172)**	(5,357)	**(221)**	(24,522)
Increase (decrease) in debt due within one year	**2,300**	(8,802)	**(3,522)**	(3,995)
Decrease in long-term debt	**(646)**	(10,580)	**(14,520)**	(12,909)
Increase (decrease) in other long-term liabilities and provisions	**87**	101	**(44)**	1,241
Increase in borrowings subject to specific conditions	**180**	411	**2,276**	2,962
Repayment of borrowings subject to specific conditions	**—**	—	**(786)**	—
Common share dividend	**(4,947)**	(3,784)	**(14,843)**	(11,351)
Cash used in financing activities	**(10,198)**	(28,011)	**(31,660)**	(48,574)

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.

The Corporation used $10.2 million in the third quarter of 2018 mainly to repay bank indebtedness and long-term debt, and pay dividends which was partially offset by the proceeds from the sale of accounts receivables.

As at September 30, 2018 the Corporation has made contractual commitments to purchase $21.7 million of capital assets.

Dividends

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

Subsequent to September 30, 2018, the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of $0.10 per common share. The dividend will be payable on December 31, 2018 to shareholders of record at the close of business on December 14, 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 November 2, 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. As at September 30, 2018, the Corporation had $52.0 million USD/CAD foreign exchange contracts outstanding with a fair value of $242, expiring monthly until December 2019.

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 and nine month periods ended September 30, 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.

a) 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 September 30, 2017:

	As reported	Decrease	Restated
Revenues	232,649	(10,076)	222,573
Cost of revenues	191,311	(8,312)	182,999
Gross profit	41,338	(1,764)	39,574
Income taxes	6,036	(538)	5,498
Net income	19,344	(1,226)	18,118
Total comprehensive income	15,247	(1,226)	14,021
Basic and diluted net income per share	0.33	(0.02)	0.31

Impact on the statement of income and comprehensive income for the nine month period ended September 30, 2017:

	As reported	Decrease	Restated
Revenues	733,319	(10,490)	722,829
Cost of revenues	602,882	(8,349)	594,533
Gross profit	130,437	(2,141)	128,296
Income taxes	21,662	(628)	21,034
Net income	79,128	(1,513)	77,615
Total comprehensive income	67,725	(1,513)	66,212
Basic and diluted net income per share	1.36	(0.03)	1.33

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) Revenue recognition
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 elapsed, 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.

b) 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.

c) 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.

d) 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.

e) 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 September 30, 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* ("IFRS 16")
- 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 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 Corporation is in the process of evaluating the impact of adopting these standards on the Corporation's consolidated financial statements.

Specifically, IFRS 16 is effective for annual periods beginning on or after January 1, 2019. 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 plans to apply IFRS 16 at the date of initial application using a modified retrospective approach. Therefore, 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 has completed an initial qualitative assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. 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 sub-lease.

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 September 30, 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

Magellan participated in the 2018 Farnborough International Air Show ("Farnborough 2018"). Official recorded a total of 1,500 exhibitors attending the show representing 48 countries. By the close of the show, there were more than 1,400 commercial aircraft ordered worth US$154.0 billion and 1,432 engines ordered worth US $22.0 billion.

In conjunction with Farnborough 2018, FlightGlobal released an updated commercial aircraft forecast that foresees the global fleet increasing by 25,000 aircraft by 2037, raising the world fleet to 53,600 aircraft, including freighters. This is an increase from what was previously forecast to be 47,000 by 2036. Single and twin aisle aircraft are forecast to grow at 4% per year with regional aircraft growing at a lower rate of 2%.

To satisfy the steadily growing commercial market demand, Boeing's B737 production rate is now at 52 aircraft per month and is planned to reach 57.7 aircraft per month in 2019. Boeing is considering higher rates by 2020. Airbus' build rate for the A320 is currently at 57 aircraft per month and is planned to reach 63 aircraft per month mid-2019. New engine development and supply chain issues have affected the ramp up of both the A320neo and B737MAX programs which have resulted in a number of incomplete aircraft parked at the OEM's assembly lines. Boeing's 787 and 777 programs remain steady at 12 and 5 aircraft per month respectively. The B787 is expected to increase to 14 aircraft per month in the second quarter of 2019 as the new B787-10 reaches production rate. Airbus' A380 production is now down to 0.53 per month. The A350XWB rate is currently at 8.8 aircraft per month and is planned to reach 13 aircraft per month in 2020. Boeing is building three B777X aircraft in 2018 and is expected to reach between 8 and 9 aircraft per month by 2024. Airbus' A330 rate has dropped to 4.5 per month however they continue to claim the A330neo is positioned to address future fleet replacements which will require the rate to increase in 2020. There will be 31 A220 aircraft (formerly Bombardier C-Series) delivered in 2018 with 60 planned for 2019.

Due to its strong economy, the U.S. is expected to help drive recovery in the business jet market. Representing 60% of the global fleet inventory, North America is the single largest market for bizjets. Analysts are also reporting the lowest number of used jets for sale as a percentage of the total fleet in 19 years, which is a leading indicator concerning the health of the market and of pending recovery. The one cautionary note made however is that the residual values of used aircraft are depressed, making it difficult for owner/operators to decide on a new purchase.

In the regional turboprop market, Bombardier delivered its first 90-seat Q400 aircraft to India's SpiceJet in September. This delivery is against a firm order for 25 aircraft plus options for 25 more. Bombardier launched this new variant earlier in 2018 to help gain market share.

Security threats worldwide and what is widely recognized as an arms and technology race between China, Russia and the U.S. are driving a surge in the global defense market. As a result, the U.S. defense budget is expected to rise over the next two years. Additionally, U.S. allies are increasing their defense spending in what the U.S calls defense burden-sharing. Most countries have concerns over their own sovereignty and freedom in the current geopolitical climate. Many of them are prioritizing the purchase of new fighters, trainers and rotorcraft through fleet modernization programs.

Fleet modernization is expected to bring relief to rotorcraft manufacturers still suffering from the downturn in the oil and gas sector. A recent example saw a Leonardo-Boeing partnership win an order for 84 MH-139 helicopters in a competition to replace the U.S. Air Force's UH-1H Huey's. As well, the U.S. Navy is considering how to replace its aging Bell TH-57 SeaRangers. The U.S. Navy expect to purchase 105 helicopters. The U.S. Army is also soliciting proposals for up to 500 Future Attack Reconnaissance Aircraft. Other notable modernization programs are with Germany, India, Poland and Japan. Germany wants to replace its aging CH53G's and Sea Lynxes. India is searching for new multirole aircraft and utility helicopters. Japan is looking to replace its Bell AH-1's while Poland wants to purchase new naval and attack aircraft.

In the fighter market, Lockheed Martin announced in September a finalized contract for US$11.5 billion with the U.S. Department of Defense for the production and delivery of 141 F-35 Lightening II aircraft. The order consisted of 102 F-35A's, 25 F-35B's and 14 F-35C's. The unit cost was confirmed to be the lowest per aircraft price so far. An F-35A in Low-Rate Initial Production Lot 11 ("LRIP 11") is now US$89.2 million, down 5.4% from LRIP 10. The F-35B LRIP 11 price was lowered 5.7% to US$115.5 million and F-35C lowered 11.1% to US$107.7 million. Lockheed stated that as additional cost savings initiatives are implemented, they are on track to reducing the cost of an F-35A to US$80.0 million by 2022.

The Canadian Government's process to replace legacy CF-18 fighters has been launched. A draft request for proposal ("RFP") is expected to be issued before the end of this year with Airbus, Boeing, Dassault, Lockheed Martin, and SAAB being prospective contenders. Preliminary responses will be assessed then followed by a formal RFP in the first half of 2019. Contract award is expected by 2022, with the first replacement jets arriving in 2025/2026. An interim plan to buy legacy F-18s from Australia is developing. This is to provide mission capability until permanent replacement aircraft are available. Delivery of the first jet from Australia to Canada is expected in 2019. An upgrade/overhaul program will be required prior to first flight with upgraded jets expected to be available in 2022.

Commercial aerospace programs continue to be the main driver of growth for the industry. However as global threats increase and aging fleets require replacement, the defense market is now expected to grow as well. Magellan is benefiting from the positive trends in the current aerospace market with certain divisions currently experiencing revenue growth. Continuing efforts are being made to position all divisions on current and future growth programs.