This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Magellan Aerospace Corporation ("Magellan" or the "Corporation") should be read in conjunction with the audited consolidated financial statements and the notes thereto for the years ended December 31, 2019 and 2018 prepared in accordance with International Financial Reporting Standards ("IFRS"), and the Annual Information Form for the year ended December 31, 2019 (available on SEDAR at www.sedar.com). This MD&A provides a review of the significant developments that have impacted the Corporation's performance during the year ended December 31, 2019 relative to the year ended December 31, 2018. The information contained in this report is as at March 6, 2020. 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," "2019 and Recent Updates," "Outlook," "Consolidated Revenues," "Liquidity and Capital Resources," "Risk Factors," "Critical Accounting Estimates" and "Future Changes in Accounting Policies." In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "could," "expects," "forecasts," "believes," "projects," "plans," "anticipates," and similar expressions. The projections, estimates and beliefs contained in such forward-looking statements are based on management's assumptions relating to the production performance of Magellan's assets and competition throughout the aerospace industry in 2019 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. In particular, the Corporation has not adjusted or revised any forward-looking statements in this report to account for the potential disruption to its business from the recent novel coronavirus ("coronavirus") outbreak, the impact from which is not immediately known or quantifiable. Except as required by law, the Corporation does not undertake to update any forward-looking information in this document whether as a result of new information, future events or otherwise.

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

1. OVERVIEW

A summary of Magellan's business and significant 2019 events

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

During 2019, the Corporation advanced a number of key initiatives including the implementation of the first phase of a corporate-wide ERP system, the strengthening of its strategic planning process, and increasing the focus on zero defects and 100% on-time delivery. Advancing these initiatives along with other improvement plans is vital in an increasingly competitive market.

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. The Corporation supplies both the commercial and defence sectors of the Aerospace segment. In the commercial sector, the Corporation is active in the large commercial jet, business jet, regional aircraft, and helicopter markets. On the defence side, the Corporation provides parts and services for major military aircraft.

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

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

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

In 2019, 68% of revenues were derived from commercial markets (2018 – 69%, 2017 – 73%) while 32% of revenues related to defence markets (2018 – 31%, 2017 – 27%).

2019 and Recent Updates

Magellan announced on March 15, 2019 three five-year agreements valued at $48 million in aggregate, with the Canadian government to perform the licensed manufacture of LUU-2 Illumination flares for the RCAF. Magellan-produced flares will be delivered from the Magellan's propellant plant, located near Winnipeg, Manitoba.

On April 12, 2019 Magellan announced an agreement with Atlas Elektronik Canada for the design and development phase of the SeaSpider® Anti Torpedo Torpedo ("ATT") program. The initial $19 million phase of the program was launched in January 2019 and is expected to conclude in 2023. Magellan will lead the design and development of the SeaSpider® ATT rocket motor and warhead section of the torpedo that includes design, build, test and production qualification.

The Corporation announced on April 24, 2019 a multi-year agreement with Boeing to manufacture 777X control surface ribs in support of Boeing's Focused Factory initiative. Work will begin at its United Kingdom facility and later transition to a new factory in Bangalore, India. Boeing's Focused Factory initiative is the aggregation of products grouped by commonality and forecasted demand. The product groups utilize similar technologies and aggregating the products creates economies of scale that deliver lower cost, improved quality, and delivery efficiencies.

On April 29, 2019 Magellan announced agreements with an undisclosed customer for the supply of complex fabricated engine front frames for a commercial platform, to be manufactured at Magellan's facility in Winnipeg, Manitoba, and critical rotating engine shafts for a dual use platform to be manufactured at Magellan's facility in Haverhill, Massachusetts. The agreements are valued at approximately $45 million with delivery over the course of the next three years.

Magellan announced on May 14, 2019 that it will continue producing F-35 Lightning II ("F-35") horizontal tail assemblies under an agreement with BAE Systems. This agreement represents the continuation of contract awards for three additional years. With the additional quantities awarded, Magellan will now produce more than double the horizontal tails produced thus far for the global F-35 program. Annual deliveries will ramp up to 60 per year within the three year period. Magellan, through its operations in Winnipeg, Manitoba, and BAE Systems have been working together to produce horizontal tails for the global F-35 program for more than a decade.

The Corporation announced on November 7, 2019 that it completed the acquisition of 100% of the outstanding shares of Service Inter Industrie ("SII"), an aerospace component supplier based in Marignane, France. SII specializes in precision machining of critical components used in the manufacture of civil and military helicopters as well as components for the fixed wing commercial and defense aerospace markets. SII is in close proximity to its major customers, whom it serves for the serial production as well as maintenance, repair and overhaul services on select parts. The acquisition of SII provides a new growth vehicle for Magellan and is its first business acquired in France, close to major Airbus operations.

Magellan announced on January 13, 2020 an agreement with Collins Aerospace Systems for the supply of nose landing gear assemblies for the B737 aircraft. The assemblies comprised of complex machined titanium components will be delivered through 2024 from Magellan's facility in Kitchener, Ontario. In order to provide the best solution for Collins Aerospace Systems, Magellan's vertically integrated deliverable will utilize its global resources in Ontario, New York, India, and Poland.

Labour Matters

The Corporation employs over 4,200 employees; of these, approximately 1,600 are unionized and are covered by 16 collective bargaining agreements as of December 31, 2019. The Corporation maintains constructive relationships with its unions and strives to achieve mutually beneficially relationships while maintaining cost competiveness when negotiating extensions of expiry dates or renewals of the collective agreements. The Corporation is currently in negotiations regarding a number of such extensions or renewals and it expects all negotiations will result in extensions of expiry dates, renewals of the agreements or some other mutually satisfactory agreement as applicable.

Financing Matters

On September 13, 2018 the Corporation entered into the Bank Credit Facility Agreement, with a syndicate of lenders. The Bank Credit Facility Agreement provides for a multi-currency global operating credit facility to be available to Magellan in a maximum aggregate amount of $75 million. The Bank Credit Facility Agreement also includes a $75 million uncommitted accordion provision, which provides Magellan with the option to increase the size of the operating credit facility to $150 million. Under the terms of the Bank Credit Facility Agreement, the operating credit facility expires on September 13, 2021. Any extensions of the operating credit facility are subject to mutual consent of the lenders and the Corporation.

2. OUTLOOK

The outlook for Magellan's business in 2020

Growth in the global commercial aerospace market is expected to continue through 2020; however, forecasters are highlighting several areas to be watched. The air traffic growth rate slowed to 4.2% in 2019 compared to an annual average of 6.2% experienced between 2009 and 2018. Slower air traffic growth could have a tempering effect on the current up cycle. As the single-aisle aircraft represents the largest segment within this market, the timing of Boeing's 737 MAX return-to-service and production restart is an important factor in the overall outlook. Finally, a weakness in demand for wide-body aircraft appears to be signaling a reset for that market segment.

Both Boeing and Airbus closed 2019 with lower order backlogs than the prior year. Boeing closed with a backlog of 5,625 aircraft, a net decrease of 326 aircraft. Airbus closed with a backlog of 7,482 aircraft, a net decrease of 95 aircraft.

The single-aisle market saw Boeing cut the 737 production rate in early second quarter of 2019 from 52 aircraft per month to 42 per month and then in December 2019 Boeing announced that it would pause production starting in January 2020. There are approximately 400 undelivered 737 MAX aircraft parked on the ground and another 387 delivered aircraft that need to be returned to service once authorization has been given by the regulators. In its latest statement, Boeing estimated that the ungrounding would begin during mid-2020.

Boeing's competitor Airbus is currently building its single-aisle A320 aircraft at a rate of 59 aircraft per month which is lower than the 63 aircraft per month that was planned for by the fourth quarter of 2019. The higher rate is now expected to begin by the end of 2020.

The wide-body aircraft market is weak. Responding to a low order intake, Boeing will reduce its 787 aircraft build rate from 14 aircraft per month to 12 aircraft per month late in 2020. In February 2019, Airbus announced that it would wind down the A380 program following the cancellation of orders by the program's largest customer, Emirates. The program will officially cease production in 2020. Several new wide-body programs experienced setbacks in 2019 including Boeing's 777-8 aircraft, which is on hold until 2021. Their 777-9 program and Airbus' A330neo were both delayed in 2019 due to engine issues. Production of the A350 aircraft has dropped from 9.8 aircraft per month to 9.4 aircraft per month for the next few years. A new threat to the wide-body market is the success of Airbus' new A321XLR long range aircraft that was launched in June 2019 in Paris. With the A321XLR model, airlines will be able to operate a lower-cost single-aisle aircraft on longer and less heavily travelled routes, many of which can now only be served by larger and less efficient wide-body aircraft.

In the regional jet market, the A220 aircraft backlog has increased strongly since Airbus assumed ownership of the program from Bombardier. Their new Alabama facility is slated to deliver up to 4 aircraft per month with Canadian facilities having a capacity to deliver up to 10 aircraft per month. The Boeing/Embraer commercial aircraft division deal was expected to close by the end of 2019, but due to unexpected European Union regulatory delays, completion is now pushed into the first quarter of 2020. Embraer achieved the first flight of its new E175-E2 in December 2019. The other two aircraft in the series, the E190-E2 and E195-E2, are both performing well with order backlogs of around 44 and 124 aircraft respectively. In 2019, Mitsubishi acquired Bombardier's CRJ regional jet operations. Their domestic MRJ program now rebranded as SpaceJet has been plagued with delays. The program had orders for 490 aircraft at the end of 2019. The first delivery of the M90 is expected in 2020 with the M100 planned for 2023.

In the regional turboprop market, ATR continues to hold the strongest position with an order backlog at the end of 2019 of 486 ATR 42's and 1,234 ATR 72's. Comparatively, De Havilland Canada closed 2019 with a Q400 order backlog of approximately 45 aircraft.

Business jet deliveries were 10% higher in 2019 compared to 2018, a growth driven primarily by new products introduced to stimulate demand. According to Forecast International, this market is expected to grow modestly in 2020 and then decline in 2021 and 2022 before resuming growth in 2023.

Flight International has stated that worldwide defence spending will grow by 3% to 4% in 2020 and by 3% annually through at least 2023 due to increasing global security concerns. In the United States, the Government's fiscal year 2020 Defense Appropriations Bill, which was approved last December, increased spending by US$18.9 billion over fiscal year 2019. Some key programs benefiting from this bill were F-35 and F/A-18E/F fighters, UH-60 Blackhawk and AH-64 Apache helicopters, KC-46 Tankers and C130J transport aircraft.

Lockheed Martin's F-35 Fighter Program achieved a number of key milestones in 2019 including the delivery of 134 aircraft, 3 aircraft ahead of plan, and reduced the F-35A price to $77.9 million, which was ahead of the $80 million goal, one year earlier than planned. In 2020 Lockheed plans to deliver 141 F-35's while preparing to increase volume year-over-year to reach a peak of around 170 aircraft in 2022, as demand for the aircraft remains strong for the U.S. Department of Defense and international customers. There are currently more than 490 aircraft operating from 21 bases in eight nations around the globe.

Canada's Future Fighter replacement program has three competitors remaining in the $19.0 billion contest: Lockheed Martin with its F-35; Boeing with the Super Hornet; and Saab, which is offering an updated version of its Gripen fighter. Proposals are due to the Canadian Government by June 30, 2020. A down selection is expected in 2020 or 2021 followed by the identification of the selected bidder in early 2022 and first aircraft delivery planned in 2025.

3. SELECTED ANNUAL INFORMATION

A summary of selected annual financial information for 2019, 2018 and 2017

Expressed in millions of dollars, except per share information	**2019**	2018	2017 (restated)[1]
Revenues	**1,016.2**	966.8	955.5
Net income for the year	**67.4**	89.1	109.5
Net income per common share – Basic and Diluted	**1.16**	1.53	1.88
EBITDA	**145.2**	162.1	178.3
EBITDA per common share – Basic and Diluted	**2.49**	2.78	3.06
Total assets	**1,141.2**	1,072.9	982.7
Total non-current financial liabilities	**125.2**	86.4	77.3

[1] *Restated upon adoption of IFRS 15, Revenue from Contracts with Customers.*

Revenues for the year ended December 31, 2019 increased from both 2018 and 2017 levels. The increase in revenues from 2018 was primarily attributable to volume increases in repair and overhaul services, proprietary and casting products. Net income decreased in 2019 from 2018 mainly due to lower gross margin as a result of lower production volumes on certain programs, production inefficiencies in certain of our operating divisions and higher manufacturing costs, and the costs incurred for the implementation of a new ERP program. In addition, a net gain related to prior acquisitions was recorded in 2018 (See "Results of Operations").

During 2019 the Corporation paid quarterly dividends on common shares of $0.10 per share for the first three quarters and $0.105 per share in the fourth quarter, amounting to $23.6 million in total for the year. During 2018, the Corporation paid quarterly dividends on common shares of $0.085 per share in the first three quarters and $0.10 per share in the fourth quarter, amounting to $20.7 million in total for the year.

4. RESULTS OF OPERATIONS

A discussion of Magellan's operating results for 2019 and 2018

Consolidated Revenues

Consolidated revenues for the year ended December 31, 2019 were $1,016.2 million, a 5.1% increase from the $966.8 million last year. Gross profit and net income were $157.0 million and $67.4 million, respectively, in comparison to gross profit of $163.3 million and net income of $89.1 million for the year ended December 31, 2018.

Twelve-months ended December 31, expressed in thousand of dollars	**2019**	2018	Change
Canada	**366,565**	320,838	14.3%
United States	**322,970**	325,739	(0.9%)
Europe	**326,684**	320,176	2.0%
Total revenues	**1,016,219**	966,753	5.1%

Consolidated revenues are impacted by the fluctuation of the United States dollar and British pound against the Canadian dollar when the Corporation translates its foreign operations to Canadian dollars. Further, the fluctuation of the British pound relative to the United States dollar impacts the performance of the Corporation's European operations. If the average exchange rates for both the United States dollar and British pound experienced in 2018 remained constant in 2019, consolidated revenues for 2019 would have been approximately $998.8 million.

On a currency neutral basis, in comparison to 2018, revenues in Canada in 2019 increased 12.6% primarily driven by higher volumes in repair and overhaul services, proprietary and casting products. Revenues in the United States decreased by 3.1% largely due to volume decreases for single aisle aircraft and aeroengine programs, offset by higher spare sales. Revenues in Europe increased slightly by 0.5% from the prior year.

Gross Profit

Twelve-months ended December 31, expressed in thousands of dollars	**2019**	2018	Change
Gross Profit	**156,958**	163,275	(3.9%)
Percentage of revenue	**15.4%**	16.9%	

Gross profit was $157.0 million in 2019, $6.3 million lower than 2018 of $163.3 million. Gross profit, as a percentage of revenues was lower than the prior year by 1.5%. Decrease in gross profit was primarily driven by lower production volumes on certain programs, production inefficiencies in certain of our operating divisions, higher manufacturing costs and an accrual recorded in relation to the wind-down of the A380 program, offset in part by higher volumes in repair and overhaul services and proprietary products and the favourable foreign exchange due to the strengthening year over year of the United States dollar against the Canadian dollar and the British pound.

Administrative and General Expenses

Twelve-months ended December 31, expressed in thousands of dollars	**2019**	2018	Change
Administrative and general expenses	**62,312**	57,337	8.7%
Percentage of revenue	**6.1%**	5.9%	

Administrative and general expenses as a percentage of revenue were 6.1% in 2019 as compared to 5.9% in 2018. Administrative and general expenses of $62.3 million in 2019 were $5.0 million or 8.7% higher than $57.3 million in the prior year mainly due to costs incurred by the Corporation for its phased implementation of a new ERP program, higher repair and maintenance costs in its new Mississauga facility, and increased costs in relation to acquisitions in 2019. In addition, $0.5 million was recorded in other income in 2018 as a result of an early termination of a rental agreement.

Other

Twelve-months ended December 31, expressed in thousands of dollars	**2019**	2018
Foreign exchange loss (gain)	**1,874**	(2,993)
Loss on disposal of property, plant and equipment	**32**	313
Other	**3,112**	(9,676)
Other	**5,018**	(12,356)

Included in other income is a foreign exchange loss of $1.9 million compared to a gain of $3.0 million in the prior year. The movements in balances denominated in foreign currencies and the fluctuations of the foreign exchange rates impact the net foreign exchange loss or gain recorded during the year. In 2019, $4.0 million of one-time relocation expenses were incurred for the Corporation's new Mississauga facility on its relocation to a new operating plant, offset by a $0.9 million gain recorded in relation to the step acquisition of one of its joint ventures in India. In 2018, the Corporation recognized a net gain of $9.7 million in relation to prior acquisitions.

Interest Expense

Twelve-months ended December 31, expressed in thousands of dollars	**2019**	2018
Interest on bank indebtedness and long-term debt	**101**	884
Accretion charge on long-term debt and borrowings	**1,091**	1,006
Accretion charge for lease liabilities	**1,387**	–
Discount on sale of trade receivables	**2,053**	2,224
Interest expense	**4,632**	4,144

Total interest costs of $4.6 million for 2019 increased by $0.5 million from $4.1 million in 2018, primarily due to accretion charge for lease liabilities recorded as a result of adopting IFRS 16, *Leases* effective January 1, 2019, offset by decreased interest on bank indebtedness and long-term debt attributed to reduced principal amounts outstanding during the year.

Income Taxes

Twelve-months ended December 31, expressed in thousands of dollars	**2019**	2018
Current income tax expense	**6,105**	9,402
Deferred income tax expense	**11,510**	15,658
Income tax expense	**17,615**	25,060
Effective tax rate	**20.7%**	21.9%

The Corporation recorded an income tax expense in 2019 of $17.6 million on pre-tax income of $85.0 million, representing an effective tax rate of 20.7%, compared to an income tax expense of $25.1 million on a pre-tax income of $114.2 million in 2018.

During 2019 and 2018, the Corporation recognized investment tax credits totalling $4.8 million and $10.0 million, respectively, as a reduction of cost of revenues, as the Corporation has determined that it will be able to benefit from these investment tax credits. The change in mix of income across the different jurisdictions in which the Corporation operates also impacts the change in the effective tax rate.

5. RECONCILIATION OF NET INCOME TO EBITDA

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

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

Twelve-months ended December 31, expressed in thousands of dollars	**2019**	2018
Net income	**67,381**	89,120
Interest	**4,632**	4,114
Taxes	**17,615**	25,060
Depreciation and amortization	**55,593**	43,809
EBITDA	**145,221**	162,103

EBITDA for the year ended 2019 of $145.2 million decreased by $16.9 million when compared to $162.1 million in 2018, primarily as a result of lower net income due to a one-time gain recorded in 2018 and lower taxes, offset by higher interest, and depreciation and amortization expenses mainly due to the implementation of the new lease standard.

6. SELECTED QUARTERLY FINANCIAL INFORMATION

A summary view of Magellan's quarterly financial performance

Expressed in millions of dollars except per share information				**2019**				2018
	Mar 31	**Jun 30**	**Sep 30**	**Dec 31**	Mar 31	Jun 30	Sep 30	Dec 31
Revenues	**269.9**	**264.1**	**235.6**	**246.7**	244.6	241.2	226.5	254.5
Income before taxes	**25.9**	**27.8**	**19.6**	**11.7**	22.5	29.8	23.4	38.5
Net income	**20.4**	**21.7**	**15.8**	**9.4**	17.5	23.5	18.6	29.5
Net income per common share								
Basic and Diluted	**0.35**	**0.37**	**0.27**	**0.16**	0.30	0.40	0.32	0.51
EBITDA[1]	**40.5**	**42.7**	**34.1**	**27.9**	34.1	41.8	35.5	50.7

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

Revenues and net income reported in the table above were impacted by the movements in the Canadian dollar relative to the United States dollar and British pound when the Corporation translates its foreign operations to Canadian dollars. Further, the movements in the United States dollar relative to British pound impact the Corporation's United States dollar exposures in its European operations. During the periods reported, the average exchange rate of the United States dollar relative to the Canadian dollar fluctuated between a high of 1.3375 in the second quarter of 2019 and a low of 1.2648 in the first quarter of 2018. 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 1.6280 in the third quarter of 2019. 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 1.2327 in the third quarter of 2019. Had exchange rates remained at levels experienced in 2018, reported revenues in 2019 would have been lower by $10.3 million, $6.2 million and $1.2 million for the first three quarters respectively; higher by $0.3 million in the fourth quarter.

As discussed above, net income reported in the quarterly information was also impacted by the foreign exchange movements. In the fourth quarter of 2018, the Corporation recorded a net gain of $9.7 million related to prior acquisitions. The fourth quarter of 2019 was impacted by volume decrease in Europe, production inefficiencies in certain of our operating divisions and an accrual recorded in relation to the wind-down of the A380 program.

7. LIQUIDITY AND CAPITAL RESOURCES

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

The Corporation's liquidity needs can be met through a variety of sources including cash on hand, cash provided by operations, short-term borrowings from its credit facility and trade receivables securitization program, and long-term debt and equity capacity. Principal uses of cash are to fund liabilities as they become due, finance capital expenditures, fund debt repayments, pay dividends and provide flexibility for new investment opportunities. Based on current funds available and expected cash flow from operating activities, management believes that the Corporation has sufficient funds available to meet its liquidity requirements at any point in time. However, if cash from operating activities is lower than expected or capital costs for projects exceed current estimates, or if the Corporation incurs major unanticipated expenses, it may be required to seek additional capital in the form of debt or equity or a combination of both.

In 2019, $104.2 million of cash was generated by operations, $62.3 million was used in investing activities and $34.2 million was used in financing activities.

Cash Flow from Operating Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2019**	2018
Decrease (increase) in account receivables	**12,183**	(13,224)
Increase in contract assets	**(12,870)**	(18,335)
(Increase) decrease in inventories	**(21,096)**	1,868
Increase in prepaid expenses and other	**(1,124)**	(5,412)
Decrease in accounts payable, accrued liabilities and provisions	**(3,974)**	(6,046)
Net change in non-cash working capital items	**(26,881)**	(41,149)
Net cash provided by operating activities	**104,205**	99,997

The Corporation generated $104.2 million in 2019 from operating activities, compared to $100.0 million in the prior year. Changes in non-cash working capital items used cash of $26.9 million, $14.3 million lower when compared to $41.1 million in the prior year, largely attributed to the decrease in account receivables, higher contract assets resulted from the timing of production and billing related to products transferred over time, the increase in prepaid expenses and the decrease in accounts payable, accrued liabilities and provisions due to timing of payment, offset by the increase in inventories related to timing of purchase and production and to support higher production volumes in a number of programs in 2020.

Cash Flow from Investing Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2019**	2018
Business combinations	**(5,519)**	–
Purchase of property, plant and equipment	**(51,820)**	(48,346)
Proceeds from disposal of property, plant and equiptment	**388**	411
Change in restricted cash	**–**	3,329
Increase in intangibles and other assets	**(5,301)**	(2,728)
Net cash used in investing activities	**(62,252)**	(47,334)

Investing activities for 2019 used $62.3 million compared to $47.3 million in the prior year, an increase of $15.0 million mainly related to acquisitions of new businesses, higher level of investment in capital assets, and the investment in ERP system. The Corporation invested $51.8 million in capital assets during the year in comparison to $48.3 million in 2018. The Corporation continues to invest in advanced technology production equipment and information technology systems, both designed to increase productivity, reduce cycle time and improve technology capability.

Cash Flow from Financing Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2019**	2018
Decrease in bank indebtedness	**–**	(264)
(Decrease) increase in debt due within one year	**(1,720)**	3,892
Decrease in long-term debt	**(4,124)**	(15,165)
Lease liability payments	**(3,972)**	–
Decrease in long-term liabilities and provisions	**(44)**	(945)
(Decrease) increase in borrowings, net	**(803)**	1,302
Common share dividend	**(23,575)**	(20,664)
Net cash used in financing activities	**(34,238)**	(31,844)

The Corporation used $34.2 million in 2019 mainly to repay long-term debt and debt due within one year, and pay lease liabilities and dividends.

Contractual Obligations

As at December 31, 2019, expressed in thousands of dollars	**Less than 1 year**	**1-3 Years**	**4-5 Years**	**After 5 Years**	**Total**
Trade receivables securitization	39,399	–	–	–	39,399
Long-term debt	2,473	4,452	2,880	–	9,805
Lease liabilities	6,649	11,971	10,404	30,523	59,547
Other long-term liabilities	152	509	252	888	1,801
Borrowings subject to specific conditions	1,193	1,565	1,608	20,925	25,291
Total Contractual Obligations	**49,866**	**18,497**	**15,144**	**52,336**	**135,843**

Major cash flow requirements for 2019 include the repayment of trade receivables securitization of $39.4 million which is expected to be refinanced, repayment of long-term debt of $2.5 million, payments of lease liabilities of $6.6 million and borrowings subject to specific conditions of $1.2 million.

The Corporation has a Bank Credit Facility Agreement with a syndicate of lenders. The Bank Credit Facility Agreement provides for a multi-currency global operating credit facility to be available to Magellan in a maximum aggregate amount of $75 million. The Bank Credit Facility Agreement also includes a $75 million uncommitted accordion provision, which provides Magellan with the option to increase the size of the operating credit facility to $150 million. Under the terms of the Bank Credit Facility Agreement, the operating credit facility expires on September 13, 2021. Any extensions of the operating credit facility are subject to mutual consent of the lenders and the Corporation.

As at December 31, 2019, the Corporation had made contractual commitments to purchase $8.5 million of capital assets. In addition, the Corporation had purchase commitments, largely for materials required for the normal course of operations, of $303.0 million as at December 31, 2019. The Corporation plans to fund all of these commitments with operating cash flow and the existing credit facility.

Outstanding Share Information

The authorized capital of the Corporation consists of an unlimited number of preference shares, issuable in series, and an unlimited number of common shares. As at March 6, 2020, 58,209,001 common shares were outstanding and no preference shares were outstanding. More information on the Corporation's share capital is provided in note 20 of the Corporation's consolidated financial statements.

On March 29, 2019, June 28, 2019, and September 30, 2019 the Corporation paid quarterly dividends on its 58,209,001 common shares of $0.10 per common share, representing an aggregate dividend payment of $17.5 million. On December 31, 2019 the Corporation paid quarterly dividends on its 58,209,001 common shares of $0.105 per common share, amounting to $6.1 million.

For the year ended December 31, 2018, the Corporation declared and paid dividends on its common shares on March 30, 2018, June 29, 2018, and September 28, 2018 of $0.085 per share amounting to $14.9 million and on December 31, 2018 of $0.10 per share amounting to $5.8 million.

In the first quarter of 2020, the Corporation declared cash dividends of $0.105 per common share payable on March 31, 2020 to shareholders of record at the close of business on March 20, 2020.

8. FINANCIAL INSTRUMENTS

A summary of Magellan's financial instruments

Derivative Contracts

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian dollar denominated financial statements of the Corporation's subsidiaries may vary on consolidation into the reporting currency of Canadian dollars. The Corporation from time to time may use derivative financial instruments to help manage foreign exchange risk with the objective of reducing transaction exposures and the resulting volatility of the Corporation's earnings. The Corporation does not trade in derivatives for speculative purposes. Under these contracts the Corporation is obligated to purchase specified amounts at predetermined dates and exchange rates. These contracts are matched with anticipated cash flows in United States dollars. The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. As at December 31, 2019, there were no foreign exchange contracts outstanding.

Off-Balance Sheet Arrangements

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

9. RELATED PARTY TRANSACTIONS

A summary of Magellan's transactions with related parties

During the year, the Corporation incurred consulting and cost recovery fees of $0.2 million [2018 – $0.1 million] payable to a corporation controlled by the Chairman of the Board of Directors of the Corporation.

10. RISK FACTORS

A summary of risks and uncertainties facing Magellan

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

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

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

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

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

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

Significant political events can cast uncertainty on global financial and economic markets and depending upon the nature of the event can directly affect the aerospace market. One example is the renegotiation of the “USMCA” (United States-Mexico-Canada Agreement, formerly NAFTA) and the potential for significant U.S. import tariffs being levied on aerospace materials produced outside of the United States. New tax legislation or changes to existing tax laws, as well as the potential introduction of laws to reduce immigration and restrict access into the United States for citizens of certain countries could also present future challenges to non-U.S. corporations.

Britain officially exited the European Union on January 31, 2020 (“Brexit”) and now faces the process of negotiating new trade agreements with European and other countries. Until these negotiations are concluded, economic uncertainty may drive volatility in the value of the British pound. Any long term impact from Brexit on Magellan’s United Kingdom operations will depend, in part, on the outcome of tariff, trade, regulatory, and other negotiations. Whether or not listed above, any effects of Brexit, may have a negative effect and may adversely affect the Corporation’s business.

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

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

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

Competitive pressures may adversely affect the Corporation.

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

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

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

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

11. CRITICAL ACCOUNTING ESTIMATES

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

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

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

Financial instruments

The valuation of the Corporation's derivative instruments and certain other financial instruments requires estimation of the fair value of each instrument at the reporting date. Details of the basis on which fair value is estimated are provided in note 22 to the consolidated financial statements.

Impairments

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

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

Deferred taxes

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

Government assistance

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

Capitalization of development costs

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

Leases

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend or terminate the lease. The lease term is estimated by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise the termination option. Both qualitative and quantitative assumptions are considered when deriving the value of the economic incentive.

The Corporation makes judgments in determining whether a contract contains an identified asset. The identified asset should be physically distinct or represent substantially all of the capacity of the asset, and should provide the Corporation with the right to substantially all of the economic benefits from the use of the asset.

Judgments are made by the Corporation in determining the incremental borrowing rate used to measure the lease liability for each lease contract, including an estimate of the asset-specific security impact. The incremental borrowing rate should reflect the interest rate that the Corporation would have to pay to borrow at a similar term and with a similar security.

Income (loss) on completion of contracts

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

Repayable government grants

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

Employee benefits

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

12. CHANGES IN ACCOUNTING POLICIES

A description of accounting standards adopted in 2019

The Corporation has adopted the following new and amended standards in 2019.

IFRS 16 Leases

Effective January 1, 2019, the Corporation adopted IFRS 16, *Leases* ("IFRS 16"), replacing IAS 17, *Leases* ("IAS 17"), IFRIC 4, *Determining whether an Arrangement contains a Lease* ("IFRIC 4"), SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 introduced a single on-balance sheet model for lessees unless the underlying asset is of low value and the short-term lease recognition exemption is being applied. A lessee is required to recognize, on its statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. As a result of adopting IFRS 16, the Corporation recognized an increase to assets and liabilities, respectively, on the consolidated statement of financial position. Subsequent to the adoption, operating costs decrease due to the removal of rent expense for leases, depreciation and amortization expense increases due to depreciation of right-of-use assets, and finance costs increase due to accretion of the lease liability. The accounting treatment for lessors remains largely the same as under IAS 17.

The Corporation adopted IFRS 16 under the modified retrospective approach and did not restate the comparatives for 2018. At transition, the Corporation applied the practical expedient available to the Corporation that allows the continuation of the lease assessments under IAS 17 and IFRIC 4 for existing contracts. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed after January 1, 2019.

For leases that were classified as operating leases under IAS 17, lease liabilities at transition have been measured at the present value of remaining lease payments, discounted at the incremental borrowing rate as at January 1, 2019. Right-of-use assets at transition have been measured at an amount equal to the corresponding lease liabilities, adjusted for any prepaid or accrued rent relating to that lease. The weighted average discount rate applied to the total lease liabilities recognized on transition was 3.82%.

When applying IFRS 16 to leases previously classified as operating leases, the following practical expedients were applied:

- a single discount rate to a portfolio of leases with similar characteristics;
- used hindsight in determining the lease term where the contract contains purchase, extension, or termination options;
- relied upon our assessment of whether leases are onerous under the requirements of IAS 37, Provisions, contingent liabilities and contingent assets as at December 31, 2018 as an alternative to reviewing our right-of-use assets for impairment; and
- excluded short-term leases or low-value leases.

There was no significant impact for contracts in which the Corporation is the lessor.

Prior to adopting IFRS 16, the total minimum operating lease commitments as at December 31, 2018 were $37.9 million. The weighted average discount rate applied to the total lease liabilities recognized on transition was 3.82%. The difference between the total of the minimum lease payments set out in note 21 to the 2018 annual consolidated financial statements and the total lease liabilities recognized on transition was a result of:

- the effect of discounting on the minimum lease payments;
- the exclusion of lease payments related to reasonably certain termination options that had not been exercised as at December 31, 2018; and
- the exclusion of short-term leases.

Uncertainty over Income Tax Treatments

In June 2017, IASB issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* (“IFRIC 23”), which clarifies application of recognition and measurement requirements in IAS 12, *Income Taxes* when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The adoption of IFRIC 23 has no impact on the Corporation’s consolidated financial statements.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

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

Annual Improvements to IFRS Standards 2015 – 2017

In December 2017, IASB issued the following amendments from the 2015-2017 annual improvement cycle.

IFRS 3 Business Combination

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

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. The Corporation does not expect these amendments will have an impact on the Corporation's consolidated financial statements.

13. CONTROLS AND PROCEDURES

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

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings,* the Chief Executive Officer and Chief Financial Officer are required to certify as at December 31, 2019 that they are responsible for establishing and maintaining, and have assessed the design and operating effectiveness of disclosure controls and procedures and internal control over financial reporting.

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

In preparation for this certification, Magellan has dedicated resources in place to document and evaluate the design and operating effectiveness of disclosure controls and procedures and internal control over financial reporting. As of December 31, 2019, an evaluation was carried out, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Corporation's disclosure controls and internal controls over financial reporting, as those terms are defined in National Instrument 52-109. Based on that evaluation, the Corporation's management concluded that the Corporation's design and operating disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2019.

No changes were made in the Corporation's internal control over financial reporting during the year ended December 31, 2019, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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