MAGELLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2019

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, 2019, and the audited annual consolidated financial statements for the year ended December 31, 2018 (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, 2019 relative to the three month period ended September 30, 2018. The information contained in this report is as at November 8, 2019. All financial references are in Canadian dollars unless otherwise noted.

The MD&A contains forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance. All statements other than statements of historical facts may be forward-looking statements. In particular and without limitation there are forward looking statements under the heading "Overview", "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 June 12, 2019 Magellan congratulated the Canadian Space Agency ("CSA") on the RADARSAT Constellation Mission ("RCM") that was launched successfully from Vandenberg, California aboard a SpaceX Falcon 9 rocket. The three identical RCM satellite buses were built by Magellan under subcontract to MDA, a Maxar Technologies company, the prime contractor for RCM.

Magellan will be attending the upcoming Dubai Airshow which is being held between November 17th and November 21st 2019. At this venue, the Corporation intends to meet with a number of current and potential customers primarily to further its engine repair and overhaul business.

Acquisition
On November 7, 2019, Magellan 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.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2018 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan's operating results for third quarter ended September 30, 2019

The Corporation reported revenue in the third quarter of 2019 of $235.6 million, an increase of $9.1 million from third quarter of 2018 revenue of $226.5 million. Gross profit and net income for the third quarter of 2019 were $35.1 million and $15.8 million, respectively, in comparison to gross profit of $37.7 million and net income of $18.6 million for the third quarter of 2018.

Consolidated Revenue

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2019**	2018	Change	**2019**	2018	Change
Canada	**86,256**	74,288	16.1%	**273,142**	230,633	18.4%
United States	**76,616**	81,545	(6.0%)	**244,563**	244,630	0.0%
Europe	**72,703**	70,690	2.8%	**251,836**	237,106	6.2%
Total revenues	**235,575**	226,523	4.0%	**769,541**	712,369	8.0%

Revenues in Canada increased 16.1% in the third quarter of 2019 in comparison to the same period in 2018, primarily due to higher volumes in repair and overhaul services, proprietary and casting products, 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 2019 increased by 15.6% over the same period of 2018.

Revenues in United States decreased 6.0% in the third quarter of 2019 compared to the third quarter of 2018 when measured in Canadian dollars mainly due to volume decreases for single aisle aircraft and timing of deliveries, partially offset by favourable foreign exchange impact due to the strengthening of the United States dollar against the Canadian dollar. On a currency neutral basis, revenues in the United States decreased 7.0% in the third quarter of 2019 over the same period in 2018.

European revenues increased 2.8% in the third quarter of 2019 compared to the corresponding period in 2018 primarily driven by increased production rates for single aisle and wide body aircraft, and the strengthening of the United States dollar relative to the British pound, offset partially by the unfavourable foreign exchange impact due to the weakening of the British pound against the Canadian dollar. On a constant currency basis, revenues in the third quarter of 2019 in Europe increased 2.9% when compared to the same period in 2018.

Gross Profit

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2019**	2018	Change	**2019**	2018	Change
Gross profit	**35,074**	37,692	(6.9%)	**122,985**	119,393	3.0%
Percentage of revenues	**14.9%**	16.6%		**16.0%**	16.8%	

Gross profit of $35.1 million for the third quarter of 2019 decreased $2.6 million from the third quarter of 2018 gross profit of $37.7 million, and gross profit as a percentage of revenues of 14.9% for the third quarter of 2019 was 1.7% lower than the same period in 2018. The gross profit in the current quarter was primarily driven by lower production volumes on certain programs, production inefficiencies and higher manufacturing costs, offset in part by higher volumes in repair and overhaul services and proprietary products in Canada, 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

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2019**	2018	Change	**2019**	2018	Change
Administrative and general expenses	**15,195**	14,182	7.1%	**46,785**	42,994	8.8%
Percentage of revenues	**6.5%**	6.3%		**6.1%**	6.0%	

Administrative and general expenses as a percentage of revenues of 6.5% for the third quarter of 2019 were slightly higher than the same period of 2018. Administrative and general expenses increased $1.0 million to $15.2 million in the third quarter of 2019 compared to $14.2 million in the third quarter of 2018 mainly due to costs incurred by the Corporation for its phased implementation of a new ERP program and higher costs in relation to the Corporation's India facilities.

Other

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2019**	2018	**2019**	2018
Foreign exchange gain	**(2,623)**	(908)	**(3,276)**	(2,512)
(Gain) loss on disposal of property, plant and equipment	**(17)**	16	**(67)**	128
Other	**1,821**	—	**2,829**	—
Total other	**(819)**	(892)	**(514)**	(2,384)

Other for the third quarter of 2019 included a $2.6 million foreign exchange gain compared to a $0.9 million gain in the same period of 2018, mainly driven by the movements in balances denominated in the foreign currencies and the fluctuations of the foreign exchange rates. In addition, $1.8 million of one-time relocation expenses were incurred for the Corporation's Mississauga facility on its movement into a new operating plant.

Interest Expense

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2019**	2018	**2019**	2018
Interest on bank indebtedness and long-term debt	**(80)**	208	**46**	882
Accretion charge for borrowings, lease liabilities and long-term debt	**644**	204	**1,817**	714
Discount on sale of accounts receivable	**495**	592	**1,555**	1,556
Total interest expense	**1,059**	1,004	**3,418**	3,152

Total interest expense of $1.1 million in the third quarter of 2019 was relatively consistent with the third quarter of 2018 amount of $1.0 million. Accretion charge for lease liabilities as a result of adoption of the new lease accounting standard was partially offset by decreased interest on bank indebtedness and long-term debt, due to reduced principal amounts outstanding during the quarter compared to the same period in 2018.

Provision for Income Taxes

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2019**	2018	**2019**	2018
Current income tax expense	**1,841**	3,285	**7,152**	10,975
Deferred income tax expense	**1,951**	1,501	**8,172**	5,116
Income tax expense	**3,792**	4,786	**15,324**	16,091
Effective tax rate	**19.3%**	20.5%	**20.9%**	21.3%

Income tax expense for the three months ended September 30, 2019 was $3.8 million, representing an effective income tax rate of 19.3% compared to 20.5% for the same period of 2018. The change in effective tax rate and current and deferred income tax expenses year over year was primarily due to change in mix of income across the different jurisdictions in which the Corporation operates.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

	2019						2018	2017
Expressed in millions of dollars, except per share amounts	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31[2]
Revenues	235.6	264.1	269.9	254.4	226.5	241.2	244.6	232.7
Income before taxes	19.6	27.8	25.9	38.5	23.4	29.8	22.5	28.4
Net Income	15.8	21.7	20.4	29.5	18.6	23.5	17.5	31.9
Net Income per share								
Basic and diluted	0.27	0.37	0.35	0.51	0.32	0.40	0.30	0.55
EBITDA[1]	34.1	42.7	40.5	50.7	35.5	41.8	34.1	40.1

[1] EBITDA is not an IFRS financial measure. Please see the "Reconciliation of Net Income to EBITDA" section for more information.
[2] Restated using revenue recognition policies in accordance with IFRS 15, *Revenue from Contracts with Customers.*

Revenues and net income reported in the 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 1.3375 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.

Revenue for the third quarter of 2019 of $235.6 million was higher than that in the third quarter of 2018. The average exchange rate of the United States dollar relative to the Canadian dollar in the third quarter of 2019 was 1.3206 versus 1.3069 in the same period of 2018. The average exchange rate of British pound relative to the Canadian dollar decreased from 1.7039 in the third quarter of 2018 to 1.6280 during the current quarter. The average exchange rate of the British pound relative to the United States dollar decreased from 1.3037 in the third quarter of 2018 to 1.2327 in the current quarter. Had the foreign exchange rates remained at levels experienced in the third quarter of 2018, reported revenues in the third quarter of 2019 would have been lower by $1.2 million.

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

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 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 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	**2019**	2018	**2019**	2018
Net income	**15,847**	18,612	**57,972**	59,540
Interest	**1,059**	1,004	**3,418**	3,152
Taxes	**3,792**	4,786	**15,324**	16,091
Depreciation and amortization	**13,427**	11,060	**40,579**	32,603
EBITDA	**34,125**	35,462	**117,293**	111,386

EBITDA decreased $1.3 million or 3.8% to $34.1 million for the third quarter of 2019, compared to $35.5 million in the third quarter of 2018 mainly as a result of lower net income and taxes, offset by higher depreciation and amortization expenses mainly driven by the implementation of new accounting standard.

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	**2019**	2018	**2019**	2018
Decrease (increase) in accounts receivable	**14,456**	10,333	**770**	(3,966)
(Increase) decrease in contract assets	**(8,201)**	3,297	**(26,525)**	(20,615)
Increase in inventories	**(9,317)**	(8,645)	**(17,341)**	(7,147)
Increase in prepaid expenses and other	**(511)**	(2,161)	**(3,927)**	(7,581)
Increase (decrease) in accounts payable, accrued liabilities and provisions	**26**	(2,057)	**4,501**	(15,522)
Changes in non-cash working capital balances	**(3,547)**	767	**(42,522)**	(54,831)
Cash provided by operating activities	**27,568**	30,606	**61,340**	39,185

For the three months ended September 30, 2019 the Corporation generated $27.6 million from operating activities, compared to $30.6 million in the third quarter of 2018. The quarter over quarter decrease in cash flow from operations was as a result of the unfavourable movement of non-cash working capital balances, largely due to increase in contract assets from the timing of production and billing related to products transferred over time, partially offset by the decrease in accounts receivable, increase in accounts payable, accrued liabilities and provisions due to the nature of purchases and timing of payments, and favourable change in prepaid expenses due to timing of payments.

Investing Activities

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2019**	2018	**2019**	2018
Business combination, net of cash acquired	—	—	**(2,661)**	—
Purchase of property, plant and equipment	**(16,322)**	(8,456)	**(34,668)**	(21,519)
Proceeds of disposals of property, plant and equipment	**67**	4	**426**	203
Decrease (increase) in intangible and other assets	**3,102**	(5,939)	**(6,127)**	(3,862)
Cash used in investing activities	**(13,153)**	(14,391)	**(43,030)**	(25,178)

Investing activities used $13.2 million in cash for the third quarter of 2019 compared to $14.4 million in the same quarter of the prior year, a decrease of $1.2 million from the prior year primarily due to lower deposits recorded in the other assets during the quarter offset by higher level of investment in property, plant and equipment and intangible assets. 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	**2019**	2018	**2019**	2018
Decrease in bank indebtedness	**(42)**	(7,172)	**(173)**	(221)
Increase (decrease) in debt due within one year	**589**	2,300	**(7,895)**	(3,522)
Decrease in long-term debt	**(612)**	(646)	**(2,061)**	(14,520)
Lease liability payments	**(1,073)**	—	**(2,757)**	—
Increase (decrease) in long-term liabilities and provisions	**23**	87	**(156)**	(44)
Increase (decrease) in borrowings subject to specific conditions, net	**19**	180	**(803)**	1,490
Common share dividend	**(5,821)**	(4,947)	**(17,463)**	(14,843)
Cash used in financing activities	**(6,917)**	(10,198)	**(31,308)**	(31,660)

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. Subsequent to September 30, 2019, the Corporation extended the expiration of the credit agreement to September 13, 2021.

The Corporation used $6.9 million in financing activities in the third quarter of 2019 mainly to repay long-term debt and the payments of lease liabilities and dividends.

As at September 30, 2019 the Corporation had made contractual commitments to purchase $9.8 million of capital assets.

Dividends

During the first, second and third quarter of 2019, the Corporation declared and paid quarterly cash dividends of $0.10 per common shares representing an aggregating dividend payment of $17.5 million.

Subsequent to September 30, 2019, the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of $0.105 per common share, an increase of 5% over the dividend paid in the previous quarter. The dividend will be payable on December 31, 2019 to shareholders of record at the close of business on December 17, 2019.

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 8, 2019, 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, 2019, the Corporation had $11.0 million USD/CAD foreign exchange contracts outstanding with an immaterial fair value, 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, 2019, 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, 2018 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2018, 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, 2019 and have been applied in preparing the consolidated interim financial statements.

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 a $24.2 million increase to assets and liabilities, respectively, on the unaudited condensed consolidated interim 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.

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.

Accounting pronouncements adopted
The following pronouncements were adopted by the Corporation as of January 1, 2019 and do not have an impact on the Corporation's unaudited condensed consolidated interim financial statements. These changes are described in detail in the Corporation's 2018 consolidated financial statements.

- IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to IAS 19, *Plan Amendment, Curtailment or Settlement*
- Annual Improvements to IFRS Standards 2015 – 2017: IFRS 3, *Business Combination*
- Annual Improvements to IFRS Standards 2015 – 2017: IAS 12, *Income Taxes*

10. Critical Accounting Estimates

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

In the 2018 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, 2018 for a discussion regarding the critical accounting estimates.

11. 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, 2019 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.

12. Outlook

The outlook for Magellan's business

As of September 30, 2019, Airbus' order backlog decreased from 7,276 aircraft to 7,133 aircraft and Boeing's backlog decreased from 5,733 to 5,705 aircraft compared to June 30, 2019.

In the single aisle market, Boeing and regulators continue to review changes to the 737 MAX aircraft. The current prediction is for Boeing to hand over its final package of changes to regulators in the fourth quarter of 2019. Boeing remains optimistic that the 737 MAX will fly again in the first quarter of 2020. As authorities thoroughly scrutinize Boeing's and the FAA's justifications, the main risk to the reintroduction of aircraft into service is alignment amongst global airworthiness regulators. In the meantime, Boeing continues to build the 737 MAX aircraft at a reduced production rate of 42 aircraft per month.

Airbus is currently producing their A320 single aisle aircraft at a rate of 58 aircraft per month, with plans to reach 63 aircraft per month. In August, Airbus announced it had officially begun manufacturing the A220 aircraft in the United States. By the mid-2020's, the U.S. production facility is expected to produce between 40 and 50 aircraft per year.

The wide-body market is currently undergoing several new program delays. Boeing has placed the development of their 777-8 aircraft on hold until 2021 while their 777-9 program is delayed due to GE9X engine issues. Airbus' A330neo certification program has also been delayed due to issues with the RR Trent 7000 engine. Other wide-body programs remain on schedule. Boeing's 787 aircraft is running at 14 aircraft per month, up from a rate of 12 aircraft per month in the first quarter of 2019. Airbus' A350 XWB is running at 9.8 aircraft per month. As of August 31, 2019, Airbus secured 913 firm orders from 51 customers worldwide for A350 XWB's, making it one of the most successful wide-body aircraft. Finally, Airbus is continuing its plans to end A380 aircraft production in July 2020.

The turboprop aircraft market is currently forecasted to grow by 2.5% Compound Annual Growth Rate ("CAGR") from 2019 through 2024. While North America held a major share in this aircraft market up to 2018, demand has shifted towards the Asia-Pacific region with China, India, Singapore, Australia and Thailand generating the highest CAGR in this market.

Business jets are facing headwinds in traditionally strong European and Chinese markets, according to Flight International. The dip in Europe is said to be partially attributed to the uncertainty over Brexit, whereas trade tensions between the USA and China have caused that market to be flat. Since the US economy is buoyant that market remains relatively active for business jets.

According to Forecast International, the U.S. Army confirmed that while new vertical lift programs are crucial to delivering a future step change in speed, range and lethality, the modernization of existing defense helicopter platforms is vitally important on today's battlefield. The UH-60 Black Hawk, the CH47 Chinook and AH-64 Apache platforms each have ongoing modernization programs which are helping to keep the market active. This includes the development of General Electric's new Improved Turbine Engine Program (ITEP) T901 engine that will increase power, reduce fuel consumption and increase engine service life for AH-64 and UH-60's. The first contract has been awarded to GE to develop the T901 engine for integration into the AH-64 helicopter.

It was announced this quarter that the U.S. government approved the sale of F-35A's to Poland. The potential sale is for 32 aircraft worth US $6.6 billion. A Lockheed company spokesman confirmed in August that "We have delivered more than 425 aircraft to date, doubled production since 2016, met our annual delivery targets two years in a row and continue to increase production rates, improve efficiencies and reduce costs year-over-year," he said. "We are confident the enterprise is prepared for full-rate production and ready to meet growing customer demand."

Airbus announced that it was pulling the Eurofighter Typhoon out of Canada's Future Fighter Replacement Program. The move leaves only three companies in the $19 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. Two responses have been requested from the bidders by the Government. The first response is scheduled for fall of 2019 and the final proposal is due in the spring 2020. A down selection is expected in 2020 or 2021 followed by the identification of the selected bidder which is expected in early 2022. The first aircraft delivery is planned to be in 2025.