MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2020

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, 2020 and 2019 prepared in accordance with International Financial Reporting Standards ("IFRS"), and the Annual Information Form for the year ended December 31, 2020 (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, 2020 relative to the year ended December 31, 2019. The information contained in this report is as at March 5, 2021. 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," "2020 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 2020 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 novel 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) and Adjusted EBITDA (earnings before interest expense, income taxes, depreciation and amortization, goodwill impairment and restructuring), which the Corporation considers to be an indicative measure of operating performance and a metric to evaluate profitability. EBITDA and Adjusted EBITDA are not generally accepted earnings measures and should not be considered as alternatives 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 and Adjusted EBITDA may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA and Adjusted 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 2020 events

Magellan is a diversified supplier of components to the aerospace industry. Through its wholly owned subsidiaries and controlled entity, 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.

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 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.

Impact of COVID-19

In March 2020, due to the worsening public health crisis associated with the novel coronavirus ("COVID-19"), the World Health Organization ("WHO") declared COVID-19 a global pandemic. Governments worldwide, including those countries in which Magellan operates, enacted emergency measures to combat the spread of the virus. These measures, which included the implementation of travel bans, self-imposed quarantine periods and social distancing, caused a material disruption to businesses globally resulting in an economic slowdown and decreased demand in the aerospace industry. Governments and central banks reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the long-term success of these interventions is not yet determinable.

In 2020 and to date in 2021, the continued disruption to air travel and commercial activities, particularly within the aerospace and commercial airline industries negatively impacted global supply, demand and distribution capabilities. In particular, the significant decrease in air travel resulting from the COVID-19 pandemic is adversely affecting Magellan's customers and their demand for the Corporation's products and services. The situation remains dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Corporation remains unknown at this time.

Financial impacts

The current challenging economic climate may have material adverse impact on Magellan including, but not limited to significant declines in revenue in addition to what Magellan experienced in 2020 as the Corporation's customers are concentrated in the aerospace industry; impairment charges to the Corporation's property, plant and equipment, intangible assets and goodwill due to declines in revenue and cash flows; and restructuring charges as Magellan aligns its structure and personnel to the dynamic environment. Estimates and judgements made in the preparation of financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

Magellan has implemented measures to align its cost structure and maximize cash preservation during the current market conditions, including headcount reductions and re-balancing work force; elimination of all non-essential travel, entertaining and other discretionary spending; and reductions to the 2020 capital expenditure plan. The Corporation also applied and received the Canada Emergency Wage Subsidy ("CEWS") for its Canadian employees. The carrying value of the Corporation's long-lived assets are reviewed for indications of impairment at the end of each reporting period. For long-lived assets that have an indefinite life such as goodwill, the Corporation performs an annual impairment test. For the year ended December 31, 2020, the Corporation recorded an impairment charge of $12.0 million.

2021 will be challenging for Magellan's revenue on a year over year basis as COVID-19 continues to impact aircraft production rates over the short and medium term and flying hours of aircraft. In response to this impact, Magellan implemented cost savings initiatives in 2020 designed to reduce operating costs. In the fourth quarter of 2020, a restructuring plan was announced as part of the Corporation's strategy to reorganize its European operations resulting in the closure of its Bournemouth manufacturing facilities in the United Kingdom, which will result in the Corporation incurring a restructuring charge relating to the closure of approximately $8.0 million of which $5.6 million was recorded in 2020. Magellan will continue to operate its treatments center in Bournemouth. Magellan continues to actively monitor the COVID-19 situation and reassesses its operating plan as program updates become available.

Operational impacts

During this pandemic, the aerospace manufacturing industry, in the jurisdictions the Corporation operates in, has been classified as an "essential service." As a result, the Corporation's operations remained open, but at reduced levels of activity during 2020.

To manage the additional safety risks presented by COVID-19, Magellan implemented standardized tools and templates to keep its employees safe and well informed. Magellan has implemented additional safety, sanitization and physical distancing procedures, including remote work sites where possible and ceased all non-essential business travel.

Magellan's procedures are designed to align with recommendations from the WHO, the United States' Centers for Disease Control and Prevention, and applicable federal, state and provincial government health authorities.

Liquidity

During 2020, Magellan improved its overall liquidity position despite the challenges posed by COVID-19. The Corporation ended the year with a cash balance of $113.9 million and $70.5 million of available borrowing capacity under Magellan's operating credit facility, providing the Corporation with $184.4 million of total liquidity as compared with $138.9 million at December 31, 2019. The credit facility agreement also includes a $75 million uncommitted accordion provision that provides the Corporation with the option to increase the size of the operating credit facility to $150 million. Magellan expects that cash provided by operations, cash on hand and its sources of financing will be sufficient to meet the Corporation's debt obligations and fund committed and future capital expenditures.

In 2020, 54% of revenues were derived from commercial markets (2019 – 68%, 2018 – 69%) while 46% of revenues related to defence markets (2019 – 32%, 2018 – 31%).

2020 and Recent Updates

On January 13, 2020, Magellan announced 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.

On April 16, 2020, the Corporation announced that it would provide Black Brant sounding rocket motors to The German Aerospace Center (Deutsches Zentrum für Luft- und Raumfahrt e.V. or "DLR"), which is estimated to generate revenue of up to $9.4 million over the term of the agreement. The DLR is the national aeronautics and space research centre of the Federal Republic of Germany. The Mobile Rocket Base is a department of DLR's Space Operations and Astronaut Training and conducts multiple sounding rocket missions per year for scientific purposes. Under the terms of this agreement, DLR will purchase Black Brant rocket motors over a three-year period and may exercise options for other various hardware items. DLR has a family of sounding rockets that they utilize to meet assorted mission requirements. The Black Brant is the most reliable sounding rocket motor in the market today, with a success rate of 99.4% over the last 500 launches. Responding to DLR's requirement to expand its inventory of sounding rocket vehicles, Magellan's Black Brant rocket motor has the flight heritage and on-time production delivery that this customer demands.

On May 7, 2020, the Corporation announced an agreement with an undisclosed customer for the supply of complex machined rotating engine components for military aircraft platforms. The contract, valued at approximately $46.4 million, will be carried out at Magellan's facility in Mississauga, Ontario over a five year period commencing late in 2020 and ending in 2024.

On May 25, 2020, Magellan announced that the Toronto Stock Exchange (the "TSX or Exchange") had approved its notice of intention to make a normal course issuer bid ("the Bid") to purchase for cancellation up to 2,910,450 of the Corporation's issued and outstanding common shares, through the facilities of the Exchange and/or through alternate trading systems in Canada upon which the common shares are traded. The Bid commenced on May 27, 2020 and will terminate on May 26, 2021. In 2020, the Corporation repurchased 0.5 million common shares for cancellation at a volume weighted average price of $7.10 per common share, for a total repurchase cost of $3.4 million.

On December 10, 2020, Magellan announced the delivery of the 200th set of F-35 Lightning II horizontal stabilizer assemblies under an agreement with BAE Systems. Magellan and BAE Systems have been working together to produce horizontal stabilizers for the global F-35 program since 2009. Both companies have since made significant investment in facilities, technologies and training to ensure the successful delivery of these flight-critical assemblies to the F-35 prime contractor Lockheed Martin. The horizontal stabilizers produced at Magellan are major assemblies on the Conventional Takeoff and Landing (CTOL) variant of the F-35. Magellan is targeting to produce more than 1,000 ship sets of horizontal tail assemblies over the life of the F-35 program along with various other metallic and composite components.

On January 14, 2021, the Corporation announced that Raytheon Missiles & Defense ("Raytheon") has awarded the Corporation a contract for the supply of complex missile fin components. These heat-tolerant surface control assemblies will be manufactured at Magellan's facility in Middletown, Ohio, with deliveries starting in 2021 and continuing through 2024. The value of this agreement is approximately $61.4 million. Magellan has participated in the Standard Missile ("SM") program for more than 20 years, supplying dorsal fins for various configurations, including the SM-3 and SM-6. These defensive missiles provide area defence to the U.S. Military against theater ballistic missiles, aircraft and cruise missiles.

On February 8, 2021, Magellan announced the signing of a Memorandum of Understanding ("MOU") with General Electric Aviation Canada ("GE Canada") for the purpose of exploring an arrangement whereby GE Canada would support Magellan in establishing and delivering a Canadian-based sustainment solution for the GE F414-GE-400 engine, which powers Boeing's F/A-18 Block III Super Hornet fighter jet. This initiative is in support of Boeing's proposal to provide the Block III Super Hornet as a solution for Canada's Future Fighter Capability Project ("FFCP"). Under the MOU, with the selection of the Super Hornet for the FFCP, GE Canada and Magellan would develop an appropriate and competitive sustainment solution for Canada which would provide all aircraft engine sustainment services for the Royal Canadian Air Force on their F414 engine fleet. The in-country depot level sustainment support for the engines includes onsite maintenance, repair and overhaul support services, technical services, and engineering support and would be performed in Magellan's facility in Mississauga, Ontario for the life of the program.

Labour Matters

The Corporation employs 3,400 employees; of these, approximately 1,400 are unionized and are covered by 16 collective bargaining agreements as of December 31, 2020. 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 2021

The worldwide outbreak of COVID-19 rapidly changed the global commercial aerospace market outlook in 2020. Leading into 2020, the aerospace market was in a strong position as single-aisle aircraft build rates were set to step further above the historically high levels reached in 2019 and defence markets were growing steadily because of evolving global threats. Two exceptions to this positive momentum were the ongoing production suspension of Boeing's 737 MAX aircraft program due to its grounding in 2019 and the softening of the commercial wide-body aircraft market.

With the COVID-19 pandenmic, air travel fell sharply in March and April 2020, and although air travel began to rebound in the second quarter of 2020, it stalled in the latter half of the year with the resurgence of the virus and the imposition of new government restrictions, border closures, testing protocols and quarantine measures. Entering 2021, global demand was down 61% compared to 2019 with estimated airline losses in 2020 totaling approximately US$118 billion, according to the International Air Transport Association. As such, aircraft and engine build rates at the end of 2020 were down approximately 35% over 2019.

During 2020, Airbus' order backlog decreased from 7,482 to 7,184 aircraft. Airbus delivered 566 aircraft and received net orders for 268 aircraft in the year. Order cancellations in the period totaled 115 aircraft. Meanwhile, Boeing's order backlog decreased from 5,625 aircraft at the beginning of the year to 4,223 aircraft as of December 31, 2020. Boeing delivered just 157 aircraft in total during the year. Customers placed orders for 184 new aircraft and canceled 655 aircraft orders. Boeing's revenue recognition accounting adjustments removed a further 774 aircraft from the 5,625 aircraft backlog.

In January 2021, Airbus confirmed that A320 build rates will increase from 40 aircraft per month to 43 aircraft per month starting July 2021, then 45 aircraft per month by October 2021, 49 aircraft per month by January 2022 and 55 aircraft per month by mid-2022. Airbus confirmed that A330 build rates would remain at 2 aircraft per month and A350 at 5 aircraft per month.

Boeing resumed low rate production of its 737 MAX aircraft in May 2020 after it had been stopped in January 2020. In November 2020, the FAA certified the aircraft to return-to-service. Boeing announced plans to slowly ramp up production from the current 10 aircraft per month during 2021 and 2022, to reach a rate of 40 aircraft per month in 2023. Prior to the aircraft grounding, Boeing was anticipating reaching 57.7 aircraft per month in 2019. Meanwhile, Boeing will lower the 777 aircraft build rate from 5 aircraft per month to 2 aircraft per month in 2021. The 787 aircraft build will drop from 10 aircraft per month to 5 aircraft per month in 2021, and finally the 747 aircraft production will cease in September 2022.

Fortunately defence markets have been resilient during the pandemic, save for some supply chain disruptions caused by the virus. While concerns exist that funding will be reduced due to increasing government deficits driven by COVID-19 aid programs, experts suggest that evolving global security threats support continuing defence spending levels in the United States. Additionally, several European countries including the United Kingdom have recommitted or increased defence spending during the COVID-19 crisis, further removing a degree of near-term budget uncertainty.

Considering the uncertain market conditions industry experts cannot agree on the timing of the commercial market recovery, making any forecast subject to a high degree of risk. Contributing factors such as vaccine efficacy, traveler confidence, economic recovery and a possible permanent impact on future corporate travel all weigh in on what the recovery curve will look like. Once a clearer view of market demand appears, the next focus will be on how quickly the supply chain can ramp up production.

3. SELECTED ANNUAL INFORMATION

A summary of selected annual financial information for 2020, 2019 and 2018

Expressed in millions of dollars, except per share information	**2020**	2019	2018
Revenues	**744.4**	1,016.2	966.8
Net income for the year	**3.3**	67.4	89.1
Net income per common share – Basic and Diluted	**0.06**	1.16	1.53
EBITDA	**75.9**	145.2	162.1
EBITDA per common share – Basic and Diluted	**1.31**	2.49	2.78
Adjusted EBITDA	**100.4**	145.2	162.1
Adjusted EBITDA per common share – Basic and Diluted	**1.73**	2.49	2.78
Total assets	**1,072.6**	1,141.2	1,072.9
Total non-current liabilities	**121.9**	125.2	86.4

The unprecedented challenges stemming from the COVID-19 pandemic, including the continued disruption to air travel and commercial activities, particularly within the aerospace and commercial airline industries, resulted in a decrease to the demand for the Corporation's aerospace products and services. This negatively impacted revenues, mainly from the commercial market. Revenues for the year ended December 31, 2020 decreased from both 2019 and 2018 levels. The decrease in revenues from 2019 was primarily attributable to lower volume in single aisle and wide-body aircrafts, proprietary and casting products. Net income decreased in 2020 from 2019 mainly due to lower gross margin as a result of lower production volumes, production inefficiencies, restructuring costs and goodwill impairment charge, offset in part by CEWS benefits recognized, and cost reductions as a result of measures taken to align the Corporation's cost structure during the current market conditions, including headcount reductions and re-balancing work force, and elimination of all non-essential expense. In addition, a net gain of $9.7 million related to prior acquisitions was recorded in 2018.

During 2020 the Corporation paid quarterly dividends on common shares of $0.105 per share for the four quarters, amounting to $24.4 million in total for the year. During 2019, the Corporation paid quarterly dividends on common shares of $0.10 per share in the first three quarters and $0.105 per share in the fourth quarter, amounting to $23.6 million in total for the year.

4. RESULTS OF OPERATIONS

A discussion of Magellan's operating results for 2020 and 2019

Consolidated revenues for the year ended December 31, 2020 were $744.4 million, a 26.7% decrease from the $1,016.2 million achieved last year. Gross profit and net income were $96.5 million and $3.3 million, respectively, in comparison to gross profit of $157.0 million and net income of $67.4 million for the year ended December 31, 2019.

Consolidated Revenues

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019	Change
Canada	**338,883**	366,565	(7.6%)
United States	**202,284**	322,970	(37.4%)
Europe	**203,247**	326,684	(37.8%)
Total revenues	**744,414**	1,016,219	(26.7%)

In 2020, the COVID-19 pandemic caused disruption to air travel and commercial activities, particularly within the aerospace and commercial airline industries, have negatively impacted global supply, demand and distribution capabilities. As a result there was a decrease to the demand for the Corporation's aerospace products and services that led to lower revenues.

In comparison to 2019, revenues in Canada in 2020 decreased 7.6% primarily driven by lower volumes for wide-body aircraft, proprietary and casting products, offset by higher repair and overhaul services. Revenues in the United States decreased by 37.4% largely due to volume decreases for both single aisle, specifically the Boeing 737 MAX, and wide-body aircraft. Revenues in Europe decreased by 37.8% from the prior year primarily driven by build rate reductions for both single aisle and wide-body aircraft.

Consolidated revenues are also 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 2019 remained constant in 2020, consolidated revenues for 2020 would have been approximately $738.2 million.

Gross Profit

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019	Change
Gross profit	**96,491**	156,958	(38.5%)
Percentage of revenue	**13.0%**	15.4%	

Gross profit was $96.5 million in 2020, $60.5 million lower than 2019 of $157.0 million. Gross profit, as a percentage of revenues was lower than the prior year by 2.4%. Decrease in gross profit was primarily driven by lower production volumes, production inefficiencies and higher manufacturing costs, offset in part by workforce reduction, favourable product mix realized on certain programs, and recognition of $18.7 million in subsidies from the CEWS program.

Administrative and General Expenses

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019	Change
Administrative and general expenses	**52,075**	62,312	(16.4%)
Percentage of revenue	**7.0%**	6.1%	

Administrative and general expenses as a percentage of revenue were 7.0% in 2020 as compared to 6.1% in 2019. Administrative and general expenses of $52.1 million in 2020 were $10.2 million or 16.4% lower than $62.3 million in the prior year mainly due to lower discretionary expenses, lower salary and related expenses, subsidies of $1.4 million received from the CEWS program and cost reductions across the majority of the expense categories to align with current business volumes.

Restructuring

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019
Workforce reduction	**6,916**	–
Closure costs	**3,236**	–
Impairment of property, plant and equipment	**2,385**	–
Restructuring	**12,537**	–

During 2020, the Corporation incurred, as part of its cost reduction efforts in response to COVID-19, workforce reduction costs of $6.9 million related to terminations of employment, primarily in Europe. The initiative is expected to help mitigate the adverse impacts of COVID-19.

During the year ended December 31, 2020, the Corporation also announced a restructuring plan that will reorganize its European operations resulting in the closure of its Bournemouth manufacturing facilities in the United Kingdom. As a result, a total of $5.6 million was expensed during the year ended December 31, 2020.

Goodwill Impairment

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019
Goodwill impairment	**12,046**	–
Goodwill impairment	**12,046**	–

COVID-19 resulted in reduced production rates implemented by commercial aircraft manufacturers and reduced flying hours by operators. Due to the projected slow recovery of the aerospace market and the resulting depressed customer demand for products and services provided by one of the Corporation's cash generating units ("CGU"), the Corporation recorded a goodwill impairment charge of $12.0 million.

Other

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019
Foreign exchange loss	**1,138**	1,874
Loss on disposal of property, plant and equipment	**117**	32
Other	**(172)**	3,112
Other	**1,083**	5,018

Included in other is a foreign exchange loss of $1.1 million compared to a loss of $1.9 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.

Interest Expense

Twelve-months ended December 31, expressed in thousands of dollars	2020	2019
Interest on bank indebtedness and long-term debt	**305**	101
Accretion charge on long-term debt and borrowings	**1,103**	1,091
Accretion charge for lease liabilities	**2,026**	1,387
Discount on sale of trade receivables	**924**	2,053
Interest expense	**4,358**	4,632

Total interest costs of $4.4 million for 2020 decreased by $0.2 million from $4.6 million in 2019, primarily due to lower discount on sale of accounts receivables offset by higher accretion charge on lease liabilities.

Income Taxes

Twelve-months ended December 31, expressed in thousands of dollars	2020	2019
Current income tax expense	**7,140**	6,105
Deferred income tax expense	**3,939**	11,510
Income tax expense	**11,079**	17,615
Effective tax rate	**77.0%**	20.7%

The Corporation recorded an income tax expense in 2020 of $11.1 million on pre-tax income of $14.4 million, representing an effective tax rate of 77.0%, compared to an income tax expense of $17.6 million on pre-tax income of $85.0 million in 2019.

During 2020 and 2019, the Corporation recognized investment tax credits totaling $1.5 million and $5.2 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 effective tax rate and current and deferred income tax expenses year over year was primarily due to an unfavourable impact of the prior year reversal of certain tax assets due to changes in estimates and changes in mix of income and loss across the different jurisdictions in which the Corporation operates.

5. RECONCILIATION OF NET INCOME TO EBITDA AND ADJUSTED 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) and Adjusted EBITDA (earnings before interest expense, income taxes, depreciation and amortization, goodwill impairment and restructuring) 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 and Adjusted EBITDA are useful supplemental measures as they provide 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 and Adjusted EBITDA are not recognized measures under IFRS, and the Corporation's method of calculation may not be comparable with that of other companies. Accordingly, EBITDA and Adjusted EBITDA should not be used as alternatives to net income as determined in accordance with IFRS or as alternatives to cash provided by or used in operations.

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019
Net income	**3,313**	67,381
Interest	**4,358**	4,632
Taxes	**11,079**	17,615
Depreciation and amortization	**57,103**	55,593
EBITDA	**75,853**	145,221
Add back:		
Restructuring	**12,537**	–
Goodwill impairment	**12,046**	–
Adjusted EBITDA	**100,436**	145,221

EBITDA for the year ended 2020 of $75.9 million decreased by $69.3 million when compared to $145.2 million in 2019, primarily as a result of lower net income mainly driven by volume reductions, taxes and interest, offset by higher depreciation and amortization expenses.

Adjusted EBITDA decreased $44.8 million or 30.8% to $100.4 million for the year ended 2020, compared to $145.2 million in 2019 mainly as a result of lower net income, taxes and interest, offset by higher depreciation and amortization expenses and the add-back of $12.5 million and $12.0 million restructuring and goodwill impairment charges recorded in 2020, respectively.

6. SELECTED QUARTERLY FINANCIAL INFORMATION

A summary view of Magellan's quarterly financial performance

Expressed in millions of dollars except per share information				**2020**				2019
	Mar 31	**Jun 30**	**Sep 30**	**Dec 31**	Mar 31	Jun 30	Sep 30	Dec 31
Revenues	**238.8**	**162.2**	**163.4**	**180.1**	269.9	264.1	235.6	246.7
Income before taxes	**25.8**	**10.0**	**2.2**	**(23.6)**	25.9	27.8	19.6	11.7
Net income	**20.1**	**6.1**	**0.0**	**(22.9)**	20.4	21.7	15.8	9.4
Net income per common share								
Basic and Diluted	**0.34**	**0.10**	**0.00**	**(0.40)**	0.35	0.37	0.27	0.16
EBITDA[1]	**41.5**	**24.8**	**16.3**	**(6.8)**	40.5	42.7	34.1	27.9
Adjusted EBITDA[1]	**41.5**	**25.5**	**21.8**	**11.5**	40.5	42.7	34.1	27.9

[1]EBITDA and Adjusted EBITDA are not IFRS financial measures. Please see Section 5 the "Reconciliation of Net Income to EBITDA and Adjusted 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 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 1.3859 in the second quarter of 2020 and a low of 1.3176 in the fourth quarter of 2020. The average exchange rate of the British pound relative to the Canadian dollar moved from a high of 1.7315 in the first quarter of 2019 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 1.3205 in the fourth quarter of 2020 and hit a low of 1.2327 in the third quarter of 2019. Had exchange rates remained at levels experienced in 2019, reported revenues in 2020 would have been lower by $1.9 million, $4.2 million and $1.2 million for the first three quarters respectively; higher by $1.1 million in the fourth quarter.

As discussed above, net income reported in the quarterly information was impacted by the foreign exchange movements. The fourth quarter of 2019 was impacted by volume decreases in Europe, production inefficiencies in certain operating divisions and an accrual recorded in relation to the wind-down of the A380 program. Results for the second, third and fourth quarter of 2020 were impacted by volume decreases in a number of commercial programs due to COVID-19. During the third quarter of 2020, Magellan implemented cost savings initiatives designed to reduce operating costs by re-balancing its workforce and recognized severance costs of $5.6 million. A $3.4 million cost recovery was recorded against cost of sales as a result of the cancellation of A320neo program in the third quarter of 2020. In the fourth quarter of 2020, the Corporation committed to a plan to restructure its manufacturing divisions in Europe due to a decrease in demand as a result of a deterioration in economic conditions stemming from COVID-19, and recognized $5.6 million restructuring charge including a $2.4 million impairment loss related to assets made obsolete as a result of the plan. Further, a $12.0 million goodwill impairment charge was recorded in the fourth quarter of 2020. The Corporation recognized $8.6 million, $10.4 million, and $1.0 million in respect of the government subsidy relating to the CEWS program in the second, third and fourth quarter respectively, and reduced the expense that the subsidy is intended to offset.

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 2020, $106.0 million of cash was generated by operations, $25.8 million was used in investing activities and $35.7 million was used in financing activities.

Cash Flow from Operating Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019
Decrease in account receivables	**64,398**	12,183
Decrease (increase) in contract assets	**7,336**	(12,870)
Increase in inventories	**(16,803)**	(21,096)
Decrease (increase) in prepaid expenses and other	**8,299**	(1,124)
Decrease in accounts payable, accrued liabilities and provisions	**(41,475)**	(3,974)
Net change in non-cash working capital items	**21,755**	(26,881)
Net cash provided by operating activities	**105,970**	104,205

The Corporation generated $106.0 million in 2020 from operating activities, compared to $104.2 million in the prior year. Changes in non-cash working capital items generated cash of $21.8 million, $48.7 million higher when compared to the usage of $26.9 million in the prior year. The favourable movement of non-cash working capital balances was largely attributed to decreases in accounts receivable from lower revenues; lower contract assets from the timing of production and billing related to products transferred over time; lower inventories increases driven by volume reductions and reduced material purchases; and lower prepaid expenses. This was offset in part by decreases in accounts payable, accrued liabilities and provisions primarily driven by lower level of purchases and timing of payments.

Cash Flow from Investing Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019
Business combinations	**–**	(5,519)
Purchase of property, plant and equipment	**(24,575)**	(51,820)
Proceeds from disposal of property, plant and equipment	**177**	388
Increase in intangibles and other assets	**(1,417)**	(5,301)
Net cash used in investing activities	**(25,815)**	(62,252)

Investing activities for 2020 used $25.8 million compared to $62.3 million in the prior year, a decrease of $36.5 million primarily due to lower levels of investment in property, plant and equipment. In 2019, $5.5 million was invested in new business acquisitions.

Cash Flow from Financing Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019
Increase (decrease) in debt due within one year	**285**	(1,720)
Decrease in long-term debt	**(754)**	(4,124)
Lease liability payments	**(6,970)**	(3,972)
Decrease in long-term liabilities and provisions	**(545)**	(44)
Increase (decrease) in borrowings, net	**37**	(803)
Share repurchase	**(3,407)**	–
Common share dividend	**(24,372)**	(23,575)
Net cash used in financing activities	**(35,726)**	(34,238)

The Corporation used $35.7 million in 2020 mainly to repay lease liabilities, dividends, and for the repurchase common shares.

Contractual Obligations

As at December 31, 2020, expressed in thousands of dollars	**Less than 1 year**	**1-3 Years**	**4-5 Years**	**After 5 Years**	**Total**
Trade receivables securitization	39,581	–	–	–	39,581
Long-term debt	3,928	4,320	720	–	8,968
Lease liabilities	6,829	10,976	8,855	26,587	53,247
Other long-term liabilities	139	374	242	720	1,475
Borrowings subject to specific conditions	1,126	1,554	1,938	21,492	26,110
Total Contractual Obligations	**51,603**	**17,224**	**11,755**	**48,799**	**129,381**

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, 2020, the Corporation had made contractual commitments to purchase $4.1 million of capital assets. In addition, the Corporation had purchase commitments, largely for materials required for the normal course of operations, of $210.2 million as at December 31, 2020. 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 5, 2021, 57,729,106 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 for the year ended December 31, 2020.

In 2020, the Corporation paid quarterly dividends on its common shares of $0.105 per common share, representing an aggregate dividend payment of $24.4 million.

For the year ended December 31, 2019, the Corporation declared and paid dividends on its 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 the first quarter of 2021, the Corporation declared dividends of $0.105 per common share payable on March 31, 2021 to shareholders of record at the close of business on March 19, 2021.

On May 25, 2020, the Toronto Stock Exchange ("TSX") accepted the Corporation's intention to commence a normal course issuer bid ("NCIB") which allows the Corporation to repurchase up to 2,910,450 of the Corporation's issued and outstanding common shares in the open market or otherwise permitted by the TSX. Common shares purchased by the Corporation are cancelled. The program commenced on May 27, 2020 and will terminate on May 26, 2021, or on such earlier date as the Corporation completes its purchase pursuant to the NCIB. During 2020, 479,895 common shares were purchased for cancellation for $3.4 million at a volume weighted average price paid of $7.10 per share.

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, 2020, 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 [2019 - $0.2 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.

The ongoing COVID-19 pandemic, the rapidly evolving reactions of governments, private sector participants and the public to the pandemic and/or the associated economic impact of the pandemic and the reactions to it have had and will continue to have an effect on the Corporation's business, operations, revenues, financial condition, results of operations and growth prospects for a period of time that remains uncertain.

The extent and duration of the COVID-19 pandemic, the reactions of governments, private sector participants and the public to the pandemic and the associated disruption to business and commerce generally, and the extent to which these will continue to affect the Corporation's business, financial condition and results of operation in particular will all depend on future developments which are highly uncertain and many of which are outside the control of the Corporation and cannot be predicted with confidence. Such developments include the ultimate geographic spread, intensity and duration of the pandemic (including the possibility of further waves), new information which may emerge concerning the severity of COVID-19, the effectiveness and intensity of measures to contain COVID-19 or address its impact (including the expediency of countries' vaccination programs), short and longer-term changes in consumer travel patterns or travel restrictions imposed by governments and the other economic impacts of the pandemic and the reactions to it. For example, the Corporation has experienced or may experience or continue to experience:

- An isolated outbreak at one of the Corporation's facilities, disrupting operations, delaying deliveries, and causing financial losses;
- Operational inefficiencies and additional costs brought on by the effect of the pandemic and related mitigation methods on the workforce;
- Closure or reduction of production of key suppliers, disrupting Magellan's supply chain;
- Closure or reduction of production of customers, delaying deliveries;
- Financial duress for suppliers or customers, rendering key inputs unavailable or more costly or receivables uncollectible or subject to longer payment cycles;
- Global reduction in the demand for commercial aerospace products, resulting in production rate cuts by Airbus, Boeing and other original equipment manufacturers ("OEMs");
- Deferral of bid activities;
- Diversion of management attention.

The Corporation has put in place several measures in order to mitigate these risks, including:

- The creation of a steering committee to coordinate response;
- Local management teams at each of the Corporation's facilities;
- Restriction on all travel;
- Protocols at each location in order to mitigate transmission, including but not limited to:
    - Physical distancing measures;
    - Issuance of personal protective equipment;
    - Staggering of shifts;
    - Quarantine policies;
    - Hygiene reinforcement;
    - Work from home enhancements.
    - Enhanced communication with customers in order to better forecast disruptions in demand;
- Enhanced communication with suppliers in order to secure the supply chain; and
- Additional scrutiny of credit assessments, review of overdue accounts, and provisioning of inventory.

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 or the grounding of specific aircraft models by regulatory authorities. Since fuel prices are 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, and global health risks including new pandemics, political instability or the outbreak of war or continued hostilities in certain regions of the world could adversely affect global travel and result in lower orders or the rescheduling or cancellation of part of the existing order backlog for some of the Corporation's products.

The Corporation faces risks from downturns in the domestic and global economies.

Potential loss due to unfavourable economic conditions, such as a macroeconomic downturn in key markets, could result in potential buyers postponing the purchase of the Corporation's products or services, lower order intake, order cancellations or deferral of deliveries, lower availability of customer financing, downward pressure on selling prices, increased inventory levels, decreased level of customer advances, slower collection of receivables, reduction in production activities, discontinued production of certain products, termination of employees and adverse impacts on the Corporation's suppliers.

The Corporation cannot predict the depth or duration of downturns in the domestic and global economies nor the effects on markets that the Corporation serves, particularly the airline industry. The Corporation’s ability to increase or maintain its revenues and operating results may be impaired as a result of negative general global economic conditions including, without limitation, interest rates, general levels of economic activity, fluctuations in the market prices of securities, participation by other investors in the financial markets, economic uncertainty, national and international political circumstances, natural disasters, public health crises (such as the recent global COVID-19 pandemic) and other events outside of our control. The economic uncertainties of such events renders estimates of future revenues and expenditures more difficult to formulate. The future direction of the overall domestic and global economies could have a significant impact on the Corporation’s overall financial performance and may impact the 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 grounding of specific aircraft models by regulatory authorities, changing economic conditions, inventory adjustments, work stoppages or labour disruptions and contagious illness outbreaks such as COVID-19. 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.

Customer unit deliveries may not reach the number projected when the basis for amortization of non- recurring costs is established.

The Corporation relies on customers’ delivery projections, market forecast providers, and various other market information sources to determine the number of units over which to amortize non-recurring costs. Unpredictable world events such as pandemics can reduce the accuracy of market forecasts provided by information sources and therefore may affect aircraft and engine build rates used in the Corporation’s various business cases. Should deliveries not reach the number projected or there is a cancellation of an aircraft program, any unamortized balance that remains would then need to be written off which could have a material adverse impact on the Corporation.

11. CRITICAL ACCOUNTING ESTIMATES

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

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

In March 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused a material disruption to businesses globally resulting in an economic slowdown and decreased demand in the aerospace industry.

The duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions, the Corporation's business continuity plan and other mitigating measures. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Corporation's operations, financial results and condition in future periods are also subject to significant uncertainty. Therefore, uncertainty about judgements, estimates and assumptions made by management during the preparation of the Corporation's consolidated financial statements related to potential impacts of the COVID-19 pandemic on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

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 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, judgements 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, judgements 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, judgements and estimates made in the past have been reasonable and appropriate, different assumptions, judgements 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 judgements 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.

Judgements 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 2020

The Corporation has adopted the following new and amended standards in 2020.

Covid-19-Related Rent Concessions
On May 28, 2020, the IASB published amendment to IFRS 16, *Leases:* Covid-19-Related Rent Concessions, amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after June 1, 2020. The adoption of the amendment does not have material 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, 2020 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 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.

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, 2020, 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, 2020.

No changes were made in the Corporation's internal control over financial reporting during the year ended December 31, 2020, 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.