



QUARTERLY REPORT
MARCH 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 unaudited condensed consolidated interim financial statements and the notes thereto for the three month period ended March 31, 2020, and the audited annual consolidated financial statements for the year ended December 31, 2019 (available on SEDAR at www.sedar.com). Unless otherwise noted, all financial information has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), specifically International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"), which is within the framework of International Financial Reporting Standards ("IFRS"). This MD&A provides a review of the significant developments that have impacted the Corporation's performance during the three month period ended March 31, 2020 relative to the three month period ended March 31, 2019. The information contained in this report is as at May 5, 2020. All financial references are in Canadian dollars unless otherwise noted.

The MD&A contains forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance, such as statements about the potential impacts of the COVID-19 pandemic on our business operations, financial results and financial position. 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", "Risk Factors", "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

Magellan announced on April 16, 2020 that it would provide Black Brant sounding rocket motors to The German Aerospace Center (Deutsches Zentrum für Luft- und Raumfahrt e.V. or "DLR") that is estimated to generate revenue of up to \$9.4 million over the term of the agreement. Under the terms of this agreement, the DLR will purchase Black Brant rocket motors over a three-year period and may exercise options to purchase certain additional hardware items from Magellan's facility in Winnipeg, Manitoba.

For additional information, please refer to the “Management’s Discussion and Analysis” section of the Corporation’s 2019 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan’s operating results for the first quarter ended March 31, 2020

The Corporation reported revenue in the first quarter of 2020 of \$238.9 million, a \$31.0 million decrease from the first quarter of 2019 revenue of \$269.9 million. Gross profit and net income for the first quarter of 2020 were \$36.8 million and \$20.1 million, respectively, in comparison to gross profit of \$42.8 million and net income of \$20.4 million for the first quarter of 2019.

Consolidated Revenue

Expressed in thousands of dollars	Three month period ended March 31		
	2020	2019	Change
Canada	94,243	90,701	3.9%
United States	64,718	84,819	(23.7%)
Europe	79,852	94,364	(15.4%)
Total revenues	238,813	269,884	(11.5%)

Revenues in Canada increased 3.9% in the first quarter of 2020 compared to the corresponding period in 2019, primarily due to increased volumes particularly in the casting business.

Revenues in the United States decreased by 23.7% in the first quarter of 2020 when compared to the first quarter of 2019 largely due to volume decreases for single aisle aircraft, specifically the Boeing 737 MAX, offset in part by favourable foreign exchange impact due to the strengthening of the United States dollar against the Canadian dollar.

European revenues in the first quarter of 2020 decreased 15.4% when compared to the corresponding period in 2019 primarily driven by decreased production rates for single aisle and wide-body aircraft and lower repair and overhaul revenues. On a constant currency basis, revenues in the first quarter of 2020 in Europe decreased 16.4% compared to the same period in 2019.

Gross Profit

Expressed in thousands of dollars	Three month period ended March 31		
	2020	2019	Change
Gross profit	36,772	42,821	(14.1%)
Percentage of revenues	15.4%	15.9%	

Gross profit of \$36.8 million for the first quarter of 2020 was \$6.0 million lower than the \$42.8 million gross profit for the first quarter of 2019, and gross profit as a percentage of revenues was 15.4% for the first quarter of 2020 decreased from 15.9% recorded in the same period in 2019. The gross profit in the current quarter was primarily impacted by volume decreases and unfavourable product mix.

Administrative and General Expenses

Expressed in thousands of dollars	Three month period ended March 31		
	2020	2019	Change
Administrative and general expenses	15,676	15,300	2.5%
Percentage of revenues	6.6%	5.7%	

Administrative and general expenses as a percentage of revenues of 6.6% for the first quarter of 2020 were higher than the same period of 2019. Administrative and general expenses increased \$0.4 million or 2.5% to \$15.7 million in the first quarter of 2020 compared to \$15.3 million in the corresponding quarter of 2019 mainly due to higher maintenance and amortization costs related to the new ERP system and the additional costs related to new businesses acquired in 2019.

Other

	Three month period ended March 31	
Expressed in thousands of dollars	2020	2019
Foreign exchange (gain) loss	(5,785)	453
Loss (gain) on disposal of property, plant and equipment	19	(85)
Other	(172)	190
Total other (income) expenses	(5,938)	558

Other income for the first quarter of 2020 included a \$5.8 million foreign exchange gain compared to a \$0.5 million loss in the first quarter of the prior year. The movements in balances denominated in the foreign currencies and the fluctuations of the foreign exchange rates impact the net foreign exchange gain or loss recorded in a quarter.

Interest Expense

	Three month period ended March 31	
Expressed in thousands of dollars	2020	2019
Interest on bank indebtedness and long-term debt	66	(40)
Accretion charge for borrowings, lease liabilities and long-term debt	814	545
Discount on sale of accounts receivable	320	563
Total interest expense	1,200	1,068

Total interest expense of \$1.2 million in the first quarter of 2020 was slightly higher than the first quarter of 2019 mainly due to higher accretion charge on lease liabilities offset in part by the lower discount on sale of accounts receivables.

Provision for Income Taxes

	Three month period ended March 31	
Expressed in thousands of dollars	2020	2019
Expense of current income taxes	2,047	2,805
Expense of deferred income taxes	3,713	2,681
Total expense of income taxes	5,760	5,486
Effective tax rate	22.3%	21.2%

Income tax expense for the three months ended March 31, 2020 was \$5.8 million, representing an effective income tax rate of 22.3% compared to 21.2% for the same period of 2019. The change in effective tax rate and current and deferred income tax expenses year over year was primarily due to the change in mix of income across the different jurisdictions in which the Corporation operates.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

	2020				2019				2018			
Expressed in millions of dollars, except per share amounts	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Revenues	238.8	246.7	235.6	264.1	269.9	254.4	226.5	241.2	269.9	254.4	226.5	241.2
Income before taxes	25.8	11.7	19.6	27.8	25.9	38.5	23.4	29.8	25.9	38.5	23.4	29.8
Net Income	20.1	9.4	15.8	21.7	20.4	29.5	18.6	23.5	20.4	29.5	18.6	23.5
Net Income per share												
Basic and diluted	0.34	0.16	0.27	0.37	0.35	0.51	0.32	0.40	0.35	0.51	0.32	0.40
EBITDA ¹	41.5	27.9	34.1	42.7	40.5	50.7	35.5	41.8	40.5	50.7	35.5	41.8

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

Revenues and net income reported in the 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 quarterly exchange rate of the United States dollar relative to the Canadian dollar fluctuated between a high of 1.3442 in the first quarter of 2020 and a low of 1.2912 in the second quarter of 2018. The average quarterly exchange rate of the British pound relative to the

Canadian dollar moved from a high of 1.7567 in the second quarter of 2018 to a low of 1.6280 in the third quarter of 2019. The average quarterly exchange rate of the British pound relative to the United States dollar reached its high of 1.3605 in the second quarter of 2018 and hit a low of 1.2327 in the third quarter of 2019.

Revenue for the first quarter of 2020 of \$238.8 million was lower than that in the first quarter of 2019. The average quarterly exchange rate of the United States dollar relative to the Canadian dollar in the first quarter of 2020 was 1.3442 versus 1.3292 in the same period of 2019. The average quarterly exchange rate of the British pound relative to the Canadian dollar moved from 1.7315 in the first quarter of 2019 to 1.7185 during the current quarter. The average quarterly exchange rate of the British pound relative to the United States dollar decreased from 1.3027 in the first quarter of 2019 to 1.2805 in the current quarter. Had the foreign exchange rates remained at levels experienced in the first quarter of 2019, reported revenues in the first quarter of 2020 would have been lower by \$1.9 million.

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

4. Reconciliation of Net Income to EBITDA

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

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

	Three month period ended March 31	
Expressed in thousands of dollars	2020	2019
Net income	20,074	20,409
Interest	1,200	1,068
Taxes	5,760	5,486
Depreciation and amortization	14,509	13,530
EBITDA	41,543	40,493

EBITDA in the first quarter of 2020 increased \$1.1 million or 2.6% to \$41.5 million in comparison to \$40.5 million in the same quarter of 2019 mainly as a result of higher depreciation and amortization expense, taxes and interest, offset by slightly lower net income.

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 March 31	
Expressed in thousands of dollars	2020	2019
Increase in trade receivables	(29,933)	(22,706)
Increase in contract assets	(6,713)	(11,736)
Increase in inventories	(13,549)	(2,062)
Increase in prepaid expenses and other	(4,421)	(2,826)
(Decrease) increase in accounts payable, accrued liabilities and provisions	(2,834)	12,374
Changes to non-cash working capital balances	(57,450)	(26,956)
Cash (used in) provided by operating activities	(18,992)	8,056

For the three months ended March 31, 2020, the Corporation used \$19.0 million from operating activities, compared to \$8.1 million generated in the first quarter of 2019. The quarter over quarter change in non-cash working capital balances was attributable to unfavourable changes in accounts payable, accrued liabilities and provisions due to timing of purchases and payments, increases in trade receivables which resulted from timing of production and billing, and higher inventories related to the timing of material purchases and schedule changes. This was offset partially by favourable changes in contract assets from the timing of production and billing related to products transferred over time.

Investing Activities

	Three month period ended March 31	
Expressed in thousands of dollars	2020	2019
Business combination, net of cash acquired	-	(2,661)
Purchase of property, plant and equipment	(4,210)	(9,507)
Proceeds of disposal of property plant and equipment	-	235
Increase in intangible and other assets	(1,728)	(6,066)
Change in restricted cash	(1,246)	-
Cash used in investing activities	(7,184)	(17,999)

Investing activities used \$7.2 million cash for the first quarter of 2020 compared to \$18.0 million cash used in the same quarter of the prior year, a reduction of \$10.8 million primarily due to lower level of investment in property, plant and equipment and intangibles.

Financing Activities

	Three month period ended March 31	
Expressed in thousands of dollars	2020	2019
Decrease in debt due within one year	(2,997)	(6,884)
Decrease in long-term debt	(592)	(647)
Lease liability payments	(1,758)	(901)
Decrease in long-term liabilities and provisions	(255)	(35)
Increase in borrowings, net	29	-
Common share dividend	(6,112)	(5,821)
Cash used in financing activities	(11,685)	(14,288)

The Corporation has a Bank Credit Facility Agreement with a syndicate of lenders, of which there were no drawings under as of March 31, 2020. 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.

The Corporation used \$11.7 million in the first quarter of 2020 mainly for the payment of common share dividends and lease liabilities, and the repayment of debt due within one year and long-term debt.

As at March 31, 2020, the Corporation had contractual commitments to purchase \$6.8 million of capital assets.

Dividends

During the first quarter of 2020, the Corporation declared and paid quarterly cash dividends of \$0.105 per common shares representing an aggregating dividend payment of \$6.1 million.

Subsequent to March 31, 2020, the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of \$0.105 per common share. The dividend will be payable on June 30, 2020 to shareholders of record at the close of business on June 16, 2020.

Outstanding Share Information

The authorized capital of the Corporation consists of an unlimited number of preference shares, issuable in series, and an unlimited number of common shares. As at May 5, 2020, 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 March 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.

7. Related Party Transactions

A summary of Magellan's transactions with related parties

For the three month period ended March 31, 2020, 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.

In March 2020 the World Health Organization declared coronavirus 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 travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown.

As an emerging risk, 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 judgments, estimates and assumptions made by management during the preparation of the Corporation's consolidated financial statements related to potential impacts of the COVID-19 outbreak 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 Corporation's customers and supply chain in the commercial aerospace sector were negatively affected in the first quarter. The Corporation will continue to closely monitor the COVID-19 situation and should the duration, spread or intensity of the pandemic further develop in 2020, the supply chain and customer demand will likely be further affected. These factors may further impact the Corporation's operating plan, its liquidity and cash flows.

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, 2019 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2019, 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, 2020 and have been applied in preparing the consolidated interim financial statements.

- Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, clarifying the definition of "material".
- Amendments to IFRS 3, *Business Combination*, to help entities determine whether an acquired set of activities and assets is a business or not.

The IASB has issued new standards and amendments to existing standards. These changes are not yet adopted by the Corporation and could have an impact on future periods.

- Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements (the "amendments") to clarify the requirements for classifying liabilities as current or non-current. More specifically, the amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists; management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant; and the amendments clarify the situations that are considered settlement of a liability. The new guidance will be effective for annual periods starting on or after January 1, 2022.

10. Critical Accounting Estimates

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

In the 2019 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, 2019 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 March 31, 2020 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 in 2020

Air travel has not experienced such a significant decline in its passenger volumes as it has witnessed year to date in 2020 since 9/11. It is reported that 66% of the global commercial aircraft fleet, approximately 19,350 aircraft, have been grounded by airlines while the world attempts to slow the spread of the COVID-19 outbreak. Various original equipment manufacturers (OEM's) and supply chain companies temporarily suspended manufacturing operations due to the pandemic, some of whom have since restarted or are about to restart manufacturing with reduced workforces.

The greatest impact of COVID-19 on the aerospace market is expected to be on commercial aircraft programs. Airlines have already begun deferring new aircraft orders and announcing fleet reductions through early retirements of older aircraft. There have also been some new order cancelations. Responding to the rapidly changing market conditions, certain OEM's have issued lower interim aircraft and engine build rates with additional guidance from these and other OEM's anticipated in the second quarter of 2020.

Although defence markets are not expected to be significantly impacted due to the pandemic, there are growing concerns over potential supply chain and logistics disruptions. Notwithstanding these concerns, programs that were previously constrained by supply chain capacity issues may be able to utilize excess capacity made available by commercial program declines.

There remains to be limited market visibility during this very dynamic period. Any estimate of the length and severity of market impact is subject to significant uncertainty. The Corporation will continue to closely monitor the COVID-19 situation and reassess its operating plan as program updates become available.

Due to the ongoing COVID-19 pandemic and the impact it is having on the commercial aerospace market and associated lower aircraft demand and production rates, Magellan is reviewing all its operations and implementing cost reduction initiatives and production efficiencies, to ensure that our plants remain competitive.

Magellan's businesses currently continue manufacturing operations as permitted by local and state government authorities. The Corporation is in contact with the public health authorities, governments and other agencies where we have operations, and with authorities around the world, to ensure Magellan is aligned with current guidance regarding COVID-19. The Corporation remains committed to preventing the spread of the virus, providing a safe environment for our workforce, and in the process, protecting the continuity of our business.

MAGELLAN AEROSPACE CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Notes	Three month period ended March 31	
		2020	2019
Revenues	9	238,813	269,884
Cost of revenues		202,041	227,063
Gross profit		36,772	42,821
Administrative and general expenses		15,676	15,300
Other		(5,938)	558
Income before interest and income taxes		27,034	26,963
Interest		1,200	1,068
Income before income taxes		25,834	25,895
Income taxes			
Current	10	2,047	2,805
Deferred	10	3,713	2,681
		5,760	5,486
Net income		20,074	20,409
Other comprehensive income			
Other comprehensive income (loss) that may be reclassified to profit and loss in subsequent periods:			
Foreign currency translation		34,178	(6,710)
Items not to be reclassified to profit and loss in subsequent periods:			
Actuarial (loss) income on defined benefit pension plans, net of taxes	6	(4,759)	239
Total comprehensive income, net of taxes		49,493	13,938
Net income per share			
Basic and diluted	7	0.34	0.35

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	Notes	March 31 2020	December 31 2019
Current assets			
Cash		32,430	69,637
Restricted cash		1,315	—
Trade and other receivables		214,148	177,801
Contract assets		87,936	77,967
Inventories		217,606	196,823
Prepaid expenses and other		26,489	21,127
		579,924	543,355
Non-current assets			
Property, plant and equipment		451,866	439,102
Right-of-use assets		45,688	44,692
Investment properties		2,230	2,180
Intangible assets		67,191	65,373
Goodwill		35,839	34,137
Other assets		9,409	8,770
Deferred tax assets		1,929	3,556
		614,152	597,810
Total assets		1,194,076	1,141,165
Current liabilities			
Accounts payable and accrued liabilities and provisions	9	153,991	151,907
Debt due within one year		46,755	48,144
		200,746	200,051
Non-current liabilities			
Long-term debt		6,335	6,876
Lease liabilities		40,459	39,794
Borrowings subject to specific conditions		24,304	24,098
Other long-term liabilities and provisions	6	26,590	20,289
Deferred tax liabilities		36,385	34,181
		134,073	125,238
Equity			
Share capital		254,440	254,440
Contributed surplus		2,044	2,044
Other paid in capital		13,565	13,565
Retained earnings		526,114	516,911
Accumulated other comprehensive income		59,717	25,539
Equity attributable to equity holders of the Corporation		855,880	812,499
Non-controlling interest	4	3,377	3,377
Total equity		859,257	815,876
Total liabilities and equity		1,194,076	1,141,165

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(unaudited) (expressed in thousands of Canadian dollars)	Attributable to equity holders of the Corporation					Total	Non- controlling interest	Total equity
	Share capital	Contributed surplus	Other paid in capital	Retained earnings	Foreign currency translation			
December 31, 2019	254,440	2,044	13,565	516,911	25,539	812,499	3,377	815,876
Net income for the period	—	—	—	20,074	—	20,074	—	20,074
Other comprehensive (loss) income for the period	—	—	—	(4,759)	34,178	29,419	—	29,419
Common share dividend	—	—	—	(6,112)	—	(6,112)	—	(6,112)
March 31, 2020	254,440	2,044	13,565	526,114	59,717	855,880	3,377	859,257
December 31, 2018	254,440	2,044	13,565	473,246	44,378	787,673	—	787,673
Business combination	—	—	—	—	—	—	2,344	2,344
Net income for the period	—	—	—	20,409	—	20,409	—	20,409
Other comprehensive income (loss) for the period	—	—	—	239	(6,710)	(6,471)	—	(6,471)
Common share dividend	—	—	—	(5,821)	—	(5,821)	—	(5,821)
March 31, 2019	254,440	2,044	13,565	488,073	37,668	795,790	2,344	798,134

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(unaudited) (expressed in thousands of Canadian dollars)	Notes	Three month period ended March 31	
		2020	2019
Cash flow from operating activities			
Net income		20,074	20,409
Amortization/depreciation of intangible assets, right-of-use assets and property, plant and equipment		14,509	13,530
Loss (Gain) on disposal of property, plant and equipment		19	(85)
Gain on disposal of joint venture investment	4	—	(881)
Increase (decrease) in defined benefit plans		116	(154)
Accretion of financial liabilities		814	545
Deferred taxes		3,062	1,818
Income on investments in joint ventures		(136)	(170)
Changes to non-cash working capital		(57,450)	(26,956)
Net cash (used in) provided by operating activities		(18,992)	8,056
Cash flow from investing activities			
Business combination, net of cash acquired		—	(2,661)
Purchase of property, plant and equipment		(4,210)	(9,507)
Proceeds from disposal of property, plant and equipment		—	235
Increase in intangible and other assets		(1,728)	(6,066)
Change in restricted cash		(1,246)	—
Net cash used in investing activities		(7,184)	(17,999)
Cash flow from financing activities			
Decrease in debt due within one year		(2,997)	(6,884)
Decrease in long-term debt		(592)	(647)
Lease liability payments		(1,758)	(901)
Decrease in long-term liabilities and provisions		(255)	(35)
Increase in borrowings, net		29	—
Common share dividend	7	(6,112)	(5,821)
Net cash used in financing activities		(11,685)	(14,288)
Decrease in cash during the period		(37,861)	(24,231)
Cash at beginning of the period		69,637	63,316
Effect of exchange rate differences		654	(622)
Cash at end of the period		32,430	38,463

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited, expressed in thousands of dollars except share and per share data)

NOTE 1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Magellan Aerospace Corporation (the “Corporation” or “Magellan”) is a publicly listed company incorporated in Ontario, Canada under the Ontario Business Corporations Act and its shares are listed on the Toronto Stock Exchange. The registered and head office of the Corporation is located at 3160 Derry Road East, Mississauga, Ontario, Canada, L4T 1A9.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”) and using the same accounting policies and methods as were used for the Corporation’s consolidated financial statements and the notes thereto for the year ended December 31, 2019, except for the new accounting pronouncements which have been adopted as disclosed in note 3.

These unaudited condensed consolidated interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the Corporation’s annual financial statements for the year ended December 31, 2019, which are available at www.sedar.com and on the Corporation’s website at www.magellan.aero.

The timely preparation of the condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the condensed consolidated interim financial statements.

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors of the Corporation on May 5, 2020.

NOTE 3. ADOPTION OF NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

The Corporation has adopted the new and amended pronouncements issued by International Financial Reporting Standards (“IFRS”) and the International Financial Reporting Interpretations Committees (“IFRIC”) as listed below as at January 1, 2020, in accordance with the transitional provisions outlined in the respective standards.

- Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, clarifying the definition of “material”.
- Amendments to IFRS 3, *Business Combination*, to help entities determine whether an acquired set of activities and assets is a business or not.

The IASB has issued new standards and amendments to existing standards. These changes are not yet adopted by the Corporation and could have an impact on future periods.

- Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*

On January 23, 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* (the “amendments”) to clarify the requirements for classifying liabilities as current or non-current. More specifically, the amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists; management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant; and the amendments clarify the situations that are considered settlement of a liability. The new guidance will be effective for annual periods starting on or after January 1, 2022.

NOTE 4. BUSINESS COMBINATION

In line with the Corporation's low cost sourcing strategy, an additional 26% of the issued and outstanding shares of the capital stock of Triveni Aeronautics Private Limited ("Triveni") was acquired in the first quarter of 2019 for \$3,780 to obtain a 75% controlling interest.

Prior to the effective date February 28, 2019, the Corporation accounted for its previously held 49% interest in Triveni as a joint venture using the equity method with a carrying value of \$5,498. As at February 28, 2019, the Corporation remeasured its previously held equity interest at fair value and recognized the resulting gain of \$881 in Other in the consolidated statement of income.

At February 28, 2019, the Corporation recognized \$4,765 current assets, \$5,610 non-current assets, \$6,142 intangible assets, \$596 current liabilities, \$2,385 non-current liabilities, and \$3,377 non-controlling interest based on the fair value of the identifiable assets and liabilities. The net income recorded in the three month period ended March 31, 2020 includes an immaterial amount attributable to the non-controlling interest.

NOTE 5. BANK INDEBTEDNESS

The Corporation has a multi-currency operating credit facility with a syndicate of banks, with a Canadian dollar limit of \$75,000. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a \$75,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility. On October 28, 2019 the Corporation extended the credit agreement to September 13, 2021. As at March 31, 2020, the Corporation was debt-free under its credit facility. Bank indebtedness bears interest at the bankers' acceptance or LIBOR rates plus 1.00%. At March 31, 2020, the Corporation had letters of credit outstanding totalling \$4,078 such that \$70,922 was unused and available. A fixed and floating charge debenture on accounts receivable, inventories and property, plant and equipment is pledged as collateral for the operating credit facility.

NOTE 6. EMPLOYEE FUTURE BENEFITS

The Corporation has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to substantially all of its employees.

The employee benefit obligation reflected in the condensed consolidated interim statement of financial position is as follows:

	March 31 2020	December 31 2019
Pension Benefit Plans	18,495	12,000
Other Benefit Plan	1,112	1,009
	19,607	13,009

The discount rate assumption used in determining the obligation for pension and other benefit plans is selected based on a review of current market interest rates of high-quality, fixed rate debt securities adjusted to reflect the duration of the expected future cash outflows for pension benefit payments. As a result of changes in the market interest rates of high-quality, fixed rate debt securities, the Corporation increased the assumed discount rate for the Canadian pension plans to 3.7% as at March 31, 2020 from the 3.1% rates used in calculating the pension obligation as at December 31, 2019. The assumed discount rate remained at 3.1% for the U.S. pension plan as at March 31, 2020 and December 31, 2019. In addition, the return on plan assets underperformed against the expected return during the three month period ended March 31, 2020. The change in the discount rate assumptions and the difference between the actual and expected rate of return on the plan assets resulted in an actuarial loss of \$4,759, net of taxes of \$1,650 recorded in other comprehensive income in the first quarter of 2020.

NOTE 7. SHARE CAPITAL

Net income per share

	Three month period ended March 31	
	2020	2019
Net income	20,074	20,409
Weighted average number of shares	58,209	58,209
Basic and diluted net income per share	0.34	0.35

Dividends

On March 31, 2020, the Corporation paid quarterly dividends on 58,209,001 common shares of \$0.105 per common share, amounting to \$6,112 in the aggregate.

Subsequent to March 31, 2020, the Corporation declared dividends to holders of common shares in the amount of \$0.105 per common share payable on June 30, 2020, for shareholders of record at the close of business on June 16, 2020.

NOTE 8. FINANCIAL INSTRUMENTS

Fair value hierarchy

The Corporation's financial assets and liabilities recorded at fair value on the condensed consolidated interim statement of financial position have been categorized into three categories based on a fair value hierarchy. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Fair values

The Corporation has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgement is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described as follows:

Cash, trade and other receivables, bank indebtedness and accounts payable and accrued liabilities

Due to the short period to maturity of these instruments, the carrying values as presented in the condensed consolidated interim statement of financial positions approximate their fair values.

Foreign exchange contracts

The Corporation enters into foreign forward exchange contracts to mitigate future cash flow exposures in United States dollars. Under these contracts the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in United States dollars. There were no outstanding forward foreign exchange contracts as at March 31, 2020.

Long-term debt

The carrying amount of the Corporation's long-term debt of \$8,819 would approximate its fair value as at March 31, 2020.

Borrowings subject to specific conditions

As at March 31, 2020, the Corporation has recognized \$25,329 as the amount repayable to Canadian government agencies. The contributions are repayable as future royalty payments; a liability is recorded for the amounts received that will be repaid based on future estimated sales.

Collateral

As at March 31, 2020, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was \$46,309.

NOTE 9. SEGMENTED INFORMATION

Operating segments are defined as components of the Corporation for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Corporation is the President and Chief Executive Officer. The Corporation operates substantially all of its activities in one reportable segment, Aerospace, which includes the design, development, manufacture, repair and overhaul and sale of systems and components for defence and civil aviation.

The Corporation's primary sources of revenue are as follows:

	Three month period ended	
	2020	March 31 2019
Sale of goods	201,218	229,271
Services	37,595	40,613
	238,813	269,884

Timing of revenue recognition based on transfer of control is as follows:

	Three month period ended	
	2020	March 31 2019
At a point of time	152,942	173,059
Over time	85,871	96,825
	238,813	269,884

Advance payments received for contracts in progress in excess of revenue recognized were recorded as contract liabilities and included in accounts payable, accrued liabilities and provisions on the condensed consolidated interim statement of financial position. As at March 31, 2020 contract liabilities were \$10,832 [December 31, 2019 - \$10,605].

Revenues from the Corporation's two largest customers accounted for 36.3% of total sales for the three month period ended March 31, 2020 [March 31, 2019 – two largest customers accounted for 42.0% of total sales for the three month period ended].

Geographic segments:

	2020				Three month period ended March 31 2019			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	94,243	64,718	79,852	238,813	90,701	84,819	94,364	269,884
Export revenue ¹	65,241	13,002	25,570	103,813	62,655	17,212	31,395	111,262

¹Export revenue is attributed to countries based on the location of the customers

	March 31, 2020				December 31, 2019			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment, right-of-use assets, intangible assets and goodwill	197,435	207,573	195,576	600,584	200,484	191,411	191,409	583,304

NOTE 10. TAXATION

The Corporation's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Corporation operates in, adjusted for the main permanent differences identified. The effective tax rate for the three month period ended March 31, 2020 was 22.3% [21.2% for the three month period ended March 31, 2019]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the change in mix of income across the different jurisdictions in which the Corporation operates.

NOTE 11. MANAGEMENT OF CAPITAL

The Corporation's objective is to maintain a capital base sufficient to maintain investor, creditor and market confidence and to sustain future development of the business. Management defines capital as the Corporation's shareholders' equity and interest bearing debt, including the debt and equity components of the convertible debentures.

Total managed capital as at March 31, 2020 of \$902,189 is comprised of shareholders' equity attributable to equity holders of the Corporation of \$855,880 and interest-bearing debt of \$46,309.

The Corporation manages its capital structure and makes adjustments to it in light of economic conditions, the risk characteristics of the underlying assets and the Corporation's working capital requirements. In order to maintain or adjust its capital structure, the Corporation, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares through the normal course issuer bid, pay dividends or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets. There were no changes in the Corporation's approach to capital management during the period.

NOTE 12. CONTINGENT LIABILITIES AND COMMITMENTS

In the ordinary course of business activities, the Corporation may be contingently liable for litigation and claims with, among others, customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although, it is not possible to accurately estimate the extent of the potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Corporation.



At March 31, 2020 capital commitments in respect of purchase of property, plant and equipment totalled \$6,786, all of which had been ordered. There were no other material capital commitments at the end of the period.

NOTE 13. SUBSEQUENT EVENTS

In March 2020 the World Health Organization declared coronavirus 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 travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown.

As an emerging risk, 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 judgments, estimates and assumptions made by management during the preparation of the Corporation's consolidated financial statements related to potential impacts of the COVID-19 outbreak 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 Corporation will continue to closely monitor the COVID-19 situation and should the duration, spread or intensity of the pandemic further develop in 2020, the supply chain and customer demand will likely be further affected. These factors may further impact the Corporation's operating plan, its liquidity and cash flows..