MAGELLAN AEROSPACE

QUARTERLY REPORT

DECEMBER 31, 2020

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 and controlled entity, Magellan 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 the supply of spare parts as well as performing repair and overhaul services.

Magellan operates substantially all of its activities in one reportable segment, Aerospace, which is viewed as one segment by the chief operating decision-makers for the purpose of resource allocations, assessing performance and strategic planning. The Aerospace segment includes the design, development, manufacture, repair and overhaul, and sale of systems and components for defence and civil aviation.

Business Update

On 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") 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.

On March 5, 2021, the Honourable William G. Davis, P.C., C.C.,Q.C., former premier of Ontario, resigned as a member of the Board of Directors of the Corporation due to personal reasons. Mr. Davis served as a member of the Board since 1989 and has made tremendous contribution to Magellan over the years. His vast experience in regulatory and governmental affairs and in community and industry relations was a great asset to the Board.

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 the fourth quarter of 2020, 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.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2020 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan's operating results for fourth quarter ended December 31, 2020

Consolidated revenue in the fourth quarter of 2020 was $180.1 million, a $66.6 million decrease from the fourth quarter of 2019 of $246.7 million. The Corporation reported gross profit and net loss of $11.6 million and $22.9 million for the fourth quarter of 2020 in comparison to gross profit of $34.0 million and net income of $9.4 million for the fourth quarter of 2019.

Consolidated Revenue

	Three month period ended December 31			Twelve month period ended December 31		
Expressed in thousands of dollars	**2020**	2019	Change	**2020**	2019	Change
Canada	**84,733**	93,423	(9.3%)	**338,883**	366,565	(7.6%)
United States	**46,181**	78,407	(41.1%)	**202,284**	322,970	(37.4%)
Europe	**49,143**	74,848	(34.3%)	**203,247**	326,684	(37.8%)
Total revenues	**180,057**	246,678	(27.0%)	**744,414**	1,016,219	(26.7%)

In the fourth quarter of 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. Revenues in Canada decreased 9.3% in the fourth quarter of 2020 in comparison to the same period in 2019 primarily due to decreased volumes in proprietary and casting products, partially offset by higher volumes in a number of defence programs.

Revenues in United States decreased by 41.1% in the fourth quarter of 2020 when compared to the fourth quarter of 2019, largely due to volume decreases for both single aisle, specifically the Boeing 737 MAX, and wide-body aircraft.

European revenues decreased 34.3% in the third quarter of 2020 compared to the corresponding period in 2019 primarily driven by build rate reductions for both single aisle and wide-body aircraft.

Gross Profit

	Three month period ended December 31			Twelve month period ended December 31		
Expressed in thousands of dollars	**2020**	2019	Change	**2020**	2019	Change
Gross profit	**11,634**	33,973	(65.8%)	**96,491**	156,958	(38.5%)
Percentage of revenues	**6.5%**	13.8%		**13.0%**	15.4%	

Gross profit of $11.6 million for the fourth quarter of 2020 was $22.3 million lower than the fourth quarter of 2019 gross profit of $34.0 million, and gross profit as a percentage of revenues of 6.5% for the fourth quarter of 2020 was lower than the fourth quarter of 2019 of 13.8%. The lower gross profit in the current quarter when compared to the same quarter in 2019 was primarily driven by decreased volumes in a number of commercial programs, offset in part by cost reductions and recognition of $1.0 million in subsidies from the CEWS program.

Administrative and General Expenses

	Three month period ended December 31			Twelve Month period ended December 31		
Expressed in thousands of dollars	**2020**	2019	Change	**2020**	2019	Change
Administrative and general expenses	**12,371**	15,527	(20.3%)	**52,075**	62,312	(16.4%)
Percentage of revenues	**6.9%**	6.3%		**7.0%**	6.1%	

Administrative and general expenses as a percentage of revenues of 6.9% for the fourth quarter of 2020 were 0.6% higher than the same period of 2019. Administrative and general expenses decreased $3.2 million to $12.4 million in the fourth quarter of 2020 compared to $15.5 million in the fourth quarter of 2019 mainly due to lower discretionary expenses, lower salary and related expenses and cost reductions across the majority of the expense categories to align with current business volumes.

Restructuring

	Three month period ended December 31		Twelve Month period ended December 31	
Expressed in thousands of dollars	**2020**	2019	**2020**	2019
Workforce reduction	**653**	—	**6,916**	—
Closure costs	**3,236**	—	**3,236**	—
Impairment of property, plant and equipment	**2,385**	—	**2,385**	—
Restructuring	**6,274**	—	**12,537**	—

During the fourth quarter of 2020, Magellan 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 fourth quarter of 2020.

Goodwill impairment

	Three month period ended December 31		Twelve Month period ended December 31	
Expressed in thousands of dollars	**2020**	2019	**2020**	2019
Goodwill impairment	**12,046**	—	**12,046**	—
Goodwill impairment	**12,046**	—	**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 our CGUs, the Corporation recorded a goodwill impairment charge of $12.0 million.

Other

	Three month period ended December 31		Twelve Month period ended December 31	
Expressed in thousands of dollars	**2020**	2019	**2020**	2019
Foreign exchange loss	**3,409**	5,150	**1,138**	1,874
Loss on disposal of property, plant and equipment	**182**	50	**117**	32
Other	—	332	**(172)**	3,112
Total other	**3,591**	5,532	**1,083**	5,018

For the fourth quarter of 2020, the Corporation recorded a $3.4 million foreign exchange loss compared to a $5.1 million foreign exchange loss in the same period of 2019, mainly driven by the movements in balances denominated in foreign currencies and the fluctuations of the foreign exchange rates.

Interest Expense

	Three month period ended December 31		Twelve Month period ended December 31	
Expressed in thousands of dollars	**2020**	2019	**2020**	2019
Interest on bank indebtedness and long-term debt	**80**	55	**305**	101
Accretion charge for borrowings, lease liabilities and long-term debt	**676**	661	**3,129**	2,478
Discount on sale of accounts receivable	**191**	498	**924**	2,053
Total interest expense	**947**	1,214	**4,358**	4,632

Total interest expense of $0.9 million in the fourth quarter of 2020 was lower than the fourth quarter of 2019 amount of $1.2 million mainly due to lower discount on sale of accounts receivables.

Provision for Income Taxes

	Three month period ended December 31		Twelve Month period ended December 31	
Expressed in thousands of dollars	**2020**	2019	**2020**	2019
Current income tax expense	**4,498**	(1,047)	**7,140**	6,105
Deferred income tax expense	**(5,218)**	3,338	**3,939**	11,510
Income tax (recovery) expense	**(720)**	2,291	**11,079**	17,615
Effective tax rate	**3.1%**	19.6%	**77.0%**	20.7%

Income tax recovery for the three months ended December 31, 2020 was $0.7 million, representing an effective income tax rate of 3.1% compared to 19.6% 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 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.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

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

[1] EBITDA and Adjusted EBITDA are not IFRS financial measures. Please see the "Reconciliation of Net Income to EBITDA and Adjusted 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 1.3859 in the second quarter of 2020 and a low of 1.3176 in the fourth quarter of 2020. The average quarterly exchange rate of the British pound relative to the Canadian dollar moved from its high of 1.7315 in the first quarter of 2019 to its lowest rate of 1.6280 in the fourth quarter of 2019. The average quarterly 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.

Revenue for the fourth quarter of 2020 of $180.1 million was lower than that in the fourth quarter of 2019. The average quarterly exchange rate of the United States dollar relative to the Canadian dollar in the fourth quarter of 2020 was 1.3176 versus 1.3200 in the same period of 2019. The average quarterly exchange rate of the British pound relative to the Canadian dollar moved from 1.7004 in the fourth quarter of 2019 to 1.7207 during the current quarter. The average quarterly exchange rate of the British pound relative to the United States dollar strengthened from 1.2882 in the fourth quarter of 2019 to 1.3205 in the current quarter. Had the foreign exchange rates remained at levels experienced in the fourth quarter of 2019, reported revenues in the fourth quarter of 2020 would have been higher by $1.1 million.

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 cost 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.

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4. 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 expense, income taxes and depreciation and amortization) and Adjusted EBITDA (earnings before interest expense, income taxes, depreciation and amortization, and restructuring) in this quarterly statement. The Corporation has provided these measures 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 of the components of these measures 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 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 December 31		**Twelve Month period ended December 31**	
Expressed in thousands of dollars	**2020**	2019	**2020**	2019
Net income	**(22,875)**	9,409	**3,313**	67,381
Add back:				
Interest	**947**	1,214	**4,358**	4,632
Taxes	**(720)**	2,291	**11,079**	17,615
Depreciation and amortization	**15,872**	15,014	**57,103**	55,593
EBITDA	**(6,776)**	27,928	**75,853**	145,221
Add back:				
Restructuring	**6,274**	—	**12,537**	—
Goodwill impairment	**12,046**	—	**12,046**	—
Adjusted EBITDA	**11,544**	27,928	**100,436**	145,221

Adjusted EBITDA decreased $16.4 million or 58.8% to $11.5 million for the fourth quarter of 2020, compared to $27.9 million in the fourth quarter of 2019 mainly as a result of lower net income driven by volume reductions, lower taxes and interest, offset in part by higher depreciation and amortization, and the add-back of $6.3 million restructuring and $12.0 million goodwill impairment charges recorded in the fourth quarter of 2020.

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, repurchase common shares 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 December 31		**Twelve Month period ended December 31**	
Expressed in thousands of dollars	**2020**	2019	**2020**	2019
Decrease in accounts receivable	**20,417**	11,413	**64,398**	12,183
Decrease (increase) in contract assets	**6,563**	13,655	**7,336**	(12,870)
Decrease (increase) in inventories	**9,696**	(3,755)	**(16,803)**	(21,096)
Decrease (increase) in prepaid expenses and	**6,245**	2,803	**8,299**	(1,124)
Decrease in accounts payable, accrued liabilities and provisions	**(17,048)**	(8,302)	**(41,475)**	(3,974)
Changes in non-cash working capital balances	**25,873**	15,814	**21,755**	(26,881)
Cash provided by operating activities	**32,931**	43,000	**105,970**	104,205

Fr the three months ended December 31, 2020 the Corporation generated $32.9 million from operating activities, compared to $43.0 million in the fourth quarter of 2019, mainly driven by a favourable working capital change offset by lower net income. The favourable movement of non-cash working capital balances was largely due to decreases in accounts receivable from lower revenues; lower contract assets from the timing of production and billing related to products transferred over time; decreases in inventories driven by volume reductions and reduced material purchases; and lower prepaid expenses, offset in part by decreases in accounts payable, accrued liabilities and provisions primarily driven by lower level of purchases and timing of payments.

Investing Activities

	Three month period ended December 31		Twelve Month period ended December 31	
Expressed in thousands of dollars	**2020**	2019	**2020**	2019
Business combination, net of cash acquired	**—**	(2,858)	**—**	(5,519)
Purchase of property, plant and equipment	**(11,599)**	(17,152)	**(24,575)**	(51,820)
Proceeds from disposal of property, plant and equipment	**70**	—	**177**	388
Decrease (increase) in intangible and other assets	**1,279**	826	**(1,417)**	(5,301)
Cash used in investing activities	**(10,250)**	(19,184)	**(25,815)**	(62,252)

Investing activities used $10.3 million in cash for the fourth quarter of 2020 compared to $19.2 million in the same quarter of the prior year, a reduction of $8.9 million primarily due to lower levels of investment in property, plant and equipment.

Financing Activities

	Three month period ended December 31		Twelve Month period ended December 31	
Expressed in thousands of dollars	**2020**	2019	**2020**	2019
Increase (decrease) in debt due within one year	**9,520**	6,175	**285**	(1,720)
Decrease in long-term debt	**(307)**	(2,063)	**(754)**	(4,124)
Lease liability payments	**(1,917)**	(1,215)	**(6,970)**	(3,972)
Increase (decrease) in long-term liabilities and provisions	**341**	112	**(545)**	(44)
Increase (decrease) in borrowings subject to specific conditions, net	**6**	—	**37**	(803)
Common share repurchases	**(1,361)**	—	**(3,407)**	—
Common share dividend	**(6,055)**	(6,112)	**(24,372)**	(23,575)
Cash generated (used) in financing activities	**227**	(3,103)	**(35,726)**	(34,238)

The Corporation has a Bank Credit Facility Agreement with a syndicate of lenders, under which there were no drawings as of September 30, 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 $0.2 million in financing activities in the fourth quarter of 2020 mainly to repay long-term debt, lease liabilities, dividends, and for the repurchase common shares, offset by cash proceeds from sales of account receivables.

As at December 31, 2020, the Corporation had made contractual commitments to purchase $4.1 million of capital assets.

Dividends

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.

Subsequent to December 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 March 31, 2021 to shareholders of record at the close of business on March 19, 2021.

Normal Course Issuer Bid

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 the three-month period ended December 31, 2020, 190,350 common shares were purchased for cancellation for $1.4 million at a volume weighted average price paid of $7.15 per share.

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.

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 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.

7. Related Party Transactions

A summary of Magellan's transactions with related parties

For the three and twelve month periods ended December 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.

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;
- 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.

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, 2020 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2020, which have been filed with SEDAR at www.sedar.com.

9. 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 pandemic, 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 rate 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.

Additional Information

Additional information relating to Magellan Aerospace Corporation, including the Corporation's annual information form, can be found on the SEDAR web site at www.sedar.com.

Forward Looking Statements

This news release contains certain forward-looking statements that reflect the current views and/or expectations of the Corporation with respect to its performance, business and future events. Such statements are subject to a number of uncertainties and assumptions, which may cause actual results to be materially different from those expressed or implied. These forward looking statements can be identified by the words such as "anticipate", "continue", "estimate", "forecast", “expect”, "may", "project", "could", "plan", "intend", "should", "believe" and similar words suggesting future events or future performance. In particular there are forward looking statements contained under the heading "Overview" which outlines certain expectations for future operations. These statements assume the continuation of the current regulatory and legal environment; the continuation of trends for passenger airliner and defence production and are subject to the risks contained herein and outlined in our annual information form. The Corporation assumes no future obligation to update these forward-looking statements except as required by law.

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

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Three month period ended December 31 **2020**	 2019	Twelve Month period ended December 31 **2020**	 **2019**
Revenues	**180,057**	246,678	**744,414**	1,016,219
Cost of revenues	**168,423**	212,705	**647,923**	859,261
Gross profit	**11,634**	33,973	**96,491**	156,958
Administrative and general expenses	**12,371**	15,527	**52,075**	62,312
Restructuring	**6,274**	—	**12,537**	—
Goodwill impairment	**12,046**	—	**12,046**	—
Other	**3,591**	5,532	**1,083**	5,018
Income before interest and income taxes	**(22,648)**	12,914	**18,750**	89,628
Interest expense	**947**	1,214	**4,358**	4,632
Income before income taxes	**(23,595)**	11,700	**14,392**	84,996
Income taxes				
Current	**4,498**	(1,047)	**7,140**	6,105
Deferred	**(5,218)**	3,338	**3,939**	11,510
	(720)	2,291	**11,079**	17,615
Net income	**(22,875)**	9,409	**3,313**	67,381
Other comprehensive income				
Other comprehensive (loss) income that may be reclassified to profit and loss in subsequent periods:				
Foreign currency translation	**(12,093)**	8,010	**(3,669)**	(18,839)
Items not to be reclassified to profit and loss in subsequent periods:				
Actuarial gain (loss) on defined benefit pension plans, net of taxes	**5,033**	4,194	**(1,862)**	(141)
Total comprehensive income, net of taxes	**(29,935)**	21,613	**(2,218)**	48,401
Net income per share				
Basic and diluted	**(0.40)**	0.16	**0.06**	1.16

MAGELLAN AEROSPACE CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	December 31 2020	December 31 2019
Current assets		
Cash	**113,938**	69,637
Trade and other receivables	**114,404**	177,801
Contract assets	**70,388**	77,967
Inventories	**213,120**	196,823
Prepaid expenses and other	**12,915**	21,127
	524,765	543,355
Non-current assets		
Property, plant and equipment	**420,340**	439,102
Right-of-use assets	**40,098**	44,692
Investment properties	**2,127**	2,180
Intangible assets	**55,155**	65,373
Goodwill	**21,982**	34,137
Other assets	**7,301**	8,770
Deferred tax assets	**834**	3,556
	547,837	597,810
Total assets	**1,072,602**	1,141,165
Current liabilities		
Accounts payable and accrued liabilities and provisions	**114,706**	151,907
Debt due within one year	**50,098**	48,144
	164,804	200,051
Non-current liabilities		
Long-term debt	**4,865**	6,876
Lease liabilities	**35,222**	39,794
Borrowings subject to specific conditions	**24,984**	24,098
Other long-term liabilities and provisions	**21,539**	20,289
Deferred tax liabilities	**35,309**	34,181
	121,919	125,238
Equity		
Share capital	**252,342**	254,440
Contributed surplus	**2,044**	2,044
Other paid in capital	**13,565**	13,565
Retained earnings	**492,681**	516,911
Accumulated other comprehensive income	**21,870**	25,539
Equity attributable to equity holders of the Corporation	**782,502**	812,499
Non-controlling interest	**3,377**	3,377
Total equity	**785,879**	815,876
Total liabilities and equity	**1,072,602**	1,141,165

MAGELLAN AEROSPACE CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(unaudited) (expressed in thousands of Canadian dollars)	Three month period ended December 31		Twelve Month period ended December 31	
	2020	2019	**2020**	2019
Cash flow from operating activities				
Net income	**(22,875)**	9,409	**3,313**	67,381
Amortization/depreciation of intangible assets, right-of-use assets and property, plant and equipment	**15,872**	15,014	**57,103**	55,593
Impairment of goodwill	**12,046**	—	**12,046**	—
Gain on disposal of property, plant and equipment	**182**	50	**117**	32
Restructuring	**5,227**	—	**5,227**	—
Gain on disposal of joint venture investment	—	—	—	(881)
Decrease in defined benefit plans	**(272)**	(226)	**(282)**	(68)
Accretion of financial liabilities	**676**	661	**3,129**	2,478
Deferred taxes	**(3,899)**	2,389	**3,545**	7,041
Loss (income) on investments in joint ventures	**101**	(111)	**17**	(490)
Changes to non-cash working capital	**25,873**	15,814	**21,755**	(26,881)
Net cash provided by operating activities	**32,931**	43,000	**105,970**	104,205
Cash flow from investing activities				
Business combination, net of cash acquired	—	(2,858)	—	(5,519)
Purchase of property, plant and equipment	**(11,599)**	(17,152)	**(24,575)**	(51,820)
Proceeds from disposal of property, plant and equipment	**70**	—	**177**	388
Increase (decrease) in intangible and other assets	**1,279**	826	**(1,417)**	(5,301)
Net cash used in investing activities	**(10,250)**	(19,184)	**(25,815)**	(62,252)
Cash flow from financing activities				
Increase (decrease) in debt due within one year	**9,520**	6,175	**285**	(1,720)
Decrease in long-term debt	**(307)**	(2,063)	**(754)**	(4,124)
Lease liability payments	**(1,917)**	(1,215)	**(6,970)**	(3,972)
Increase (decrease) in long-term liabilities and provisions	**341**	112	**(545)**	(44)
Increase (decrease) in borrowings subject to specific conditions, net	**6**	—	**37**	(803)
Common share repurchases	**(1,361)**	—	**(3,407)**	—
Common share dividend	**(6,055)**	(6,112)	**(24,372)**	(23,575)
Net cash used in financing activities	**227**	(3,103)	**(35,726)**	(34,238)
Increase in cash during the period	**22,908**	20,713	**44,429**	7,715
Cash at beginning of the period	**91,200**	48,228	**69,637**	63,316
Effect of exchange rate differences	**(170)**	696	**(128)**	(1,394)
Cash at end of the period	**113,938**	69,637	**113,938**	69,637