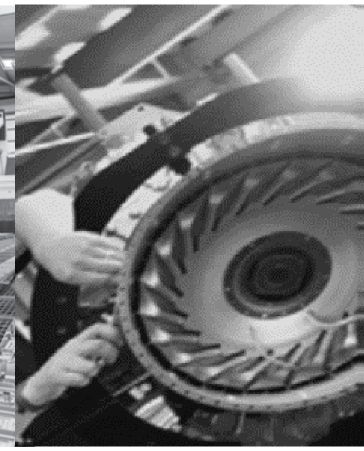
MAGELLAN
AEROSPACE







QUARTERLY REPORT

SEPTEMBER 30, 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 and nine month periods ended September 30, 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 September 30, 2020 relative to the three month period ended September 30, 2019. The information contained in this report is as at November 6, 2020. All financial references are in Canadian dollars unless otherwise noted.

The MD&A contains forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance, such as statements about the potential impacts of the COVID-19 pandemic on the Corporation's 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) and Adjusted EBITDA (earnings before interest expense, income taxes, depreciation and amortization, and restructuring), which the Corporation considers to be an indicative measure of operating performance and a metric to evaluate profitability. EBITDA and Adjusted EBITDA are not generally accepted earnings measures and should not be considered as alternatives to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, the Corporation's EBITDA and Adjusted EBITDA may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA and Adjusted EBITDA to net income (loss) reported in accordance with IFRS are included in this MD&A.

1. Overview

A summary of Magellan's business and significant 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.

Impact of COVID-19

In March 2020, the World Health Organization ("WHO") declared coronavirus ("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 third 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 the third quarter of 2020 as the Corporation's customers are concentrated in the aerospace industry; impairment charges to the Corporation's property, plant and equipment and intangible assets 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. At September 30, 2020, the Corporation reviewed each cash-generating unit and did not identify indications of impairment.

The fourth quarter of 2020 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. In response to this impact, Magellan implemented cost savings initiatives designed to reduce operating costs. Subsequent to the third quarter of 2020, a restructuring plan was approved 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 million. 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, in regions where the local authorities have ordered non-essential business closures and implemented "stay at home" orders, the aerospace manufacturing industry has been classified as an "essential service". As a result, the Corporation's operations remained open, but at reduced levels of activity during the third quarter of 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 the third quarter of 2020, Magellan improved its overall liquidity position despite the challenges posed by COVID-19. The Corporation ended the quarter with a cash balance of $91.2 million and $70.4 million of available borrowing capacity under Magellan's operating credit facility, providing the Corporation with $161.6 million of total liquidity as compared with $103.3 million at March 31, 2020. 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 2019 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan's operating results for third quarter ended September 30, 2020

The Corporation reported revenue in the third quarter of 2020 of $163.4 million, a $72.2 million decrease from the third quarter of 2019 of $235.6 million. Gross profit and net income for the third quarter of 2020 were $22.7 million and breakeven, respectively, in comparison to gross profit of $35.1 million and net income of $15.8 million for the third quarter of 2019.

Consolidated Revenue

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2020**	2019	Change	**2020**	2019	Change
Canada	**76,313**	86,256	(11.5%)	**254,150**	273,142	(7.0%)
United States	**46,097**	76,616	(39.8%)	**156,103**	244,563	(36.2%)
Europe	**40,967**	72,703	(43.7%)	**154,104**	251,836	(38.8%)
Total revenues	**163,377**	235,575	(30.6%)	**564,357**	769,541	(26.7%)

Revenues in Canada decreased 11.5% in the third 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 39.8% in the third quarter of 2020 when compared to the third quarter of 2019, largely due to volume decreases for both single aisle, specifically the Boeing 737 MAX, and wide-body aircraft.

European revenues decreased 43.7% 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 September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2020**	2019	Change	**2020**	2019	Change
Gross profit	**22,742**	35,074	(35.2%)	**84,857**	122,985	(31.0%)
Percentage of revenues	**13.9%**	14.9%		**15.0%**	16.0%	

Gross profit of $22.7 million for the third quarter of 2020 was $12.3 million lower than the third quarter of 2019 gross profit of $35.1 million, and gross profit as a percentage of revenues of 13.9% for the third quarter of 2020 was lower than the third quarter of 2019 of 14.9%. 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 production efficiencies realized on certain programs, and recognition of $9.7 million in subsidies from the CEWS program.

Administrative and General Expenses

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2020**	2019	Change	**2020**	2019	Change
Administrative and general expenses	**11,431**	15,195	(24.8%)	**39,704**	46,785	(15.1%)
Percentage of revenues	**7.0%**	6.5%		**7.0%**	6.1%	

Administrative and general expenses as a percentage of revenues of 7.0% for the third quarter of 2020 were 0.5% higher than the same period of 2019. Administrative and general expenses decreased $3.8 million to $11.4 million in the third quarter of 2020 compared to $15.2 million in the third quarter of 2019 mainly due to lower discretionary expenses, lower salary and related expenses, subsidies of $0.7 million received from the CEWS program and cost reductions across the majority of the expense categories to align with current business volumes.

Restructuring

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2020**	2019	**2020**	2019
Restructuring	**5,554**	—	**6,263**	—

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 $5,554.

Other

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2020**	2019	**2020**	2019
Foreign exchange loss (gain)	**2,508**	(2,623)	**(2,271)**	(3,276)
Gain on disposal of property, plant and equipment	**(22)**	(17)	**(65)**	(67)
Other	**—**	1,821	**(172)**	2,829
Total other	**2,486**	(819)	**(2,508)**	(514)

Total other for the third quarter of 2020 included a $2.5 million foreign exchange loss compared to a $2.6 million foreign exchange gain 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. In addition, $1.8 million of one-time relocation expenses were included in the third quarter of 2019.

Interest Expense

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2020**	2019	**2020**	2019
Interest on bank indebtedness and long-term debt	**80**	(80)	**225**	46
Accretion charge for borrowings, lease liabilities and long-term debt	**844**	644	**2,453**	1,817
Discount on sale of accounts receivable	**179**	495	**733**	1,555
Total interest expense	**1,103**	1,059	**3,411**	3,418

Total interest expense of $1.1 million in the third quarter of 2020 was consistent with the third quarter of 2019 amount of $1.1 million mainly due to lower discount on sale of accounts receivables offset by higher accretion charge on lease liabilities.

Provision for Income Taxes

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2020**	2019	**2020**	2019
Current income tax expense	**731**	1,841	**2,642**	7,152
Deferred income tax expense	1,426	1,951	9,157	8,172
Income tax expense	**2,157**	3,792	**11,799**	15,324
Effective tax rate	**99.5%**	19.3%	**31.1%**	20.9%

Income tax expense for the three months ended September 30, 2020 was $2.2 million, representing an effective income tax rate of 99.5% compared to 19.3% 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 change 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	2018
Expressed in millions of dollars, except per share amounts	**Sep 30**	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Revenues	**163.4**	162.2	238.8	246.7	235.6	264.1	269.9	254.4
Income before taxes	**2.2**	10.0	25.8	11.7	19.6	27.8	25.9	38.5
Net Income	**0.0**	6.1	20.1	9.4	15.8	21.7	20.4	29.5
Net Income per share								
Basic and diluted	**0.00**	0.10	0.34	0.16	0.27	0.37	0.35	0.51
EBITDA[1]	**16.3**	24.8	41.5	27.9	34.1	42.7	40.5	50.7

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

Revenues and net income reported in the 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 1.3200 in the fourth quarter of 2019. 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 third quarter of 2019. The average quarterly exchange rate of the British pound relative to the United States dollar reached its high of 1.2887 in the third quarter of 2020 and hit a low of 1.2327 in the third quarter of 2019.

Revenue for the third quarter of 2020 of $163.4 million was lower than that in the third quarter of 2019. The average quarterly exchange rate of the United States dollar relative to the Canadian dollar in the third quarter of 2020 was 1.3316 versus 1.3206 in the same period of 2019. The average quarterly exchange rate of the British pound relative to the Canadian dollar moved from 1.6280 in the third quarter of 2019 to 1.7212 during the current quarter. The average quarterly exchange rate of the British pound relative to the United States dollar strengthened from 1.2327 in the third quarter of 2019 to 1.2887 in the current quarter. Had the foreign exchange rates remained at levels experienced in the third quarter of 2019, reported revenues in the third quarter of 2020 would have been lower by $1.2 million.

As discussed above, net income reported in the quarterly information was 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 operating divisions and an accrual recorded in relation to the wind-down of the A380 program. Results for the second and third 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. In addition, the Corporation recognized $8.6 million and $10.4 million government subsidy relating to the CEWS program in the second and third quarter respectively, and reduced the expense that the subsidy is intended to offset. Last, a $3.4 million cost recovery was also recorded against cost of sales as a result of the cancellation of A320neo program in the third quarter of 2020.

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.

Expressed in thousands of dollars	Three month period ended September 30 2020	2019	Nine month period ended September 30 2020	2019
Net income	**11**	15,847	**26,188**	57,972
Add back:				
Interest	**1,103**	1,059	**3,411**	3,418
Taxes	**2,157**	3,792	**11,799**	15,324
Depreciation and amortization	**12,999**	13,427	**41,231**	40,579
EBITDA	**16,270**	34,125	**82,629**	117,293
Add back:				
Restructuring	**5,554**	—	**6,263**	—
Adjusted EBITDA	**21,824**	34,125	**88,892**	117,293

Adjusted EBITDA decreased $12.3 million or 36.0% to $21.8 million for the third quarter of 2020, compared to $34.1 million in the third quarter of 2019 mainly as a result of lower net income, taxes and depreciation and amortization driven by volume reductions offset by $5.6 million restructuring expenses recorded in the third 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

Expressed in thousands of dollars	Three month period ended September 30 2020	2019	Nine month period ended September 30 2020	2019
Decrease in accounts receivable	**18,287**	14,456	**43,981**	770
Decrease (increase) in contract assets	**4,978**	(8,201)	**773**	(26,525)
Decrease (increase) in inventories	**3,328**	(9,317)	**(26,499)**	(17,341)
Decrease (increase) in prepaid expenses and other	**2,340**	(511)	**2,054**	(3,927)
Increase (decrease) in accounts payable, accrued liabilities and provisions	**2,846**	(16)	**(24,427)**	4,328
Changes in non-cash working capital balances	**31,779**	(3,589)	**(4,118)**	(42,695)
Cash provided by operating activities	**45,292**	27,526	**73,039**	61,167

For the three months ended September 30, 2020 the Corporation generated $45.3 million from operating activities, compared to $27.5 million in the third 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; increases in accounts payable, accrued liabilities and provisions primarily driven by higher advance payments received from customers partially offset by lower level of purchases and timing of payments; and lower prepaid expenses.

Investing Activities

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2020	2019	**2020**	2019
Business combination, net of cash acquired	—	—	—	(2,661)
Purchase of property, plant and equipment	**(6,291)**	(16,322)	**(12,976)**	(34,668)
Proceeds from disposal of property, plant and equipment	—	67	**107**	426
Decrease (increase) in intangible and other assets	**4,511**	3,102	**(2,696)**	(6,127)
Cash used in investing activities	**(1,780)**	(13,153)	**(15,565)**	(43,030)

Investing activities used $1.8 million in cash for the third quarter of 2020 compared to $13.2 million in the same quarter of the prior year, a reduction of $11.4 million primarily due to lower levels of investment in property, plant and equipment.

Financing Activities

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2020	2019	**2020**	2019
(Decrease) increase in debt due within one year	**(5,287)**	589	**(9,235)**	(7,895)
Increase in long-term debt	**1,409**	—	**1,409**	—
Decrease in long-term debt	**(618)**	(612)	**(1,856)**	(2,061)
Lease liability payments	**(1,586)**	(1,073)	**(5,053)**	(2,757)
(Decrease) increase in long-term liabilities and provisions	**(84)**	23	**(886)**	(156)
(Decrease) increase in borrowings subject to specific conditions, net	**(8)**	19	**31**	(803)
Common share repurchases	**(1,560)**	—	**(2,046)**	—
Common share dividend	**(6,095)**	(5,821)	**(18,317)**	(17,463)
Cash used in financing activities	**(13,829)**	(6,875)	**(35,953)**	(31,135)

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 $13.8 million in financing activities in the third quarter of 2020 mainly to repay debt due within one year, long-term debt, and lease liabilities, repurchase common shares and pay dividends.

As at September 30, 2020, the Corporation had made contractual commitments to purchase $7.8 million of capital assets.

Dividends

During the first, second and third quarter of 2020, the Corporation declared and paid quarterly cash dividends of $0.105 per common shares representing an aggregating dividend payment of $18.3 million.

Subsequent to September 30, 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 December 31, 2020 to shareholders of record at the close of business on December 17, 2020.

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 September 30, 2020, 211,385 common shares were purchased for cancellation for $1.6 million at a volume weighted average price paid of $7.36 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 November 6, 2020, 57,789,416 common shares were outstanding and no preference shares were outstanding.

6. Financial Instruments

A summary of Magellan's financial instruments

Derivative Contracts

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian dollar denominated financial statements of the Corporation's subsidiaries may vary on consolidation into the reporting currency of Canadian dollars. The Corporation from time to time may use derivative financial instruments to help manage foreign exchange risk with the objective of reducing transaction exposures and the resulting volatility of the Corporation's earnings. The Corporation does not trade in derivatives for speculative purposes. Under these contracts the Corporation is obligated to purchase specified amounts at predetermined dates and exchange rates. These contracts are matched with anticipated cash flows in United States dollars. The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. As at September 30, 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 nine month periods ended September 30, 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 WHO 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. Governments and central banks reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

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 third quarter of 2020. 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 or beyond, the supply chain and customer demand will likely be further negatively 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 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, 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.
- On May 28, 2020, the IASB published 'Covid-19-Related Rent Concessions (Amendment to IFRS 16, *Leases*)' amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after June 1, 2020.

The 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.

- 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.
- On May 14, 2020, the IASB issued amendments to IAS 16, *Property, Plant and Equipment – Proceeds before Intended Use*, regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.
- On May 14, 2020, the IASB issued amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, clarifying the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.
- On August 27, 2020, the IASB published 'Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after January 1, 2021, with earlier application permitted.

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 September 30, 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

The current extreme economic uncertainty resulting from the ongoing COVID-19 pandemic renders it difficult to issue a specific outlook concerning industry and market conditions over the next 12 months and as such, the following market information is subject to a high degree of risk.

Stalled air travel recovery in August and September forced the International Air Transport Association ("IATA") to downgrade its air travel forecast for the balance of 2020. IATA had previously forecasted global air travel in revenue passenger kilometres ("RPK") to improve to 45% of pre-pandemic levels by the end of 2020 however, IATA has since lowered the forecast to 32%. The RPK rebounded by 10% in the second quarter of 2020, but rising COVID-19 cases in the third quarter of 2020 stopped further progress.

Commercial airlines are struggling to align with current and future demand under these unpredictable market conditions. IATA warns that airlines are using cash at such a rate that without continued government support programs, there could be "large swathes of the industry" approaching bankruptcy. An average of 35% of the global commercial fleet remains parked, with wide body aircraft ranking the highest at 50% to 95% parked depending upon the model. New aircraft deliveries have been low, forcing aircraft manufacturers to implement deep cost cutting measures to protect their businesses while the entire industry attempts to manage through this crisis.

Airbus' order backlog decreased to 7,441 as of September 30, 2020 compared to 7,584 at June 30, 2020, and 7,482 at the close of 2019. Airbus delivered 341 aircraft and received net orders for 300 aircraft year to date as of September 30, 2020. Order cancellations in the period totaled 70 aircraft. Boeing's order backlog decreased by 1,300 aircraft in 2020 net of shipments and order cancellations, including 821 aircraft removed due to revenue recognition accounting adjustments. The 737 MAX order backlog fell by 1,006 aircraft. Only 98 Boeing aircraft were delivered year to date as of September 30, 2020. Boeing's total aircraft order backlog at the end of third quarter of 2020 was 4,325 compared to 5,625 at the close of 2019.

Airbus confirmed targeted A320 build rates of 40 aircraft per month into 2021. The targeted A330 rates are down to 2 aircraft per month and are anticipated to drop to 1 aircraft per month in 2021. A350 targeted rates are being adjusted to between 4.5 aircraft per month to 5 aircraft per month.

Boeing's targeted 737 build rate is at 7 aircraft per month with targeted planned increases in 2021 reaching up to 17 aircraft per month. The 737 MAX recertification process continues with a number of milestones remaining before the aircraft's return-to-service. Boeing expects that regulators will certify the MAX in time for deliveries to resume in the fourth quarter of 2020. Meanwhile, Boeing is currently building the 777 aircraft at 5 aircraft per month and is expected to reduce it to 2 aircraft per month in 2021. The 787 rate is currently at 10 aircraft per month and will drop to 6 aircraft per month in 2021.

Defence markets have been mostly unaffected by the pandemic to date as spending was advanced on various programs to help support vulnerable supply chains through the crisis. While this has been positive for the aerospace market, concerns still remain that growing fiscal deficits may necessitate a re-prioritization of government funds to other areas at some point in the future.

The Canadian government received bid responses from Boeing, Saab and Lockheed Martin for Canada's Future Fighter replacement program. An initial evaluation is expected by spring 2021 followed by the identification of the selected bidder in early 2022. The first aircraft delivery is planned to be in 2025.

The fourth quarter of 2020 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. In response to this impact, Magellan has implemented cost savings initiatives designed to reduce operating costs by re-balancing its workforce. Subsequent to the third quarter of 2020, a restructuring plan was approved 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. Magellan will continue to operate its treatments center in Bournemouth. Management estimates the restructuring costs relating to the closure to be approximately $8 million, which will be finalized and provided for in the fourth quarter.

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

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 September 30 2020	2019	Nine month period ended September 30 2020	2019
Revenues	8	**163,377**	235,575	**564,357**	769,541
Cost of revenues		**140,635**	200,501	**479,500**	646,556
Gross profit		**22,742**	35,074	**84,857**	122,985
Administrative and general expenses		**11,431**	15,195	**39,704**	46,785
Restructuring	13	**5,554**	—	**6,263**	—
Other		**2,486**	(819)	**(2,508)**	(514)
Income before interest and income taxes		**3,271**	20,698	**41,398**	76,714
Interest expense		**1,103**	1,059	**3,411**	3,418
Income before income taxes		**2,168**	19,639	**37,987**	73,296
Income taxes					
Current	9	**731**	1,841	**2,642**	7,152
Deferred	9	**1,426**	1,951	**9,157**	8,172
		2,157	3,792	**11,799**	15,324
Net income		**11**	15,847	**26,188**	57,972
Other comprehensive income					
Other comprehensive (loss) income that may be reclassified to profit and loss in subsequent periods:					
Foreign currency translation		**(807)**	(3,805)	**8,424**	(26,849)
Items not to be reclassified to profit and loss in subsequent periods:					
Actuarial gain (loss) on defined benefit pension plans, net of taxes	5	**871**	(1,234)	**(6,895)**	(4,335)
Total comprehensive income, net of taxes		**75**	10,808	**27,717**	26,788
Net income per share					
Basic and diluted	6	**0.00**	0.27	**0.45**	1.00

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	September 30 2020	December 31 2019
Current assets			
Cash		**91,200**	69,637
Trade and other receivables		**136,130**	177,801
Contract assets		**78,118**	77,967
Inventories		**224,987**	196,823
Prepaid expenses and other		**19,211**	21,127
		549,646	543,355
Non-current assets			
Property, plant and equipment		**427,445**	439,102
Right-of-use assets		**42,395**	44,692
Investment properties		**2,188**	2,180
Intangible assets		**60,483**	65,373
Goodwill		**34,509**	34,137
Other assets		**9,028**	8,770
Deferred tax assets		**411**	3,556
		576,459	597,810
Total assets		**1,126,105**	1,141,165
Current liabilities			
Accounts payable and accrued liabilities and provisions	8	**128,932**	151,907
Debt due within one year		**39,241**	48,144
		168,173	200,051
Non-current liabilities			
Long-term debt		**6,764**	6,876
Lease liabilities		**37,686**	39,794
Borrowings subject to specific conditions		**24,768**	24,098
Other long-term liabilities and provisions	5	**28,636**	20,289
Deferred tax liabilities		**36,848**	34,181
		134,702	125,238
Equity			
Share capital	6	**253,175**	254,440
Contributed surplus		**2,044**	2,044
Other paid in capital		**13,565**	13,565
Retained earnings		**517,106**	516,911
Accumulated other comprehensive income		**33,963**	25,539
Equity attributable to equity holders of the Corporation		**819,853**	812,499
Non-controlling interest		**3,377**	3,377
Total equity		**823,230**	815,876
Total liabilities and equity		**1,126,105**	1,141,165

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Corporation							
(unaudited) **(expressed in thousands of Canadian dollars)**	Share capital	Contributed surplus	Other paid in capital	Retained earnings	Foreign currency translation	Total	Non-controlling interest	Total equity
December 31, 2019	254,440	2,044	13,565	516,911	25,539	812,499	3,377	815,876
Net income for the period	—	—	—	26,188	—	26,188	—	26,188
Other comprehensive (loss) income for the period	—	—	—	(6,895)	8,424	1,529	—	1,529
Common share repurchase	(1,265)	—	—	(781)	—	(2,046)	—	(2,046)
Common share dividend	—	—	—	(18,317)	—	(18,317)	—	(18,317)
September 30, 2020	253,175	2,044	13,565	517,106	33,963	819,853	3,377	823,230
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	—	—	—	57,972	—	57,972	—	57,972
Other comprehensive loss for the period	—	—	—	(4,335)	(26,849)	(31,184)	—	(31,184)
Common share dividend	—	—	—	(17,463)	—	(17,463)	—	(17,463)
September 30, 2019	254,440	2,044	13,565	509,420	17,529	796,998	2,344	799,342

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 September 30 2020	2019	Nine month period ended September 30 2020	2019
Cash flow from operating activities					
Net income		**11**	15,847	**26,188**	57,972
Amortization/depreciation of intangible assets, right-of-use assets and property, plant and equipment		**12,999**	13,427	**41,231**	40,579
Gain on disposal of property, plant and equipment		**(22)**	(9)	**(65)**	(56)
Gain on disposal of joint venture investment		**—**	—	**—**	(881)
(Decrease) increase in defined benefit plans		**(358)**	25	**(10)**	158
Accretion		**844**	644	**2,453**	1,817
Deferred taxes		**17**	1,279	**7,444**	4,652
Loss (income) on investments in joint ventures		**22**	(98)	**(84)**	(379)
Changes to non-cash working capital		**31,779**	(3,589)	**(4,118)**	(42,695)
Net cash provided by operating activities		**45,292**	27,526	**73,039**	61,167
Cash flow from investing activities					
Business combination, net of cash acquired		**—**	—	**—**	(2,661)
Purchase of property, plant and equipment		**(6,291)**	(16,322)	**(12,976)**	(34,668)
Proceeds from disposal of property, plant and equipment		**—**	67	**107**	426
Decrease (increase) in intangible and other assets		**4,511**	3,102	**(2,696)**	(6,127)
Net cash used in investing activities		**(1,780)**	(13,153)	**(15,565)**	(43,030)
Cash flow from financing activities					
(Decrease) increase in debt due within one year		**(5,287)**	589	**(9,235)**	(7,895)
Increase in long-term debt		**1,409**	—	**1,409**	—
Decrease in long-term debt		**(618)**	(612)	**(1,856)**	(2,061)
Lease liability payments		**(1,586)**	(1,073)	**(5,053)**	(2,757)
(Decrease) increase in long-term liabilities and provisions		**(84)**	23	**(886)**	(156)
(Decrease) increase in borrowings subject to specific conditions, net		**(8)**	19	**31**	(803)
Common share repurchases	6	**(1,560)**	—	**(2,046)**	—
Common share dividend	6	**(6,095)**	(5,821)	**(18,317)**	(17,463)
Net cash used in financing activities		**(13,829)**	(6,875)	**(35,953)**	(31,135)
Increase (decrease) in cash during the period		**29,683**	7,498	**21,521**	(12,998)
Cash at beginning of the period		**61,730**	41,373	**69,637**	63,316
Effect of exchange rate differences		**(213)**	(643)	**42**	(2,090)
Cash at end of the period		**91,200**	48,228	**91,200**	48,228

See accompanying notes to condensed consolidated interim financial statements

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 November 6, 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, in accordance with the transitional provisions outlined in the respective standards.

a) Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, clarifying the definition of “material”.

b) Amendments to *IFRS 3, Business Combination,* to help entities determine whether an acquired set of activities and assets is a business or not.

c) On May 28, 2020, the IASB published 'Covid-19-Related Rent Concessions (Amendment to IFRS 16, *Leases*)' amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after June 1, 2020.

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- 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.
- On May 14, 2020, the IASB issued amendments to IAS 16, *Property, Plant and Equipment – Proceeds before Intended Use*, regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

- On May 14, 2020, the IASB issued amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, clarifying the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.
- On August 27, 2020, the IASB published 'Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after January 1, 2021, with earlier application permitted.

NOTE 4. 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 September 30, 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 September 30, 2020, the Corporation had letters of credit outstanding totalling $4,634 such that $70,366 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 5. 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:

	September 30 2020	December 31 2019
Pension Benefit Plans	21,253	12,000
Other Benefit Plan	834	1,009
	22,087	13,009

As at September 30, 2020, the Corporation changed the assumed discount rate for the Canadian pension plans to 2.6% from the 2.7% and 3.1% rates used in calculating the pension obligation as at June 30, 2020 and December 31, 2019, respectively, as a result of changes in the market interest rates of high-quality, fixed rate debt securities. The assumed discount rate for the U.S. pension plan remained at 2.5% as at September 30, 2020 and June 30, 2020 and decreased from the 3.1% rate determined at December 31, 2019. In addition, the return on plan assets exceeded the expected return during the three month period ended September 30, 2020 although underperformed against the expected return during the nine month period ended September 30, 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 gain of $871 and actuarial loss of $6,895, net of taxes of $304 and $2,389, respectively, recorded in other comprehensive income in the three and nine month periods ended September 30, 2020.

NOTE 6. SHARE CAPITAL

Net income per share

	Three month period ended September 30		Nine month period ended September 30	
	2020	2019	2020	2019
Net income	11	15,847	26,188	57,972
Weighted average number of shares	58,069	58,209	58,149	58,209
Basic and diluted net income per share	0.00	0.27	0.45	1.00

Dividends

On March 31, 2020, June 30, 2020 and September 30, 2020, the Corporation paid quarterly dividends of $0.105 per common share, amounting to $18,317 in the aggregate.

Subsequent to September 30, 2020, the Corporation declared dividends to holders of common shares in the amount of $0.105 per common share payable on December 31, 2020, for shareholders of record at the close of business on December 17, 2020.

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 (the “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 and nine month periods ended September 30, 2020, 211,385 and 289,545 Shares were purchased for cancellation for $1,560 and $2,046 at a volume weighted average price paid of $7.36 and $7.04 per Share respectively.

NOTE 7. 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 September 30, 2020.

Long-term debt

The carrying amount of the Corporation's long-term debt of $9,316 would approximate its fair value as at September 30, 2020.

Borrowings subject to specific conditions

As at September 30, 2020, the Corporation has recognized $25,872 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 September 30, 2020, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $39,743.

NOTE 8. 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 September 30		Nine month period ended September 30	
	2020	2019	2020	2019
Sale of goods	131,040	197,799	461,272	656,873
Services	32,337	37,776	103,085	112,668
	163,377	235,575	546,357	769,541

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

	Three month period ended September 30		Nine month period ended September 30	
	2020	2019	2020	2019
At a point of time	91,523	144,316	346,633	471,958
Over time	71,854	91,259	217,724	297,583
	163,377	235,575	564,357	769,541

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 September 30, 2020 contract liabilities were $22,778 [December 31, 2019 - $10,605].

Revenues from the Corporation's three and two largest customers accounted for 39.9% and 31.3% respectively of total sales for the three and nine month periods ended September 30, 2020 [September 30, 2019 – two largest customers accounted for 39.0% and 39.9% respectively of total sales for the three and nine month periods ended].

Geographic segments:

	Three month period ended September 30							
	2020				2019			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	76,313	46,097	40,967	163,377	86,256	76,616	72,703	235,575
Export revenue[1]	56,343	7,762	18,987	83,092	54,802	13,626	26,739	95,167

	Nine month period ended September 30							
	2020				2019			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	254,150	156,103	154,104	564,357	273,142	244,563	251,836	769,541
Export revenue[1]	180,963	27,445	47,929	256,337	178,640	49,741	85,772	314,153

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

	September 30, 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	188,816	187,426	188,590	564,832	200,484	191,411	191,409	583,304

NOTE 9. 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 and nine month periods ended September 30, 2020 was 99.5% and 31.1% respectively [19.3% and 20.9% respectively for the three and nine month periods ended September 30, 2019]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the change in mix of income and loss across the different jurisdictions in which the Corporation operates.

NOTE 10. 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 September 30, 2020 of $859,596 is comprised of shareholders' equity attributable to equity holders of the Corporation of $819,853 and interest-bearing debt of $39,743.

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 11. CONTINGENT LIABILITES 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 September 30, 2020 capital commitments in respect of purchase of property, plant and equipment totalled $7,829, all of which had been ordered. There were no other material capital commitments at the end of the period.

NOTE 12. COVID-19

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 the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused a material disruption to businesses globally resulting in an economic slowdown and decreased demand in the aerospace industry. Governments and central banks reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

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 Corporation's 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.

In response to COVID-19, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") program in March 2020. CEWS provides a wage subsidy on eligible remuneration, subject to a maximum per employee, to eligible employers based on meeting certain eligibility criteria. The Company has determined that it has qualified for this subsidy. Included in personnel and compensation expenses in the three and nine month periods ended September 30, 2020, is $10,423 and $19,035, respectively, relating to the CEWS program in order to reduce the expense that the grant is intended to offset.

NOTE 13. RESTRUCTURING COSTS

During the third quarter, Magellan implemented cost savings initiatives designed to reduce operating costs by re-balancing its workforce and recognized severance costs of $5,554. Subsequent to the quarter, a restructuring plan was approved 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. Magellan will continue to operate its treatments center in Bournemouth. Management estimates the restructuring costs relating to the closure to be approximately $8,000, which will be finalized and provided for in the fourth quarter.