MAGELLAN AEROSPACE

QUARTERLY REPORT

JUNE 30, 2021

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 interim condensed consolidated financial statements and the notes thereto for the three and six month periods ended June 30, 2021, and the audited annual consolidated financial statements for the year ended December 31, 2020 (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 June 30, 2021 relative to the three month period ended June 30, 2020. The information contained in this report is as at August 6, 2021. All financial references are in Canadian dollars unless otherwise noted.

The MD&A contains forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance. In particular and without limitation there are forward looking statements under the heading "Overview", "Results of Operations", "Liquidity and Capital Resources", "Risk Factors", "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. In particular, the Corporation has not adjusted or revised any forward-looking statements in this report to account for the potential disruption to its business from the novel coronavirus outbreak, the full impact from which is not immediately known or quantifiable. Except as required by law, the Corporation does not undertake to update any forward-looking information in this document whether as 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 Generally Accepted Accounting Principles ("GAAP"). Throughout this discussion, reference is made to EBITDA (defined as earnings before interest, income taxes, depreciation and amortization) and Adjusted EBITDA (earnings before interest, income taxes, depreciation and amortization, goodwill impairment and restructuring), which the Corporation considers to be indicative measures of operating performance and metrics to evaluate profitability. EBITDA and Adjusted EBITDA are not generally accepted earnings measures and should not be considered as alternatives to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating this measure, the Corporation's EBITDA and Adjusted EBITDA may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA and Adjusted EBITDA to net income (loss) reported in accordance with IFRS are included in this MD&A.

1. Overview

A summary of Magellan's business and significant updates

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

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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 and vaccination programs have been introduced to inoculate people against COVID-19; however, the situation continues to evolve (including the prevalence of virus variants), and the long-term success of these interventions is not yet determinable.

In the second quarter of 2021, there were positive signs of recovery in the global economy and increased demand for the Corporation's products and services as global domestic air travel showed strong recovery. However, the COVID-19 pandemic 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 challenging economic climate may have material adverse impact on Magellan including, but not limited to, significant declines in revenue 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 high degree of measurement uncertainty during this volatile period.

Magellan has implemented measures to align its cost structure 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 capital expenditure plan. The carrying value of the Corporation's long-lived assets are reviewed for indications of impairment at the end of each reporting period. At June 30, 2021, the Corporation reviewed each cash-generating unit and did not identify any indications of impairment.

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 the second quarter of 2021.

To manage the additional safety risks presented by COVID-19, Magellan implemented standardized tools and methods 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

As at June 30, 2021, the Corporation ended with a cash balance of $46.3 million and $70.5 million of available borrowing capacity under Magellan's operating credit facility, providing the Corporation with $116.8 million of total liquidity. 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.

Business Update

On May 27, 2021, Magellan announced that the Toronto Stock Exchange ("TSX") has accepted notice filed by Magellan to make a normal course issuer bid ("NCIB") through facilities of the TSX or other alternative Canadian trading systems. Under the NCIB Magellan may purchase for cancellation up to 2,886,455 common shares of the Corporation during the 12 month period commencing May 27, 2021 and ending May 26, 2022.

On June 21, 2021, Magellan announced a contract extension between Magellan Aerospace (UK) Limited and Airbus SAS ("Airbus") for the supply of aluminum and titanium structural wing components from Magellan's facilities located throughout Europe and India. The contract renewal is comprised of precision machined details and assemblies for use on the A320 and A330 aircraft.

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 the second quarter ended June 30, 2021

The Corporation reported revenue in the second quarter of 2021 of $167.6 million, a $5.4 million increase from second quarter of 2020 revenue of $162.2 million. Gross profit and net income for the second quarter of 2021 were $13.6 million and $0.7 million, respectively, in comparison to gross profit of $25.3 million and net income of $6.1 million for the second quarter of 2020.

Consolidated Revenue

		Three month period ended June 30			Six month period ended June 30	
Expressed in thousands of dollars	**2021**	2020	Change	**2021**	2020	Change
Canada	**75,820**	83,595	(9.3%)	**156,856**	177,838	(11.8%)
United States	**42,117**	45,288	(7.0%)	**87,926**	110,006	(20.1%)
Europe	**49,701**	33,284	49.3%	**99,137**	113,136	(12.4%)
Total revenue	**167,638**	162,167	3.4%	**343,919**	400,980	(14.2%)

The Corporation's revenue in the second quarter of 2021 improved from the second quarter of 2020 due to increased customer demand for the Corporation's products and services on a number of commercial programs as global domestic air travel continues to recover to pre COVID-19 levels.

Revenue in Canada decreased 9.3% in the second quarter of 2021 compared to the corresponding period in 2020, primarily impacted by approximately $4.6 million lower revenue due to a work stoppage at the Corporation's Haley facility. In addition, the Corporation's revenue in the second quarter of 2021 was impacted negatively by decreased volumes for proprietary products, lower demand for repair and overhaul services, and unfavourable foreign exchange impact driven by the weakening of the United States dollar relative to the Canadian dollar. On a currency neutral basis, Canadian revenues in the second quarter of 2021 decreased by 3.0% over the same period of 2020.

Revenue in the United States decreased by 7.0% in the second quarter of 2021 compared to the second quarter of 2020, primarily due to the weakening of the United States dollar relative to the Canadian dollar, offset in part by volume increases for single aisle aircraft, specifically the Boeing 737 MAX as aircraft build rates increased. On a currency neutral basis, revenues in the United States increased 4.9% in the second quarter of 2021 over the same period in 2020.

European revenue in the second quarter of 2021 increased 49.3% compared to the corresponding period in 2020 primarily driven by build rate recovery for both single aisle and wide-body aircraft, offset partially by the weakening of the United States dollar relative to the British pound. On a currency neutral basis, European revenues in the second quarter of 2021 increased by 64.2% when compared to the same period in 2020.

Gross Profit

		Three month period ended June 30			Six month period ended June 30	
Expressed in thousands of dollars	**2021**	2020	Change	**2021**	2020	Change
Gross profit	**13,636**	25,343	(46.2%)	**30,715**	62,115	(50.6%)
Percentage of revenue	**8.1%**	15.6%		**8.9%**	15.5%	

Gross profit of $13.6 million for the second quarter of 2021 was $11.7 million lower than the $25.3 million gross profit for the second quarter of 2020, and gross profit as a percentage of revenues of 8.1% for the second quarter of 2021 decreased from 15.6% recorded in the same period in 2020. The gross profit in the current quarter was primarily impacted by the work stoppage at the Corporation's Haley facility, volume decreases for proprietary and repair and overhaul products and services, higher production costs due to manufacturing inefficiencies related to lower revenues, and unfavourable foreign exchange impact due to the weakening of the United States dollar relative to the Canadian dollar and the British pound. The Corporation recognized $3.7 million of recoveries in the second quarter of 2021 from the Canada Emergency Wage Subsidy ("CEWS") program (second quarter 2020 $8.0 million), which mitigated a portion of the adverse impact of COVID-19.

Administrative and General Expenses

		Three month period ended June 30			Six month period ended June 30	
Expressed in thousands of dollars	**2021**	2020	Change	**2021**	2020	Change
Administrative and general expenses	**10,518**	12,597	(16.5%)	**22,162**	28,273	(21.6%)
Percentage of revenues	**6.3%**	7.8%		**6.4%**	7.1%	

Administrative and general expenses as a percentage of revenues was 6.3% for the second quarter of 2021, lower than the same period of 2020 percentage of revenues of 7.8%. Administrative and general expenses decreased $2.1 million or 16.5% to $10.5 million in the second quarter of 2021 compared to $12.6 million in the second quarter of 2020 mainly due to lower salary and related expenses and lower discretionary spending to align with current business volumes, offset in part by lower CEWS program recoveries of $0.5 million.

Restructuring

	Three month period ended June 30		Six month period ended June 30	
Expressed in thousands of dollars	**2021**	2020	**2021**	2020
Restructuring	**676**	709	**852**	709

Restructuring costs of $0.7 million incurred in the second quarter of 2021 mainly related to the closure of the Bournemouth manufacturing facilities announced in the fourth quarter of 2020. The Corporation recorded $0.7 million of restructuring cost in the second quarter of 2020 related to adjustments made its cost base to address reduced levels of demand.

Other

	Three month period ended June 30		Six month period ended June 30	
Expressed in thousands of dollars	**2021**	2020	**2021**	2020
Foreign exchange loss (gain)	**513**	1,006	**(370)**	(4,779)
Gain on sale of capital assets	**(39)**	(62)	**(12)**	(43)
Gain on disposal of investment property	**(350)**	—	**(350)**	(172)
Total Other	**124**	944	**(732)**	(4,994)

Other loss for the second quarter of 2021 included a $0.5 million foreign exchange loss compared to a $1.0 million foreign exchange loss in the second quarter of the prior year. The movements in balances denominated in foreign currencies and the fluctuations of the foreign exchange rates impact the net foreign exchange gain or loss recorded in a quarter. In addition, a $0.4 million gain was recorded in the second quarter of 2021 relating to the disposal for proceeds of $0.7 million of an investment property.

Interest Expense

	Three month period ended June 30		Six month period ended June 30	
Expressed in thousands of dollars	**2021**	2020	**2021**	2020
Interest on bank indebtedness and long-term debt	**48**	79	**110**	145
Accretion charge for borrowings, lease liabilities and long-term debt	**650**	795	**1,295**	1,609
Discount on sale of accounts receivable	**34**	234	**228**	554
Total interest expense	**732**	1,108	**1,633**	2,308

Total interest expense of $0.7 million in the second quarter of 2021 decreased $0.4 million compared to the second quarter of 2020 mainly due to lower accretion charge on lease liabilities and long-term debt as principal amounts decreased, and lower discount on sale of accounts receivables due to lower volume of receivables sold in the current quarter.

Provision for Income Taxes

	Three month period ended June 30		Six month period ended June 30	
Expressed in thousands of dollars	**2021**	2020	**2021**	2020
Current income tax expense (recovery)	**2,616**	(1,152)	**5,853**	895
Deferred income tax (recovery) expense	**(2,090)**	5,034	**(3,375)**	8,747
Income tax expense	**526**	3,882	**2,802**	9,642
Effective tax rate	**33.2%**	38.9%	**36.4%**	26.9%

Income tax expense for the three months ended June 30, 2021 was $0.5 million, representing an effective income tax rate of 33.2% compared to 38.9% for the same period of 2020. The change in the effective tax rate and current and deferred income tax expenses year over year was primarily due to the change in mix of income across the different jurisdictions in which the Corporation operates and reversal of temporary differences.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

Expressed in millions of dollars, except per share amounts	2021 Jun 30	Mar 31	2020 Dec 31	Sep 30	Jun 30	Mar 31	2019 Dec 31	Sep 30
Revenues	**167.6**	176.3	180.1	163.4	162.2	238.8	246.7	235.6
Income before taxes	**1.6**	5.2	(23.6)	2.2	10.0	25.8	11.7	19.6
Net Income	**1.1**	3.3	(22.9)	0.0	6.1	20.1	9.4	15.8
Net Income per share								
Basic and diluted	**0.02**	0.06	(0.40)	0.00	0.10	0.34	0.16	0.27
EBITDA[1]	**14.9**	19.2	(6.8)	16.3	24.8	41.5	27.9	34.1
Adjusted EBITDA[1]	**15.6**	19.3	11.5	21.8	25.5	41.5	27.9	34.1

[1] EBITDA and Adjusted EBITDA are not IFRS financial measures. Please see Section 4 the "Reconciliation of Net Income to EBITDA and Adjusted EBITDA" section for more information.

Commencing in March 2020, the outbreak of the COVID-19 pandemic caused disruption to air travel and commercial activities, particularly within the commercial aerospace industry, and negatively impacted global supply, demand and distribution capabilities. As a result, there was a decrease in demand for the Corporation's aerospace products and services that led to lower revenues and profits commencing in the second quarter of 2020. In the second quarter of 2021, the Corporation began to see a recovery as the demand for certain commercial aircraft program increased.

Revenues and net income in the quarter were also impacted by the movements of 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 1.2280 in the current quarter. The average quarterly exchange rate of the British pound relative to the Canadian dollar reached a high of 1.7461 in the first quarter of 2021 and hit a low of 1.6280 in the third quarter of 2019. The average quarterly exchange rate of the British pound relative to the United States dollar reached a high of 1.3974 in the second quarter of 2021 and hit a low of 1.2327 in the third quarter of 2019.

Revenue for the second quarter of 2021 of $167.6 million was higher than that in the second quarter of 2020. The average quarterly exchange rate of the United States dollar relative to the Canadian dollar in the second quarter of 2021 was 1.2280 versus 1.3859 in the same period of 2020. The average quarterly exchange rate of the British pound relative to the Canadian dollar decreased from 1.7203 in the second quarter of 2020 to 1.7170 during the current quarter. The average quarterly exchange rate of the British pound relative to the United States dollar increased from 1.2388 in the second quarter of 2020 to 1.3974 in the current quarter. Had the foreign exchange rates remained at levels experienced in the second quarter of 2020, reported revenues in the second quarter of 2021 would have been higher by $15.5 million.

As discussed above, net income reported in the quarterly information was impacted by the foreign exchange movements. Results were also negatively impacted by COVID-19 pandemic driven volume decreases in a number of commercial programs commencing in the second quarter of 2020. However, starting with the second quarter of 2021, there are some positive signs of revenue recovery as certain commercial program aircraft build rates have started to increase. The Corporation also recognized CEWS subsidy recoveries of $8.6 million, $10.4 million, $1.0 million in the second, third and fourth quarter of 2020, respectively and $3.9 million in the second quarter of 2021, and reduced the expense that the subsidy offsets. 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. 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 the Airbus 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 decreased demand as a result of a deterioration in economic conditions stemming from COVID-19 and recognized a $5.6 million restructuring charge, including a $2.4 million impairment loss related to assets made obsolete as a result of the plan. Further, a $12.0 million goodwill impairment charge was recorded in the fourth quarter of 2020.

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, income taxes and depreciation and amortization) and Adjusted EBITDA (earnings before interest, income taxes, depreciation and amortization, goodwill impairment and restructuring) in this MD&A. The Corporation has provided this measure because it believes this information is used by certain investors to assess financial performance and that EBITDA and Adjusted EBITDA are useful supplemental measures as they provide an indication of the results generated by the Corporation's principal business activities prior to consideration of how these activities are financed and how the results are taxed in the various jurisdictions. Each component of this measure is calculated in accordance with IFRS, but EBITDA and Adjusted EBITDA are not recognized measures under IFRS, and the Corporation's method of calculation may not be comparable with that of other companies. Accordingly, EBITDA and Adjusted EBITDA should not be used as alternatives to net income as determined in accordance with IFRS or as alternatives to cash provided by or used in operations.

	Three month period ended June 30		**Six month period ended June 30**	
Expressed in thousands of dollars	**2021**	2020	**2021**	2020
Net income	**1,060**	6,103	**4,322**	26,177
Add back:				
Interest	**732**	1,108	**1,633**	2,308
Taxes	**526**	3,882	**2,478**	9,642
Depreciation and amortization	**12,567**	13,723	**25,608**	28,232
EBITDA	**14,885**	24,816	**34,041**	66,359
Add back:				
Restructuring	**676**	709	**852**	709
Adjusted EBITDA	**15,561**	25,525	**34,893**	67,068

Adjusted EBITDA in the second quarter of 2021 decreased $9.9 million or 38.8% to $15.6 million in comparison to $25.5 million in the same quarter of 2020 mainly as a result of lower net income driven by volume reductions and unfavouable foreign exchange rate movements, taxes, depreciation and amortization expense, and interest.

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 June 30		**Six month period ended June 30**	
Expressed in thousands of dollars	**2021**	2020	**2021**	2020
(Increase) decrease in accounts receivable	**(12,722)**	55,627	**(37,425)**	25,694
Decrease (increase) in contract assets	**5,770**	2,508	**(4,620)**	(4,205)
Decrease (increase) in inventories	**2,595**	(16,278)	**417**	(29,827)
(Increase) decrease in prepaid expenses and other	**(264)**	4,135	**(1,852)**	(286)
Increase (decrease) in accounts payable, accrued liabilities and provisions	**5,267**	(24,439)	**7,474**	(27,273)
Changes in non-cash working capital balances	**646**	21,553	**(36,006)**	(35,897)
Cash provided by operating activities	**12,849**	46,739	**(8,049)**	27,747

For the three months ended June 30, 2021, the Corporation generated $12.8 million from operating activities, compared to $46.7 million in the second quarter of 2020. Changes in non-cash working capital items provided cash of $0.7 million, $20.9 million lower when compared to $21.6 million in the prior year. The quarter over quarter changes were largely attributable to increases in accounts receivables from higher revenues, timing of payments and lower volume of receivables sold and increases in prepaid expenses due to timing of payments. These increases were offset in part by decreases in inventories driven by volume reductions and timing of material purchases, increases in accounts payable, accrued liabilities and provisions primarily driven by timing of supplier payments and receipt of milestone payments, and decreases in contract assets from timing of production and billing related to products transferred over time.

Investing Activities

	Three month period ended June 30		Six month period ended June 30	
Expressed in thousands of dollars	**2021**	2020	**2021**	2020
Purchase of property, plant and equipment	**(2,308)**	(2,475)	**(4,971)**	(6,685)
Proceeds from disposal of property, plant and equipment	—	107	**86**	107
Proceeds from disposal of investment property	**644**	—	**644**	—
Increase in intangible and other assets	**(809)**	(4,216)	**(1,812)**	(7,207)
Cash used in investing activities	**(2,473)**	(6,584)	**(6,053)**	(13,785)

Investing activities used $2.5 million cash for the second quarter of 2021 compared to $6.6 million cash used in the same quarter of the prior year, a reduction of $4.1 million primarily due to lower levels of investment in intangibles and increases in pension assets as a result of better than the expected return on plan assets.

Financing Activities

	Three month period ended June 30		Six month period ended June 30	
Expressed in thousands of dollars	**2021**	2020	**2021**	2020
Decrease in debt due within one year	**(26,650)**	(951)	**(35,527)**	(3,948)
Decrease in long-term debt	**(559)**	(646)	**(1,017)**	(1,238)
Lease liability payments	**(1,695)**	(1,709)	**(3,372)**	(3,467)
Decrease in long-term liabilities and provisions	**27**	(547)	**(153)**	(802)
Increase (decrease) in borrowings subject to specific conditions, net	—	10	**(1,104)**	39
Common share repurchases	—	(486)	—	(486)
Common share dividend	**(6,062)**	(6,110)	**(12,124)**	(12,222)
Cash used in financing activities	**(34,939)**	(10,439)	**(53,297)**	(22,124)

On June 30, 2021, the Corporation extended its Bank Credit Facility Agreement ("Agreement") with a syndicate of lenders for an additional two-year period expiring on June 30, 2023. The Agreement provides for a multi-currency global operating credit facility to be available to Magellan in a maximum aggregate amount of $75 million. The 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. Extensions of the Agreement are subject to mutual consent of the syndicate of lenders and the Corporation.

The Corporation used $34.9 million in the second quarter of 2021 primarily for the repayment of debt due within one year as the Corporation wound down it accounts receivable securitization program. Usage of funds also related to the payment of common share dividends, lease liabilities and long-term debt.

As at June 30, 2021, the Corporation had contractual commitments to purchase $6.7 million of capital assets.

Dividends

During the first and second quarter of 2021, the Corporation declared and paid quarterly cash dividends of $0.105 per common shares representing an aggregating dividend payment of $12.1 million.

Subsequent to June 30, 2021, 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 September 29, 2021 to shareholders of record at the close of business on September 16, 2021.

Normal Course Issuer Bid
On May 27, 2021, the Corporation's application was approved for a Normal Course Issuer Bid to purchase through the facilities of the Toronto Stock Exchange and alternative Canadian trading platforms up to 2,886,455 common shares, over a 12-month period commencing May 27, 2021 and ending May 26, 2022. As of June 30, 2021, under the program the Corporation had not purchased common shares for cancellation.

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 August 6, 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 June 30, 2021, foreign exchange contracts of US$3.0 million and £4.0 million were outstanding with an immaterial fair value.

Off-Balance Sheet Arrangements
The Corporation does not have any off-balance sheet arrangements that have or reasonably are likely to have a material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. As a result, the Corporation is not exposed materially to any financing, liquidity, market or credit risk that could arise if it had engaged in these arrangements.

7. Related Party Transactions

A summary of Magellan's transactions with related parties

For the three month period ended June 30, 2021, 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 worldwide COVID-19 pandemic continues to cause material disruption to businesses globally. The introduction of vaccines has led to optimism; however, the situation continues to evolve (including the prevalence of virus variants). The extent and duration 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.

The Corporation is susceptible to risks relating to production disruption caused by unionized employees, including work stoppages or work slowdowns. The labour strike at the Corporation's Haley, Ontario facility which commenced at the end of the first quarter of 2021 caused work slowdowns for approximate two months, which adversely affected deliveries to the Corporation's customers and the Corporation's financial performance.

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. Changes in Accounting Policies

A description of accounting standards adopted in the current year

The following new standards, and amendments to standards and interpretations, are effective for the first time for interim periods beginning on or after January 1, 2021 and have been applied in preparing the interim condensed consolidated financial statements.

- Interest Rate Benchmark Reform – amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement*, IFRS 7, *Financial Instruments: Disclosures*, IFRS 4, *Insurance Contracts* and IFRS 16, *Leases*. The adoption did not have a material impact on the Corporation's financial results.

The IASB has issued the following new standards and amendments that are not yet been adopted by the Corporation and could have an impact on future periods. The Corporation is currently assessing the potential impact on its consolidated financial statements.

- Amendments to IAS 1, *Presentation of Financial Statements*, clarifying the requirements for classifying liabilities as current or non-current.
- Amendments to IAS 16, *Property, Plant and Equipment – Proceeds before Intended Use*, clarifying the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment into use.
- 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.
- Amendments to IAS 8 – *Definition of Accounting Estimates* to help entities distinguish changes in accounting estimates from changes in accounting policies.
- Amendments to IAS 1 and IFRS Practice Statement 2 – *Disclosure of Accounting Policies*, providing guidance and examples to help entities apply materiality judgements to accounting policy disclosures.

10. Critical Accounting Estimates

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

In the 2020 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, 2020 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 June 30, 2021 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 2021

The International Air Transport Association (“IATA”) reported that as of May 2021, global domestic air travel continued to strengthen and had recovered to 76% of May 2019 levels, while international travel continued to be weak at 15% of May 2019 levels due to on-going restrictions and border closures. IATA also reported that domestic travel within China and Russia had risen above that in 2019, whereas within India and Japan domestic travel was deteriorating due to the threats of new COVID-19 variants.

The first large commercial aircraft order announced since the pandemic began came from United Airlines on June 29, 2021 for an order of 200 Boeing 737 MAX aircraft (150 MAX 10’s and 50 MAX 8’s) and 70 Airbus A321neo’s. United Airlines said that it expected to begin operating both the 737 MAX 10’s and A321neo’s in early 2023.

Airbus achieved a positive net order position in the second quarter of 2021. Airbus recorded gross orders of 126 aircraft, cancelations of 27 aircraft, and deliveries of 172 aircraft in the period. Deliveries were up from 125 aircraft achieved in the first quarter of 2021. Airbus’ order backlog as of June 30, 2021 was 6,925 aircraft. Boeing also achieved a positive net order position with received gross orders of 317 aircraft, order cancellations of 143 aircraft and deliveries of 79 aircraft in the second quarter of 2021. Boeing’s order book increased to 5,084 aircraft as of June 30, 2021, excluding accounting adjustments.

Airbus confirmed that A320 production rates will increase from a current rate of 43 aircraft to 45 aircraft per month by October 2021, 49 aircraft per month by January 2022 and 55 aircraft per month by mid-2022. In 2023, the rate is to increase from 61 aircraft to 67 aircraft per month. Airbus is also investigating rates as high as 75 aircraft per month by 2025. The A330 build rate remains at 2 aircraft per month, while the A350 build rate continues at 5 aircraft per month until the latter part of 2022 when 6 aircraft per month is planned.

Boeing is planning to ramp up 737 production rates from 17 aircraft to 24 aircraft per month by January 2022, then 31 aircraft per month by July 2022, and 52 aircraft per month in the second half of 2023. The 787 build rate was planned to increase from 5 aircraft per month in 2021 and 2022, to 7 aircraft per month early 2023 and then 8.7 aircraft per month late 2023. The 2021 plan will be revised since Boeing announced in July 2021 it would slow down 787 production due to issues discovered with the forward pressure bulkhead. Meanwhile, Boeing’s 777 aircraft build rate of 2 aircraft per month is planned to increase to 3 aircraft per month by 2023.

In defence aerospace markets, industry experts are confident that most major defense spending nations will remain committed to strengthening their military presence, despite the pandemic’s economic impact on fiscal deficits. In the U.S., the White House announced that in its fiscal year 2022 budget request, the Pentagon will seek US$715 billion, reflecting an increase of 1.6 percent over the fiscal year 2021 enacted level of US$703.7 billion.

In the fighter market, the Canadian government confirmed that despite COVID-19 challenges, it was on track with its Future Fighter Replacement Program to complete the bid evaluation phase in 2021 and to award a contract in 2022. Delivery of the first aircraft is expected as early as 2025. On June 30, 2021, Switzerland announced that it had chosen Lockheed Martin's F-35A Lightning II (“F-35A”) as its next-generation fighter jet and confirmed a buy of 36 F-35A’s after its evaluation that F-35A had "the highest overall benefit at the lowest overall cost". Lockheed Martin delivered 120 F-35 aircraft last year to the U.S. military and international customers, short of the planned 141 aircraft. Lockheed Martin officials currently expect to deliver between 133 and 139 F-35’s in 2021, as the supply chain returns to “more of a normal operation” after dealing with COVID-19-induced delays and closures.

Positive indicators of market recovery such as recovering domestic air travel and announcements of new large aircraft orders are encouraging signs for the aerospace industry. Commercial aircraft OEM’s are responding with plans for increasing aircraft build rates over the next several years. These plans remain conditional upon various factors related to the pandemic and therefore Magellan remains cautious on the timing of recovery of its business volumes.

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

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Notes	Three month period ended June 30 2021	2020	Six month period ended June 30 2021	2020
Revenue	8	**167,638**	162,167	**343,919**	400,980
Cost of revenue		**154,002**	136,824	**313,204**	338,865
Gross profit		**13,636**	25,343	**30,715**	62,115
Administrative and general expenses		**10,518**	12,597	**22,162**	28,273
Restructuring		**676**	709	**852**	709
Other		**124**	944	**(732)**	(4,994)
Income before interest and income taxes		**2,318**	11,093	**8,433**	38,127
Interest expense		**732**	1,108	**1,633**	2,308
Income before income taxes		**1,586**	9,985	**6,800**	35,819
Income taxes					
Current	9	**2,616**	(1,152)	**5,853**	895
Deferred	9	**(2,090)**	5,034	**(3,375)**	8,747
		526	3,882	**2,478**	9,642
Net income		**1,060**	6,103	**4,322**	26,177
Other comprehensive income					
Other comprehensive (loss) income that may be reclassified to profit and loss in subsequent periods:					
Foreign currency translation		**(5,561)**	(24,947)	**(11,946)**	9,231
Items not to be reclassified to profit and loss in subsequent periods:					
Actuarial income (loss) on defined benefit pension plans, net of taxes	5	**2,806**	(3,007)	**12,589**	(7,766)
Comprehensive (loss) income		**(1,695)**	(21,851)	**4,965**	27,642
Net income per share					
Basic and diluted	6	**0.02**	0.10	**0.07**	0.45

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	Notes	June 30 2021	December 31 2020
Current assets			
Cash		**46,283**	113,938
Trade and other receivables		**150,313**	114,404
Contract assets		**74,354**	70,388
Inventories		**210,118**	213,120
Prepaid expenses and other		**13,685**	12,915
		494,753	524,765
Non-current assets			
Property, plant and equipment		**400,806**	420,340
Right-of-use assets		**36,750**	40,098
Investment properties		**1,781**	2,127
Intangible assets		**51,729**	55,155
Goodwill		**21,513**	21,982
Other assets		**9,056**	7,301
Deferred tax assets		**1,624**	834
		523,259	547,837
Total assets		**1,018,012**	1,072,602
Current liabilities			
Accounts payable and accrued liabilities and provisions	8	**121,853**	114,706
Debt due within one year		**13,773**	50,098
		135,626	164,804
Non-current liabilities			
Long-term debt		**3,782**	4,865
Lease liabilities		**32,586**	35,222
Borrowings subject to specific conditions		**24,253**	24,984
Other long-term liabilities and provisions	5	**6,778**	21,539
Deferred tax liabilities		**36,267**	35,309
		103,666	121,919
Equity			
Share capital	6	**252,342**	252,342
Contributed surplus		**2,044**	2,044
Other paid in capital		**13,565**	13,565
Retained earnings		**497,468**	492,681
Accumulated other comprehensive income		**9,924**	21,870
Equity attributable to equity holders of the Corporation		**775,343**	782,502
Non-controlling interest		**3,377**	3,377
Total equity		**778,720**	785,879
Total liabilities and equity		**1,018,012**	1,072,602

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) (expressed in thousands of Canadian dollars)	Attributable to equity holders of the Corporation Share capital	Contributed surplus	Other paid in capital	Retained earnings	Foreign currency translation	Total	Non-controlling interest	Total equity
December 31, 2020	252,342	2,044	13,565	492,681	21,870	782,502	3,377	785,879
Net income for the period	—	—	—	4,322	—	4,322	—	4,322
Other comprehensive income (loss) for the period	—	—	—	12,589	(11,946)	643	—	643
Common share dividend	—	—	—	(12,124)	—	(12,124)	—	(12,124)
June 30, 2021	252,342	2,044	13,565	497,468	9,924	775,343	3,377	778,720
December 31, 2019	254,440	2,044	13,565	516,911	25,539	812,499	3,377	815,876
Net income for the period	—	—	—	26,177	—	26,177	—	26,177
Other comprehensive (loss) income for the period	—	—	—	(7,766)	9,231	1,465	—	1,465
Share repurchases	(342)	—	—	(144)	—	(486)	—	(486)
Common share dividend	—	—	—	(12,222)	—	(12,222)	—	(12,222)
June 30, 2020	254,098	2,044	13,565	522,956	34,770	827,433	3,377	830,810

See accompanying notes to condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (expressed in thousands of Canadian dollars)	Notes	Three month period ended June 30 **2021**	 2020	Six month period ended June 30 **2021**	 2020
Cash flow from operating activities					
Net income		**1,060**	6,103	**4,322**	26,177
Amortization/depreciation of intangible assets, right-of-use assets and property, plant and equipment		**12,567**	13,723	**25,608**	28,232
Gain on disposal of property, plant and equipment		**(39)**	(62)	**(46)**	(43)
Gain on disposal of investment property		**(350)**	—	**(350)**	—
Increase in defined benefit plans		**449**	232	**569**	348
Accretion		**654**	795	**1,304**	1,609
Deferred taxes		**(2,169)**	4,365	**(3,546)**	7,427
Loss (income) on investments in joint ventures		**31**	30	**96**	(106)
Changes to non-cash working capital		**646**	21,553	**(36,006)**	(35,897)
Net cash provided by (used in) operating activities		**12,849**	46,739	**(8,049)**	27,747
Cash flow from investing activities					
Purchase of property, plant and equipment		**(2,308)**	(2,475)	**(4,971)**	(6,685)
Proceeds from disposal of property, plant and equipment		—	107	**86**	107
Proceeds from disposal of investment property		**644**	—	**644**	—
Increase in intangible and other assets		**(809)**	(4,216)	**(1,812)**	(7,207)
Net cash used in investing activities		**(2,473)**	(6,584)	**(6,053)**	(13,785)
Cash flow from financing activities					
Decrease in debt due within one year		**(26,650)**	(951)	**(35,527)**	(3,948)
Decrease in long-term debt		**(559)**	(646)	**(1,017)**	(1,238)
Lease liability payments		**(1,695)**	(1,709)	**(3,372)**	(3,467)
Increase (decrease) in long-term liabilities and provisions		**27**	(547)	**(153)**	(802)
Increase (decrease) in borrowings subject to specific conditions, net		—	10	**(1,104)**	39
Common share repurchases	6	—	(486)	—	(486)
Common share dividend	6	**(6,062)**	(6,110)	**(12,124)**	(12,222)
Net cash used in financing activities		**(34,939)**	(10,439)	**(53,297)**	(22,124)
(Decrease) increase in cash during the period		**(24,563)**	29,716	**(67,399)**	(8,162)
Cash at beginning of the period		**71,310**	32,430	**113,938**	69,637
Effect of exchange rate differences		**(464)**	(416)	**(256)**	255
Cash at end of the period		**46,283**	61,730	**46,283**	61,730

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, controlled entity and joint venture, Magellan designs, 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 interim condensed consolidated 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, 2020, except for the new accounting pronouncements which have been adopted as disclosed in note 3.

These unaudited interim condensed consolidated 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, 2020, which are available at www.sedar.com and on the Corporation's website at www.magellan.aero.

The timely preparation of the interim condensed consolidated 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 interim condensed consolidated financial statements.

The outbreak of the novel strain of coronavirus caused a pandemic identified as "COVID-19" and 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 material disruption to businesses globally resulting in an economic slowdown and decreased demand in the aerospace industry. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The introduction of vaccines has led to optimism; however, the situation continues to evolve (including the prevalence of virus variants). The duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions, the Corporation's business continuity plan and other mitigating measures. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Corporation's operations, financial results and condition in future periods are also subject to significant uncertainty. Therefore, uncertainty about judgements, estimates and assumptions made by management during the preparation of the Corporation's interim condensed consolidated financial statements related to potential impacts of the COVID-19 pandemic on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

In response to COVID-19, the Government of Canada first announced the Canada Emergency Wage Subsidy ("CEWS") program in March 2020 and extended untill September 2021. CEWS provides a wage subsidy on eligible remuneration, subject to a maximum per employee, to eligible employers based on meeting certain eligibility criteria. Magellan determined that it met the employer eligibility criteria and applied for the CEWS. The Corporation has recorded a total gross subsidy under the CEWS program of $3,850 for the second quarter of 2021, with $3,735 recorded as a reduction to operating expenses in cost of revenues and $115 recorded as a reduction of salaries, wages and benefits in administrative and general expenses. [For the second quarter ended June 30, 2020 – $8,026 and $586 recorded in cost of revenues and administrative and general expenses, respectively.]

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on August 6, 2021.

NOTE 3. ADOPTION OF NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

The Corporation adopted the following accounting standards and amendments that were effective January 1, 2021.

- Interest Rate Benchmark Reform – amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement*, IFRS 7, *Financial Instruments: Disclosures*, IFRS 4, *Insurance Contracts* and IFRS 16, *Leases*. The adoption did not have a material impact on the Corporation's financial results.

The IASB has issued the following new standards and amendments that are not yet adopted by the Corporation and could have an impact on future periods. The Corporation is currently assessing the potential impact on its consolidated financial statements.

- Amendments to IAS 1, *Presentation of Financial Statements,* clarifying the requirements for classifying liabilities as current or non-current.
- Amendments to IAS 16, *Property, Plant and Equipment – Proceeds before Intended Use,* clarifying the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment into use.
- 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.
- Amendments to IAS 8 – *Definition of Accounting Estimates* to help entities distinguish changes in accounting estimates from changes in accounting policies.
- Amendments to IAS 1 and IFRS Practice Statement 2 – *Disclosure of Accounting Policies*, providing guidance and examples to help entities apply materiality judgements to accounting policy disclosures.

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 June 30, 2021 the Corporation extended its credit facility for an additional two-year period expiring on June 30, 2023. As at June 30, 2021, the Corporation was debt-free under its credit facility. Bank indebtedness bears interest at the bankers' acceptance or LIBOR rates plus 1.00%. At June 30, 2021, the Corporation had letters of credit outstanding totalling $4,505 such that $70,495 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 (assets) obligation reflected in the interim condensed consolidated statement of financial position is as follows:

	June 30 2021	December 31 2020
Pension Benefit Plans	(2,226)	14,509
Other Benefit Plan	864	1,082
	(1,362)	15,591

The discount rate assumption used in determining the obligation for pension and other benefit plans is selected based on a review of current market interest rates of high-quality, fixed rate debt securities adjusted to reflect the duration of the expected future cash outflows for pension benefit payments. As at June 30, 2021, the assumed discount rate for the Canadian pension plans was 3.0%, decreased from the 3.2% rate and increased from 2.4% rate used in calculating the pension obligation as at March 31, 2021 and December 31, 2020, respectively, as a result of changes in the market interest rates of high-quality, fixed rate debt securities. In addition, the return on plan assets exceeded the expected return during the three and six month periods ended June 30, 2021. 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 $2,806 and $12,589, net of taxes of $976 and $4,377, respectively, recorded in other comprehensive income in the three and six month periods ended June 30, 2021.

NOTE 6. SHARE CAPITAL

Net income per share

	Three month period ended June 30		Six month period ended June 30	
	2021	2020	2021	2020
Net income	1,060	6,103	4,322	26,177
Weighted average number of shares	57,729	58,180	57,729	58,192
Basic and diluted net income per share	0.02	0.10	0.07	0.45

Dividends

On March 31, 2021 and June 30, 2021, the Corporation paid quarterly dividends on 57,729,106 common shares of $0.105 per common share, amounting to $12,124 in the aggregate.

Subsequent to June 30, 2021, the Corporation declared dividends to holders of common shares in the amount of $0.105 per common share payable on September 29, 2021, to shareholders of record at the close of business on September 16, 2021.

Normal Course Issuer Bid

On May 27, 2021, the Corporation's application was approved for a Normal Course Issuer Bid to purchase through the facilities of the Toronto Stock Exchange and alternative Canadian trading platforms up to 2,886,455 common shares, over a 12-month period commencing May 27, 2021 and ending May 26, 2022. As of June 30, 2021, under the program the Corporation had not purchased common shares for cancellation.

NOTE 7. FINANCIAL INSTRUMENTS

Fair value hierarchy

The Corporation's financial assets and liabilities recorded at fair value on the interim condensed consolidated 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, 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.

As at June 30, 2021, the Corporation had forward foreign exchange contracts outstanding in the amount of $3,000 US dollars and £4,000 British pounds, of which the fair value is determined to be immaterial and categorized within Level 2 of the fair value hierarchy.

Long-term debt

As at June 30, 2021, the carrying amount of the Corporation's long-term debt of $7,727 would approximate its fair value, which is determined using the discounted cash flow method based on future cash repayments and is categorized within Level 2 of the fair value hierarchy.

Borrowings subject to specific conditions
As at June 30, 2021, the Corporation has recognized $25,568 as the amount repayable to Canadian government agencies. The contributions are repayable as future royalty payments. The liability recognized is categorized within Level 2 of the fair value hierarchy and calculated using the discounted cash flow method based on estimated future sales.

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

	Three month period ended June 30		Six month period ended June 30	
	2021	2020	2021	2020
Sale of goods	134,275	129,014	276,959	330,232
Services	33,363	33,153	66,960	70,748
	167,638	162,167	343,919	400,980

Timing of revenue recognition based on transfer of control

	Three month period ended June 30		Six month period ended June 30	
	2021	2020	2021	2020
At a point of time	103,514	102,168	208,573	255,110
Over time	64,124	59,999	135,346	145,870
	167,638	162,167	343,919	400,980

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 interim condensed consolidated statement of financial position. As at June 30, 2021 contract liabilities were $23,187 [December 31, 2020 - $16,528].

Revenues from the Corporation's three largest customers accounted for 43.6% and 42.4% respectively of total sales for the three and six month periods ended June 30, 2021 [June 30, 2020 – three and two largest customers accounted for 38.6% and 32.0% respectively of total sales for the three and six month periods ended].

Geographic segments:

	Three month period ended June 30							
	2021				2020			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	75,820	42,117	49,701	167,638	83,595	45,288	33,284	162,167
Export revenue[1]	56,669	14,728	12,098	83,495	59,379	6,681	3,372	69,432

	Six month period ended June 30							
	2021				2020			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	156,856	87,926	99,137	343,919	177,838	110,006	113,136	400,980
Export revenue[1]	113,740	21,136	22,491	157,367	124,620	19,683	28,942	173,245

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

	June 30, 2021				December 31, 2020			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment, right-of-use assets, intangible assets and goodwill	180,226	167,944	162,628	510,798	188,220	179,668	169,687	537,575

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 six month periods ended June 30, 2021 was 33.2% and 36.4% respectively [38.9% and 26.9% respectively for the three and six month periods ended June 30, 2020]. 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 June 30, 2021 of $786,912 is comprised of shareholders' equity attributable to equity holders of the Corporation of $775,343 and interest-bearing debt of $11,569.

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 June 30, 2021, capital commitments in respect of purchase of property, plant and equipment totalled $6,672, all of which had been ordered. There were no other material capital commitments at the end of the period.