QUARTERLY REPORT
DECEMBER 31, 2022

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.

Business Update

On October 11, 2022, Magellan announced a contract award from Sikorsky Aircraft Corporation ("Sikorsky"), a Lockheed Martin Company, for low rate initial production ("LRIP") of assemblies to support the production of the CH-53K® LRIP configuration helicopter. The multi-year, multi-million dollar agreement will be delivered from Magellan's New York facility commencing in 2023. The contract consists of hard metal, machined deliverables for the U.S. Marine Corps ("USMC") for the production of the CH-53K King Stallion, the next generation heavy-lift helicopter being produced to replace the CH-53E Super Stallion. The CH-53K achieved initial operating capability in 2022 and is on track to deploy to the fleet in 2024. The Marine Corps plans to deploy the first CH-53K Marine Expeditionary Unit detachment in fiscal year 2024. The USMC's procurement objective is 200 helicopters.

On November 22, 2022, Magellan announced the award of a multi-year contract from Lockheed Martin Corporation ("LMCO") for complex machined titanium components for all three variants of the F-35 aircraft. This multi- million dollar contract will be carried out at Magellan Aerospace's facility in Kitchener, Ontario over the period of 2023 to 2027. The contract is for shipsets of machined wing tie bars for the aircraft's leading edge flap. Magellan's Kitchener facility has industry-leading expertise in titanium machining operations and world-class machining capability, with an emphasis on high speed machining of hard metals such as titanium, Inconel and stainless steel. This latest contract is a continuation of a long-established relationship with LMCO on the global F-35 fighter aircraft program. Magellan's Kitchener facility was the first international partner on the F-35 program to deliver parts to the program in late 2003. Prior to these deliveries, Kitchener had made significant investment in both equipment and technology that proved to be pivotal in securing its role on the program.

On December 9, 2022, Magellan announced that it will continue producing F-35 Lightning II ("F-35") horizontal tail assemblies under an agreement with BAE Systems. This significant, multi-year agreement is the continuation of contract awards made to Magellan by BAE Systems and will further Magellan's participation on the global program. Magellan and BAE Systems have been working together to produce horizontal tails for the global F-35 program for more than a decade, signing the original Letter of Intent for this agreement in 2006. Both companies have since made significant investment in facilities, technologies and training to ensure the successful delivery of these flight-critical assemblies to F-35 prime contractor Lockheed Martin. The horizontal tail assemblies produced at Magellan's facility in Winnipeg, Manitoba, will be used on the Conventional Takeoff and Landing variant of the F-35. Magellan is targeting to produce more than 1,000 ship sets of horizontal tail assemblies over the life of the F-35 program.

Impact of COVID-19 and Russia's invasion of Ukraine

The COVID-19 pandemic and its variants continued to disrupt global health and impact economic conditions. Though global air travel has seen signs of recovery, Magellan's financial results and operations continued to be impacted by the COVID-19 pandemic by way of production schedule changes, either by its customers' build rate adjustments or due to a broader government directive which resulted in the need to modify work practices to meet appropriate health and safety standards, or by other COVID-19 related impacts on the availability of labour or to the supply chain. While governments have eased some COVID-19 restrictions, the reopening of businesses and economies in certain countries is creating a variety of new challenges, including, for example, higher prices for goods and services, limited availability of products, disruptions to supply chains and labour shortages. Magellan continues to monitor ongoing developments and attempts to mitigate the risks related to the COVID-19 pandemic and the impact on Magellan's operations, supply chain, and most importantly the health and safety of its employees.

The ongoing invasion of Ukraine by Russia continued to disrupt supply chains and cause instability in the global economy. The extent and potential magnitude of economic impacts on the aerospace industry remains uncertain.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2022 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan's operating results for the fourth quarter ended December 31, 2022

The Corporation reported revenue in the fourth quarter of 2022 of $193.1 million, a $15.1 million increase from the fourth quarter of 2021 revenue of $178.0 million. Gross loss and net loss for the fourth quarter of 2022 were disappointing at $0.9 million and $20.8 million, respectively, in comparison to a $7.0 million gross profit and $5.8 million net loss for the fourth quarter of 2021.

Consolidated Revenue

	Three month period ended December 31			Twelve month period ended December 31		
Expressed in thousands of dollars	**2022**	2021	Change	**2022**	2021	Change
Canada	**81,953**	86,881	(5.7%)	**329,638**	315,805	4.4%
United States	**48,932**	40,259	21.5%	**190,011**	174,260	9.0%
Europe	**62,225**	50,872	22.3%	**244,931**	198,293	23.5%
Total revenue	**193,110**	178,012	8.5%	**764,580**	688,358	11.1%

Revenue in Canada decreased 5.7% in the fourth quarter of 2022 compared to the corresponding period in 2021 largely due to volume decreases, mainly for proprietary products and repair and overhaul services, offset in part by higher space revenues. On a currency neutral basis, Canadian revenues in the fourth quarter of 2022 decreased by 8.4% from the same period of 2021.

Revenue in the United States in the fourth quarter of 2022 increased 21.5% from the fourth quarter of 2021 largely driven by volume increases, mainly in single aisle aircraft specifically the Boeing 737, and favourable foreign exchange impact due to the strengthening of the United State dollar relative to the Canadian dollar. On a currency neutral basis, revenues in the United States increased 12.7% in the fourth quarter of 2022 over the same period in 2021.

European revenue in the fourth quarter of 2022 increased 22.3% compared to the corresponding period in 2021 primarily driven by build rate recovery for single aisle aircraft, specifically the Airbus 320. On a currency neutral basis, European revenues in the fourth quarter of 2022 increased by 20.8% when compared to the same period in 2021.

Gross (Loss) Profit

	Three month period ended December 31			Twelve month period ended December 31		
Expressed in thousands of dollars	**2022**	2021	Change	**2022**	2021	Change
Gross (loss) profit	**(893)**	7,030	(112.7%)	**35,065**	48,330	(27.4%)
Percentage of revenue	**(0.5%)**	3.9%		**4.6%**	7.0%	

Gross loss of $0.9 million for the fourth quarter of 2022 was $7.9 million lower than the $7.0 million gross profit for the fourth quarter of 2021, and gross loss as a percentage of revenues of (0.5%) for the fourth quarter of 2022 decreased from 3.9% gross profit recorded in the same period in 2021. The decrease in profitability is mainly the result of the effect of inflation in materials, supplies, utilities and labour; and supply chain disruptions which impacted production of goods resulting in production system inefficiencies and lower absorption of manufacturing supplies.

Administrative and General Expenses

	Three month period ended December 31			Twelve month period ended December 31		
Expressed in thousands of dollars	**2022**	2021	Change	**2022**	2021	Change
Administrative and general expenses	**11,140**	11,109	0.3%	**48,690**	44,559	9.3%
Percentage of revenue	**5.8%**	6.2%		**6.4%**	6.5%	

Administrative and general expenses as a percentage of revenue was 5.8% for the fourth quarter of 2022, lower than the same period of 2021 percentage of revenue of 6.2%. Administrative and general expenses were consistent with the fourth quarter of 2021.

Restructuring

	Three month period ended December 31		Twelve month period ended December 31	
Expressed in thousands of dollars	**2022**	2021	**2022**	2021
Workforce reduction	**1,930**	—	**1,930**	—
Closure costs	**(5)**	773	**199**	2,182
Impairment of property, plant and equipment	**1,772**	—	**1,772**	—
Restructuring	**3,697**	773	**3,901**	2,182

Restructuring costs of $3.7 million incurred in the fourth quarter of 2022 as compared to $0.8 million in the fourth quarter of 2021, both mainly related to the closure of the Bournemouth treatment and manufacturing facilities. Included in the restructuring charge for the fourth quarter of 2022 is an additional $1.1 million of workforce reduction costs.

Other

	Three month period ended December 31		Twelve month period ended December 31	
Expressed in thousands of dollars	**2022**	2021	**2022**	2021
Foreign exchange loss (gain)	**3,817**	379	**(2,251)**	(2,548)
(Gain) loss on sale of property, plant and equipment	**322**	365	**22**	336
Gain on disposal of investment properties	—	—	—	(608)
Loss on pension settlement	**631**	—	**631**	—
Other	**(162)**	132	**(162)**	(355)
Total Other	**4,608**	876	**(1,760)**	(3,175)

Other for the fourth quarter of 2022 included a $3.8 million foreign exchange loss compared to a $0.4 million foreign exchange loss in the fourth 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.

Interest Expense

	Three month period ended December 31		Twelve month period ended December 31	
Expressed in thousands of dollars	**2022**	2021	**2022**	2021
Interest expense (income) on bank indebtedness and long-term debt	**76**	(193)	**423**	43
Accretion charge for borrowings, lease liabilities and long-term debt	**488**	639	**2,314**	2,604
Discount on sale of accounts receivable	**3**	25	**101**	248
Total interest expense	**567**	471	**2,838**	2,895

Total interest expense of $0.6 million in the fourth quarter of 2022 increased $0.1 million compared to the fourth quarter of 2021 mainly due to higher interest expense, offset in part by lower accretion charge for borrowings, lease liabilities and long-term debt.

Provision for Income Taxes

	Three month period ended December 31		Twelve month period ended December 31	
Expressed in thousands of dollars	**2022**	2021	**2022**	2021
Current income tax (recovery) expense	**(1,166)**	331	**5,780**	8,898
Deferred income tax expense (recovery)	**1,031**	(773)	**(2,692)**	(6,052)
Income tax (recovery) expense	**(135)**	(442)	**3,088**	2,846
Effective tax rate	**0.6%**	7.1%	**(16.6%)**	152.3%

Income tax recovery for the fourth quarter ended December 31, 2022 was $0.1 million, representing an effective income tax rate of 0.6% compared to 7.1% for the same period of 2021 mainly resulting from the recognition of a valuation allowance against deferred tax assets of $6.7 million. 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

				2022				2021
Expressed in millions of dollars, except per share amounts	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Revenues	**193.1**	191.1	192.7	187.7	178.0	166.4	167.6	176.3
(Loss) income before taxes	**(20.9)**	2.5	1.2	(1.4)	(6.2)	1.3	1.6	5.2
Net (loss) income	**(20.8)**	0.6	0.5	(2.0)	(5.8)	0.5	1.1	3.3
Net (loss) income per share								
Basic and diluted	**(0.36)**	0.01	0.01	(0.04)	(0.10)	0.01	0.02	0.06
EBITDA[1]	**(8.5)**	14.7	14.0	11.4	6.5	16.1	14.9	19.2
Adjusted EBITDA[1]	**(4.8)**	14.8	14.0	11.5	7.3	16.7	15.6	19.3

[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.

Revenues and net loss in the quarter were 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 1.3580 in the fourth quarter of 2022 and a low of 1.2280 in the second quarter of 2021. 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 1.5350 in the third quarter of 2022. 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 1.1649 in the third quarter of 2022.

Revenue for the fourth quarter of 2022 of $193.1 million was higher than that in the fourth quarter of 2021. The average quarterly exchange rate of the United States dollar relative to the Canadian dollar in the fourth quarter of 2022 was 1.3580 versus 1.2600 in the same period of 2021. The average quarterly exchange rate of the British pound relative to the Canadian dollar decreased from 1.6991 in the fourth quarter of 2021 to 1.5953 during the current quarter. The average quarterly exchange rate of the British pound relative to the United States dollar weakened from 1.3478 in the fourth quarter of 2021 to 1.1729 in the current quarter. Had the foreign exchange rates remained at levels experienced in the fourth quarter of 2021, reported revenues in the fourth quarter of 2022 would have been lower by $7.7 million.

Revenues and net income were also negatively impacted by continued effects from the COVID-19 pandemic, driving reduced volumes and supply chain disruptions. In addition, inflation on material, supplies, utilities and labour impacted the results in the current quarter. Since the third quarter of 2021, the Corporation began to see modest sequential growth in revenue as global domestic air travel continues to recover to pre COVID-19 levels.

In response to COVID-19, the Corporation applied and recognized the CEWS subsidy of $3.9 million and $3.8 million in the second and fourth quarters of 2021, and reduced the expense that the subsidy offsets (none in 2022). In the fourth quarter of 2022, the Corporation continued the restructuring efforts in Europe of a plan initiated in 2020 to lower its production cost base and recognized a $2.8 million restructuring charge, including a $1.8 million impairment loss related to assets made obsolete as a result of the plan.

4. Reconciliation of Net Income (Loss) 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.

Expressed in thousands of dollars	Three month period ended December 31 2022	2021	Twelve month period ended December 31 2022	2021
Net loss	**(20,770)**	(5,757)	**(21,692)**	(977)
Add back:				
Interest	**567**	471	**2,838**	2,895
Taxes	**(135)**	(442)	**3,088**	2,846
Depreciation and amortization	**11,869**	12,227	**47,405**	51,892
EBITDA	**(8,469)**	6,499	**31,639**	56,656
Add back:				
Restructuring	**3,697**	773	**3,901**	2,182
Goodwill impairment	**-**	—	**-**	—
Adjusted EBITDA	**(4,772)**	7,272	**35,540**	58,838

Adjusted EBITDA in the fourth quarter of 2022 decreased $12.1 million to negative $4.8 million in comparison to $7.3 million in the same quarter of 2021 mainly as a result of higher net loss and lower depreciation and amortization, offset by higher restructuring costs. In 2022, certain facilities of the Corporation continue to experience supply chain disruptions and inflationary cost pressures which is lowering EBITDA results. In addition, lower pre-COVID production volumes has resulted in lower absorption of manufacturing costs further lowering EBITDA.

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, common share repurchases 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 December 31 2022	2021	Twelve month period ended December 31 2022	2021
Decrease (increase) in accounts receivable	**30,282**	(1,658)	**(3,223)**	(50,347)
(Increase) decrease in contract assets	**(920)**	6,237	**2,437**	3,895
(Increase) decrease in inventories	**(4,203)**	6,466	**(15,789)**	3,234
Decrease (increase) in prepaid expenses and other	**524**	7,192	**(437)**	2,224
(Decrease) increase in accounts payable, accrued liabilities and provisions	**(913)**	(5,788)	**28,727**	7,237
(Decrease) increase in contract liabilities	**(2,155)**	—	**18,503**	—
Changes in non-cash working capital balances	**22,613**	12,449	**30,218**	(33,757)
Cash provided by operating activities	**18,784**	17,523	**58,540**	12,526

For the three months ended December 31, 2022, the Corporation generated $18.8 million from operating activities, compared to $17.5 million in the fourth quarter of 2021. Changes in non-cash working capital items generated cash of $22.6 million as compared to $12.4 million in the same quarter of the prior year. The quarter over quarter increase of $10.2 million were largely attributable to decreases in accounts receivables from timing of customer payments, offset in part by higher inventories due to timing of material purchases, lower accounts payable, accrued liabilities and provisions at the year-end primarily driven by timing of supplier and milestone payments and decreases in contract liabilities.

Investing Activities

Expressed in thousands of dollars	Three month period ended December 31		Twelve month period ended December 31	
	2022	2021	**2022**	2021
Purchase of property, plant and equipment	**(8,691)**	(9,127)	**(23,494)**	(17,675)
Proceeds from disposal of property, plant and equipment	**117**	163	**607**	509
Proceeds from disposal of investment property	—	—	—	1,000
Increase in intangibles and other assets	**(588)**	(2,124)	**(969)**	(4,638)
Cash used in investing activities	**(9,162)**	(11,088)	**(23,856)**	(20,804)

Investing activities used $9.2 million of cash for the fourth quarter of 2022 compared to $11.1 million of cash used in the same quarter of the prior year, a decrease of $1.9 million primarily due to lower long-term receivables and deposits recorded in other assets and lower level of property, plant and equipment investment in the current quarter when compared to the same quarter of 2021.

Financing Activities

Expressed in thousands of dollars	Three month period ended December 31		Twelve month period ended December 31	
	2022	2021	**2022**	2021
Decrease in debt due within one year	—	(17)	—	(39,441)
Decrease in long-term debt	**(539)**	(151)	**(2,047)**	(1,516)
Lease liability payments	**(1,376)**	(1,816)	**(5,619)**	(6,707)
Increase (decrease) in long-term liabilities and provisions	**401**	273	**(225)**	6
Decrease in borrowings subject to specific conditions, net	—	—	**(1,327)**	(1,104)
Common share repurchases	**(828)**	—	**(2,062)**	—
Common share dividend	**(1,437)**	(6,062)	**(14,994)**	(24,247)
Cash used in financing activities	**(3,779)**	(7,773)	**(26,274)**	(73,009)

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 $3.8 million of cash for financing activities in the fourth quarter of 2022 primarily for the payment of common share dividends, lease liabilities, common share repurchases and long-term debt repayments.

As at December 31, 2022, the Corporation had contractual commitments to purchase $6.7 million of capital assets.

Dividends

During each of the four quarters of 2022, the Corporation declared and paid quarterly cash dividends of $0.105, $0.08, $0.05 and $0.025 per common share representing aggregate dividend payments of $15.0 million. Of this amount, $1.4 million was declared and paid in the fourth quarter.

Subsequent to December 31, 2022, the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of $0.025 per common share. The dividend will be payable on March 31, 2023 to shareholders of record at the close of business on March 17, 2023. The ongoing impacts from the COVID-19 pandemic, low production levels largely related to wide-body aircraft, inflation, and supply chain and labour constraints continued to negatively impact the Corporation’s operation in the fourth quarter of 2022. The Board of Directors of the Corporation continues to review its dividends on a quarterly basis for more visibility of recovery, and ensure that the dividend declared balances the return of capital to shareholders while maintaining adequate financial flexibility and investment in growth initiatives.

Normal Course Issuer Bid

On May 25, 2022, 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, 2022 and ending May 26, 2023. As of December 31, 2022, under the program, the Corporation purchased 282,972 common shares for cancellation for $2.1 million.

Outstanding Share Information

The authorized capital of the Corporation consists of an unlimited number of preference shares, issuable in series, and an unlimited number of common shares. As at March 3, 2023, 57,446,134 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. The Corporation has applied IFRS 9 on a prospective basis for hedge accounting. The Corporation's qualifying hedging relationships as at December 31, 2022 qualified for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. As the critical terms of the hedging instruments match those of their corresponding hedges items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. As at December 31, 2022, the Corporation entered into forward foreign exchange contracts to purchase US dollars of $14.4 million and British Pounds of £23.5 million over a period of one month commencing December of 2022 at an exchange rate of $1.3559 and $1.6311 Cdn respectively. 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 US dollars, and British pounds. The Corporation conversely entered into foreign currency collar contracts as follows:

Maturity	Notional amount	Floor	Ceiling	Carrying value	Line item in the statement of financial position
June 2025	US$54.0 million	1.2500	1.3245	$2.2 million	Accounts payable, accrued liabilities and provisions
June 2025	US$54.0 million	1.2500	1.3300	$2.0 million	Accounts payable, accrued liabilities and provisions

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 December 31, 2022, 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.

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, 2022 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2022, which have been filed with SEDAR at www.sedar.com.

9. Outlook

The outlook for Magellan's business in 2023

The single aisle market remains to be the primary driver of commercial aircraft industry growth. Boeing and Airbus both increased build rates and aircraft deliveries in 2022 while recording increased order backlogs. Build rates could potentially be higher, however ongoing staff shortages, logistical challenges and supply chain issues have become significant impediments to ramping up rates. The industry is also coping with cost pressures caused by soaring economic inflation.

Boeing planned to increase 737 single aisle build rates to 38 aircraft per month in the first half 2023 however they were forced to delay those plans due to the supply chain constraints. Their fourth quarter earnings release stated that the 737 program is stabilizing at a production rate of 31 aircraft per month with plans to ramp production to approximately 50 aircraft per month in the 2025/2026 timeframe. Boeing's new 737 MAX-7 and MAX-10 aircraft faced potentially significant certification delays due to a 2022 year-end deadline, beyond which new aircraft must comply with new standards issued following the two MAX aircraft accidents. Fortunately for Boeing and the industry, the US Senate granted an exemption allowing them to continue working with the FAA on certifying the MAX-7 and MAX-10 conditional upon making changes to the engine and crew alerting systems.

Boeing pushed out the certification date of their 777X aircraft to 2025 due to an updated assessment of the time required to meet its requirements. Meanwhile, they are building the freighter version at 2 aircraft per month. Boeing continues building their 787 aircraft at a low production rate of 2 aircraft per month and is expected to go to 5 aircraft per month in late 2023, and then 10 aircraft per month in the 2025/2026 timeframe.

By the close of 2022, Airbus reached a build rate of 48 aircraft per month on their single aisle A320 aircraft. Production is expected to continue increasing in 2023 and reach a monthly rate of 65 aircraft by late 2024, which was pushed back from mid-2023 due to supply chain challenges. Airbus also confirmed 75 aircraft per month in 2026. Airbus ended 2022 with A330 production at 3 aircraft per month and is moving to 4 aircraft per month in 2024. A350 production will go from 6 aircraft per month to 9 aircraft per month by the end of 2025. The A220 is currently being produced at 6 aircraft per month.

The defence industry has not been immune to the challenges faced by commercial aerospace. Defence OEM's have been similarly forced to limit build rate increases due to supply chain constraints. Meanwhile, global defence spending increased by almost 5% annually over the last few years and is expected to continue to increase from 3% to 5% annually over the next five years.

Late in 2022, the US Army announced a major decision under its Future Vertical Lift program to purchase Bell Helicopter's ("Bell") V-280 Valor tiltrotor aircraft as a replacement to UH-60 Black Hawk helicopters built by Sikorsky. This was a significant win for Bell as the US Army currently operates approximately 2,300 UH-60 Blackhawk's. Sikorsky entered the competition with their SB-1 Defiant helicopter, built jointly with partner Boeing Defense.

The F-35 program celebrated key wins in 2022 with Switzerland and Finland announcing their new contracts, Canada committing to purchase 88 fighters, and NATO allies Greece and the Czech Republic indicating their desire to purchase the fighter. Lockheed is suggesting that a steady annual production rate of 156 aircraft will start in the 2024 time frame based on anticipated supply chain recovery. Lockheed delivered 141 aircraft in 2022.

Despite a growing demand for new commercial and defence aircraft, build rates are being paced by ongoing supply chain shortages of labour and materials with some suggesting this situation will not be fully resolved until 2024. Also the economy is a concern as inflation is putting pressure on cost structures already strained by the pandemic. Viewing all from a positive perspective however, pent up growth potential is available to be exploited as the industry emerges from this volatile period of time.

Additional Information

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

MAGELLAN AEROSPACE CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Three month period ended December 31 **2022**	 2021	Twelve month period ended December 31 **2022**	 **2021**
Revenue	**193,110**	178,012	**764,580**	688,358
Cost of revenue	**194,003**	170,982	**729,515**	640,028
Gross (loss) profit	**(893)**	7,030	**35,065**	48,330
Administrative and general expenses	**11,140**	11,109	**48,690**	44,559
Restructuring	**3,697**	773	**3,901**	2,182
Other	**4,608**	876	**(1,760)**	(3,175)
(Loss) income before interest and income taxes	**(20,338)**	(5,728)	**(15,766)**	4,764
Interest expense	**567**	471	**2,838**	2,895
(Loss) income before income taxes	**(20,905)**	(6,199)	**(18,604)**	1,869
Income taxes				
Current	**(1,166)**	331	**5,780**	8,898
Deferred	**1,031**	(773)	**(2,692)**	(6,052)
	(135)	(442)	**3,088**	2,846
Net loss	**(20,770)**	(5,757)	**(21,692)**	(977)
Other comprehensive income (loss)				
Other comprehensive income (loss) that may be reclassified to profit and loss in subsequent periods:				
Foreign currency translation	**14,429**	(2,229)	**7,385**	(7,339)
Unrealized gain (loss) on foreign exchange hedges	**2,899**	-	**(3,255)**	-
Items not to be reclassified to profit and loss In subsequent periods:				
Actuarial income on defined benefit plans, net of taxes	**1,763**	1,456	**1,402**	12,508
Comprehensive (loss) income	**(1,679)**	(6,530)	**(16,160)**	4,192
Net (loss) income per share				
Basic and diluted	**(0.36)**	(0.10)	**(0.38)**	(0.02)

MAGELLAN AEROSPACE CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	**December 31 2022**	December 31 2021
Current assets		
Cash	**40,940**	32,482
Trade and other receivables	**169,562**	164,234
Contract assets	**65,456**	66,337
Inventories	**226,359**	208,577
Prepaid expenses and other	**9,967**	9,664
	512,284	481,294
Non-current assets		
Property, plant and equipment	**384,084**	396,845
Right-of-use assets	**30,825**	34,389
Investment properties	**1,621**	1,659
Intangible assets	**41,423**	47,772
Goodwill	**22,181**	21,792
Other assets	**9,745**	11,587
Deferred tax assets	**8,731**	8,480
	498,610	522,524
Total assets	**1,010,894**	1,003,818
Current liabilities		
Accounts payable and accrued liabilities and provisions	**135,153**	105,678
Contract liabilities	**36,096**	17,704
Debt due within one year	**10,310**	10,266
	181,559	133,648
Non-current liabilities		
Long-term debt	**634**	2,755
Lease liabilities	**27,761**	30,644
Borrowings subject to specific conditions	**23,300**	24,101
Other long-term liabilities and provisions	**7,203**	7,223
Deferred tax liabilities	**38,707**	39,623
	97,605	104,346
Equity		
Share capital	**251,104**	252,342
Contributed surplus	**2,044**	2,044
Other paid in capital	**13,565**	13,565
Retained earnings	**442,979**	479,965
Accumulated other comprehensive income	**18,661**	14,531
Equity attributable to equity holders of the Corporation	**728,353**	762,447
Non-controlling interest	**3,377**	3,377
Total equity	**731,730**	765,824
Total liabilities and equity	**1,010,894**	1,003,818

MAGELLAN AEROSPACE CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (expressed in thousands of Canadian dollars)	Three month period ended December 31 **2022**	2021	Twelve month period ended December 31 **2022**	2021
Cash flow from operating activities				
Net loss	**(20,770)**	(5,757)	**(21,692)**	(977)
Amortization/depreciation of intangible assets, right-of-use assets and property, plant and equipment	**11,869**	12,227	**47,405**	51,892
Impairment of intangibles	**711**	—	**711**	—
Impairment of property, plant and equipment	**1,772**	—	**1,772**	—
Loss on disposal of property, plant and equipment	**322**	365	**22**	336
Gain on disposal of investment properties	**-**	—	**-**	(608)
(Decrease) increase in defined benefit plans	**994**	(300)	**1,249**	585
Accretion	**324**	626	**2,146**	2,604
Deferred taxes	**1,042**	(2,024)	**(3,022)**	(7,555)
(Income) loss on investments in joint venture	**(93)**	(63)	**(269)**	6
Changes to non-cash working capital	**22,613**	12,449	**30,218**	(33,757)
Net cash provided by operating activities	**18,784**	17,523	**58,540**	12,526
Cash flow from investing activities				
Purchase of property, plant and equipment	**(8,691)**	(9,127)	**(23,494)**	(17,675)
Proceeds from disposal of property, plant and equipment	**117**	163	**607**	509
Proceeds from disposal of investment properties	**-**	—	**-**	1,000
(Increase) decrease in intangible and other assets	**(588)**	(2,124)	**(969)**	(4,638)
Net cash used in investing activities	**(9,162)**	(11,088)	**(23,856)**	(20,804)
Cash flow from financing activities				
(Decrease) increase in debt due within one year	**-**	(17)	**-**	(39,441)
(Decrease) increase in long-term debt	**(539)**	(151)	**(2,047)**	(1,516)
Lease liability payments	**(1,376)**	(1,816)	**(5,619)**	(6,707)
Increase (decrease) in borrowings subject to specific conditions, net	**-**	—	**(1,327)**	(1,104)
Increase (decrease) in long-term liabilities and provisions	**401**	273	**(225)**	6
Common share repurchases	**(828)**	—	**(2,062)**	—
Common share dividend	**(1,437)**	(6,062)	**(14,994)**	(24,247)
Net cash used in financing activities	**(3,779)**	(7,773)	**(26,274)**	(73,009)
(Decrease) increase in cash during the period	**5,843**	(1,338)	**8,410**	(81,287)
Cash at beginning of the period	**34,395**	33,960	**32,482**	113,938
Effect of exchange rate differences	**702**	(140)	**48**	(169)
Cash at end of the period	**40,940**	32,482	**40,940**	32,482