MAGELLAN
AEROSPACE

QUARTERLY REPORT
SEPTEMBER 30, 2022

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 nine month periods ended September 30, 2022, and the audited annual consolidated financial statements for the year ended December 31, 2021 (available on SEDAR at www.sedar.com). Unless otherwise noted, all financial information has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), specifically International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"), which is within the framework of International Financial Reporting Standards ("IFRS"). This MD&A provides a review of the significant developments that have impacted the Corporation's performance during the three month period ended September 30, 2022 relative to the three month period ended September 30, 2021. The information contained in this report is as at November 4, 2022. 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.

On October 11, 2022, Magellan Aerospace 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.

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 mitigate 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 2021 Annual Report available on www.sedar.com.

2. Results of Operations

A discussion of Magellan's operating results for the third quarter ended September 30, 2022

The Corporation reported revenue in the third quarter of 2022 of $191.1 million, a $24.7 million increase from third quarter of 2021 revenue of $166.4 million. Gross profit and net income for the third quarter of 2022 were $12.6 million and $0.6 million, respectively, in comparison to gross profit of $10.6 million and net income of $0.5 million for the third quarter of 2021.

Consolidated Revenue

	Three month period ended September 30			**Nine month period ended September 30**		
Expressed in thousands of dollars	**2022**	2021	Change	**2022**	2021	Change
Canada	**77,238**	72,068	7.2%	**247,683**	228,924	8.2%
United States	**48,434**	46,075	5.1%	**141,079**	134,001	5.3%
Europe	**65,427**	48,284	35.5%	**182,708**	147,421	23.9%
Total revenue	**191,099**	166,427	14.8%	**571,470**	510,346	12.0%

Revenue in Canada increased 7.2% in the third quarter of 2022 compared to the corresponding period in 2021, benefiting from increased volumes for space, proprietary and casting products and favourable foreign exchange impact driven by the strengthening of the United States dollar relative to the Canadian dollar. These increases were offset in part by volume decreases for certain programs resulted from scheduling changes. On a currency neutral basis, Canadian revenues in the third quarter of 2022 increased by 4.9% over the same period in 2021.

Revenue in the United States increased by 5.1% in the third quarter of 2022 compared to the third quarter of 2021, largely due to the favourable foreign exchange impact of the strengthening of the United States dollar relative to the Canadian dollar and increased volumes for single aisle aircraft and spare parts as Boeing continued to ramp up production for 737 MAX, offset in part by volume decreases for wide-body aircraft products. On a currency neutral basis, revenues in the United States increased 1.4% in the third quarter of 2022 over the same period in 2021.

European revenue in the third quarter of 2022 increased 35.5% compared to the corresponding period in 2021 primarily driven by build rate recovery for single aisle aircraft, and the favourable foreign exchange impact resulted from the strengthening of the United States dollar relative to the British pound. On a currency neutral basis, European revenues in the third quarter of 2022 increased by 31.3% when compared to the same period in 2021.

Gross Profit

	Three month period ended September 30			**Nine month period ended September 30**		
Expressed in thousands of dollars	**2022**	2021	Change	**2022**	2021	Change
Gross profit	**12,571**	10,585	18.8%	**35,958**	41,300	(12.9%)
Percentage of revenue	**6.6%**	6.4%		**6.3%**	8.1%	

Gross profit of $12.6 million for the third quarter of 2022 was $2.0 million higher than the $10.6 million gross profit for the third quarter of 2021, and gross profit as a percentage of revenues of 6.6% for the third quarter of 2022 increased from 6.4% recorded in the same period in 2021. The increase in gross profit was due to higher production volumes at certain facilities and the favourable foreign exchange impact due to the strengthening of the United States dollar relative to the British pound and Canadian dollar, offset in part by higher material and production costs due to supply chain disruptions, inflation and arrears recovery on certain programs.

Administrative and General Expenses

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2022**	2021	Change	**2022**	2021	Change
Administrative and general expenses	**12,111**	11,288	7.3%	**37,550**	33,450	12.3%
Percentage of revenues	**6.3%**	6.8%		**6.6%**	6.6%	

Administrative and general expenses as a percentage of revenues was 6.3% for the third quarter of 2022, lower than the same period of 2021 percentage of revenues of 6.8%. Administrative and general expenses increased $0.8 million or 7.3% compared to the third quarter of 2021 mainly due to increased consulting and salary and benefit expenses, in addition to higher travel, accommodation and trade show expenses as travel restrictions were lifted.

Restructuring

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2022**	2021	**2022**	2021
Restructuring	**122**	557	**204**	1,409

Restructuring costs incurred mainly related to the closure of the Bournemouth manufacturing facilities.

Other

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2022**	2021	**2022**	2021
Foreign exchange gain	**(2,772)**	(2,591)	**(6,068)**	(2,927)
(Gain) loss on sale of capital assets	**(191)**	17	**(300)**	(29)
Gain on disposal of investment property	—	(258)	—	(608)
Other	—	(487)	—	(487)
Total Other	**(2,963)**	(3,319)	**(6,368)**	(4,051)

Other gain for the third quarter of 2022 included a $2.8 million foreign exchange gain compared to a $2.6 million foreign exchange gain in the third 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 $0.3 million and a $0.6 million gain was recorded in the third quarter of 2021 relating to the disposal of an investment property and the release of an escrow relating to property previously sold, respectively.

Interest Expense

Expressed in thousands of dollars	Three month period ended September 30 **2022**	2021	Nine month period ended September 30 **2022**	2021
Interest on bank indebtedness and long-term debt	**137**	98	**347**	208
Accretion charge for borrowings, lease liabilities and long-term debt	**624**	670	**1,826**	1,965
Discount on sale of accounts receivable	**33**	23	**98**	251
Total interest expense	**794**	791	**2,271**	2,424

Total interest expense of $0.8 million in the third quarter of 2022 is slightly higher when compared to the third quarter of 2021 mainly due to higher interest rates on bank indebtedness and long-term debt offset in part by lower accretion charge on lease liabilities and long-term debt as principal amounts decreased.

Provision for Income Taxes

Expressed in thousands of dollars	Three month period ended September 30 **2022**	2021	Nine month period ended September 30 **2022**	2021
Current income tax expense	**2,785**	2,714	**6,946**	8,567
Deferred income tax recovery	**(841)**	(1,904)	**(3,723)**	(5,279)
Income tax expense	**1,944**	810	**3,223**	3,288
Effective tax rate	**77.5%**	63.9%	**140.1%**	40.8%

Income tax expense for the three months ended September 30, 2022 was $1.9 million, representing an effective income tax rate of 77.5% compared to 63.9% for the same period of 2021. 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 and losses 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			2020
Expressed in millions of dollars, except per share amounts	**Sep 30**	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Revenues	**191.1**	192.7	187.7	178.0	166.4	167.6	176.3	180.1
Income before taxes	**2.5**	1.2	(1.4)	(6.2)	1.3	1.6	5.2	(23.6)
Net Income	**0.6**	0.5	(2.0)	(5.8)	0.5	1.1	3.3	(22.9)
Net Income per share								
Basic and diluted	**0.01**	0.01	(0.04)	(0.10)	0.01	0.02	0.06	(0.40)
EBITDA[1]	**14.7**	14.0	11.4	6.5	16.1	14.9	19.2	(6.8)
Adjusted EBITDA[1]	**14.8**	14.0	11.5	7.3	16.7	15.6	19.3	11.5

[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 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 1.3176 in the fourth quarter of 2020 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 current quarter.

Revenue for the third quarter of 2022 of $191.1 million was higher than that in the third quarter of 2021. The average quarterly exchange rate of the United States dollar relative to the Canadian dollar in the third quarter of 2022 was 1.3061 versus 1.2601 in the same period of 2021. The average quarterly exchange rate of the British pound relative to the Canadian dollar decreased from 1.7367 in the third quarter of 2021 to 1.5350 during the current quarter. The average quarterly exchange rate of the British pound relative to the United States dollar decreased from 1.3787 in the third quarter of 2021 to 1.1649 in the current quarter. Had the foreign exchange rates remained at levels experienced in the third quarter of 2021, reported revenues in the third quarter of 2022 would have been lower by $5.4 million.

Commencing in the second quarter of 2020, the Corporation's results were negatively impacted by COVID-19 pandemic driven volume decreases in a number of commercial programs. Starting from the second quarter of 2021, there were positive signs of revenue recovery as certain commercial program aircraft build rates had started to increase. However, Russia's ongoing invasion of Ukraine, the supply chain disruptions and workforce shortages are slowing down the rate of recovery. The Corporation applied and recognized the CEWS subsidy of $1.0 million in the fourth quarter of 2020 and $3.9 million and $3.8 million in the second and fourth quarters of 2021, respectively, and reduced the expenses that the subsidy offsets.

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. During the three quarters of 2022, certain facilities of the Corporation continued to experience supply chain disruptions and labour shortages, which resulted in lower absorption of manufacturing costs and higher production costs.

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 (net income before interest, income taxes and depreciation and amortization) and Adjusted EBITDA (net income 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 September 30		**Nine month period ended September 30**	
Expressed in thousands of dollars	**2022**	2021	**2022**	2021
Net income (loss)	**563**	458	**(922)**	4,780
Add back:				
Interest	**794**	791	**2,271**	2,424
Taxes	**1,944**	810	**3,223**	3,288
Depreciation and amortization	**11,415**	14,057	**35,536**	39,665
EBITDA	**14,716**	16,116	**40,108**	50,157
Add back:				
Restructuring	**122**	557	**204**	1,409
Adjusted EBITDA	**14,838**	16,673	**40,312**	51,566

Adjusted EBITDA in the third quarter of 2022 decreased $1.9 million to $14.8 million in comparison to $16.7 million in the same quarter of 2021 mainly due to lower depreciation and amortization expense, offset in part by higher net income.

5. Liquidity and Capital Resources

A discussion of Magellan's cash flow, liquidity, credit facilities and other disclosures

The Corporation's liquidity needs can be met through a variety of sources including cash on hand, cash provided by operations, short-term borrowings from its credit facility and accounts receivable securitization program, and long-term debt and equity capacity. Principal uses of cash are for operational requirements, capital expenditures, 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 September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2022**	2021	**2022**	2021
Increase in accounts receivable	**(7,758)**	(11,264)	**(33,505)**	(48,689)
Decrease (increase) in contract assets	**8,152**	2,278	**3,357**	(2,342)
Increase in inventories	**(6,486)**	(3,649)	**(11,586)**	(3,232)
Decrease (increase) in prepaid expenses and other	**87**	(3,116)	**(961)**	(4,968)
Increase in accounts payable, accrued liabilities and provisions	**9,002**	3,892	**29,642**	4,670
Increase in contract liabilities	**19,740**	1,659	**20,658**	**8,355**
Changes in non-cash working capital balances	**22,737**	(10,200)	**7,605**	(46,206)
Cash provided by (used in) operating activities	**34,464**	3,052	**39,756**	(4,997)

For the three months ended September 30, 2022, the Corporation generated $34.5 million from operating activities, compared to $3.1 million in the third quarter of 2021. Changes in non-cash working capital items generated cash of $22.7 million, $32.9 million more when compared to $10.2 million cash used in the prior year. The quarter over quarter changes were largely attributable to increases in contract assets and contract liabilities due to timing of collection of funds, production and billings related to products transferred over time, offset in part by increases in accounts receivables due to timing of payments and inventories to support increased production volumes.

Investing Activities

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2022**	2021	**2022**	2021
Purchase of property, plant and equipment	**(6,094)**	(3,577)	**(14,803)**	(8,548)
Proceeds from disposal of property, plant and equipment	**17**	260	**490**	346
Proceeds from disposal of investment property	**—**	356	**—**	1,000
Decrease (increase) in intangible and other assets	**774**	(702)	**(381)**	(2,514)
Cash used in investing activities	**(5,303)**	(3,663)	**(14,694)**	(9,716)

Investing activities used $5.3 million cash for the third quarter of 2022 compared to $3.7 million cash used in the same quarter of the prior year, an increase of $1.6 million primarily due to higher levels of investment in property, plant and equipment.

Financing Activities

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2022**	2021	**2022**	2021
Decrease in debt due within one year	**—**	(3,897)	**—**	(39,424)
Decrease in long-term debt	**(539)**	(348)	**(1,508)**	(1,365)
Lease liability payments	**(1,381)**	(1,519)	**(4,243)**	(4,891)
Increase (decrease) in long-term liabilities and provisions	**305**	(114)	**(626)**	(267)
Decrease in borrowings subject to specific conditions, net	**—**	—	**(1,327)**	(1,104)
Share repurchases	**(976)**	—	**(1,234)**	—
Common share dividend	**(2,879)**	(6,061)	**(13,557)**	(18,185)
Cash used in financing activities	**(5,470)**	(11,939)	**(22,495)**	(65,236)

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 cash of $5.5 million in the third quarter of 2022 primarily for the payment of common share dividends, lease liabilities, share repurchases and long-term debt.

As at September 30, 2022, the Corporation had contractual commitments to purchase $7.5 million of capital assets.

Dividends
During each of the three quarters of 2022, the Corporation declared and paid quarterly cash dividends of $0.105, $0.08 and $0.05 per common share, respectively, representing an aggregating dividend payment of $13.6 million.

Subsequent to September 30, 2022, the Corporation declared dividends to holders of common shares in the amount of $0.025 per common share payable on December 30, 2022, to shareholders of record at the close of business on December 15, 2022.

Normal Course Issuer Bid
On May 25, 2022, the Corporation’s application to commence a normal course issuer bid was re-approved, which allows the Corporation to purchase up to 2,886,455 common shares, over a 12-month period commencing May 27, 2022 and ending May 26, 2023. During the three and nine month periods ended September 30, 2022, the Corporation purchased a total of 133,364 and 167,424 common shares, respectively, for cancellation at a volume weighted average price of $7.32 and $7.37 per common share, respectively. The Corporation did not purchase common shares for cancellation under the program during the same period in the prior year.

Outstanding Share Information
The authorized capital of the Corporation consists of an unlimited number of preference shares, issuable in series, and an unlimited number of common shares. As at November 4, 2022, 57,510,042 common shares were outstanding and no preference shares were outstanding.

6. Financial Instruments

A summary of Magellan’s financial instruments

Derivative Contracts
The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders’ equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian dollar denominated financial statements of the Corporation’s subsidiaries may vary on consolidation into the reporting currency of Canadian dollars. The Corporation from time to time may use derivative financial instruments to help manage foreign exchange risk with the objective of reducing transaction exposures and the resulting volatility of the Corporation’s earnings. The Corporation does not trade in derivatives for speculative purposes. Under these contracts the Corporation is obligated to purchase specified amounts at predetermined dates and exchange rates. These contracts are matched with anticipated cash flows in United States dollars. The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. As at September 30, 2022, foreign exchange contracts of US$11.9 million and £23.5 million and foreign exchange collar contracts, on the United States versus Canadian dollar with an average floor of $1.25 and ceiling of $1.3273, outstanding in amount of US$118.8 million, which extend over the period of the next three years ending in June 2025 were outstanding that resulted in negative market to market value of $8.3 million.

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 September 30, 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.

The COVID-19 pandemic continues 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. 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.

The ongoing invasion of Ukraine by Russia and the global response, including imposed economic sanctions, have disrupted supply chains and caused instability in the global economy. The short and long-term implications of the invasion are difficult to predict at this time. The extent and potential magnitude of economic impacts on the aerospace industry and on the Corporation remains uncertain and are difficult to predict at this time. The ongoing invasion could result in a greater impact related to global supply and pricing of energy, precious metals, raw materials and other commodities and components.

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, 2021 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2021, 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, 2022 and have been applied in preparing the consolidated interim financial statements.

- 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. Prior to the application of the amendments, the Corporation had not identified any contracts as being onerous as the unavoidable costs under the contracts, which were the costs of fulfilling them, comprised only incremental costs directly related to the contracts. As a result of the amendments, certain other directly related costs have been included by the Corporation in determining the costs of fulfilling the contracts. Therefore, as of January 1, 2022, the adoption of the amendments resulted in a $1.2 million increase to other long-term liabilities and provisions, and $0.9 million and $0.3 million decreases to the opening retained earnings and deferred tax liabilities, respectively.
- Amendments to IAS 16, *Property, Plant and Equipment*, clarifying the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment into use. The adoption had no 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 8, *Definition of Accounting Estimates*, helping 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.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12, *Income Taxes*, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

10. Critical Accounting Estimates

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

In the 2021 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, 2021 for a discussion regarding the critical accounting estimates.

11. Controls and Procedures

A description of Magellan's disclosure controls and internal controls over financial reporting

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at September 30, 2022 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 2022

While disruptions to air travel experienced earlier in the year have eased, the industry is still struggling with the effects of manpower shortages. Despite these challenges however, the International Air Transportation Association (IATA) reported in October that the peak summer travel season ended strong, with revenue passenger kilometers (RPK's) up 67.7% compared to August 2021. Globally, in August 2022, air travel reached 73.7% of pre-COVID levels.

With passenger traffic increasing and aircraft OEM's ramping up build rates, manufacturers are grappling with supply chain issues caused by shortages in materials and manpower. Engine manufacturers believe supply chain issues will persist into 2024 and are therefore suggesting more conservative single aisle ramp rates than the aircraft OEM's. Besides supply chain and manpower challenges, aerospace manufacturers are also dealing with the impact of hyperinflation. With limited options to mitigate such increases and contractual agreements that typically do not allow these to be passed on, bottom lines are suffering.

Boeing has stated that it wants to ensure production is stabilized before increasing build rates. It is now building 737's at an average of 31 per month. Boeing plans to increase to 38 per month in the first half of 2023, followed by another increase to 47 per month by the end of the year. Boeing continues to build 777F aircraft at a rate of 2 aircraft per month. In August, the FAA indicated that it was satisfied with the changes Boeing made to its 787 production line allowing Boeing to resume deliveries of the 787 Dreamliner.

At the end of July, Airbus cut 20 of its A320's from the delivery plan for 2022 due to supply chain issues. A build rate of 65 per month that was previously targeted for mid-2023 now won't be achieved until early 2024. The current A320 rate is 48 per month. Despite the latest adjustments, Airbus continues to aim for an A320 rate of 75 aircraft per month in 2025. By then, the A321 will represent approximately 70% of the aircraft family build rate. The A330 build rate is projected to increase to 2.8 per month from

2.2 per month for 2023, with the A350 build rate reaching 5 aircraft per month. The A220 rate is at 6.6 aircraft per month and climbing to 9.8 aircraft per month in 2023.

In the defence market, Lockheed's F-35 fighter program benefited from additional interest during the quarter as the U.S. State Department approved the potential sale of up to 35 F-35A aircraft to Germany. Greece also requested to procure 20 F-35A's, and the Czech Republic stated that they want the aircraft to replace their aging fleet of Saab JAS 39 Gripens. Other European countries that have selected the aircraft to modernize their fleets are Finland, Switzerland, Poland and Belgium.

With new defence opportunities emerging and commercial aircraft production ramping up, the long term market outlook remains positive. There is still uncertainty over the external pressures companies are currently facing with the global supply chain, labor availability and inflation. However, experts still maintain the long term view that the industry is resilient and that we will see continued demand growth for commercial aircraft and for modern defence aircraft.

MAGELLAN AEROSPACE

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

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Notes	Three month period ended September 30 **2022**	2021	Nine month period ended September 30 **2022**	2021
Revenue	8	**191,099**	166,427	**571,470**	510,346
Cost of revenue		**178,528**	155,842	**535,512**	469,046
Gross profit		**12,571**	10,585	**35,958**	41,300
Administrative and general expenses		**12,111**	11,288	**37,550**	33,450
Restructuring		**122**	557	**204**	1,409
Other		**(2,963)**	(3,319)	**(6,368)**	(4,051)
Income before interest and income taxes		**3,301**	2,059	**4,572**	10,492
Interest expense		**794**	791	**2,271**	2,424
Income before income taxes		**2,507**	1,268	**2,301**	8,068
Income taxes					
Current	9	**2,785**	2,714	**6,946**	8,567
Deferred	9	**(841)**	(1,904)	**(3,723)**	(5,279)
		1,944	810	**3,223**	3,288
Net income (loss)		**563**	458	**(922)**	4,780
Other comprehensive income (loss)					
Other comprehensive income (loss) that may be reclassified to profit and loss in subsequent periods:					
Foreign currency translation		**6,717**	6,836	**(7,044)**	(5,110)
Unrealized loss on foreign currency transactions	7	**(6,154)**	—	**(6,154)**	—
Items not to be reclassified to profit and loss in subsequent periods:					
Actuarial (loss) income on defined benefit pension plans, net of taxes	5	**(56)**	(1,537)	**(361)**	11,052
Comprehensive income (loss)		**1,070**	5,757	**(14,481)**	10,722
Net income (loss) per share					
Basic and diluted	6	**0.01**	0.01	**(0.02)**	0.08

See accompanying notes to interim condensed consolidated financial statements

MAGELLAN AEROSPACE CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	Notes	September 30 2022	December 31 2021
Current assets			
Cash		**34,395**	32,482
Trade and other receivables		**198,604**	164,234
Contract assets		**64,690**	66,337
Inventories		**218,056**	208,577
Prepaid expenses and other		**10,111**	9,664
		525,856	481,294
Non-current assets			
Property, plant and equipment		**383,347**	396,845
Right-of-use assets		**31,604**	34,389
Investment properties		**1,597**	1,659
Intangible assets		**42,712**	47,772
Goodwill		**21,660**	21,792
Other assets		**9,085**	11,587
Deferred tax assets		**9,019**	8,480
		499,024	522,524
Total assets		**1,024,880**	1,003,818
Current liabilities			
Accounts payable and accrued liabilities and provisions		**144,197**	105,678
Contract liabilities	8	**37,919**	17,704
Debt due within one year		**10,319**	10,266
		192,435	133,648
Non-current liabilities			
Long-term debt		**1,233**	2,755
Lease liabilities		**28,606**	30,644
Borrowings subject to specific conditions		**23,307**	24,101
Other long-term liabilities and provisions	5	**7,251**	7,223
Deferred tax liabilities		**36,374**	39,623
		96,771	104,346
Equity			
Share capital	6	**251,610**	252,342
Contributed surplus		**2,044**	2,044
Other paid in capital		**13,565**	13,565
Retained earnings		**463,745**	479,965
Accumulated other comprehensive income		**1,333**	14,531
Equity attributable to equity holders of the Corporation		**732,297**	762,447
Non-controlling interest		**3,377**	3,377
Total equity		**735,674**	765,824
Total liabilities and equity		**1,024,880**	1,003,818

See accompanying notes to interim condensed consolidated financial statements

MAGELLAN AEROSPACE

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	Total	Non-controlling interest	Total equity
December 31, 2021	252,342	2,044	13,565	479,965	14,531	762,447	3,377	765,824
Impact of adoption of the amendements to IAS 37 (note 3)	—	—	—	(878)	—	(878)	—	(878)
January 1, 2022 after adoption	252,342	2,044	13,565	479,087	14,531	761,569	3,377	764,946
Net loss for the period	—	—	—	(922)	—	(922)	—	(922)
Other comprehensive loss for the period	—	—	—	(361)	(13,198)	(13,559)	—	(13,559)
Share repurchases	(732)	—	—	(502)	—	(1,234)	—	(1,234)
Common share dividend	—	—	—	(13,557)	—	(13,557)	—	(13,557)
September 30, 2022	251,610	2,044	13,565	463,745	1,333	732,297	3,377	735,674
December 31, 2020	252,342	2,044	13,565	492,681	21,870	782,502	3,377	785,879
Net income for the period	—	—	—	4,780	—	4,780	—	4,780
Other comprehensive income (loss) for the period	—	—	—	11,052	(5,110)	5,942	—	5,942
Common share dividend	—	—	—	(18,185)	—	(18,185)	—	(18,185)
September 30, 2021	252,342	2,044	13,565	490,328	16,760	775,039	3,377	778,416

See accompanying notes to interim condensed consolidated financial statements

MAGELLAN AEROSPACE CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (expressed in thousands of Canadian dollars)	Notes	Three month period ended September 30 **2022**	2021	Nine month period ended September 30 **2022**	2021
Cash flow from operating activities					
Net income (loss)		**563**	458	**(922)**	4,780
Amortization/depreciation of intangible assets, right-of-use assets and property, plant and equipment		**11,415**	14,057	**35,536**	39,665
(Gain) loss on disposal of property, plant and equipment		**(192)**	17	**(300)**	(29)
Gain on disposal of investment property		—	(258)	—	(608)
Increase in defined benefit plans		**375**	316	**255**	885
Accretion		**622**	674	**1,822**	1,978
Deferred taxes		**(992)**	(1,985)	**(4,064)**	(5,531)
(Income) loss on investments in joint ventures		**(64)**	(27)	**(176)**	69
Changes to non-cash working capital		**22,737**	(10,200)	**7,605**	(46,206)
Net cash provided by (used in) operating activities		**34,464**	3,052	**39,756**	(4,997)
Cash flow from investing activities					
Purchase of property, plant and equipment		**(6,094)**	(3,577)	**(14,803)**	(8,548)
Proceeds from disposal of property, plant and equipment		**17**	260	**490**	346
Proceeds from disposal of investment property		—	356	—	1,000
Decrease (increase) in intangible and other assets		**774**	(702)	**(381)**	(2,514)
Net cash used in investing activities		**(5,303)**	(3,663)	**(14,694)**	(9,716)
Cash flow from financing activities					
Decrease in debt due within one year		—	(3,897)	—	(39,424)
Decrease in long-term debt		**(539)**	(348)	**(1,508)**	(1,365)
Lease liability payments		**(1,381)**	(1,519)	**(4,243)**	(4,891)
Increase (decrease) in long-term liabilities and provisions		**305**	(114)	**(626)**	(267)
Decrease in borrowings subject to specific conditions, net		—	—	**(1,327)**	(1,104)
Share repurchases		**(976)**	—	**(1,234)**	—
Common share dividend	6	**(2,879)**	(6,061)	**(13,557)**	(18,185)
Net cash used in financing activities		**(5,470)**	(11,939)	**(22,495)**	(65,236)
Increase (decrease) in cash during the period		**23,691**	(12,550)	**2,567**	(79,949)
Cash at beginning of the period		**11,210**	46,283	**32,482**	113,938
Effect of exchange rate differences		**(506)**	227	**(654)**	(29)
Cash at end of the period		**34,395**	33,960	**34,395**	33,960

See accompanying notes to interim condensed consolidated 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, 2021, 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, 2021, 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 Covid-19 pandemic continues 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. 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. In response to COVID-19, the Corporation applied for Canada Emergency Wage Subsidy ("CEWS") and 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. Nil was recorded in 2022.

The ongoing invasion of Ukraine by Russia continued to disrupt supply chains and cause instability in the global economy. The conflict resulted in imposition of economic sanctions, which have had an adverse effect on economic markets, including global supply and pricing of energy, precious metals, raw materials and other commodities and components. The short and long-term implications of the conflict are difficult to predict at this time.

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 and invasion of Ukraine 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 unaudited interim condensed consolidated financial statements related to potential impacts of the COVID-19 pandemic and Russian invasion of Ukraine 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 future periods.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on November 4, 2022.

ADOPTION OF NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

The Corporation adopted the following accounting standards and amendments that were effective January 1, 2022.

- 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. Prior to the application of the amendments, the Corporation had not identified any contracts as being onerous as the unavoidable costs under the contracts, which were the costs of fulfilling them, comprised only incremental costs directly related to the contracts. As a result of the amendments, certain other directly related costs have been included by the Corporation in determining the costs of fulfilling the contracts. Therefore, as of January 1, 2022, the adoption of the amendments resulted in a $1,177 increase to other long-term liabilities and provisions, and $878 and $299 decreases to the opening retained earnings and deferred tax liabilities, respectively.
- Amendments to IAS 16, *Property, Plant and Equipment,* clarifying the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment into use. The adoption had no 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 8, *Definition of Accounting Estimates,* helping 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.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12, *Income Taxes,* which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

NOTE 3. 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 September 30, 2022, the Corporation was debt-free under its credit facility. Bank indebtedness bears interest at the bankers' acceptance or LIBOR rates plus 1.00%. At September 30, 2022, the Corporation had letters of credit outstanding totalling $4,562 [December 31, 2021 – $4,143] such that $70,438 [December 31, 2021 – $70,857] 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 4. 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 reflected in the interim condensed consolidated statement of financial position is as follows:

	September 2022	December 31 2021
Included in Other Assets - Pension Benefit Plans	1,539	2,347
Included in Other Long-Term Liabilities and Provisions - Other Benefit Plan	(949)	(1,038)
	590	1,309

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 September 30, 2022, the assumed discount rate for the Canadian pension plans remained at the June 30, 2022 rate of 5.0% and increased from the 3.9% and 2.9% rates used in calculating the pension obligation as at March 31, 2022 and December 31, 2021, respectively, as a result of changes in the market interest rates of high-quality, fixed rate debt securities. The return on plan assets was below the expected return during the three and nine month periods ended September 30, 2022. The change in the discount rate assumptions, the difference between the actual and expected rate of return on the plan assets and the effect of asset ceiling resulted in an actuarial loss of $56 and $361, net of taxes of $19 and $126, respectively, recorded in other comprehensive income (loss) in the three and nine month periods ended September 30, 2022.

NOTE 5. SHARE CAPITAL

Net income per share

	Three month period ended September 30		Nine month period ended September 30	
	2022	2021	2022	2021
Net income (loss)	563	458	(922)	4,780
Weighted average number of shares	57,626	57,729	57,657	57,729
Basic and diluted net income (loss) per share	0.01	0.01	(0.02)	0.08

Dividends

On March 31, 2022, June 30, 2022, and September 30, 2022, the Corporation paid quarterly dividends on common shares of $0.105, $0.08 and $0.05 per common share, respectively, amounting to $13,557 in the aggregate.

Subsequent to September 30, 2022, the Corporation declared dividends to holders of common shares in the amount of $0.025 per common share payable on December 30, 2022, to shareholders of record at the close of business on December 15, 2022.

Normal Course Issuer Bid

On May 25, 2022, the Corporation's application to commence a normal course issuer bid ("NCIB") was re-approved, which allows the Corporation to purchase up to 2,886,455 common shares, over a 12-month period commencing May 27, 2022 and ending May 26, 2023. During the three and nine month periods ended September 30, 2022, the Corporation purchased a total of 133,364 and 167,424 common shares, respectively, for cancellation at a volume weighted average price of $7.32 and $7.37 per common share, respectively. The Corporation did not purchase common shares for cancellation under the program during the same period in the prior year.

NOTE 6. 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 exchange forward and collar contracts to hedge highly probable future transactions. Under these contracts the Corporation is obliged to purchase or sell specific amounts at predetermined dates and exchange rates. A number of these contracts are designated as cash flow hedges.

As at September 30, 2022, the Corporation had foreign exchange collar contracts as follows:

Maturity	Notional amount	Floor	Ceiling	Carring value	Line item in the statement of financial position
June 2025	US$59,400	1.2500	1.3245	$3,869	Accounts payable and accrued liabilities and provisions
June 2025	US$59,400	1.2500	1.3300	$3,685	Accounts payable and accrued liabilities and provisions

The Corporation also had foreign exchange forward contracts outstanding in the amount of $11,900 US dollars [December 31, 2021 – $6,650 US dollars] and £23,540 British pounds [December 31, 2021 – £9,490].

For the three months ended September 30, 2022, a loss of $6,154, net of taxes of $2,140 was recorded in other comprehensive income for the effective portion of cash flow hedges. In accordance with the fair value hierarchy of financial instruments, the derivatives are considered Level 2. As at September 30, 2022, the company recorded $8,294 of derivative liabilities [December 31, 2021 – $94], included in accounts payable, accrued liabilities and provisions on the interim condensed consolidated statement of financial position.

Long-term debt
As at September 30, 2022, the carrying amount of the Corporation's long-term debt of $6,121 [December 31, 2021 – $7,307] approximates its fair value. The fair value was determined by discounting the expected future cash flow based on current rate for debt with similar terms and maturities and is categorized as Level 2 in the fair value hierarchy.

Borrowings subject to specific conditions
As at September 30, 2022, the Corporation has recognized $23,307 [December 31, 2021 – $25,428] as the amount repayable to Canadian government agencies. The contributions are repayable as future royalty payments; a liability is recorded for the amounts received that will be repaid based on future estimated sales. The fair value was determined by discounting the expected future royalty payments based on prevailing market rate for borrowings with similar terms and maturities and is categorized as Level 2 in the fair value hierarchy.

NOTE 7. 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 September 30		Nine month period ended September 30	
	2022	2021	2022	2021
Sale of goods	155,525	134,448	458,753	411,407
Services	35,574	31,979	112,717	98,939
	191,099	166,427	571,470	510,346

Timing of revenue recognition based on transfer of control

	Three month period ended September 30		Nine month period ended September 30	
	2022	2021	2022	2021
At a point of time	110,834	102,142	319,965	310,715
Over time	80,265	64,285	251,505	199,631
	191,099	166,427	571,470	510,346

Advance payments received for contracts in progress in excess of revenue recognized were recorded as contract liabilities on the interim condensed consolidated statement of financial position. As at September 30, 2022, contract liabilities were $37,919 [December 31, 2021 – $17,704].

Revenues from the Corporation's two and three largest customers accounted for 35.8% and 44.6% respectively of total sales for the three and nine month periods ended September 30, 2022 [September 30, 2021 – one and three largest customers accounted for 13.9% and 36.3% respectively of total sales for the three and nine month periods ended].

Geographic segments:

								Three month period ended September 30
				2022				2021
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	77,238	48,434	65,427	191,099	72,068	46,075	48,284	166,427
Export revenue[1]	47,263	7,315	24,835	79,413	52,720	9,006	9,441	71,167

								Nine month period ended September 30
				2022				2021
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	247,683	141,079	182,708	571,470	228,924	134,001	147,421	510,346
Export revenue[1]	164,792	22,595	50,134	237,521	166,460	30,142	31,932	228,534

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

				September 30, 2022				December 31, 2021
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment, right-of-use assets, intangible assets and goodwill	167,529	167,024	144,770	479,323	176,635	163,527	160,636	500,798

NOTE 8. TAXATION

The Corporation's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Corporation operates in, adjusted for the main permanent differences identified. The effective tax rate for the three and nine month periods ended September 30, 2022 was 77.5% and 140.1% respectively [63.9% and 40.8% respectively for the three and nine month periods ended September 30, 2021]. 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 9. MANAGEMENT OF CAPITAL

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

Total managed capital as at September 30, 2022 of $738,395 is comprised of shareholders' equity attributable to equity holders of the Corporation of $732,297 and interest-bearing debt of $6,098.

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 10. CONTINGENT LIABILITES AND COMMITMENTS

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

At September 30, 2022, capital commitments in respect of purchase of property, plant and equipment totalled $7,525, all of which had been ordered. There were no other material capital commitments at the end of the period.