MAGELLAN
AEROSPACE

QUARTERLY REPORT
MARCH 31, 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 condensed consolidated interim financial statements and the notes thereto for the three month period ended March 31, 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 March 31, 2022 relative to the three month period ended March 31, 2021. The information contained in this report is as at May 3, 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", "Future Changes in Accounting Policies" and "Outlook". In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", and similar expressions. The projections, estimates and beliefs contained in such forward-looking statements are based on management's assumptions relating to the production performance of Magellan's assets and competition throughout the aerospace industry and continuation of the current regulatory and tax regimes in the jurisdictions in which the Corporation operates, and necessarily involve known and unknown risks and uncertainties, including the business risks discussed in this MD&A, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. 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 net income before interest, income taxes, depreciation and amortization) and Adjusted EBITDA (net income 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.

Impact to Business

The COVID-19 pandemic continued to disrupt global health and the economy and has created an indeterminate period of volatility in the markets in which Magellan operates. The COVID-19 pandemic impacted Magellan's operations at varying times by way of reduced production, 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 invasion of Ukraine by Russia has resulted in sanctions imposed upon Russia which are expected to impact world economic markets and particular areas of the aerospace industry. The extent and potential magnitude of economic impacts on the aerospace industry as a result of the imposed sanctions is still being assessed by the industry. The Corporation, through certain of its customers, participates on certain commercial aircraft programs that are manufactured by Russian companies, and the Corporation indirectly supplies components for aircraft engines which are sold to Russian aircraft manufacturers. Magellan also purchases raw materials from OEM designated suppliers that are situated in Russia. The short and long-term implications of this war on the Corporation are difficult to predict at this time.

Business Update

On April 26, 2022, Magellan announced that it had signed a long-term agreement with General Electric Aviation ("GE") for the repair and overhaul (R&O) of major components for the GE F414-GE-400 engine, which powers Boeing's F/A-18 Block III Super Hornet fighter jet. Finished components will be delivered from Magellan's facility in Winnipeg, Manitoba. The five-year agreement is the latest milestone in a strong and continuing relationship between the companies that dates back more than 50 years.

On May 2, 2022, Magellan announced it has reached a five-year agreement with Safran Landing Systems to manufacture complex machined landing gear components. The agreement includes the continued manufacture and processing of Magellan's current work statement and additional new components, all for commercial aircraft platforms. Deliveries will take place from Magellan's North American facilities in New York, New York and Kitchener, Ontario.

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 first quarter ended March 31, 2022

The Corporation reported revenue in the first quarter of 2022 of $187.7 million, a $11.4 million increase from the first quarter of 2021 revenue of $176.3 million. Gross profit and net loss for the first quarter of 2022 were $10.9 million and $2.8 million, respectively, in comparison to gross profit of $17.1 million and net income of $3.3 million for the first quarter of 2021.

Consolidated Revenue

		Three month period ended March 31	
Expressed in thousands of dollars	**2022**	2021	Change
Canada	**84,794**	81,036	4.6%
United States	**44,934**	45,809	(1.9%)
Europe	**57,981**	49,436	17.3%
Total revenues	**187,709**	176,281	6.5%

Revenues in Canada increased 4.6% in the first quarter of 2022 compared to the corresponding period in 2021, primarily due to increased volumes for proprietary and casting products, offset in part by lower repair and overhaul revenues.

Revenues in the United States decreased by 1.9% in the first quarter of 2022 compared to the first quarter of 2021, largely due to volume decreases for castings, repairs and wide-body aircraft products, specifically the Boeing 787 when deliveries had been halted, offset in part by increased volume for single aisle aircraft as Boeing continued to ramp up production for 737 MAX.

European revenues in the first quarter of 2022 increased 17.3% compared to the corresponding period in 2021 primarily driven by volume increases for single aisle aircraft, and the favourable foreign exchange impact as the United States dollar strengthened relative to the British pound.

Gross Profit

Expressed in thousands of dollars	Three month period ended March 31 **2022**	2021	Change
Gross profit	**10,910**	17,079	(36.1%)
Percentage of revenues	**5.8%**	9.7%	

Gross profit of $10.9 million for the first quarter of 2022 was $6.2 million lower than the $17.1 million gross profit for the first quarter of 2021, and gross profit as a percentage of revenues of 5.8% for the first quarter of 2021 decreased from 9.7% recorded in the same period in 2021. The gross profit in the current quarter was primarily impacted by volume decreases for certain programs, higher material and manufacturing production costs, production inefficiencies and unfavourable product mix. During the first quarter 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.

Administrative and General Expenses

Expressed in thousands of dollars	Three month period ended March 31 **2022**	2021	Change
Administrative and general expenses	**12,814**	11,644	10.0%
Percentage of revenues	**6.8%**	6.6%	

Administrative and general expenses as a percentage of revenues of 6.8% for the first quarter of 2022 were higher than the same period of 2021. Administrative and general expenses increased $1.2 million or 10.0% to $12.8 million in the first quarter of 2022 compared to $11.6 million in the first quarter of 2021 mainly due to increases in salary and related expenses for inflationary rate and headcount changes, travel and accommodation as travel restrictions were lifted, consulting and IT expenses due to timing of spending.

Restructuring

Expressed in thousands of dollars	Three month period ended March 31 **2022**	2021
Restructuring	**65**	176

Restructuring represents costs related to the closure of the Bournemouth manufacturing facility.

Other

Expressed in thousands of dollars	Three month period ended March 31 **2022**	2021
Foreign exchange gain	**(1,128)**	(849)
Gain loss on disposal of property, plant and equipment	**(121)**	(7)
Total other	**(1,249)**	(856)

Other for the first quarter of 2022 included a $1.1 million foreign exchange gain compared to a $0.8 million foreign exchange gain in the first 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

Expressed in thousands of dollars	Three month period ended March 31 **2022**	2021
Interest on bank indebtedness and long-term debt	**89**	62
Accretion charge for borrowings, lease liabilities and long-term debt	**589**	645
Discount on sale of accounts receivable	**21**	194
Total interest expense	**699**	901

Total interest expense of $0.7 million in the first quarter of 2022 decreased $0.2 million compared to the first quarter of 2021 mainly due to lower accretion charge on lease liabilities and long-term debt as principal amounts decreased, and lower discount on sale of accounts receivables as the Corporation wound down its accounts receivable securitization program in March 2021.

Provision for Income Taxes

	Three month period ended March 31	
Expressed in thousands of dollars	**2022**	2021
Expense of current income taxes	**1,847**	3,237
Expense of deferred income taxes	**(1,241)**	(1,285)
Total expense of income taxes	**606**	1,952
Effective tax rate	**(42.7%)**	37.4%

Income tax expense for the three months ended March 31, 2022 was $0.6 million, representing an effective income tax rate of negative 42.7% compared to 37.4% for the same period of 2021. The change in 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				2020
Expressed in millions of dollars, except per share amounts	**Mar 31**	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Revenues	**187.7**	178.0	166.4	167.6	176.3	180.1	163.4	162.2
(Loss) income before taxes	**(1.4)**	(6.2)	1.3	1.6	5.2	(23.6)	2.2	10.0
Net (loss) income	**(2.0)**	(5.8)	0.5	1.1	3.3	(22.9)	0.0	6.1
Net (loss) income per share								
Basic and diluted	**(0.04)**	(0.10)	0.01	0.02	0.06	(0.40)	0.00	0.10
EBITDA[1]	**11.4**	6.5	16.1	14.9	19.2	(6.8)	16.3	24.8
Adjusted EBITDA[1]	**11.5**	7.3	16.7	15.6	19.3	11.5	21.8	25.5

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

Revenues and net income 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 1.3859 in the second 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 1.6991 in the fourth quarter of 2021. 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 1.2388 in the second quarter of 2020.

Revenue for the first quarter of 2022 of $187.7 million was higher than that in the first quarter of 2021. The average quarterly exchange rate of the United States dollar relative to the Canadian dollar in the first quarter of 2022 was 1.2663 versus 1.2666 in the same period of 2021. The average quarterly exchange rate of the British pound relative to the Canadian dollar moved from 1.7461 in the first quarter of 2021 to 1.6995 during the current quarter. The average quarterly exchange rate of the British pound relative to the United States dollar increased from 1.3788 in the first quarter of 2021 to 1.3419 in the current quarter. Had the foreign exchange rates remained at levels experienced in the first quarter of 2021, reported revenues in the first quarter of 2022 would have been higher by $0.5 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. However, starting with the second quarter of 2021, there were some positive signs of revenue recovery as certain commercial program aircraft build rates had started to increase. The Corporation applied and recognized the CEWS subsidy of $8.6 million, $10.4 million and $1.0 million in the second, third and fourth quarters of 2020, respectively, and $3.9 million and $3.8 million in the second and fourth quarters of 2021, respectively, and reduced the expense that the subsidy offsets.

During the third quarter of 2020, Magellan implemented cost savings initiatives designed to reduce operating costs by re-balancing its workforce and recognized severance costs of $5.6 million. A $3.4 million cost recovery was recorded against cost of revenues as a result of the cancellation of the Airbus A320neo program in the third quarter of 2020. In the fourth quarter of 2020, the Corporation committed to a plan to restructure its manufacturing divisions in Europe due to decreased demand as a result of a deterioration in economic conditions stemming from COVID-19 and recognized a $5.6 million restructuring charge, including a $2.4 million impairment loss related to assets made obsolete as a result of the plan. Further, a $12.0 million goodwill impairment charge was recorded in the fourth quarter of 2020.

4. Reconciliation of Net Income to EBITDA and Adjusted EBITDA

A description and reconciliation of certain non-IFRS measures used by management

In addition to the primary measures of earnings and earnings per share (basic and diluted) in accordance with IFRS, the Corporation includes EBITDA (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 March 31	
Expressed in thousands of dollars	**2022**	2021
Net (loss) income	**(2,025)**	3,262
Interest	**699**	901
Taxes	**606**	1,952
Depreciation and amortization	**12,131**	13,041
EBITDA	**11,411**	19,156
Add back:		
Restructuring	**65**	176
Adjusted EBITDA	**11,476**	19,332

Adjusted EBITDA in the first quarter of 2022 decreased $7.8 million or 40.4% to $11.5 million in comparison to $19.3 million in the same quarter of 2021 mainly as a result of lower net income driven largely by volume decreases, higher material and manufacturing production costs, production inefficiencies and unfavourable product mix, lower interest, taxes, and depreciation and amortization expenses. During the first quarter 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, leading to lower Adjusted 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, repurchase common shares and dividend payments. Based on current funds available and expected cash flow from operating activities, management believes that the Corporation has sufficient funds available to meet its liquidity requirements at any point in time. However, if cash from operating activities is lower than expected or capital projects exceed current estimates, or if the Corporation incurs major unanticipated expenses, it may be required to seek additional capital in the form of debt or equity or a combination of both.

Cash Flow from Operations

Expressed in thousands of dollars	Three month period ended March 31 2022	2021
Increase in trade receivables	**(13,421)**	(24,703)
Increase in contract assets	**(2,066)**	(10,390)
Increase in inventories	**(6,331)**	(2,178)
Decrease (increase) in prepaid expenses and other	**225**	(1,588)
Increase in accounts payable, accrued liabilities and provisions	**12,499**	2,207
Changes to non-cash working capital balances	**(9,094)**	(36,652)
Cash used in operating activities	**(48)**	(20,898)

For the three months ended March 31, 2022, the Corporation used $48 thousands from operating activities, compared to $20.9 million used in the first quarter of 2021. Changes in non-cash working capital items used cash of $9.1 million, $27.6 million lower when compared to the usage of $36.7 million in the prior year largely attributable to increases in accounts receivables from higher revenues and timing of customer payments, increases in contract assets due to timing of production and billing related to products transferred over time, and increases in accounts payable, accrued liabilities and provisions primarily driven by timing of material purchases and supplier payments, offset in part by decreases in inventories due to timing of production and shipment, and material purchases.

Investing Activities

Expressed in thousands of dollars	Three month period ended March 31 2022	2021
Purchase of property, plant and equipment	**(4,356)**	(2,663)
Proceeds of disposal of property plant and equipment	**262**	86
Increase in intangible and other assets	**(874)**	(1,003)
Cash used in investing activities	**(4,968)**	(3,580)

Investing activities used $5.0 million cash for the first quarter of 2022 compared to $3.6 million cash used in the same quarter of the prior year, an increase of $1.4 million primarily due to higher levels of investment in property, plant and equipment.

Financing Activities

Expressed in thousands of dollars	Three month period ended March 31 2022	2021
Decrease in debt due within one year	—	(8,877)
Decrease in long-term debt	**(420)**	(458)
Lease liability payments	**(1,465)**	(1,677)
Decrease in long-term liabilities and provisions	**(233)**	(180)
Decrease in borrowings subject to specific conditions, net	**(1,327)**	(1,104)
Common share dividend	**(6,061)**	(6,062)
Cash used in financing activities	**(9,506)**	(18,358)

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. At March 31, 2022, there were no drawings under the Agreement.

The Corporation used $9.5 million in the first quarter of 2022 mainly for the payment of common share dividends, lease liabilities and borrowing subject to specific conditions.

As at March 31, 2022, the Corporation had contractual commitments to purchase $8.1 million of capital assets.

Dividends

During the first quarter of 2022, the Corporation declared and paid quarterly cash dividends of $0.105 per common shares representing an aggregating dividend payment of $6.1 million.

Subsequent to March 31, 2022, the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of $0.08 per common share. The dividend will be payable on June 30, 2022 to shareholders of record at the close of business on June 16, 2022. The ongoing COVID-19 pandemic, continued low production levels largely related to wide-body aircraft, and supply chain and labour constraints negatively impacted the Corporation's operation in the first quarter of 2022. In light of these operational challenges, the dividend level has been reduced but a dividend was still declared given the Corporation's strong balance sheet and cash reserves. 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 27, 2021, the Corporation's application to commence a normal course issuer bid ("NCIB") was re-approved, which allowed the Corporation to purchase up to 2,886,455 common shares, over a 12-month period commencing May 27, 2021 and ending May 26, 2022. During the first quarter of 2022, the Corporation did not purchase any common shares for cancellation under the program.

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 May 3, 2022, 57,729,106 common shares were outstanding and no preference shares were outstanding.

6. Financial Instruments

A summary of Magellan's financial instruments

Derivative Contracts

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian dollar denominated financial statements of the Corporation's subsidiaries may vary on consolidation into the reporting currency of Canadian dollars. The Corporation from time to time may use derivative financial instruments to help manage foreign exchange risk with the objective of reducing transaction exposures and the resulting volatility of the Corporation's earnings. The Corporation does not trade in derivatives for speculative purposes. Under these contracts the Corporation is obligated to purchase specified amounts at predetermined dates and exchange rates. These contracts are matched with anticipated cash flows in United States dollars. The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. As at March 31, 2022, foreign exchange contracts of US$21.5 million and £13.9 million were outstanding with an immaterial fair value.

Off-Balance Sheet Arrangements

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

7. Related Party Transactions

A summary of Magellan's transactions with related parties

For the three month period ended March 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.

The Covid-19 pandemic continues to cause disruptions to businesses globally resulting in an economic slowdown and decreased demand in the aerospace industry. 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 invasion of Ukraine by Russia ["Conflict"] and the resulting imposition of sanctions and counter sanctions have disrupted supply chains and caused instability in the global economy. The short and long-term implications of the Conflict are difficult to predict at this time. The ongoing Conflict could result in the imposition of future economic sanctions, which may have a greater adverse effect on economic markets and could result in an even 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 $1,177 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.

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 March 31, 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

Global air travel recovery slowed in the first quarter of 2022 with revenue passenger kilometers falling below levels reached in December 2021. The invasion of Ukraine by Russia so far has had a limited impact on global air travel, however the continuing COVID-19 pandemic, elevated inflation, increasing interest rates and falling consumer confidence, are putting downward pressure on recovery. Despite short-term setbacks, aircraft manufacturers have been increasing single aisle aircraft build rates due to the overall improvement of commercial air travel volumes since their collapse in 2020. Engine manufacturers have been responding by increasing engine build rates, however supply chain shortages are threatening to constrain these efforts, which may ultimately impact aircraft manufacturers.

Airbus expects to deliver 720 commercial aircraft in 2022, an increase of 109 aircraft from 2021. Airbus delivered 140 aircraft as of March 31, 2022. With a gross order intake of 253 aircraft and cancellations of 170 aircraft, Airbus ended the period with 7,025 unfilled orders, a drop from 7,082 aircraft at December 31, 2021. Boeing delivered 95 aircraft in the same quarter, booked 167 gross aircraft orders and received cancellations of 22 aircraft orders. Boeing's unfilled order backlog increased from 5,136 aircraft as at December 31, 2021 to 5,186 aircraft as of March 31, 2022, prior to accounting adjustments.

Airbus' current A320 build rate is 49 aircraft per month. Boeing plans to reach 54 aircraft per month in the fourth quarter of 2022 and to ramp up to 66 aircraft per month in 2023. The A330 build rate is at 2.2 aircraft per month and is forecast to be 2.8 aircraft per month late in 2022, while the A350 build rate is at 4.5 aircraft per month. The A220 rate is planned to reach 6.6 aircraft per month in 2022, 9.8 aircraft per month in 2023, and 14 aircraft per month by mid 2025.

Boeing's current 737 build rate is at 24 aircraft per month and is planned at 31 aircraft per month for the second half of 2022, and 52 aircraft per month by the second half of 2023. The 777 aircraft build rate remains at 2 aircraft per month with the 777-8 freighter version now delaying the entry-into-service of the 777X passenger variant.

Currently only marginal recovery is expected in the wide body market through 2030. This is negatively impacting Magellan in certain of its divisions, including those supplying components for the Boeing 787 program. Boeing has not provided a recent update on when it expects to receive approval from U.S. regulators to resume deliveries of the aircraft. Boeing has however been surveying the supply base to evaluate overall capacity to meet output scenarios as high as 7 aircraft per month by the end of 2023. Boeing is currently building 2 aircraft per month.

In the defence aerospace market, the Russian invasion of Ukraine is prompting countries to increase defence spending. The U.S. defence budget request for FY2023 is 3.9% higher than FY2022, which includes continued support in Europe, and maintains the national defence strategy of air force and army modernization. Next generation U.S. aircraft programs include new fighters, unmanned aerial vehicles for various missions, future vertical lift programs and corresponding new engine technology programs.

In March 2022, the Canadian government announced its decision to select Lockheed Martin's F-35 as the preferred option for its fighter replacement program. This was positive news for Magellan as the Corporation currently supplies complete rear horizontal stabilizer assemblies for the F-35A model, various metallic and composite structural components and engine castings. If Canada reaches a final agreement with Lockheed Martin, the first aircraft is scheduled for delivery in 2025. Germany also announced a decision in March 2022 to buy 35 F-35 fighter jets to replace its ageing Tornado fleet.

In summary, the strength of the defence aerospace market continues to help offset some of the impact of the pandemic on aerospace suppliers that participate in both commercial and defence markets. Notwithstanding short-term setbacks in the commercial market, optimism remains that over the long term, increasing global demand will see this market to its pre-pandemic growth path.

MAGELLAN AEROSPACE

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)	Notes	Three month period ended March 31 2022	 2021
Revenues	8	**187,709**	**176,281**
Cost of revenues		**176,799**	**159,202**
Gross profit		**10,910**	**17,079**
Administrative and general expenses		**12,814**	**11,644**
Restructuring		**65**	**176**
Other		**(1,249)**	**(856)**
(Loss) income before interest and income taxes		**(720)**	**6,115**
Interest		**699**	**901**
(Loss) income before income taxes		**(1,419)**	**5,214**
Income taxes			
Current	9	**1,847**	**3,237**
Deferred	9	**(1,241)**	**(1,285)**
		606	**1,952**
Net (loss) income		**(2,025)**	**3,262**
Other comprehensive (loss) income			
Other comprehensive (loss) income that may be reclassified to profit and loss in subsequent periods:			
Foreign currency translation		**(12,684)**	**(6,385)**
Items not to be reclassified to profit and loss in subsequent periods:			
Actuarial (loss) income on defined benefit pension plans, net of taxes	5	**(264)**	**9,783**
Comprehensive (loss) income		**(14,973)**	**6,660**
Net (loss) income per share			
Basic and diluted	6	**(0.04)**	**0.06**

See accompanying notes to interim condensed consolidated financial statements

MAGELLAN AEROSPACE

MAGELLAN AEROSPACE CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	Notes	**March 31 2022**	December 31 2021
Current assets			
Cash		**18,050**	32,482
Trade and other receivables		**177,348**	164,234
Contract assets		**68,008**	66,337
Inventories		**210,693**	208,577
Prepaid expenses and other		**9,181**	9,664
		483,280	481,294
Non-current assets			
Property, plant and equipment		**384,836**	396,845
Right-of-use assets		**32,769**	34,389
Investment properties		**1,627**	1,659
Intangible assets		**45,718**	47,772
Goodwill		**21,219**	21,792
Other assets	5	**12,020**	11,587
Deferred tax assets		**10,162**	8,480
		508,351	522,524
Total assets		**991,631**	1,003,818
Current liabilities			
Accounts payable and accrued liabilities and provisions	8	**136,391**	123,382
Debt due within one year		**10,038**	10,266
		146,429	133,648
Non-current liabilities			
Long-term debt		**2,240**	2,755
Lease liabilities		**29,534**	30,644
Borrowings subject to specific conditions		**22,940**	24,101
Other long-term liabilities and provisions	5	**6,858**	7,223
Deferred tax liabilities		**39,718**	39,623
		101,290	104,346
Equity			
Share capital		**252,342**	252,342
Contributed surplus		**2,044**	2,044
Other paid in capital		**13,565**	13,565
Retained earnings		**470,737**	479,965
Accumulated other comprehensive income		**1,847**	14,531
Equity attributable to equity holders of the Corporation		**740,535**	762,447
Non-controlling interest		**3,377**	3,377
		743,912	765,824
Total liabilities and equity		**991,631**	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 translation	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 amendments 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	—	—	—	(2,025)	—	(2,025)	—	(2,025)
Other comprehensive income (loss) for the period		—	—	(264)	(12,684)	(12,948)	—	(12,948)
Common share dividend	—	—	—	(6,061)	—	(6,061)	—	(6,061)
March 31, 2022	252,342	2,044	13,565	470,737	1,847	740,535	3,377	743,912
December 31, 2020	252,342	2,044	13,565	492,681	21,870	782,502	3,377	785,879
Net income for the period	—	—	—	3,262	—	3,262	—	3,262
Other comprehensive income (loss) for the period		—	—	9,783	(6,385)	3,398	—	3,398
Common share dividend	—	—	—	(6,062)	—	(6,062)	—	(6,062)
March 31, 2021	252,342	2,044	13,565	499,664	15,485	783,100	3,377	786,477

See accompanying notes to interim condensed consolidated financial statements

MAGELLAN AEROSPACE

MAGELLAN AEROSPACE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (expressed in thousands of Canadian dollars)	Notes	Three month period ended March 31 **2022**	 2021
Cash flow from operating activities			
Net (loss) income		**(2,025)**	3,262
Amortization/depreciation of intangible assets, right-of-use assets and property, plant and equipment		**12,131**	13,041
Gain on disposal of property, plant and equipment		**(121)**	(7)
(Decrease) increase in defined benefit plans		**(309)**	120
Accretion of financial liabilities		**587**	650
Deferred taxes		**(1,173)**	(1,377)
(Income) loss on investments in joint ventures		**(44)**	65
Changes to non-cash working capital		**(9,094)**	(36,652)
Net cash used in operating activities		**(48)**	(20,898)
Cash flow from investing activities			
Purchase of property, plant and equipment		**(4,356)**	(2,663)
Proceeds from disposal of property, plant and		**262**	86
Increase in intangible and other assets		**(874)**	(1,003)
Net cash used in investing activities		**(4,968)**	(3,580)
Cash flow from financing activities			
Decrease in debt due within one year		**—**	(8,877)
Decrease in long-term debt		**(420)**	(458)
Lease liability payments		**(1,465)**	(1,677)
Decrease in long-term liabilities and provisions		**(233)**	(180)
Decrease in borrowings, net		**(1,327)**	(1,104)
Common share dividend	6	**(6,061)**	(6,062)
Net cash used in financing activities		**(9,506)**	(18,358)
Decrease in cash during the period		**(14,522)**	(42,836)
Cash at beginning of the period		**32,482**	113,938
Effect of exchange rate differences		**90**	208
Cash at end of the period		**18,050**	71,310

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 periods could require a material change in the interim condensed consolidated financial statements.

The Covid-19 pandemic continues to cause disruptions to businesses globally resulting in an economic slowdown and decreased demand in the aerospace industry. 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 invasion of Ukraine by Russia ("Conflict") and the resulting imposition of sanctions and counter sanctions have disrupted supply chains and caused instability in the global economy. The short and long-term implications of the Conflict are difficult to predict at this time. The ongoing Conflict could result in the imposition of future economic sanctions, which may have a greater adverse effect on economic markets and could result in an even greater impact related to global supply and pricing of energy, precious metals, raw materials and other commodities and components.

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 Conflict 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 Conflict 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 May 3, 2022.

NOTE 3. ADOPTION OF NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

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

a) 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.
b) 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.

c) Amendments to IAS 1, *Presentation of Financial Statements,* clarifying the requirements for classifying liabilities as current or non-current.
d) Amendments to IAS 8 – *Definition of Accounting Estimates,* helping entities distinguish changes in accounting estimates from changes in accounting policies.
e) 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.
f) 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 4. BANK INDEBTEDNESS

The Corporation has a multi-currency operating credit facility with a syndicate of banks, with a Canadian dollar limit of $75,000. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a $75,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility. On June 30, 2021 the Corporation extended its credit facility for an additional two-year period expiring on June 30, 2023. As at March 31, 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 March 31, 2022, the Corporation had letters of credit outstanding totalling $4,041 [December 31, 2021 – $4,143] such that $70,959 [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 5. EMPLOYEE FUTURE BENEFITS

The Corporation has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to substantially all of its employees.

The employee benefit reflected in the interim condensed consolidated statement of financial position is as follows:

	March 31 2022	December 31 2020
Included in Other Assets - Pension Benefit Plans	2,293	2,347
Included in Other long-term liabilities and provisions - Other Benefit Plan	(947)	(1,038)
	1,346	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 a result of changes in the market interest rates of high-quality, fixed rate debt securities, the Corporation increased the assumed discount rate for the Canadian pension plans to 3.9% as at March 31, 2022 from the 2.9% rates used in calculating the pension obligation as at December 31, 2021. The return on plan assets were below the expected return during the three month period ended March 31, 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 $264, net of taxes of $92 recorded in other comprehensive (loss) income in the first quarter of 2022.

NOTE 6. SHARE CAPITAL

Net (loss) income per share

	Three month period ended March 31	
	2022	2021
Net (loss) income	(2,025)	3,262
Weighted average number of shares	57,729	57,729
Basic and diluted net (loss) income per share	(0.04)	0.06

Dividends

On March 31, 2022, the Corporation paid quarterly dividends on 57,729,106 common shares of $0.105 per common share, amounting to $6,061 in the aggregate.

Subsequent to March 31, 2022, the Corporation declared dividends to holders of common shares in the amount of $0.08 per common share payable on June 30, 2022, for shareholders of record at the close of business on June 16, 2022.

Normal Course Issuer Bid

On May 27, 2021, the Corporation's application to commence a normal course issuer bid ("NCIB") was re-approved, which allowed the Corporation to purchase up to 2,886,455 common shares, over a 12-month period commencing May 27, 2021 and ending May 26, 2022. During the first quarter of 2022 and 2021, the Corporation had not purchased common shares for cancellation under the program.

NOTE 7. FINANCIAL INSTRUMENTS

Fair value hierarchy

The Corporation's financial assets and liabilities recorded at fair value on the interim condensed consolidated statement of financial position have been categorized into three categories based on a fair value hierarchy. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Fair values

The Corporation has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgement is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described as follows:

Cash, trade and other receivables and accounts payable and accrued liabilities

Due to the short period to maturity of these instruments, the carrying values as presented in the interim condensed consolidated statement of financial positions approximate their fair values.

Foreign exchange contracts

The Corporation enters into foreign forward exchange contracts to mitigate future cash flow exposures in United States dollars. Under these contracts the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in United States dollars.

As at March 31,2022, the Corporation had forward foreign exchange contracts outstanding in the amount of $21,525 US dollars [December 31, 2021 – $6,650 US dollars] and £13,850 British pounds [December 31, 2021 – £9,490], of which the fair value is determined to be immaterial and categorized within Level 2 of the fair value hierarchy.

Long-term debt

As at March 31, 2022, the carrying amount of the Corporation's long-term debt of $6,897 [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 March 31, 2022, the Corporation has recognized $24,282 [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 8. SEGMENTED INFORMATION

Operating segments are defined as components of the Corporation for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Corporation is the President and Chief Executive Officer. The Corporation operates substantially all of its activities in one reportable segment, Aerospace, which includes the design, development, manufacture, repair and overhaul and sale of systems and components for defence and civil aviation.

Corporation's primary sources of revenue

		Three month period ended March 31
	2022	2021
Sale of goods	150,444	142,684
Services	37,265	33,597
	187,709	176,281

Timing of revenue recognition based on transfer of control

		Three month period ended March 31
	2022	2021
At a point of time	104,959	101,569
Over time	82,750	74,712
	187,709	176,281

Advance payments received for contracts in progress in excess of revenue recognized were recorded as contract liabilities and included in accounts payable, accrued liabilities and provisions on the interim condensed consolidated statement of financial position. As at March 31, 2022, contract liabilities were $18,550 [December 31, 2021 – $17,704].

Revenues from the Corporation's three largest customers accounted for 44.3% of total sales for the three month period ended March 31, 2022 [March 31, 2021 – three largest customers accounted for 41.3% of total sales for the three month period ended].

Geographic segments

								Three month period ended March 31
				2022				2021
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	84,794	44,934	57,981	187,709	81,036	45,809	49,436	176,281
Export revenue[1]	59,388	8,724	10,576	78,688	57,071	6,408	10,393	73,872

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

	March 31, 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	172,740	157,517	154,285	484,542	176,635	163,527	160,636	500,798

NOTE 9. TAXATION

The Corporation's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Corporation operates in, adjusted for the main permanent differences identified. The effective tax rate for the three month period ended March 31, 2022 was negative 42.7% [37.4% for the three month period ended March 31, 2021]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the change in mix of income across the different jurisdictions in which the Corporation operates.

NOTE 10. MANAGEMENT OF CAPITAL

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

Total managed capital as at March 31, 2022 of $747,412 [December 31, 2021 – $769,754] is comprised of shareholders' equity attributable to equity holders of the Corporation of $740,535 [December 31, 2021 – $762,447] and interest-bearing debt of $6,877 [December 31, 2021 – $7,307].

The Corporation manages its capital structure and makes adjustments to it in light of economic conditions, the risk characteristics of the underlying assets and the Corporation's working capital requirements. In order to maintain or adjust its capital structure, the Corporation, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares through the normal course issuer bid, pay dividends or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets. There were no changes in the Corporation's approach to capital management during the period.

NOTE 11. CONTINGENT LIABILITES AND COMMITMENTS

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

At March 31, 2022, capital commitments in respect of purchase of property, plant and equipment totalled $8,056 [2021 – $4,948], all of which had been ordered. There were no other material capital commitments at the end of the period.