MAGELLAN
AEROSPACE

QUARTERLY REPORT
MARCH 31, 2023

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 Corporation's unaudited condensed consolidated interim financial statements and the notes thereto for the three month period ended March 31, 2023, and the audited annual consolidated financial statements for the year ended December 31, 2022 (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, 2023 relative to the three month period ended March 31, 2022. The information contained in this report is as at May 2, 2023. 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 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 of COVID-19 and the Russia-Ukraine War

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 broader government directives which resulted in the need to modify work practices to meet appropriate health and safety standards, or by other COVID-19 related impacts on the availability of labour or to the supply chain. While governments have eased some COVID-19 restrictions, the reopening of businesses and economies in certain countries is creating a variety of new challenges, including, for example, higher prices for goods and services, limited availability of products, disruptions to supply chains and labour shortages.

Magellan continues to monitor ongoing developments and attempts to mitigate the risks related to the COVID-19 pandemic and the impact on Magellan's operations, supply chain, and most importantly the health and safety of its employees.

The ongoing invasion of Ukraine by Russia continues 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.

Business Update

On January 10, 2023, Magellan released a statement applauding the Government of Canada's announcement that it had reached a final agreement to acquire 88 F-35 fighter jets for the Royal Canadian Air Force. By selecting the F-35, Canada is continuing a relationship that was established between the original partnering nations for the development of the F-35. The announcement secures significant benefits to the Canadian aerospace industry. To date, Canadian companies have been awarded high value contracts as part of the F-35 global supply chain amounting to USD $2.7 billion as a result of Canada's partnership in the F-35 program. The Canadian economy is anticipated to benefit by more than $16.9 billion over the life of the program.

On March 6, 2023, Magellan announced the signing of a significant long-term agreement ("LTA") extension with Collins Aerospace ("Collins"), a Raytheon Technologies business, to manufacture complex magnesium and aluminum castings for various military and commercial aerospace platforms. The castings will be produced by Magellan's facilities in Haley, Ontario and Glendale, Arizona. The extension of this LTA with Collins renews the framework for strategic alignment with Magellan; in addition to F-15, F-16, and F-18 castings for Collins legacy programs, the agreement also encompasses the supply of castings to support F-35 Lightning II, KC-46, A320neo, 787 and 777X programs.

On March 10, 2023, Magellan announced a contract with the Government of Canada to design, build, launch, and operate the Redwing microsatellite. Directed by the Department of National Defence's science and technology organization, Defence Research and Development Canada ("DRDC"), the $15.8 million Redwing contract represents the next generation of spacecraft technology for space domain awareness technology demonstration. When launched in 2026, Redwing will perform space object tracking to characterize an increasingly congested orbital environment, observe higher detail on space objects, and provide near real-time tasking to respond to evolving space events.

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

2. Results of Operations

A discussion of Magellan's operating results for the first quarter ended March 31, 2023

The Corporation reported revenue in the first quarter of 2023 of $223.4 million, a $35.7 million increase from the first quarter of 2022 revenue of $187.7 million. Gross profit and net income for the first quarter of 2023 were $22.3 million and $3.9 million, respectively, in comparison to gross profit of $10.9 million and net loss of $2.0 million for the first quarter of 2022.

Consolidated Revenue

	Three month period ended March 31		
Expressed in thousands of dollars	**2023**	2022	Change
Canada	**98,106**	84,794	15.7%
United States	**56,434**	44,934	25.6%
Europe	**68,836**	57,981	18.7%
Total revenues	**223,376**	187,709	19.0%

Revenues in Canada increased 15.7% in the first quarter of 2023 compared to the corresponding period in 2022, primarily due to increased volumes for proprietary products and casting products to support growth in the single aisle aircraft programs.

Revenues in the United States increased by 25.6% in the first quarter of 2023 compared to the first quarter of 2022, mainly due to increased volume for single aisle aircraft as Boeing continued to ramp up production for 737 MAX, price increases and favourable foreign exchange impacts as the United States dollar strengthened relative to the Canadian dollar. On a currency neutral basis, revenues in the United States increased 17.5% in the first quarter of 2023 over the same period in 2022.

European revenues in the first quarter of 2023 increased 18.7% compared to the corresponding period in 2022 primarily driven by volume increases for single aisle aircraft, and favourable foreign exchange impacts as the United States dollar strengthened relative to the British pound.

Gross Profit

Expressed in thousands of dollars	Three month period ended March 31 **2023**	2022	Change
Gross profit	**22,262**	10,910	104.1%
Percentage of revenues	**10.0%**	5.8%	

Gross profit of $22.3 million for the first quarter of 2023 was $11.4 million higher than the $10.9 million gross profit for the first quarter of 2022, and gross profit as a percentage of revenues of 10.0% for the first quarter of 2023 increased from 5.8% recorded in the same period in 2022. The gross profit in the current quarter increased from the same quarter in the prior year as a result of volume and price increases on certain programs, favourable product mix, and benefits from the restructuring efforts undertaken in the prior year, offset in part by supply chain disruptions and material price increases.

Administrative and General Expenses

Expressed in thousands of dollars	Three month period ended March 31 **2023**	2022	Change
Administrative and general expenses	**14,347**	12,814	12.0%
Percentage of revenues	**6.4%**	6.8%	

Administrative and general expenses as a percentage of revenues of 6.4% for the first quarter of 2023 were higher on a nominal basis than the same period of 2022. Administrative and general expenses increased $1.5 million or 12.0% to $14.3 million in the first quarter of 2023 compared to $12.8 million in the first quarter of 2022 mainly due to increases in salary and related expenses due to inflation and headcount changes and travel related expenses.

Restructuring

Expressed in thousands of dollars	Three month period ended March 31 **2023**	2022
Restructuring	**244**	65

Restructuring is primarily related to ongoing costs associated with the closure of the Bournemouth facility and dismantling its former manufacturing operations.

Other

Expressed in thousands of dollars	Three month period ended March 31 **2023**	2022
Foreign exchange loss (gain)	**1,222**	(1,128)
Gain on disposal of property, plant and equipment	**(19)**	(121)
Total other	**1,203**	(1,249)

Other for the first quarter of 2023 included a $1.2 million foreign exchange loss compared to a $1.1 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 **2023**	2022
Interest on bank indebtedness and long-term debt	**173**	**89**
Accretion charge on long-term debt and borrowings	**226**	**159**
Accretion charge for lease liabilities	**407**	**430**
Discount on sale of accounts receivable	**-**	**21**
Total interest expense	**806**	**699**

Total interest expense of $0.8 million in the first quarter of 2023 increased $0.1 million compared to the first quarter of 2022 mainly due to higher interest on bank indebtedness and long-term debt as a result of increased interest rates in the quarter as compared to the prior year.

Provision for Income Taxes

	Three month period ended March 31	
Expressed in thousands of dollars	**2023**	2022
Current income tax expense	**4,433**	1,847
Deferred income tax recovery	**(2,631)**	(1,241)
Total income tax expense	**1,802**	606
Effective tax rate	**31.8%**	(42.7%)

Income tax expense for the three months ended March 31, 2023 was $1.8 million, representing an effective income tax rate of 31.8% compared to negative 42.7% for the same period of 2022. 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, the reversal of temporary differences and the Corporation no longer recognizing deferred tax assets for operating losses incurred by its United Kingdom subsidiary.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

	2023	2022					2021	
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	**223.4**	193.1	191.1	192.7	187.7	178.0	166.4	167.6
Income (loss) before taxes	**5.7**	(20.9)	2.5	1.2	(1.4)	(6.2)	1.3	1.6
Net income (loss)	**3.9**	(20.8)	0.6	0.5	(2.0)	(5.8)	0.5	1.1
Net income (loss) per share								
Basic and diluted	**0.07**	(0.36)	0.01	0.01	(0.04)	(0.10)	0.01	0.02
EBITDA[1]	**18.3**	(8.5)	14.7	14.0	11.4	6.5	16.1	14.9
Adjusted EBITDA[1]	**18.6**	(4.8)	14.8	14.0	11.5	7.3	16.7	15.6

[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 1.3580 in the fourth quarter of 2022 and a low of 1.2280 in the second quarter of 2021. The average quarterly exchange rate of the British pound relative to the Canadian dollar reached a high of 1.7367 in the third quarter of 2021 and hit a low of 1.5350 in the third quarter of 2022. The average quarterly exchange rate of the British pound relative to the United States dollar reached a high of 1.3974 in the second quarter of 2021 and hit a low of 1.1649 in the third quarter of 2022.

Revenue for the first quarter of 2023 of $223.4 million was higher than that in the first quarter of 2022. The average quarterly exchange rate of the United States dollar relative to the Canadian dollar in the first quarter of 2023 was 1.3518 versus 1.2663 in the same period of 2022. The average quarterly exchange rate of the British pound relative to the Canadian dollar moved from 1.6995 in the first quarter of 2022 to 1.6429 during the current quarter. The average quarterly exchange rate of the British pound relative to the United States dollar decreased from 1.3419 in the first quarter of 2022 to 1.2154 in the current quarter. Had the foreign exchange rates remained at levels experienced in the first quarter of 2022, reported revenues in the first quarter of 2023 would have been lower by $8.4 million.

The Corporation's results have been negatively impacted by the continued effects of the COVID-19 pandemic via reduced volumes and supply chain disruptions. In addition, continued high inflation on material, supplies, utilities and labour has impacted the results. Since the third quarter of 2021, the Corporation began to see modest sequential growth in revenue as global domestic air travel continues to recover to pre COVID-19 levels.

In response to COVID-19, the Corporation applied and recognized the CEWS subsidy of $3.9 million and $3.8 million in the second and fourth quarters of 2021, and reduced the expense that the subsidy offsets (none in 2022 or 2023). In the fourth quarter of 2022, the Corporation continued the restructuring efforts in Europe of a plan initiated in 2020 to lower its production cost base and recognized a $2.8 million restructuring charge, including a $1.8 million impairment loss related to assets made obsolete as a result of the plan.

4. Reconciliation of Net Income 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	**2023**	2022
Net income (loss)	**3,860**	(2,025)
Interest	**806**	699
Taxes	**1,802**	606
Depreciation and amortization	**11,864**	12,131
EBITDA	**18,332**	11,411
Add back:		
Restructuring	**244**	65
Adjusted EBITDA	**18,576**	11,476

Adjusted EBITDA in the first quarter of 2023 increased $7.1 million or 61.9% to $18.6 million in comparison to $11.5 million in the same quarter of 2022 mainly as a result of higher net income driven largely by volume and price increases and favourable product mix, higher interest and taxes, and lower depreciation and amortization expenses.

5. Liquidity and Capital Resources

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

The Corporation's liquidity needs can be met through a variety of sources including cash on hand, cash provided by operations, short-term borrowings from its credit facility and accounts receivable securitization program, and long-term debt and equity capacity. Principal uses of cash are for operational requirements, capital expenditures, common share repurchases and dividend payments. Based on current funds available and expected cash flow from operating activities, management believes that the Corporation has sufficient funds available to meet its liquidity requirements at any point in time. However, if cash from operating activities is lower than expected or capital projects exceed current estimates, or if the Corporation incurs major unanticipated expenses, it may be required to seek additional capital in the form of debt or equity or a combination of both.

Cash Flow from Operations

	Three month period ended March 31	
Expressed in thousands of dollars	**2023**	2022
Increase in trade receivables	**(29,213)**	(13,421)
Increase in contract assets	**(3,821)**	(2,066)
Increase in inventories	**(11,999)**	(6,331)
(Increase) decrease in prepaid expenses and other	**(285)**	225
Increase in accounts payable, accrued liabilities and provisions	**17,312**	12,499
Decrease in contract liabilities	**(4,189)**	—
Changes to non-cash working capital balances	**(32,195)**	(9,094)
Cash used in operating activities	**(18,367)**	(48)

For the three months ended March 31, 2023, the Corporation used $18.4 million from operating activities, compared to $48 thousand used in the first quarter of 2022. Changes in non-cash working capital items used cash of $32.2 million, $23.1 million higher when compared to the usage of $9.1 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, increases in inventories due to timing of production and shipment, and material purchases offset in part by increases in accounts payable, accrued liabilities and provisions primarily driven by timing of material purchases and supplier payments.

Investing Activities

	Three month period ended March 31	
Expressed in thousands of dollars	**2023**	2022
Purchase of property, plant and equipment	**(3,563)**	(4,356)
Proceeds of disposal of property plant and equipment	**166**	262
Increase in intangible and other assets	**(662)**	(874)
Cash used in investing activities	**(4,059)**	(4,968)

Investing activities used $4.1 million cash for the first quarter of 2023 compared to $5.0 million cash used in the same quarter of the prior year, a decrease of $0.9 million primarily due to lower levels of investment in property, plant and equipment.

Financing Activities

	Three month period ended March 31	
Expressed in thousands of dollars	**2023**	2022
Decrease in long-term debt	**(540)**	(420)
Lease liability payments	**(1,386)**	(1,465)
Decrease in borrowings subject to specific conditions, net	**(1,323)**	(1,327)
Decrease in long-term liabilities and provisions	—	(233)
Common share repurchases	**(208)**	—
Common share dividends	**(1,436)**	(6,061)
Cash used in financing activities	**(4,893)**	(9,506)

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, 2023, there were no drawings under the Agreement.

Financing activities used $4.9 million in the first quarter of 2023 mainly for the payment of common share dividends, lease liability payments and decreases in borrowings subject to specific conditions.

As at March 31, 2023, the Corporation had contractual commitments to purchase $4.9 million of capital assets.

Dividends

During the first quarter of 2023, the Corporation declared and paid a quarterly cash dividend of $0.025 per common share representing an aggregating dividend payment of $1.4 million.

Subsequent to March 31, 2023, the Corporation announced that its Board of Directors had declared a quarterly cash dividend on its common shares of $0.025 per common share. The dividend will be payable on June 30, 2023 to shareholders of record at the close of business on June 16, 2023. The Board of Directors of the Corporation continues to review its dividends on a quarterly basis for more visibility of recovery, and ensure that the dividend declared balances the return of capital to shareholders while maintaining adequate financial flexibility and investment in growth initiatives.

Normal Course Issuer Bid

On May 25, 2022, the Corporation’s application to commence a normal course issuer bid (“2022 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, 2022 and ending May 26, 2023. During the first quarter of 2023, the Corporation purchased 29,700 common shares for cancellation. In aggregate, up to the end of March 31, 2023, the Company has purchased 312,672 common shares for cancellation under the 2022 NCIB program.

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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 2, 2023, 57,416,434 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 (forwards and collars), the Corporation is obligated to purchase specified amounts of currency at predetermined dates and exchange rates if certain conditions are met. 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. A number of these contracts are designated as cash flow hedges.

As at March 31, 2023, the Corporation had foreign exchange collar contracts as follows:

Maturity	Notional Amount	Floor	Ceiling	Carrying Value	Line item in the statement of financial position
June 2025	USD$48,600	1.2500	1.3245	($1,851)	Accounts payable, accrued liabilities and provisions
June 2025	USD$48,600	1.2500	1.3300	($1,705)	Accounts payable, accrued liabilities and provisions

As at March 31, 2023, the Corporation also had foreign exchange forward contracts outstanding in the amount of USD$16,200 [December 31, 2022 – USD$14,400] and GBP 23,540 [December 31, 2022 – GBP 23,540].

As at March 31, 2023, the Corporation has $3,313 of derivative liabilities as the fair value of its derivative contracts [December 31, 2022 – $4,348], included in Accounts payable, accrued liabilities and provisions on the interim condensed consolidated statement of financial position.

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, 2023, the Corporation had no material transactions with related parties as defined in IAS 24, *Related Party Disclosures*.

8. Risk Factors

A summary of risks and uncertainties facing Magellan
The Corporation manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without hindering the ability to maximize returns. Management has procedures to help identify and manage significant operational and financial risks.

For more information in relation to the risks inherent in Magellan's business, reference is made to the information under "Risk Factors" in the Corporation's Management's Discussion and Analysis for the year ended December 31, 2022 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2022, which have been filed with SEDAR at www.sedar.com.

9. 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, 2023 and have been applied in preparing the consolidated interim financial statements.

- Amendments to IAS 8 – *Definition of Accounting Estimates,* helping entities distinguish changes in accounting estimates from changes in accounting policies. The adoption of these amendments had no impact on the Corporation's interim condensed consolidated financial statements.
- 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. The adoption of these amendments had no impact on the Corporation's interim condensed consolidated financial statements.
- 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. The adoption of these amendments had no impact on the Corporation's interim condensed consolidated financial statements.

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.

10. Critical Accounting Estimates

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

In the 2022 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, 2022 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, 2023 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, the 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 2023

During the first quarter of 2023, total combined aircraft deliveries by Boeing and Airbus were ahead of those for the same period in 2022. Boeing delivered 130 aircraft and Airbus delivered 127 aircraft, compared to 95 aircraft and 142 aircraft, respectively.

By the end of Q1 2023, Boeing was on track to achieve their goal of delivering 400 to 450 aircraft in 2023. However, in April Boeing announced that it had to pause deliveries of 737 MAX and P-8 surveillance aircraft due to the discovery of a new quality problem. All models of 737 MAX except for MAX 9's are impacted. Boeing's CEO stated that the issue is not a safety-of-flight concern, but is expected to delay deliveries of 45 to 50 MAX aircraft. Despite this, Boeing currently intends to support the planned 737 MAX production ramp-up to 38 aircraft per month in June and 42 aircraft per month in January 2024.

Boeing restarted deliveries of its 787 aircraft in March 2023. Their delivery target for the year is 70 to 80 aircraft. With a sustained demand for 10 aircraft per month, Boeing will increase the rate from the current 3 aircraft per month to reach the target by March 2025. They are working through final testing on their 777X program with 25 aircraft built to date and plans for a production start later this year. The first delivery is expected mid-2025. Meanwhile they are building the 777F's at 3 aircraft per month.

Airbus' first quarter deliveries were below those in Q1 2022, which is causing some concern in the industry that the annual target of 720 aircraft will be challenging. The A320 build rate reached 48 aircraft per month in 2022 and is forecast to reach 65 aircraft per month late in 2024 and 75 aircraft per month in 2026. A350 rates are forecast to go from 6 aircraft per month to 9 aircraft month by the end of 2025, while A330 is forecast to go from 3 to 4 aircraft per month in 2024. The A220 is currently being produced at 6 aircraft per month with 9 aircraft per month forecast in 2025.

As a final comment on the commercial market, recent order activity for wide body aircraft is offering new hope that this segment may be beginning to rebound. Across the entire market, both single aisle and wide body, confidence is building as the air travel industry continues its recovery and aircraft manufacturers work through supply chain issues that have been impeding the ramp up of build rates.

The potential for defence market growth appears relatively certain. In the face of emerging threats to security, nations are solidifying modernization plans and considering strategies to advance procurement of equipment and munitions. Gap assessments of defence readiness help to highlight opportunities to strengthen a country's defence systems. As an example, Canada is investing in the modernization of North American Defense Command ("NORAD") to strengthen Canada's and North America's defensive capabilities. The current environment is also reportedly having a positive impact on the largest defence program which is the F-35 fighter program. There have been over 900 aircraft delivered to date against 3,000 plus planned in the program of record. Lockheed plans to deliver 153 aircraft in 2023 and reach a steady-state delivery rate of 156 aircraft annually from 2024 onwards.

One other specific program note, is that in February Boeing announced it will end production of its F/A-18E/F Super Hornet fighter in 2025, after approximately 30 years since the first flight. This was an inevitable decision as next generation fighters begin to take the F/A-18's place within modernized fleets.

Finally, as defence requirements increase in parallel with the commercial aerospace ramp up, there are competing demands for what is currently a constrained supply chain, which experts continue to predict will be resolved by 2024.

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 March 31 2023	 2022
Revenues	8	**223,376**	**187,709**
Cost of revenues		**201,114**	**176,799**
Gross profit		**22,262**	**10,910**
Administrative and general expenses		**14,347**	**12,814**
Restructuring		**244**	**65**
Other		**1,203**	**(1,249)**
Income (loss) before interest and income taxes		**6,468**	**(720)**
Interest		**806**	**699**
Income (loss) before income taxes		**5,662**	**(1,419)**
Income taxes			
Current	9	**4,433**	**1,847**
Deferred	9	**(2,631)**	**(1,241)**
		1,802	**606**
Net income (loss)		**3,860**	**(2,025)**
Other comprehensive income (loss)			
Other comprehensive income (loss) that may be reclassified to profit and loss in subsequent periods:			
Foreign currency translation		**3,434**	**(12,684)**
Unrealized gain on foreign currency contract hedges		**768**	**—**
Items not to be reclassified to profit and loss in subsequent periods:			
Actuarial income (loss) on defined benefit pension plans, net of tax	5	**175**	**(264)**
Comprehensive income (loss)		**8,237**	**(14,973)**
Net income (loss) per share			
Basic and diluted	6	**0.07**	**(0.04)**

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	**March 31 2023**	December 31 2022
Current assets			
Cash		**13,807**	40,940
Trade and other receivables		**199,373**	169,562
Contract assets		**69,378**	65,456
Inventories		**240,016**	226,359
Prepaid expenses and other		**10,378**	9,967
		532,952	512,284
Non-current assets			
Property, plant and equipment		**375,957**	384,084
Right-of-use assets		**29,902**	30,825
Investment properties		**7,048**	1,621
Intangible assets		**40,643**	41,423
Goodwill		**22,395**	22,181
Other assets	5	**9,646**	9,745
Deferred tax assets		**9,604**	8,731
		495,195	498,610
Total assets		**1,028,147**	1,010,894
Current liabilities			
Accounts payable, accrued liabilities and provisions		**154,767**	135,153
Contract liabilities	8	**31,989**	36,096
Debt due within one year		**10,207**	10,310
		196,963	181,559
Non-current liabilities			
Long-term debt		**122**	634
Lease liabilities		**26,945**	27,761
Borrowings subject to specific conditions		**22,211**	23,300
Other long-term liabilities and provisions	5	**6,748**	7,203
Deferred tax liabilities		**36,835**	38,707
		92,861	97,605
Equity			
Share capital		**250,981**	251,104
Contributed surplus		**2,044**	2,044
Other paid in capital		**13,565**	13,565
Retained earnings		**445,493**	442,979
Accumulated other comprehensive income		**22,863**	18,661
Equity attributable to equity holders of the Corporation		**734,946**	728,353
Non-controlling interest		**3,377**	3,377
		738,323	731,730
Total liabilities and equity		**1,028,147**	1,010,894

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	—	—	—	(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 loss for the period	—	—	—	(264)	(12,684)	(12,948)	—	(12,948)
Common share dividends	—	—	—	(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, 2022	251,104	2,044	13,565	442,979	18,661	728,353	3,377	731,730
Net income for the period	—	—	—	3,860	—	3,860	—	3,860
Other comprehensive income for the period	—	—	—	175	4,202	4,377	—	4,377
Common share repurchases	(123)	—	—	(85)	—	(208)	—	(208)
Common share dividends	—	—	—	(1,436)	—	(1,436)	—	(1,436)
March 31, 2023	250,981	2,044	13,565	445,493	22,863	734,946	3,377	738,323

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 March 31 **2023**	 2022
Cash flow from operating activities			
Net income (loss)		**3,860**	(2,025)
Amortization/depreciation of intangible assets, right-of-use assets and property, plant and equipment		**11,864**	12,131
Gain on disposal of property, plant and equipment		**(19)**	(121)
Increase (decrease) in defined benefit plans		**489**	(309)
Accretion of financial liabilities		**633**	587
Deferred taxes		**(2,981)**	(1,173)
Income on investments in joint ventures		**(18)**	(44)
Changes to non-cash working capital		**(32,195)**	(9,094)
Net cash used in operating activities		**(18,367)**	(48)
Cash flow from investing activities			
Purchase of property, plant and equipment		**(3,563)**	(4,356)
Proceeds from disposal of property, plant and equipment		**166**	262
Increase in intangible and other assets		**(662)**	(874)
Net cash used in investing activities		**(4,059)**	(4,968)
Cash flow from financing activities			
Decrease in debt		**(540)**	(420)
Lease liability payments		**(1,386)**	(1,465)
Decrease in borrowings subject to specific conditions, net		**(1,323)**	(1,327)
Decrease in long-term liabilities and provisions		**—**	(233)
Common share repurchases		**(208)**	—
Common share dividends	6	**(1,436)**	(6,061)
Net cash used in financing activities		**(4,893)**	(9,506)
Decrease in cash during the period		**(27,319)**	(14,522)
Cash at beginning of the period		**40,940**	32,482
Effect of exchange rate differences		**186**	90
Cash at end of the period		**13,807**	18,050

See accompanying notes to interim condensed consolidated financial statements

MAGELLAN AEROSPACE CORPORATION
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, expressed in thousands of dollars except share and per share data)

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, 2022, 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, 2022, 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.

Following a challenging 2020 due to the COVID-19 pandemic, the aerospace industry began to recover in 2021 and recovery has continued in 2022 and 2023. The rate of recovery has been impacted by supply chain shortages of labour, materials and inflation is also a concern for the industry as increasing prices have heightened the pressure on cost structures. In addition, the ongoing war between Ukraine and Russia and the resulting imposition of sanctions and counter sanctions have further disrupted supply chains and have amplified already existing geopolitical tensions between Russia, Ukraine, Europe, NATO and the West, including Canada.

Any estimate of the length and severity of current inflation, the ongoing supply chain disruptions and the Russia-Ukraine war is subject to significant uncertainty, and accordingly estimates of the extent to which these issues may 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 current inflation, supply chain disruptions and the Russia-Ukraine war 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 2, 2023.

NOTE 3. ADOPTION OF NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

The Corporation adopted the following accounting standards and amendments that were effective January 1, 2023.

a) Amendments to IAS 8 – *Definition of Accounting Estimates,* helping entities distinguish changes in accounting estimates from changes in accounting policies. The adoption of these amendments had no impact on the Corporation’s interim condensed consolidated financial statements.
b) 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. The adoption of these amendments had no impact on the Corporation’s interim condensed consolidated financial statements.

c) 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. The adoption of these amendments had no impact on the Corporation's interim condensed consolidated financial statements.

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.

d) Amendments to IAS 1, *Presentation of Financial Statements,* clarifying the requirements for classifying liabilities as current or non-current.

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, 2023, the Corporation was debt-free under its credit facility. Indebtedness under the facility bears interest at the bankers' acceptance or Secured Overnight Financing Rate ("SOFR") rates plus 1.00%. At March 31, 2023, the Corporation had letters of credit outstanding totalling $4,222 [December 31, 2022 – $4,614] such that $70,778 [December 31, 2022 – $70,386] 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 2023	December 31 2022
Included in Other Assets - Pension Benefit Plans	2,490	2,742
Included in Other long-term liabilities and provisions - Other Benefit Plan	(743)	(750)
	1,747	1,992

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 decreased the assumed discount rate for the Canadian pension plans to 4.8% as at March 31, 2023 from the 5.0% rate used in calculating the pension obligation as at December 31, 2022. The return on plan assets was above the expected return during the three month period ended March 31, 2023. 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 gain of $175, net of taxes of $61 recorded in other comprehensive income (loss) in the first quarter of 2023.

NOTE 6. SHARE CAPITAL

Net income (loss) per share

	Three month period ended March 31	
	2023	2022
Net income (loss)	3,860	(2,025)
Weighted average number of shares (in thousands)	57,439	57,729
Basic and diluted net income (loss) per share	0.07	(0.04)

Dividends

On March 31, 2023, the Corporation paid quarterly dividends on 57,416,434 common shares of $0.025 per common share, amounting to $1,436 in the aggregate.

Subsequent to March 31, 2023, the Corporation declared dividends to holders of common shares in the amount of $0.025 per common share payable on June 30, 2023, for shareholders of record at the close of business on June 16, 2023.

Normal Course Issuer Bid
On May 25, 2022, the Corporation's application to commence a normal course issuer bid ("2022 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, 2022 and ending May 26, 2023. During the first quarter of 2023, the Corporation purchased 29,700 common shares for cancellation. During the first quarter of 2022, the Corporation did not purchase common shares for cancellation under the program. In aggregate, up to the end of March 31, 2023, the Corporation has purchased 312,672 common shares for cancellation under the 2022 NCIB 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. The 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, contract assets, accounts payable and accrued liabilities and contract 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 exchange forward and collar contracts to hedge highly probable future transactions. Under these contracts the Corporation is obliged to purchase or sell specific amounts of currency – generally either the United States dollar ("USD") or British Pound ("GBP") - at predetermined dates and exchange rates if certain conditions are met. A number of these contracts are designated as cash flow hedges.

As at March 31, 2023, the Corporation had foreign exchange collar contracts as follows:

Maturity	Notional Amount	Floor	Ceiling	Carrying Value	Line item in the statement of financial position
June 2025	USD$48,600	1.2500	1.3245	($1,851)	Accounts payable, accrued liabilities and provisions
June 2025	USD$48,600	1.2500	1.3300	($1,705)	Accounts payable, accrued liabilities and provisions

As at March 31, 2023, the Corporation also had foreign exchange forward contracts outstanding in the amount of USD$16,200 [December 31, 2022 – USD$14,400] and GBP 23,540 [December 31, 2022 – GBP 23,540].

For the three months ended March 31, 2023, a gain of $768, net of taxes of $267, 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 March 31, 2023, the Corporation has $3,313 of derivative liabilities [December 31, 2022 – $4,348], included in Accounts payable, accrued liabilities and provisions on the interim condensed consolidated statement of financial position.

Long-term debt
As at March 31, 2023, the carrying amount of the Corporation's long-term debt of $4,952 [December 31, 2022 – $5,465] 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. The current portion of Long-Term debt is included in Debt due within one year on the interim condensed consolidated statement of financial position.

Borrowings subject to specific conditions
As at March 31, 2023, the Corporation has recognized $23,487 [December 31, 2023 – $24,637] 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 the prevailing market rate for borrowings with similar terms and maturities, and is categorized as Level 2 in the fair value hierarchy. The current portion of this repayable amount is included in Accounts payable, accrued liabilities and provisions on the interim condensed consolidated statement of financial position.

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	
	2023	2022
Sale of goods	177,671	150,444
Services	45,705	37,265
	223,376	187,709

Timing of revenue recognition based on transfer of control

	Three month period ended March 31	
	2023	2022
At a point of time	124,263	104,959
Over time	99,113	82,750
	223,376	187,709

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 March 31, 2023, contract liabilities were $31,989 [December 31, 2022 – $36,096].

Revenues from the Corporation's two largest customers accounted for 34.2% of total sales for the three month period ended March 31, 2023 [March 31, 2022 – three largest customers accounted for 44.3% of total sales for the three month period ended].

Corporation's revenue information split by geographic segment

	Three month period ended March 31	
	2023	2022
Revenue		
Canada	98,106	84,794
United States	56,434	44,934
Europe	68,836	57,981
	223,376	187,709
Export revenue[1]		
Canada	63,484	59,388
United States	10,193	8,724
Europe	58,683	10,576
	132,360	78,688

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

Corporations's long-lived assets split by geographic segment

	March 31 2023	December 31 2022
Property, plant and equipment, right-of-use assets, intangible assets and goodwill		
Canada	163,298	166,596
United States	157,611	161,155
Europe	147,988	150,672
	468,897	478,513

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, 2023 was 31.8% [negative 42.7% for the three month period ended March 31, 2022]. 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, 2023 of $739,898 [December 31, 2022 – $733,818] is comprised of shareholders' equity attributable to equity holders of the Corporation of $734,946 [December 31, 2022 – $728,353] and interest-bearing debt of $4,952 [December 31, 2022 – $5,465].

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 involved in litigation and claims, with or without merit, with 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, 2023, capital commitments in respect of purchase of property, plant and equipment totalled $4,862 [December 31, 2022 – $6,672], all of which had been ordered. There were no other material capital commitments at the end of the period.