MAGELLAN AEROSPACE

QUARTERLY REPORT
SEPTEMBER 30, 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 unaudited interim condensed consolidated financial statements and the notes thereto for the three and nine month periods ended September 30, 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 September 30, 2023 relative to the three month period ended September 30, 2022. The information contained in this report is as at November 3, 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. Except as required by law, the Corporation does not undertake to update any forward-looking information in this document whether as to new information, future events or otherwise.

The MD&A presents certain non-IFRS financial measures to assist readers in understanding the Corporation's performance. Non-IFRS financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with Generally Accepted Accounting Principles ("GAAP"). Throughout this discussion, reference is made to EBITDA (defined as earnings before interest, income taxes, depreciation and amortization) and Adjusted EBITDA (earnings before interest, income taxes, depreciation and amortization, goodwill impairment and restructuring), which the Corporation considers to be indicative measures of operating performance and metrics to evaluate profitability. EBITDA and Adjusted EBITDA are not generally accepted earnings measures and should not be considered as alternatives to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating this measure, the Corporation's EBITDA and Adjusted EBITDA may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA and Adjusted EBITDA to net income (loss) reported in accordance with IFRS are included in this MD&A.

1. Overview

A summary of Magellan's business and significant updates

Magellan is a diversified supplier of components to the aerospace industry. Through its wholly owned subsidiaries, controlled entity and joint venture, Magellan designs, engineers and manufactures aeroengine and aerostructure components for aerospace markets, including advanced products for defence and space markets, and complementary specialty products. The Corporation also supports the aftermarket through supply of spare parts as well as performing repair and overhaul services.

Magellan operates substantially all of its activities in one reportable segment, Aerospace, which is viewed as one segment by the chief operating decision-makers for the purpose of resource allocations, assessing performance and strategic planning. The Aerospace segment includes the design, development, manufacture, repair and overhaul, and sale of systems and components for defence and civil aviation.

The Industry, the Supply Chain and Russia's invasion of Ukraine

Though global air travel has seen signs of recovery with revenue passenger kilometers approaching pre-COVID 19 pandemic levels, Magellan's financial results and operations continue to be influenced by overhanging impacts from the pandemic. These impacts include customer build rate adjustments (and the impact on production scheduling), higher input prices for goods and services, limited availability of products, disruptions to supply chains and labour shortages. Magellan continues to monitor these developments and strives to mitigate 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 the economic impacts on the aerospace industry remains uncertain.

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

2. Results of Operations

A discussion of Magellan's operating results for the third quarter ended September 30, 2023

The Corporation reported revenue in the third quarter of 2023 of $213.0 million, a $21.9 million increase from third quarter of 2022 revenue of $191.1 million. Gross profit and net income for the third quarter of 2023 were $19.9 million and $3.7 million, respectively, in comparison to gross profit of $12.6 million and net income of $0.6 million for the third quarter of 2022.

Consolidated Revenue

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2023**	2022	Change	**2023**	2022	Change
Canada	81,392	77,238	5.4%	274,015	247,683	10.6%
United States	57,704	48,434	19.1%	174,926	141,079	24.0%
Europe	73,913	65,427	13.0%	207,095	182,708	13.3%
Total revenue	213,009	191,099	11.5%	656,036	571,470	14.8%

Revenue in Canada increased 5.4% in the third quarter of 2023 compared to the corresponding period in 2022, primarily due to higher casting product revenues and increased volume for single aisle aircraft parts. On a currency neutral basis, Canadian revenues in the third quarter of 2023 increased by 4.1% over the same period of 2022.

Revenue in the United States increased by 19.1% in the third quarter of 2023 compared to the third quarter of 2022, largely due to increased volume for helicopter parts from a new contract, higher casting product revenues and favourable foreign exchange impacts due to the strengthening of the United States dollar relative to the Canadian dollar. On a currency neutral basis, revenues in the United States increased 16.0% in the third quarter of 2023 over the same period in 2022.

European revenue in the third quarter of 2023 increased 13.0% compared to the corresponding period in 2022 primarily driven by volume increases for single aisle and wide body aircraft and net favourable transactional and translational foreign exchange impacts. On a currency neutral basis, European revenues in the third quarter of 2023 increased by 12.6% when compared to the same period in 2022.

Gross Profit

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2023**	2022	Change	**2023**	2022	Change
Gross profit	19,941	12,571	58.6%	65,215	35,958	81.4%
Percentage of revenue	9.4%	6.6%		9.9%	6.3%	

Gross profit of $19.9 million for the third quarter of 2023 was $7.3 million higher than the $12.6 million gross profit for the third quarter of 2022, and gross profit as a percentage of revenues of 9.4% for the third quarter of 2023 increased from 6.6% 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 and favourable product mix, offset in part by supply chain disruptions and price increases of purchased materials and supplies.

Administrative and General Expenses

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2023**	2022	Change	**2023**	2022	Change
Administrative and general expenses	**13,874**	12,111	14.6%	**42,329**	37,550	12.7%
Percentage of revenue	**6.5%**	6.3%		**6.5%**	6.6%	

Administrative and general expenses as a percentage of revenues was 6.5% for the third quarter of 2023, higher than the same period of 2022 percentage of revenues of 6.3%. Administrative and general expenses increased $1.8 million or 14.6% to $13.9 million in the third quarter of 2023 compared to $12.1 million in the third quarter of 2022 mainly due to higher salary and benefit costs and information technology spending.

Restructuring

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2023	2022	**2023**	2022
Restructuring	**811**	122	**1,320**	204

Restructuring includes ongoing costs associated with the closure of the Bournemouth facility in the United Kingdom and dismantling its former manufacturing operations.

Other

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2023	2022	**2023**	2022
Foreign exchange (gain) loss	**(925)**	(2,772)	**1,817**	(6,068)
Gain on sale of capital assets	**(14)**	(191)	**(37)**	(300)
Other	**494**	—	**644**	—
Total Other	**(445)**	(2,963)	**2,424**	(6,368)

Other for the third quarter of 2023 included a $0.9 million foreign exchange gain compared to a $2.8 million foreign exchange gain in the third quarter of the prior year. The movements in balances denominated in foreign currencies and the fluctuations of the foreign exchange rates impact the net foreign exchange gain or loss recorded in a quarter.

Other for the nine months of 2023 also includes a $0.6 million settlement loss in conjunction with the purchase of group annuity buy-out contracts for one of the Corporation's defined benefit pension plans.

Interest Expense

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2023	2022	**2023**	2022
Interest on bank indebtedness and long-term debt	**430**	104	**732**	347
Accretion charge on long-term debt and borrowings	**152**	212	**610**	563
Accretion charge for lease liabilities	**384**	412	**1,187**	1,263
Discount on sale of accounts receivable	**58**	66	**136**	98
Total interest expense	**1,024**	794	**2,665**	2,271

Total interest expense of $1.0 million in the third quarter of 2023 is higher than the third quarter of 2022 due to higher interest charges on bank indebtedness and long-term debt.

Provision for Income Taxes

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2023	2022	**2023**	2022
Current income tax expense	**1,524**	2,785	**10,428**	6,946
Deferred income tax recovery	**(521)**	(841)	**(3,464)**	(3,723)
Income tax expense	**1,003**	1,944	**6,964**	3,223
Effective tax rate	**21.4%**	77.5%	**42.3%**	140.1%

Income tax expense for the three months ended September 30, 2023 was $1.0 million, representing an effective income tax rate of 21.4% compared to 77.5% for the same period of 2022. The change in the effective tax rate and current and deferred income tax expenses year over year was primarily due to the change in mix of income and losses across the different jurisdictions in which the Corporation operates, the reversal of temporary differences and the Corporation no longer recognizing deferred tax assets for operating losses incurred in certain jurisdictions.

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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	**Sep 30**	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Revenues	**213.0**	219.7	223.4	193.1	191.1	192.7	187.7	178.0
Income (loss) before taxes	**4.7**	6.1	5.7	(20.9)	2.5	1.2	(1.4)	(6.2)
Net income (loss)	**3.7**	1.9	3.9	(20.8)	0.6	0.5	(2.0)	(5.8)
Net income (loss) per share								
Basic and diluted	**0.06**	0.03	0.07	(0.36)	0.01	0.01	(0.04)	(0.10)
EBITDA[1]	**17.7**	19.3	18.3	(8.5)	14.7	14.0	11.4	6.5
Adjusted EBITDA[1]	**18.5**	19.5	18.6	(4.8)	14.8	14.0	11.5	7.3

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

Revenues and net income in the quarter were also impacted by the movements of the Canadian dollar relative to the United States dollar and British pound, when the Corporation translates its foreign operations to Canadian dollars. Further, the movements in the United States dollar relative to the British pound impact the Corporation's United States dollar exposures in its European operations. During the periods reported in the quarterly financial information table above, 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 1.2600 in the fourth quarter of 2021. The average quarterly exchange rate of the British pound relative to the Canadian dollar reached a high of 1.6995 in the first quarter of 2022 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 1.3485 in the fourth quarter of 2021 and hit a low of 1.1649 in the third quarter of 2022.

Revenue for the third quarter of 2023 of $213.0 million was higher than that in the third quarter of 2022. The average quarterly exchange rate of the United States dollar relative to the Canadian dollar in the third quarter of 2023 was 1.3412 versus 1.3061 in the same period of 2022. The average quarterly exchange rate of the British pound relative to the Canadian dollar increased from 1.5350 in the third quarter of 2022 to 1.6974 during the current quarter. The average quarterly exchange rate of the British pound relative to the United States dollar increased from 1.1753 in the third quarter of 2022 to 1.2658 in the current quarter. Had the foreign exchange rates remained at levels experienced in the third quarter of 2022, reported revenues in the third quarter of 2023 would have been lower by $3.0 million.

The Corporation's quarterly results above have been negatively impacted by the 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 results. Compared to the third quarter of 2021, the Corporation has seen modest, albeit uneven, growth in quarterly revenues as global domestic air travel continues to recover to pre COVID-19 levels.

In response to COVID-19, the Corporation applied and recognized a CEWS subsidy of $3.8 million in the fourth quarter 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 these measures 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 these measures is calculated in accordance with IFRS, but EBITDA and Adjusted EBITDA are not recognized measures under IFRS, and the Corporation's method of calculation may not be comparable with that of other companies. Accordingly, EBITDA and Adjusted EBITDA should not be used as alternatives to net income as determined in accordance with IFRS or as alternatives to cash provided by or used in operations.

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2023**	2022	**2023**	2022
Net income (loss)	**3,674**	563	**9,513**	(922)
Add back:				
Interest	**1,024**	794	**2,665**	2,271
Taxes	**1,003**	1,944	**6,964**	3,223
Depreciation and amortization	**11,947**	11,415	**36,125**	35,536
EBITDA	**17,648**	14,716	**55,267**	40,108
Add back:				
Restructuring	**811**	122	**1,320**	204
Adjusted EBITDA	**18,459**	14,838	**56,587**	40,312

Adjusted EBITDA in the third quarter of 2023 increased $3.7 million to $18.5 million as compared to $14.8 million in the same quarter of 2022 mainly as a result of higher net income driven largely by the gross margin improvements discussed earlier.

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 September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2023**	2022	**2023**	2022
Decrease (increase) in accounts receivable	**5,199**	(7,758)	**(31,455)**	(33,505)
(Increase) decrease in contract assets	**(4,280)**	8,152	**(10,233)**	3,357
Increase in inventories	**(14,128)**	(6,486)	**(31,575)**	(11,586)
(Increase) decrease in prepaid expenses and other	**(692)**	87	**(271)**	(961)
(Decrease) increase in accounts payable, accrued liabilities and provisions	**(29)**	9,002	**3,058**	29,642
(Decrease) increase in contract liabilities	**(916)**	19,740	**(9,835)**	20,658
Changes in non-cash working capital balances	**(14,846)**	22,737	**(80,311)**	7,605
Cash provided by (used in) operating activities	**1,228**	34,464	**(36,066)**	39,756

For the three months ended September 30, 2023, the Corporation generated $1.2 million of cash from operating activities, compared to generating $34.5 million in the third quarter of 2022. Changes in non-cash working capital items used cash of $14.8 million, $37.5 million more usage when compared to $22.7 million cash generated in the prior year. The quarter over quarter changes were largely attributable to increases in contract assets due to timing of production and billing related to products transferred over time, increases in inventories due to material purchases and timing of production and shipment, decreases in accounts payable, accrued liabilities and provisions primarily driven by timing of supplier payments, decreases in contract liabilities due to timing of collection of funds offset partly by decreases in accounts receivable from timing of customer payments.

Investing Activities

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2023	2022	**2023**	2022
Purchase of property, plant and equipment	**(3,761)**	(6,094)	**(9,550)**	(14,803)
Proceeds from disposal of property, plant and equipment	**7**	17	**185**	490
Increase in intangible and other assets	**(1,654)**	774	**(2,720)**	(381)
Cash used in investing activities	**(5,408)**	(5,303)	**(12,085)**	(14,694)

Investing activities used $5.4 million cash for the third quarter of 2023 compared to $5.3 million cash used in the same quarter of the prior year, an increase of $0.1 million due to higher spending on intangible and other assets offset by lower levels of investment in property, plant and equipment.

Financing Activities

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2023	2022	**2023**	2022
Increase in bank indebtedness	**7,160**	—	**18,550**	—
Decrease in long-term debt	**(540)**	(539)	**(1,596)**	(1,508)
Lease liability payments	**(1,398)**	(1,381)	**(4,258)**	(4,243)
Increase (decrease) in borrowings subject to specific conditions, net	**—**	—	**227**	(1,327)
(Decrease) increase in long-term liabilities and provisions	**(480)**	305	**(169)**	(626)
Common share repurchases	**(427)**	(976)	**(1,053)**	(1,234)
Common share dividends	**(1,434)**	(2,879)	**(4,303)**	(13,557)
Cash provided by (used in) financing activities	**2,881**	(5,470)	**7,398**	(22,495)

Financing activities provided $2.9 million cash for the third quarter of 2023 compared to $5.5 million cash used in the same quarter of the prior year. In the current quarter, cash provided by bank indebtedness was partly offset by lease liability payments, decreases in long-term debt, common share repurchases and common share dividend payments.

On June 14, 2023, the Corporation extended its Bank Credit Facility Agreement ("Agreement") with a syndicate of lenders for an additional two-year period expiring on June 30, 2025. The Agreement provides for a multi-currency global operating credit facility to be available to Magellan in a maximum aggregate amount of $75 million. Interest applicable to the facility is at banker's acceptance or adjusted SOFR rates plus a spread of 1.00%. 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.

As at September 30, 2023, the Corporation had contractual commitments to purchase $10.8 million of capital assets.

Dividends
During each of the first, second and third quarters of 2023, the Corporation declared quarterly cash dividends of $0.025 per common share and has paid aggregate dividends of $4.3 million year to date.

Subsequent to September 30, 2023, the Corporation declared dividends to holders of common shares in the amount of $0.025 per common share payable on December 29, 2023, to shareholders of record at the close of business on December 15, 2023. The Board of Directors of the Corporation continues to review its dividends on a quarterly basis to ensure that the dividend declared balances the return of capital to shareholders while maintaining adequate financial flexibility and investment for growth initiatives.

Normal Course Issuer Bid
On May 25, 2023, the Corporation's application to extend its normal course issuer bid was approved and the 2023 NCIB allows the Corporation to purchase up to 2,868,106 common shares, over a 12-month period commencing May 27, 2023 and ending May 26, 2024. During the nine month period ended September 30, 2023, the Corporation purchased a total of 144,311 common shares for cancellation at a volume weighted average price of $7.30 per common share at a cost of $1.1 million. During the same period in the prior year, the Corporation purchased 167,424 common shares for cancellation at a volume weighted average price of $7.37 per common share at a cost of $1.2 million.

Outstanding Share Information
The authorized capital of the Corporation consists of an unlimited number of preference shares, issuable in series, and an unlimited number of common shares. As at November 3, 2023, 57,284,800 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 – generally either the United States dollar ("USD") or British Pound ("GBP") - at predetermined dates and exchange rates if certain conditions are met. 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 September 30, 2023, foreign exchange contracts of USD $16.2 million and GBP 23.5 million were outstanding with a mark-to-market fair value loss of $0.4 million. In addition, the Corporation had foreign exchange collar contracts outstanding of USD $75.6 million, which extend over the period of the next three years ending June 2025, with a mark-to-market fair value loss of $2.9 million.

As at September 30, 2023, the Corporation has $3.3 million of derivative liabilities as the fair value of its derivative contracts [December 31, 2022 - $4.3 million] 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 September 30, 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 September 30, 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, 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

The outlook remains positive for both commercial and defence aerospace markets despite ongoing labour, economic and geopolitical challenges.

According to the International Air Transport Association ("IATA"), commercial air travel as measured by total revenue passenger kilometers ("RPK's"), is up 28.4% over the same period in 2022 and is just 4.3% below 2019 levels. Domestic travel volumes now exceed those in 2019 while international travel volumes still lag.

With increasing demand, Boeing and Airbus are ramping up production and deliveries of commercial aircraft. Boeing has been producing their 737 aircraft at a rate of 31 aircraft per month and expects to increase production to 50 aircraft per month in the 2025/26 timeframe. Boeing's September deliveries were impacted by a new 737 MAX manufacturing issue discovered in late August. Improperly drilled fastener holes were discovered in the aft pressure bulkhead on the fuselages of some 737 MAX models. Boeing reduced its 2023 delivery targets of the 737 MAX from 400 to 450 aircraft this year to 375 to 400 aircraft.

Boeing's current 787 build rate of 4 aircraft per month is to go to 5 aircraft per month by the end of 2023. The 2025/26 target is 10 aircraft per month. The 767 program and 777 programs are each running at a rate of 3 aircraft per month. By the 2025/26 timeframe, Boeing expects to be delivering the latter at 4 aircraft per month, which reflects the previously announced delay in the 777X certification program.

Airbus is currently building A320's at a rate of 57 aircraft per month while the target for 2026 remains at 75 aircraft per month. The A220 program is now at 7.2 aircraft per month and is planned at 10 aircraft per month for the end of 2024. The A350 program is currently at 5.6 aircraft per month and will ramp up to 7 aircraft per month in 2024, 9 aircraft per month in 2025 and 10 aircraft per month in 2026. Airbus' A330 program is running at 2.8 aircraft per month and is planned at 4 aircraft per month for mid-2024.

Finally, in the commercial market, Pratt & Whitney disclosed in July 2023 that a number of their PW1100G engines powering A320 neo aircraft, needed to inspected and partially disassembled due to potentially defective high-pressure turbine disks. Their plan is to inspect approximately 3,000 engines through 2026 and replace any defective discs. Airbus stated that it did not expect delivery targets to be affected this year, nor its plan to ramp up production of A320 aircraft.

According to a recent comment made by business consulting firm Frost & Sullivan, the defense industry is experiencing a significant shift towards strategic alliances because of escalating geopolitical tensions, but all must confront current growth constraints before they can forge ahead. The constraints they reference are the recruitment of personnel in this tight labour market and current supply chain challenges, both of which impact commercial markets as well.

From a budget perspective, most countries are increasing defence spending. Poland recently drafted a FY2024 budget requesting USD $27.5 billion for defence, a 16.3% increase over FY2023, representing 3% of GDP. This budget forms a part of Poland's long term Technical Modernization Plan that addresses air, land, sea, and cyberspace domains. Aircraft included in the plan are 96 AH-64E Apache attack helicopters, Korean FA-50/FA-50PLN light combat aircraft and 32 Lockheed Martin F-35A Lightning II aircraft. The current United States FY2024 defence budget request is for USD $842 billion and includes F-22, F-35 and F-15EX fighters, the B-21 bomber, the KC-46A tanker, UH-60 and CH-53K helicopters, and unmanned aircraft systems, amongst others.

Briefly addressing Lockheed Martin's F-35 program, the manufacturer estimated it would deliver just 97 aircraft in 2023 due to a decision by the US Department of Defense ("DoD") to delay delivery acceptance of the Technical Refresh-3 configuration ("TR-3") pending certification. The company delivered 80 F-35's over the first nine months of 2023 and is continuing to build F-35's at a rate of 156 aircraft per year. Certification of the TR-3 configuration is expected in H1 2024. In the meantime, the DoD will continue to accept deliveries of the TR-2 configuration. Belgium announced it would also wait for TR-3 certification prior to delivery of its first F-35 fighters.

In summary, the aerospace industry is still experiencing a degree of instability in this post pandemic period. Repeated program issues are causing production disruptions, labour shortages are creating challenges across all tiers of the industry and stretched supply chain lead times are constraining growth plans. With experts predicting that the situation will improve by the end of 2024, the industry is optimistic in being able to stabilize operations and better respond to the market growth potential in the coming years.

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

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Notes	Three month period ended September 30		Nine month period ended September 30	
		2023	2022	**2023**	2022
Revenue	8	**213,009**	191,099	**656,036**	571,470
Cost of revenue		**193,068**	178,528	**590,821**	535,512
Gross profit		**19,941**	12,571	**65,215**	35,958
Administrative and general expenses		**13,874**	12,111	**42,329**	37,550
Restructuring		**811**	122	**1,320**	204
Other		**(445)**	(2,963)	**2,424**	(6,368)
Income before interest and income taxes		**5,701**	3,301	**19,142**	4,572
Interest expense		**1,024**	794	**2,665**	2,271
Income before income taxes		**4,677**	2,507	**16,477**	2,301
Income taxes					
Current	9	**1,524**	2,785	**10,428**	6,946
Deferred	9	**(521)**	(841)	**(3,464)**	(3,723)
		1,003	1,944	**6,964**	3,223
Net income (loss)		**3,674**	563	**9,513**	(922)
Other comprehensive income (loss)					
Items that may be reclassified to profit and loss in subsequent periods:					
Foreign currency translation		**2,790**	6,717	**992**	(7,044)
Unrealized (loss) gain on foreign currency contract hedges		**(1,342)**	(6,154)	**742**	(6,154)
Items not to be reclassified to profit and loss in subsequent periods:					
Actuarial gain (loss) on defined benefit pension plans, net of tax	5	509	(56)	**259**	(361)
Comprehensive income (loss)		5,631	1,070	**11,506**	(14,481)
Net income (loss) per share					
Basic and diluted	6	**0.06**	0.01	**0.17**	(0.02)

See accompanying notes to interim condensed consolidated financial statements

MAGELLAN AEROSPACE CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	Notes	September 30 2023	December 31 2022
Current assets			
Cash		**666**	40,940
Trade and other receivables		**201,199**	169,562
Contract assets		**75,702**	65,456
Inventories		**258,381**	226,359
Prepaid expenses and other		**10,295**	9,967
		546,243	512,284
Non-current assets			
Property, plant and equipment		**360,864**	384,084
Right-of-use assets		**27,915**	30,825
Investment properties		**6,896**	1,621
Intangible assets		**37,684**	41,423
Goodwill		**22,263**	22,181
Other assets	5	**10,070**	9,745
Deferred tax assets		**9,093**	8,731
		474,785	498,610
Total assets		**1,021,028**	1,010,894
Current liabilities			
Bank indebtedness	4	**18,291**	—
Accounts payable, accrued liabilities and provisions		**139,907**	135,153
Contract liabilities	8	**26,301**	36,096
Debt due within one year		**9,040**	10,310
		193,539	181,559
Non-current liabilities			
Long-term debt		—	634
Lease liabilities		**25,296**	27,761
Borrowings subject to specific conditions		**23,278**	23,300
Other long-term liabilities and provisions	5	**6,250**	7,203
Deferred tax liabilities		**34,785**	38,707
		89,609	97,605
Equity			
Share capital	6	**250,474**	251,104
Contributed surplus		**2,044**	2,044
Other paid in capital		**13,565**	13,565
Retained earnings		**448,025**	442,979
Accumulated other comprehensive income		**20,395**	18,661
Equity attributable to equity holders of the Corporation		**734,503**	728,353
Non-controlling interest		**3,377**	3,377
Total equity		**737,880**	731,730
Total liabilities and equity		**1,021,028**	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

	Attributable to equity holders of the Corporation							
(unaudited) **(expressed in thousands of Canadian dollars)**	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	—	—	—	(922)	—	(922)	—	(922)
Other comprehensive loss for the period	—	—	—	(361)	(13,198)	(13,559)	—	(13,559)
Common share repurchases	(732)	—	—	(502)	—	(1,234)	—	(1,234)
Common share dividends	—	—	—	(13,557)	—	(13,557)	—	(13,557)
September 30, 2022	251,610	2,044	13,565	463,745	1,333	732,297	3,377	735,674
December 31, 2022	251,104	2,044	13,565	442,979	18,661	728,353	3,377	731,730
Net income for the period	—	—	—	9,513	—	9,513	—	9,513
Other comprehensive income for the period	—	—	—	259	1,734	1,993	—	1,993
Common share repurchases	(630)	—	—	(423)	—	(1,053)	—	(1,053)
Common share dividends	—	—	—	(4,303)	—	(4,303)	—	(4,303)
September 30, 2023	250,474	2,044	13,565	448,025	20,395	734,503	3,377	737,880

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 September 30 **2023**	 2022	Nine month period ended September 30 **2023**	 2022
Cash flow from operating activities					
Net income (loss)		**3,674**	563	**9,513**	(922)
Amortization/depreciation of intangible assets, right-of-use assets and property, plant and equipment		**11,947**	11,415	**36,125**	35,536
Gain on disposal of property, plant and equipment		**(14)**	(192)	**(37)**	(300)
Increase in defined benefit plans		**897**	375	**1,783**	255
Accretion of financial liabilities		**537**	622	**1,799**	1,822
Deferred taxes		**(871)**	(992)	**(4,516)**	(4,064)
Income on investments in joint ventures		**(96)**	(64)	**(247)**	(176)
Other		**—**	—	**(175)**	—
Changes to non-cash working capital		**(14,846)**	22,737	**(80,311)**	7,605
Net cash provided by (used in) operating activities		**1,228**	34,464	**(36,066)**	39,756
Cash flow from investing activities					
Purchase of property, plant and equipment		**(3,761)**	(6,094)	**(9,550)**	(14,803)
Proceeds from disposal of property, plant and equipment		**7**	17	**185**	490
(Increase) decrease in intangible and other assets		**(1,654)**	774	**(2,720)**	(381)
Net cash used in investing activities		**(5,408)**	(5,303)	**(12,085)**	(14,694)
Cash flow from financing activities					
Increase in bank indebtedness		**7,160**	—	**18,550**	—
Decrease in long-term debt		**(540)**	(539)	**(1,596)**	(1,508)
Lease liability payments		**(1,398)**	(1,381)	**(4,258)**	(4,243)
Increase (decrease) in borrowings subject to specific conditions, net		**—**	—	**227**	(1,327)
(Decrease) increase in long-term liabilities and provisions		**(480)**	305	**(169)**	(626)
Common share repurchases	6	**(427)**	(976)	**(1,053)**	(1,234)
Common share dividends	6	**(1,434)**	(2,879)	**(4,303)**	(13,557)
Net cash provided by (used in) financing activities		**2,881**	(5,470)	**7,398**	(22,495)
(Decrease) increase in cash during the period		**(1,299)**	23,691	**(40,753)**	2,567
Cash at beginning of the period		**1,816**	11,210	**40,940**	32,482
Effect of exchange rate differences		**149**	(506)	**479**	(654)
Cash at end of the period		**666**	34,395	**666**	34,395

See accompanying notes to interim condensed consolidated financial statements

MAGELLAN AEROSPACE

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

The aerospace industry continues to be impacted by inflation, ongoing supply chain disruptions and the Russia-Ukraine war and any estimate of the length and severity of these challenges are 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 November 3, 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 14, 2023 the Corporation extended its credit facility for an additional two-year period expiring on June 30, 2025. Bank indebtedness as at September 30, 2023 bears interest at bankers' acceptance or adjusted SOFR rates plus 1.00% [6.4% as at September 30, 2023]. As at September 30, 2023, the Corporation had drawn $24,354 under the operating credit facility, including letters of credit totalling $2,722 [December 31, 2022 – $4,614] such that $50,646 [December 31, 2022 – $70,386] was available to be drawn upon. 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:

	September 30 2023	December 31 2022
Included in Other assets - Pension benefit plans	1,309	2,742
Included in Other long-term liabilities and provisions - Other benefit plan	(700)	(750)
	609	1,992

During the second quarter of 2023, the Corporation purchased $27,350 of buy-in annuities for one of its defined benefit pension plans. Future cash flows from the annuities will match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations. Transaction costs of $1,200 related to the purchase were recognized in other comprehensive loss, principally reflecting the difference between the annuity rate (which is comparable to solvency rates) compared to the discount rate used to value the obligations on a going concern basis. For accounting purposes, the assets and liabilities in respect of the impacted pensioners are assumed to match (i.e. the full benefits have been insured). The initial value of the asset associated with this contract is equal to the premium paid to secure the contract, and is adjusted each reporting period for changes in interest rates, discount rates, and benefits paid.

Also in the second quarter of 2023, the Corporation entered into an agreement to purchase group annuity buy-out contracts and transferred approximately $20,268 of a portion of another one of its defined benefit plans' projected benefit obligations. These annuity buy-out transactions transferred responsibility for pension benefits for deferred pensioners of the plan. Settlement accounting rules required a remeasurement of the plans and the Corporation recognized non-cash pension settlement charges of $644 before tax in the nine month period ended September 30, 2023.

The discount rate assumption used in determining the obligation for pension and other benefit plans is selected based on a review of current market interest rates of high-quality, fixed rate debt securities adjusted to reflect the duration of the expected future cash outflows for pension benefit payments. As at September 30, 2023, the assumed discount rate for the Canadian pension plans was 5.6% which compares to the 4.8%, 4.8% and 5.0% rates used in calculating the pension obligation as at June 30, 2023, March 31, 2023 and December 31, 2022, respectively, as a result of changes in the market interest rates of high-quality, fixed rate debt securities. The return on plan assets was below the expected return during the three month period ended September 30, 2023 and above the expected return for the nine month period ended September 30, 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 $509 and $259, net of taxes of $229 and $90, respectively, recorded in other comprehensive (loss) income in the three and nine month periods ended September 30, 2023.

NOTE 6. SHARE CAPITAL

Net income (loss) per share

	Three month period ended September 30		Nine month period ended September 30	
	2023	2022	2023	2022
Net income (loss)	3,674	563	9,513	(922)
Weighted average number of shares	57,339	57,626	57,383	57,657
Basic and diluted net income (loss) per share	0.06	0.01	0.17	(0.02)

Dividends

The Corporation has paid the following dividends in fiscal 2023: March $1,436 (57,446,134 common shares at $0.025 per common share), June $1,433 (57,359,516 common shares at $0.025 per common share) and September $1,434 (57,337,200 common shares at $0.025 per common share). Aggregate dividend payments for the nine month period ended September 30, 2023 are $4,303.

Subsequent to September 30, 2023, the Corporation declared dividends to holders of common shares in the amount of $0.025 per common share payable on December 29, 2023, to shareholders of record at the close of business on December 15, 2023.

Normal Course Issuer Bid

On May 25, 2023, the Corporation's application to commence a normal course issuer bid ("NCIB") was re-approved, which allows the Corporation to purchase up to 2,868,106 common shares, over a 12-month period commencing May 27, 2023 and ending May 26, 2024. During the nine month period ended September 30, 2023, the Corporation purchased a total of 144,311 common shares for cancellation at a volume weighted average price of $7.30 per common share at a cost of $1,053. During the same period in the prior year, the Corporation purchased 167,424 common shares for cancellation at a volume weighted average price of $7.37 per common share at a cost of $1,234.

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 September 30, 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$37,800	1.2500	1.3245	($1,517)	Accounts payable, accrued liabilities and provisions
June 2025	USD$37,800	1.2500	1.3300	($1,386)	Accounts payable, accrued liabilities and provisions

As at September 30, 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] with a carrying value of ($445).

For the nine month period ended September 30, 2023, a gain of $742 net of taxes of $258, was recorded in other comprehensive income for the effective portion of cash flow hedges. In accordance with the fair value hierarchy of financial instruments, the derivatives are considered Level 2. As at September 30, 2023, the Corporation has $3,348 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 September 30, 2023, the carrying amount of the Corporation's long-term debt of $3,943 [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.

Borrowings subject to specific conditions
As at September 30, 2023, the Corporation has recognized $24,554 [December 31, 2022 – $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.

The Corporation's primary sources of revenue

	Three month period ended September 30		Nine month period ended September 30	
	2023	2022	2023	2022
Sale of goods	173,395	155,525	528,384	458,753
Services	39,614	35,574	127,652	112,717
	213,009	191,099	656,036	571,470

Timing of revenue recognition based on transfer of control

	Three month period ended September 30		Nine month period ended September 30	
	2023	2022	2023	2022
At a point of time	128,882	110,834	379,605	319,965
Over time	84,127	80,265	276,431	251,505
	213,009	191,099	656,036	571,470

Advance payments received for contracts in progress in excess of revenue recognized were recorded as contract liabilities on the interim condensed consolidated statement of financial position. As at September 30, 2023, contract liabilities were $26,301 [December 31, 2022 – $36,096].

Revenues from the Corporation's two largest customers accounted for 36.7% and 35.3% respectively of total sales for the three and nine month periods ended September 30, 2023 [September 30, 2022 – two and three largest customers accounted for 35.8% and 44.6% respectively of total sales for the three and nine month periods ended].

The Corporation's revenue information split by geographic segment

	Three month period ended September 30		Nine month period ended September 30	
	2023	2022	2023	2022
Revenue				
Canada	81,392	77,238	274,015	247,683
United States	57,704	48,434	174,926	141,079
Europe	73,913	65,427	207,095	182,708
	213,009	191,099	656,036	571,470
Export revenue[1]				
Canada	51,908	47,263	180,369	164,792
United States	11,447	7,315	32,468	22,595
Europe	18,971	24,835	50,276	50,134
	82,326	79,413	263,113	237,521

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

The Corporation's long-lived assets split by geographic segment

	September 30 2023	December 31 2022
Property, plant and equipment, right-of-use assets, intangible assets and goodwill		
Canada	155,255	166,596
United States	150,474	161,155
Europe	142,997	150,762
	448,726	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 and nine month periods ended September 30, 2023 was 21.4% and 42.3% respectively [77.5% and 140.1% respectively for the three and nine month periods ended September 30, 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 and the Corporation deferring the recognition of deferred tax assets relating to operational losses incurred in certain jurisdictions.

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 September 30, 2023 of $756,737 [December 31, 2022 - $733,818] is comprised of shareholders' equity attributable to equity holders of the Corporation of $734,503 [December 31, 2022 - $728,353] and interest-bearing debt of $22,234 [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 September 30, 2023, capital commitments in respect of purchase of property, plant and equipment totalled $10,815 [December 31, 2022 - $6,672], all of which had been ordered. There were no other material capital commitments at the end of the period.