

ANNUAL REPORT

MAGELLAN 2023

LETTER TO SHAREHOLDERS

COMPREHENSIVE STRATEGIES ARE BEING REFINED TO LEVERAGE MAGELLAN'S CORE STRENGTHS

Magellan ended 2023 with \$879.6 million in revenue, which increased 15.0% as compared to \$764.6 million in 2022. Net income in 2023 was \$9.2 million, an improvement from the net loss in 2022 of \$21.7 million.

The turmoil experienced in the aerospace industry over the last three years has underscored how quickly the world can change. During this period, aerospace companies have had to become more agile, adapt rapidly and make important business decisions quickly. One of the main priorities for Magellan was to rehabilitate underperforming contracts. Magellan has been working diligently with customers and suppliers to negotiate solutions to help mitigate the impact of inflationary headwinds and supply chain disruptions. While this work continues, a number of these agreements were successfully negotiated in 2023.

With the pandemic behind us and our critical short-term actions underway, the executive leadership team is directing its focus toward refining Magellan's strategic plan. Our operating sites are mapping out comprehensive strategies to leverage Magellan's core strengths and capabilities to grow our business. We are assessing current market trends, customer and competitor strategies, and new and innovative technologies that will help us optimize our competitive position and capture new business for the future.

While the aerospace industry has not yet fully stabilized since the pandemic, market trends support a positive long-term outlook for the industry. Boeing and Airbus set new records for aircraft order activity and order backlogs in 2023. Domestic commercial passenger air travel has now surpassed pre-pandemic levels and aircraft production rates continue to rise. Finally, the increasing need to modernize global defence fleets is driving a robust demand for new aircraft in this market segment, further building on potential opportunities for growth.

We have come through a challenging time in our industry. We are proud of how our employees adapted and helped Magellan navigate through this period. On behalf of the board and management of Magellan, I would like to thank all our employees and our shareholders for their ongoing support.



Phillip C. Underwood

President and Chief Executive Officer

March 8, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 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 audited consolidated financial statements and the notes thereto for the years ended December 31, 2023 and 2022 prepared in accordance with International Financial Reporting Standards ("IFRS"), and the Annual Information Form for the year ended December 31, 2023 (available on SEDAR+ at www.sedarplus.ca). This MD&A provides a review of the significant developments that have impacted the Corporation's performance during the year ended December 31, 2023, relative to the year ended December 31, 2022. The information contained in this report is as at March 8, 2024. 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. All statements other than statements of historical facts may be forward-looking statements. In particular and without limitation there are forward-looking statements under the heading "Overview," "2023 and Recent Updates," "Outlook," "Results of Operations," "Liquidity and Capital Resources," "Risk Factors," "Critical Accounting Estimates" and "Future Changes in Accounting Policies." In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "could," "expects," "forecasts," "believes," "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 in 2023 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 expense, income taxes, depreciation and amortization, goodwill impairment and restructuring), which the Corporation considers to be an indicative measure of operating performance and a metric to evaluate profitability. EBITDA and Adjusted EBITDA are not generally accepted earnings measures and should not be considered as alternative measures 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 2023 events

Magellan is a diversified supplier of components to the aerospace industry. Through its wholly owned subsidiaries and controlled entity, Magellan 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.

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 Corporation supplies both the commercial and defence sectors of the Aerospace segment. In the commercial sector, the Corporation is active in the large commercial jet, business jet, regional aircraft, and helicopter markets. On the defence side, the Corporation provides parts and services for major military aircraft.

Within the Aerospace segment, the Corporation has two major product groupings: aerostructures and aeroengines. Aerostructure and aeroengine products are used both in new aircraft and for spares and replacement parts.

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Within the aerostructures product grouping, the Corporation supplies international customers by producing components using conventional and high-speed automated machining centres. Capabilities include precision casting of airframe-mounted components. Management believes that Magellan's dedication to technological innovation combined with low cost sourcing from emerging markets will position the Corporation to capture targeted complex assembly programs.

Within the aeroengines product grouping, the Corporation manufactures complex castings, fabricated and machined gas turbine engine components, both static and rotating, integrated nacelle components, flow path and engine exhaust systems for the world's leading aeroengine manufacturers. The Corporation also performs repair and overhaul services for jet engines and related components.

The Industry and the Supply Chain

Though global air travel has seen signs of recovery with both domestic and international revenue passenger kilometers, on a combined basis, 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 manage these impacts and strives to mitigate their effect on Magellan's operations, supply chain, and most importantly the health and safety of its employees.

In 2023, 63% of revenues were derived from commercial markets (2022-62%, 2021-52%) while 37% of revenues related to defence markets (2022-38%, 2021-48%).

2023 and Recent Updates

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 ("RCAF"). 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.

On May 25, 2023, Magellan renewed its normal course issuer bid ("2023 NCIB") which allows the Corporation to purchase for cancellation up to 2,868,106 of its common shares during the 12-month period commencing May 27, 2023 and ending May 26, 2024 through facilities of the Toronto Stock Exchange ("TSX") or other alternative Canadian trading systems.

On May 30, 2023, Magellan announced the signing of a contract extension with The Boeing Company ("Boeing"), providing for the continued manufacture of large and complex nacelle exhaust systems for the Boeing 767 program. The fabricated metallic assemblies will be produced and delivered from Magellan's facility in Middletown, Ohio. The continuation of this agreement with Boeing will ensure the continued supply by Magellan of acoustic plug and nozzle exhaust assemblies for the

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Boeing 767 program. Magellan utilizes internally manufactured metallic honeycomb in the production process. The metallic honeycomb is manufactured utilizing materials suitable for higher temperatures and offers advantages in weight savings and acoustic attenuation.

On June 14, 2023, the Corporation extended its \$75 million Bank Credit Facility Agreement ("2023 Credit Facility") for an additional 2 year period expiring on June 30, 2025. Refer to the "Financing Matters" and "Liquidity and Capital Resources" sections below for more information on the Credit Facility.

On December 19, 2023, Magellan announced an agreement with the Canadian government for the provision of LUU-2 illumination flares for the RCAF. The \$39 million, four-year contract commences in 2024 and involves the manufacture, assembly and delivery of LUU-2 flares from Magellan Aerospace, Winnipeg's propellant plant in Manitoba, Canada.

Labour Matters

The Corporation employs 3,848 employees; of these, approximately 1,394 are unionized and are covered by collective bargaining agreements. The Corporation maintains constructive relationships with its unions and strives to achieve mutually beneficial relationships while maintaining cost competitiveness when negotiating extensions of expiry dates or renewals of the collective agreements. The Corporation is currently in negotiations regarding a number of such extensions or renewals and it expects all negotiations will result in extensions of expiry dates, renewals of the agreements, or some other mutually satisfactory agreement as applicable.

Financing Matters

The Corporation has a multi-currency global operating credit facility provided by a syndicate of lenders to Magellan for a maximum aggregate amount of \$75 million under the 2023 Credit Facility. The 2023 Credit Facility also includes a \$75 million uncommitted accordion provision, which provides Magellan with the option to increase the maximum aggregate amount of the credit to \$150 million. The 2023 Credit Facility expires on June 30, 2025.

2. OUTLOOK

The outlook for Magellan's business in 2024

Commercial Aerospace Market

The International Air Transport Association ("IATA") reported that industry-wide passenger air travel had recovered to within 1% of 2019 levels by November 2023, with domestic travel exceeding 2019 by 6.7% and international travel behind by 5.5%. IATA also reported that airline industry net profits for 2023 were expected to come in at US\$23.3 billion (2.6% net profit margin), stating that the speed of the recovery has been extraordinary considering the major losses of recent years.

Boeing and Airbus both reported increased order backlogs in 2023. Airbus set three new industry records. The first was by reaching a record order backlog of 8,598 aircraft, the second was by securing the highest gross orders of 2,319 aircraft in a year, and lastly recording the highest net new orders of 2,094 aircraft in a year. Boeing also set a new company all-time backlog record of 6,216 aircraft. Airbus delivered 735 aircraft in 2023, while Boeing delivered 528 aircraft in the same period.

Boeing was transitioning their plan of 737 aircraft production to a rate of 38 aircraft per month from 31 aircraft per month, and then were to continue ramping towards 50 aircraft per month in the 2025/26 timeframe. However, this has been delayed and in January 2024, the Federal Aviation Administration ("FAA") ordered Boeing to halt further 737 Max production rate increases until the agency completed an investigation to ensure the safety of the aircraft's production system. This followed two previous incidents in 2023 in which Boeing paused deliveries. In January 2024, Boeing also withdrew its request to the FAA for a time-limited exemption from current engine de-icing system requirements for 737-7 Max. This is expected to further delay certification of the aircraft by 9 to 12 months into late 2025/early 2026. Boeing ended 2023 having delivered 396 of their 737 aircraft, 387 of which were Max models.

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In June 2023, Boeing raised their 787 production rate to 4 aircraft per month. The program is now transitioning to 5 aircraft per month, to be followed by further rate increases to reach 10 aircraft per month by 2025/26. The 747 program ceased production activity in January 2023 when the last aircraft was delivered to Atlas Air. The 767 program is currently running at a rate of 3 aircraft per month, a mix of KC-46 tankers (based on the 767-2C) and 767-300 freighters. The 777 program is at a rate of 3 aircraft per month and is expected to reach 4 aircraft per month by 2025/26.

Airbus ended 2023 with A320 at a build rate of 56 aircraft per month. They plan to ramp up to 62 aircraft per month by the end of 2024, and progressively ramp up to 75 aircraft per month by the second half of 2026. The A220 program is now at 7.5 aircraft per month with plans to be at 10 aircraft per month by the end of 2024 and is expected to reach 14 aircraft per month in 2026. Airbus' A330 program is at 3.3 aircraft per month and is planned to increase to 4 aircraft per month by the fourth quarter of 2024. The A350 program is currently at 6 aircraft per month and is planned to reach 7 aircraft per month in 2024, 9 aircraft per month in 2025 and 10 aircraft per month in 2026.

In July 2023, Pratt & Whitney ("P&W") disclosed that a number of their PW1100G engines powering A320 neo aircraft, needed to be inspected and partially disassembled due to a powder-metal manufacturing quality problem. P&W determined that 1,200 PW1100G engines would need to be recalled for inspection and replacement of the high-pressure turbine and compressor disks. P&W currently forecasts that an average of 350 aircraft will be on ground ("AOG") each month during 2024, with the number of engines receiving full-life discs increasing throughout the year as they to ramp up production of replacement parts. P&W noted that all engines currently being delivered to the OEMs, principally Airbus, are built to the latest build standard, offering "the maximum time on wing."

Defence Aerospace Market

In the defence market, demand is robust as rising geopolitical tensions have brought attention to defence readiness, prompting numerous countries to increase their military expenditures and advance their fleet modernization programs. The US defence industry recorded US\$80.9 billion in Foreign Military Sales ("FMS") in 2023, which was 56% higher than in 2022, and the highest annual FMS ever recorded. Of this amount, US\$46 billion were military aircraft sold to overseas customers. Europe has seen the steepest year-on-year increase in military expenditures in at least 30 years, as governments in the region replenish national stockpiles depleted by donations sent to Ukraine. Currently, the US defence budget request for fiscal year 2024, is nearly US\$100 billion (13.4%) higher than fiscal year 2022.

Manufacturers of fighter aircraft are expected to build over 3,431 fighters between 2024 and 2032, according to Forecast International in their latest Fighter Aircraft Market Analysis, This market segment is experiencing strong demand as aging fleets, higher aircraft utilization and the ramp up of the F-35 program together drive year over year growth. While the F-35 dominates fighter production owing to its 40% share of global fighter deliveries, the outlook for legacy aircraft such as the F-15E, F/A18-E/F Super Hornet, and the F-16 fighters remains strong in the short term.

Lockheed Martin has now surpassed a significant milestone of having built its 1,000th F-35 aircraft since the beginning of the program. They delivered 98 TR-2 (Technical Refresh-2) configuration aircraft in 2023, which was significantly lower than the 147 to 153 aircraft forecast earlier in the year. The reduction was due to a decision by the US Department of Defense ("DoD") to delay delivery acceptance of the TR-3 configuration pending certification. Lockheed updated its forecast in January 2024, stating that certification of the TR-3 configuration is behind schedule, and that deliveries likely will not resume until the third quarter of 2024. Despite the cutback in deliveries, Lockheed Martin will continue producing the F-35 at a rate of approximately 156 aircraft per year, placing undelivered aircraft into storage pending availability of the TR-3 updates. Lockheed's current forecast is to deliver between 75 and 110 F-35's in 2024, possibly leaving as many as 100 to 120 aircraft undelivered. The first deliveries of the F-35 aircraft to Canada are scheduled for 2025.

The defence rotorcraft market is expected to grow at 4.1% CAGR from 2025 to 2030. Legacy programs such as the AH-64 Apache, H-60 Blackhawk and V-22 Tiltrotor will remain consistently strong up to the end of this decade when new generation aircraft begin to enter the market. The light military segment is expected to be the market's fastest growing segment with programs such as the US Army's Future Long Range Assault Aircraft ("FLRAA") program entering into production. Bell Flight, with its V-280 Valor tiltrotor aircraft, won the FLRAA competition to build the successor to the UH-60 Black Hawk helicopter.

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Next, the US Army will decide under its Future Attack Reconnaissance Aircraft ("FARA") program on a replacement for its AH-64 attack helicopters. Bell and Sikorsky were down-selected in 2020 to proceed to the Phase 2 demonstrator and test flight stage of the competition. Both the FLRAA and FARA programs combined will represent a significant volume of business for the industry once in production.

In 2023, commercial and defence aerospace manufacturers witnessed a revival in demand. Domestic commercial passenger air travel surpassed pre-pandemic levels while Boeing and Airbus set new records for aircraft order activity and order backlogs. Despite the various setbacks, commercial aircraft production rates continue to rise over the long term, supporting a positive outlook for the future. In the defence market, geopolitical challenges combined with the prioritization to modernize fleets, is driving robust demand. Legacy fighter aircraft and rotorcraft are maintaining a robust momentum through this decade while new advanced programs are being developed to enter production in the next decade. It is unusual that both commercial and defence aerospace markets are in a growth cycle simultaneously, and since the OEM's tend to be the same companies participating in both markets, the combined opportunity for growth is clearly positive.

3. SELECTED ANNUAL INFORMATION

A summary of selected annual financial information for 2023, 2022 and 2021

Expressed in millions of dollars, except per share information	2023	2022	2021
Revenues	879.6	764.6	688.4
Net income (loss) for the year	9.2	(21.7)	(1.0)
Net income (loss) per common share—Basic and Diluted	0.16	(0.38)	(0.02)
EBITDA ¹	71.2	31.6	56.7
EBITDA ¹ per common share—Basic and Diluted	1.24	0.55	0.98
Adjusted EBITDA ¹	73.0	35.5	58.8
Adjusted EBITDA ¹ per common share—Basic and Diluted	1.27	0.62	1.02
Total assets	1,025.1	1,010.9	1,003.8
Total non-current liabilities	92.0	97.6	104.3

¹EBITDA and Adjusted EBITDA are not IFRS financial measures. Please see Section 5 the "Reconciliation of Net Income to EBITDA and Adjusted EBITDA" section for more information.

For 2023, aerospace manufacturing activity has recovered but supply chain shortages and inflationary pressures which began in 2021 continue to have an impact on the Corporation's results. Revenues for the year ended December 31, 2023, increased from both 2022 and 2021 levels. The increase in revenues from 2022 was primarily attributable to pricing increases, increased volumes in single aisle, wide body and casting products and favorable foreign exchange impacts. Net income increased in 2023 from 2022 mainly due to higher gross profit attributable to volume and price increases offset in part by higher material and manufacturing costs, and higher administrative and general expenses and income tax expense in the year.

During 2023 and 2022, the Corporation paid dividends on common shares amounting to \$5.7 million and \$15.0 million, respectively, for the year.

4. RESULTS OF OPERATIONS

A discussion of Magellan's operating results for 2023 and 2022

Consolidated revenues for the year ended December 31, 2023 were \$879.6 million, a 15.0% increase from the \$764.6 million achieved last year. Gross profit and net income were \$89.0 million and \$9.2 million for the year ended December 31, 2023, respectively, in comparison to gross profit of \$35.1 million and net loss of \$21.7 million for the year ended December 31, 2022.

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Consolidated Revenues

Twelve-months ended December 31, expressed in thousands of dollars	2023	2022	Change
Canada	364,275	329,638	10.5%
United States	234,234	190,011	23.3%
Europe	281,108	244,931	14.8%
Total revenues	879,617	764,580	15.0%

Revenue in Canada increased 10.5% in 2023 compared to the prior year mainly due to higher casting product revenues, increased volume for single aisle aircraft parts, higher repair and overhaul revenues and favourable foreign exchange impact driven by the strengthening of the United States dollar relative to the Canadian dollar.

Revenue in the United States in 2023 was 23.3% higher than 2022 mainly due to higher casting product revenues, increased volumes for single aisle and wide-body aircraft products as Boeing ramped up production for the 737 and 787 aircraft and favourable foreign exchange impacts resulting from the strengthening of the United States dollar relative to the Canadian dollar.

European revenue in 2023 increased 14.8% compared to the prior year primarily driven by build rate recovery for narrow body and wide body aircraft, and favourable foreign exchange impact resulting from the strengthening of the United States dollar relative to the British pound.

Consolidated revenues are impacted by the fluctuation of the United States dollar and British pound against the Canadian dollar when the Corporation translates its foreign operations to Canadian dollars. Further, the fluctuation of the British pound relative to the United States dollar impacts the performance of the Corporation's European operations. If the average exchange rates for both the United States dollar and British pound experienced in 2022 remained constant in 2023, consolidated revenues for 2023 would have been lower by 3%.

Gross Profit

Twelve-months ended December 31, expressed in thousands of dollars	2023	2022	Change
Gross profit	88,991	35,065	153.8%
Percentage of revenue	10.1%	4.6%	

Gross profit was \$89.0 million in 2023, \$53.9 million higher than the \$35.1 million of gross profit in 2022. Gross profit as a percentage of revenues of 10.1% for 2023 increased from the 4.6% recorded in 2022. The increase in profitability is mainly the result of volume and price increases on certain programs, favourable product mix and production efficiencies, offset in part by supply chain disruptions and price increases on purchased materials and supplies.

Administrative and General Expenses

Twelve-months ended December 31, expressed in thousands of dollars	2023	2022	Change
Administrative and general expenses	57,296	48,690	17.7%
Percentage of revenue	6.5%	6.4%	

Administrative and general expenses as a percentage of revenue were 6.5% in 2023 as compared to 6.4% in 2022. Administrative and general expenses of \$57.3 million in 2023 were \$8.6 million or 17.7% higher than \$48.7 million in the prior year due to higher salary and benefit costs and information technology spending.

Restructuring

Twelve-months ended December 31, expressed in thousands of dollars	2023	2022
Workforce reduction	458	1,930
Closure costs	1,280	199
Impairment of property, plant and equipment	–	1,772
Restructuring	1,738	3,901

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During 2023, the Corporation incurred \$1.2 million [2022–\$2.8 million] of restructuring costs related to the closure of its Bournemouth manufacturing facilities in the United Kingdom in implementing its previously announced restructuring plan to reorganize its European operations. An additional \$0.5 million was incurred in 2023 [2022–\$1.1 million] for other workforce reduction and restructuring efforts.

Other

Twelve-months ended December 31, expressed in thousands of dollars	2023	2022
Foreign exchange loss (gain)	4,865	(2,251)
Loss on disposal of property, plant and equipment	17	22
Gain on disposal of investment properties	(20)	–
Loss on pension settlement	433	631
Other	39	(162)
Other	5,334	(1,760)

Included in other is a foreign exchange loss of \$4.9 million in 2023 compared to a gain of \$2.3 million in 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 during the year.

Other also includes pension settlement losses of \$0.4 million [2022–\$0.6 million] relating to the settlement of various pension obligations in conjunction with the purchase of group annuity contracts related to the Corporation's defined benefit pension plans.

Interest Expense

Twelve-months ended December 31, expressed in thousands of dollars	2023	2022
Interest on bank indebtedness and long-term debt	1,237	423
Accretion charge on long-term debt and borrowings	843	637
Accretion charge for lease liabilities	1,378	1,677
Discount on sale of trade receivables	231	101
Interest expense	3,689	2,838

Total interest costs of \$3.7 million for 2023 increased by \$0.9 million from \$2.8 million in 2022 primarily due to higher interest charges on bank indebtedness and long-term debt from higher interest rates on higher principal amounts borrowed.

Income Taxes

Twelve-months ended December 31, expressed in thousands of dollars	2023	2022
Current income tax expense	11,974	5,780
Deferred income tax recovery	(287)	(2,692)
Income tax expense	11,687	3,088
Effective tax rate	55.8%	(16.6%)

The Corporation recorded an income tax expense of \$11.7 million in 2023 on pre-tax income of \$20.9 million, representing an effective tax rate of 55.8%, compared to an income tax expense of \$3.1 million on pre-tax loss of \$18.6 million, representing an effective tax rate of (16.6%) in 2022.

During 2023 and 2022, the Corporation recognized investment tax credits totaling \$1.9 million and \$1.8 million, respectively, as a reduction of cost of revenues, as the Corporation has determined that it will be able to benefit from these investment tax credits. The change in effective tax rate and current and deferred income tax expenses year over year was primarily due to the change in the mix of income and loss 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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5. RECONCILIATION OF NET INCOME (LOSS) TO EBITDA AND ADJUSTED EBITDA

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

In addition to the primary measures of earnings and earnings per share (basic and diluted) in accordance with IFRS, the Corporation includes EBITDA (earnings before interest, income taxes and depreciation and amortization) and Adjusted EBITDA (earnings before interest, income taxes, depreciation and amortization, goodwill impairment and restructuring) in this MD&A. The Corporation has provided this measure because it believes this information is used by certain investors to assess financial performance and that EBITDA and Adjusted EBITDA are useful supplemental measures as they provide an indication of the results generated by the Corporation's principal business activities prior to consideration of how these activities are financed and how the results are taxed in the various jurisdictions. Each component of this measure is calculated in accordance with IFRS, but EBITDA and Adjusted EBITDA are not recognized measures under IFRS, and the Corporation's method of calculation may not be comparable with that of other companies. Accordingly, EBITDA and Adjusted EBITDA should not be used as alternatives to net income as determined in accordance with IFRS or as alternatives to cash provided by or used in operations.

Twelve-months ended December 31, expressed in thousands of dollars	2023	2022
Net income (loss)	9,247	(21,692)
Add back:		
Interest	3,689	2,838
Taxes	11,687	3,088
Depreciation and amortization	46,622	47,405
EBITDA	71,245	31,639
Add back:		
Restructuring	1,738	3,901
Adjusted EBITDA	72,983	35,540

Adjusted EBITDA increased \$37.4 million or 105.4% to \$73.0 million for the year ended 2023, compared to \$35.5 million in 2022 mainly as a result of higher net income and higher interest and taxes. In 2023, higher net income was largely driven by revenue and gross margin improvements.

6. SELECTED QUARTERLY FINANCIAL INFORMATION

A summary view of Magellan's quarterly financial performance

Expressed in millions of dollars except per share information	2023				2022			
	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
Revenues	223.4	219.7	213.0	223.5	187.7	192.7	191.1	193.1
Income (loss) before taxes	5.7	6.1	4.7	4.4	(1.4)	1.2	2.5	(20.9)
Net (loss) income	3.9	1.9	3.7	(0.3)	(2.0)	0.5	0.6	(20.8)
Net (loss) income per common share								
Basic and Diluted	0.07	0.03	0.06	(0.00)	(0.04)	0.01	0.01	(0.36)
EBITDA ¹	18.3	19.3	17.7	15.9	11.4	14.0	14.7	(8.5)
Adjusted EBITDA ¹	18.6	19.5	18.5	16.4	11.5	14.0	14.8	(4.8)

¹EBITDA and Adjusted EBITDA are not IFRS financial measures. Please see Section 5 the "Reconciliation of Net Income to EBITDA and Adjusted EBITDA" section for more information.

Revenues and net loss in the quarter were impacted by the movements of the Canadian dollar relative to the United States dollar and British pound, when the Corporation translates its foreign operations to Canadian dollars. Further, the movements in the United States dollar relative to the British pound impact the Corporation's United States dollar exposures in its European operations. During the periods reported, the average quarterly exchange rate of the United States dollar relative to the Canadian dollar fluctuated between a high of 1.3619 in the fourth quarter of 2023 and a low of 1.2663 in the first quarter of 2022. 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

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to the United States dollar reached a high of 1.3421 in the first quarter of 2022 and hit a low of 1.1753 in the third quarter of 2022. Had exchange rates remained at levels experienced in 2022, reported revenues in 2023 would have been lower in the first, second and third quarters of 2023 by \$8.4 million, \$8.7 million and \$3.0 million, respectively, and there would have been a minimal impact on the fourth quarter of 2023.

Revenues and net income in 2022 were largely impacted by the continued effects from the COVID-19 pandemic, driving reduced volumes and supply chain disruptions. In addition, continued high inflation on material, supplies, utilities and labour impacted the results in 2022 and still had an impact in 2023. Since the first quarter of 2022, the Corporation has had a modest upward trend in revenue as global domestic air travel continues to recover to pre COVID-19 levels. 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.

7. 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 receivables securitization program, and long-term debt and equity capacity. Principal uses of cash are to fund liabilities as they become due, finance capital expenditures, fund debt repayments, repurchase common shares, pay dividends and provide flexibility for new investment opportunities. 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 costs for 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.

In 2023, \$17.3 million of cash was used by operations, \$23.7 million was used in investing activities and \$1.0 million was provided by financing activities.

Cash Flow from Operating Activities

Twelve-months ended December 31, expressed in thousands of dollars	2023	2022
Increase in account receivables	(41,962)	(3,223)
(Increase) decrease in contract assets	(4,120)	2,437
Increase in inventories	(32,020)	(15,789)
Increase in prepaid expenses and other	(382)	(437)
Increase in accounts payable, accrued liabilities and provisions	9,502	28,727
(Decrease) increase in contract liabilities	(8,242)	18,503
Net change in non-cash working capital items	(77,224)	30,218
Net cash (used in) provided by operating activities	(17,300)	58,540

The Corporation used \$17.3 million of cash in 2023 from operating activities, compared to \$58.5 million generated in the prior year. Changes in non-cash working capital items used cash of \$77.2 million in 2023 as compared to \$30.2 million generated in the prior year. The unfavourable movement of non-cash working capital balances was largely attributable to increases in accounts receivable from timing of customer payments, increases in inventories due to material purchases and timing of production and shipment, and decreases in contract liabilities due to timing of collection of funds offset in part by increases in accounts payable, accrued liabilities and provisions primarily driven by timing of supplier payments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2023

Cash Flow from Investing Activities

Twelve-months ended December 31, expressed in thousands of dollars	2023	2022
Purchase of property, plant and equipment	(19,166)	(23,494)
Proceeds from disposal of property, plant and equipment	212	607
Proceeds from disposal of investment properties	354	–
Increase in intangibles and other assets	(5,094)	(969)
Net cash used in investing activities	(23,694)	(23,856)

Investing activities for 2023 used \$23.7 million of cash compared to \$23.9 million in the prior year, a decrease of \$0.2 million. The decrease was primarily due to lower levels of investment in property, plant and equipment offset largely by increases in intangible asset spend and increases in long-term receivables and deposits recorded in other assets.

Cash Flow from Financing Activities

Twelve-months ended December 31, expressed in thousands of dollars	2023	2022
Increase in bank indebtedness	15,463	–
Decrease in long-term debt	(2,136)	(2,047)
Lease liability payments	(5,637)	(5,619)
Increase (decrease) in borrowings subject to specific conditions, net	691	(1,327)
Decrease in long-term liabilities and provisions	(16)	(225)
Common share repurchases	(1,622)	(2,062)
Common share dividends	(5,734)	(14,994)
Net cash provided by (used in) financing activities	1,009	(26,274)

Financing activities provided \$1.0 million of cash in 2023 compared to \$26.3 million of usage in 2022. In 2023, cash provided by bank indebtedness was largely offset by decreases in long-term debt, lease liability payments, common share repurchases and common share dividend payments. In 2022, cash usage was primarily due to decreases in long-term debt, lease liability payments, common share repurchases and common share dividend payments.

Contractual Obligations

As at December 31, 2022, expressed in thousands of dollars	Less than			After 5	Total
	1 year	1–3 Years	4–5 Years	Years	
Bank indebtedness	15,534	–	–	–	15,534
Long-term debt	3,348	–	–	–	3,348
Lease liabilities	4,815	7,906	8,081	14,964	35,766
Borrowings subject to specific conditions	1,276	2,889	3,336	26,162	33,663
Other long-term liabilities	379	277	183	3,106	3,945
Other long-term liabilities	25,352	11,072	11,600	44,232	92,256

On June 14, 2023, the Corporation extended its 2023 Credit Facility with a syndicate of lenders for an additional two-year period expiring on June 30, 2025. The 2023 Credit Facility provides for a multi-currency global operating credit facility to be available to Magellan in a maximum aggregate amount of \$75 million. The 2023 Credit Facility 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 2023 Credit Facility are subject to mutual consent of the syndicate of lenders and the Corporation.

As at December 31, 2023, the Corporation had made contractual commitments to purchase \$8.4 million of capital assets [2022–\$6.7 million]. In addition, the Corporation had purchase commitments, largely for materials required for the normal course of operations, of \$379.8 million as at December 31, 2023 [2022–\$312.7 million]. The Corporation plans to fund all of these commitments with operating cash flow and the existing Credit Facility.

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2023

Outstanding Share Information

The authorized capital of the Corporation consists of an unlimited number of preference shares, issuable in series, and an unlimited number of common shares. As at March 8, 2024, 57,179,666 common shares were outstanding and no preference shares were outstanding. More information on the Corporation's share capital is provided in note 21 of the Corporation's consolidated financial statements for the year ended December 31, 2023.

For the year ended December 31, 2023 and 2022, the Corporation paid dividends on its common shares of \$5.7 million and \$15.0 million, respectively. Quarterly dividend payments were \$0.025 per share in 2023 and ranged between \$0.025 and \$0.105 per common share in 2022.

In the first quarter of 2024, the Corporation declared dividends of \$0.025 per common share payable on March 28, 2024, to shareholders of record at the close of business on March 15, 2024.

Normal Course Issuer Bid

On May 27, 2021, the Corporation announced that the TSX had accepted the Corporation's application to commence a normal course issuer bid (the "2021 NCIB") which allowed the Corporation to repurchase through the facilities of the TSX and alternative Canadian trading platforms up to 2,886,455 common shares. The program commenced on May 27, 2021 and ended on May 26, 2022. On May 25, 2022, the Corporation's second application was approved (the "2022 NCIB"). The 2022 NCIB allowed for the purchase of up to 2,886,455 common shares, over a twelve-month period commencing May 27, 2022 and ending May 26, 2023. On May 25, 2023, the Corporation's 2023 NCIB application was approved for the purchase of up to 2,868,106 common shares over a twelve-month period commencing May 27, 2023 and ending May 26, 2024.

In 2023, 214,937 shares were purchased for cancellation for \$1.6 million at a volume weighted average price paid of \$7.55 per common share. In 2022, 282,972 shares were purchased for cancellation for \$2.1 million at a volume weighted average price paid of \$7.29 per common share.

8. FINANCIAL INSTRUMENTS

A summary of Magellan's financial instruments

Derivative Contracts

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian dollar denominated financial statements of the Corporation's subsidiaries may vary on consolidation into the reporting currency of Canadian dollars. The Corporation from time to time may use derivative financial instruments to help manage foreign exchange risk with the objective of reducing transaction exposures and the resulting volatility of the Corporation's earnings. The Corporation does not trade in derivatives for speculative purposes. Under these contracts, the Corporation is obligated to purchase specified amounts at predetermined dates and exchange rates. These contracts are matched with anticipated cash flows in United States dollars. The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. The Corporation has applied IFRS 9 on a prospective basis for hedge accounting. The Corporation's qualifying hedging relationships as at December 31, 2023 qualified for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. As at December 31, 2023, the Corporation entered into forward foreign exchange contracts to purchase US dollars of \$16.2 million and British pounds of £23.5 million over a period of one month commencing December of 2023 at an exchange rate of \$1.3210 and \$1.6801 Canadian dollars, respectively. Under these contracts the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in US dollars, and British pounds. The Corporation conversely entered into foreign currency collar contracts as follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2023

Maturity	Notional amount	Floor	Ceiling	Carrying value	Line item in the statement of financial position
June 2025	US\$32.4million	1.2500	1.3245	\$0.6 million	Accounts payable, accrued liabilities and provisions
June 2025	US\$32.4 million	1.2500	1.3300	\$0.5 million	Accounts payable, accrued liabilities and provisions

Off-Balance Sheet Arrangements

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

9. RELATED PARTY TRANSACTIONS

A summary of Magellan's transactions with related parties

During the year, the Corporation incurred consulting and cost recovery fees of \$0.2 million [2022-\$0.2 million] payable to a corporation controlled by the Chairman of the Board of Directors of the Corporation.

10. RISK FACTORS

A summary of risks and uncertainties facing Magellan

Magellan operates in a dynamic and rapidly changing environment and industry, which exposes the Corporation to numerous risk factors. The Corporation's senior management identifies key risks and has processes in place to help monitor, manage, and mitigate these risks. Additional information about the Corporation, including risks and uncertainties about Magellan's business, is provided in the Corporation's Annual Information Form dated March 8, 2024 which is available on SEDAR+ at www.sedarplus.ca.

11. CRITICAL ACCOUNTING ESTIMATES

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

The preparation of consolidated financial statements requires management to make significant judgements, estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses recorded during the reporting period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could be material. The Corporation reviews its estimates and assumptions on an ongoing basis, uses the most current information available and exercises careful judgement in making these estimates and assumptions.

The significant estimates and judgements utilized in preparing the Corporation's consolidated financial statements impact the assessment of net recoverable amounts, net realizable values and fair values, depreciation and amortization rates and useful lives, value of intangible assets, ability to utilize tax losses and other tax measurements, determination of functional currency, determination of the degree of control that exists in determining the corresponding accounting basis, and the selection of accounting policies.

The main assumptions and estimates that were used in preparing the Corporation's consolidated financial statements relate to:

Financial instruments

The valuation of the Corporation's derivative instruments and certain other financial instruments requires estimation of the fair value of each instrument at the reporting date. Details of the basis on which fair value is estimated are provided in note 23 to the consolidated financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2023

Impairment of goodwill and non-financial assets

In determining whether a long-lived asset is impaired, the Company has to exercise judgement and make estimates in assessing (1) whether an event or indicator has occurred that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount (which in the case of value-in-use is the net present value of future cash flows of the continued use of the asset); and (3) the appropriate key assumptions to be applied in estimating the recoverable amount including cash flow projections and an appropriate discount rate.

The recoverable amounts of goodwill, intangible assets and property, plant and equipment are based on estimates and assumptions regarding the expected market outlook and cash flows from each CGU or group of CGUs.

In order to estimate the recoverable amount, the Corporation typically estimates future revenue, considers market factors and estimates future cash flows. Based on these key assumptions, judgements and estimates, the Corporation determines whether to record an impairment charge to reduce the value of the asset carried on the consolidated statements of financial position to its estimated fair value. Assumptions, judgements and estimates about future values are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the Corporation's business strategy or internal forecasts. Although the Corporation believes the assumptions, judgements and estimates made in the past have been reasonable and appropriate, different assumptions, judgements and estimates could materially affect the recoverable amount of the assets being evaluated and the Corporation's reported financial results.

Deferred taxes

Income taxes are determined based on estimates of the Corporation's current income taxes and estimates of deferred income taxes resulting from temporary differences. Deferred tax assets are assessed to determine the likelihood that they will be realized from future taxable income before they expire.

Leases

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend or terminate the lease. The lease term is estimated by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise the termination option. Both qualitative and quantitative assumptions are considered when deriving the value of the economic incentive.

The Corporation makes judgements in determining whether a contract contains an identified asset. The identified asset should be physically distinct or represent substantially all of the capacity of the asset, and should provide the Corporation with the right to substantially all of the economic benefits from the use of the asset.

Judgements are made by the Corporation in determining the incremental borrowing rate used to measure the lease liability for each lease contract, including an estimate of the asset-specific security impact. The incremental borrowing rate should reflect the interest rate that the Corporation would have to pay to borrow at a similar term and with a similar security.

Income (loss) on completion of contracts

To estimate income (loss) on completion, the Corporation takes into account factors inherent to the contract by using historical and/or forecast data.

Repayable government grants

The forecast repayment of grants received from government authorities is based on future sales. As the forecast repayments are closely related to forecasts of future sales set out in business plans prepared by the operating divisions, the estimates and assumptions underlying these business plans are instrumental in determining the timing of these repayments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2023

12. CHANGES IN ACCOUNTING POLICIES

A description of accounting standards adopted in 2023

The following amendments to accounting standards were adopted by the Corporation in the current year.

IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*—these amendments introduce a definition of “accounting estimates” and clarify the difference between changes in accounting policies and changes in accounting estimates. The adoption of these amendments had no impact on the Corporation’s consolidated financial statements.

IAS 1, *Presentation of Financial Statements and IFRS Practice Statement 2: Making materiality judgements*—the IASB issued narrow-scope amendments to IAS 1 in February 2021, the amendments require the disclosure of material accounting policy information rather than significant accounting policies. The Company has adopted these amendments in its consolidated financial statements for the period ended on December 31, 2023.

IAS 12, *Income Taxes*—these amendments clarify how companies should account for deferred taxes related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments narrowed the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, recognition of a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of the related asset and liability is required. The adoption of these amendments had no impact on the Corporation’s consolidated financial statements.

13. 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 are required to certify as at December 31, 2023 that they are responsible for establishing and maintaining, and have assessed the design and operating effectiveness of 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; and (iii) assumptions about the likelihood of future events.

In preparation for this certification, Magellan has dedicated resources in place to document and evaluate the design and operating effectiveness of disclosure controls and procedures and internal control over financial reporting. As of December 31, 2023, an evaluation was carried out, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Corporation’s disclosure controls and internal controls over financial reporting, as those terms are defined in National Instrument 52–109. Based on that evaluation, the Corporation’s management concluded that the Corporation’s design and operating disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2023.

No changes were made in the Corporation’s internal control over financial reporting during the year ended December 31, 2023, that have materially affected, or are reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

Additional information relating to Magellan Aerospace Corporation, including the Corporation’s Annual Information Form is on SEDAR+ at www.sedarplus.ca.

MANAGEMENT'S REPORT

December 31, 2023


To the shareholders of Magellan Aerospace Corporation

The consolidated financial statements of Magellan Aerospace Corporation were prepared by management in accordance with International Financial Reporting Standards. The financial and operating information presented in this annual report is consistent with that shown in the consolidated financial statements.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information. External auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, consisting of non-management directors, has reviewed these consolidated financial statements with management and the auditors and has reported to the Board of Directors. The Board of Directors approved the consolidated financial statements.



Phillip C. Underwood
President and Chief Executive Officer
March 8, 2024



Elena M. Milantoni
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

December 31, 2023

To the Shareholders of
Magellan Aerospace Corporation

Opinion

We have audited the consolidated financial statements of Magellan Aerospace Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment Assessment

Description of the key audit matter

The Group has long-lived assets which includes property, plant and equipment, right-of-use assets and definite-life intangible assets totaling \$415 million which are subject to impairment testing whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. The Group also has goodwill and indefinite-life intangible assets of \$31 million that are required to be tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate their carrying amounts may not be recoverable. Refer to notes 8, 11 and 28 to the consolidated financial statements for details.

In carrying out the impairment assessments, significant judgements are required to estimate the recoverable amounts, being the higher of the fair value less costs of disposal and value in use. The estimation of recoverable amounts involves complex and subjective estimates based on management's judgement of key variables and market conditions. Significant assumptions included forecasted cash flows and discount rates.

INDEPENDENT AUDITORS' REPORT

December 31, 2023

How the key audit matter was addressed in the audit

Our audit procedures included, but were not limited to, the following:

- Evaluating comparable market transactions that support the fair value less costs of disposal of the long-lived assets.
- Assessing discount rates used by management against discount rate ranges independently developed from publicly available data sets, along with the consideration of comparable company metrics.
- Assessing management's assumptions about revenue growth rate forecasts, expected margin realization rates and terminal growth rates in light of historical results and projected future economic and market conditions.
- Challenging management's assumptions and performing additional sensitivity and stress tests for cash generating units where the impairment assessments were more sensitive to changes in estimated inputs.
- Reviewing the disclosures on the assumptions and the outcomes of the impairment testing and the sensitivity analysis presented in the consolidated financial statements.
- Involving our valuation specialists in review of the modelling approach used by management, testing significant assumptions such as discount and growth rates, and assessing the underlying data used by the Group in its models for completeness.

Recognition of revenues on over time contracts

Description of the key audit matter

The Group has approximately \$356 million of revenue recognized over time for the year ended December 31, 2023 as disclosed in Note 25 to the consolidated financial statements. The Group uses the input method to recognize revenue over time, wherein revenue is recognized based on actual costs incurred over the total estimated costs to complete the contracts. The Group estimates the level of total expected costs for each contract, which includes significant judgements for contracts open for more than one year that can have a material impact on the revenue recognized in a reporting period as contracts span multiple accounting periods. For long-term contracts open at year-end, the Group makes subjective judgements related to estimated future labour, materials, and overhead costs. These judgements depend on the complexity and status of the related contract as of the period-end date.

How the key audit matter was addressed in the audit

Our audit approach involved evaluating the revenue recognized over time and challenging judgements and estimates made by the Group in relation to the estimated costs to be incurred. Our audit procedures included, but were not limited to, the following:

- Evaluating contractual arrangements and obtaining an understanding of the projects' performance throughout the year and at year-end through inquiries with project managers from the contract project team.
- Assessing management's assumptions on estimated costs to complete, by comparing the key inputs in the cost estimation forecasts to actual results.
- Evaluating the appropriateness of accumulated costs related to claims and unapproved change orders that can result in additional charges or changes to contract revenues.
- Challenging management's assumptions and performing additional sensitivity and stress tests for judgements and estimates made.

Other Information

Management is responsible for the other information. The other information comprises:

- The information, other than the consolidated financial statements and our auditor's report thereon, included in the 2023 Annual Report, and
- The information included in the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

INDEPENDENT AUDITORS' REPORT

December 31, 2023

We obtained the Management's Discussion and Analysis and 2023 Annual Report prior to the date of this auditor's report. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of the other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT

December 31, 2023

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Daniel Hlavacek.

BDO Canada LLP

BDO Canada LLP
Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
March 8, 2024

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in thousands of Canadian dollars	Notes	December 31 2023	December 31 2022
Current assets			
Cash	4	1,494	40,940
Trade and other receivables	5	211,364	169,562
Contract assets	6	69,052	65,456
Inventories	7	258,448	226,359
Prepaid expenses and other		10,441	9,967
		550,799	512,284
Non-current assets			
Property, plant and equipment	8	359,722	384,084
Right-of-use assets	9	26,857	30,825
Investment properties	10	6,632	1,621
Intangible assets	11	37,402	41,423
Goodwill	11	22,159	22,181
Other assets	12, 24	13,126	9,745
Deferred tax assets	20	8,376	8,731
		474,274	498,610
Total assets		1,025,073	1,010,894
Current liabilities			
Bank indebtedness	13	15,534	–
Accounts payable, accrued liabilities and provisions	14, 18	142,713	133,816
Contract liabilities	6	27,960	36,096
Debt due within one year	15, 16, 17	9,439	11,647
		195,646	181,559
Non-current liabilities			
Long-term debt	15	–	634
Lease liabilities	16	24,314	27,761
Borrowings subject to specific conditions	17, 23	24,166	23,300
Other long-term liabilities and provisions	18	6,089	7,203
Deferred tax liabilities	20	37,441	38,707
		92,010	97,605
Equity			
Share capital	21	250,147	251,104
Contributed surplus		2,044	2,044
Other paid in capital		13,565	13,565
Retained earnings		446,952	442,979
Accumulated other comprehensive income	31	21,332	18,661
Equity attributable to equity holders of the Corporation		734,040	728,353
Non-controlling interest		3,377	3,377
Total liabilities and equity		1,025,073	1,010,894

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Expressed in thousands of Canadian dollars, except per share amounts	Notes	Years ended December 31	
		2023	2022
Revenues	25	879,617	764,580
Cost of revenues	26	790,626	729,515
Gross profit		88,991	35,065
Administrative and general expenses	27	57,296	48,690
Restructuring	28	1,738	3,901
Other	29	5,334	(1,760)
Income (loss) before interest and income taxes		24,623	(15,766)
Interest expense	30	3,689	2,838
Income (loss) before income taxes		20,934	(18,604)
Income tax expense (recovery):			
Current	20	11,974	5,780
Deferred	20	(287)	(2,692)
		11,687	3,088
Net income (loss)		9,247	(21,692)
Other comprehensive income (loss):			
Other comprehensive income (loss) that may be reclassified to profit and loss in subsequent periods:			
Foreign currency translation	31	420	7,385
Unrealized gain (loss) on foreign currency contract hedges, net of tax	20, 23	2,251	(3,255)
Items not to be reclassified to profit and loss in subsequent periods:			
Actuarial income on defined benefit pension plans, net of tax	20, 24	1,125	1,402
Comprehensive income (loss)		13,043	(16,160)
Net income (loss) per share			
Basic	21	0.16	(0.38)
Diluted	21	0.16	(0.38)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Expressed in thousands of Canadian dollars	Attributable to equity holders of the Corporation					Total	Non- controlling interest	Total equity
	Share capital	Contributed surplus	Other paid in capital	Retained earnings	Foreign currency translation			
December 31, 2021	252,342	2,044	13,565	479,965	14,531	762,447	3,377	765,824
IAS 37 amendments adoption	–	–	–	(878)	–	(878)	–	(878)
Net loss	–	–	–	(21,692)	–	(21,692)	–	(21,692)
Other comprehensive income	–	–	–	1,402	4,130	5,532	–	5,532
Common share repurchases	(1,238)	–	–	(824)	–	(2,062)	–	(2,062)
Common share dividends	–	–	–	(14,994)	–	(14,994)	–	(14,994)
December 31, 2022	251,104	2,044	13,565	442,979	18,661	728,353	3,377	731,730
Net income	–	–	–	9,247	–	9,247	–	9,247
Other comprehensive income	–	–	–	1,125	2,671	3,796	–	3,796
Common share repurchases	(957)	–	–	(665)	–	(1,622)	–	(1,622)
Common share dividends	–	–	–	(5,734)	–	(5,734)	–	(5,734)
December 31, 2023	250,147	2,044	13,565	446,952	21,332	734,040	3,377	737,417

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in thousands of Canadian dollars	Notes	Years ended December 31	
		2023	2022
Cash flow from operating activities			
Net income (loss)		9,247	(21,692)
Amortization/depreciation of intangible assets, right-of-use assets and property, plant and equipment	8, 9, 11	46,622	47,405
Impairment of intangibles	11	555	711
Impairment of property, plant and equipment	8	600	1,772
Loss on disposal of property, plant and equipment	8	17	22
Gain on disposal of investment properties		(20)	–
Increase in defined benefit plans	24	2,130	1,249
Accretion of financial liabilities	30	2,221	2,146
Deferred taxes	20	(1,378)	(3,022)
Income on investments in joint ventures	12	(363)	(269)
Other		293	–
Change in non-cash working capital	33	(77,224)	30,218
Net cash (used in) provided by operating activities		(17,300)	58,540
Cash flow from investing activities			
Purchase of property, plant and equipment	8	(19,166)	(23,494)
Proceeds from disposal of property, plant and equipment	8	212	607
Proceeds from disposal of investment properties		354	–
Increase in intangible and other assets		(5,094)	(969)
Net cash used in investing activities		(23,694)	(23,856)
Cash flow from financing activities			
Increase in bank indebtedness	13, 19	15,463	–
Decrease in debt	15, 19	(2,136)	(2,047)
Lease liability payments	16, 19	(5,637)	(5,619)
Increase (decrease) in borrowings subject to specific conditions, net	17, 19	691	(1,327)
Decrease in long-term liabilities and provisions	18, 19	(16)	(225)
Share repurchases	21	(1,622)	(2,062)
Common share dividends	21	(5,734)	(14,994)
Net cash provided by (used in) financing activities		1,009	(26,274)
(Decrease) increase in cash during the year		(39,985)	8,410
Cash at beginning of the year		40,940	32,482
Effect of exchange rate differences		539	48
Cash at end of the year		1,494	40,940

See accompanying notes to the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Description of Business

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 ("TSX"). 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, Magellan 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.

Basis of Presentation

These consolidated financial statements are prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and were approved by the Board of Directors of the Corporation on March 8, 2024.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. These consolidated financial statements have been prepared using IFRS principles applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due. All amounts are presented in Canadian dollars, unless otherwise indicated.

The Corporation's material accounting policies are set out below. These accounting policies have been applied consistently to all periods presented in these consolidated financial statements and by all entities.

Basis of Consolidation

The consolidated financial statements of the Corporation include the assets and liabilities, and the results of operations and cash flows of the Corporation and its subsidiaries and the Corporation's interest in its joint ventures. The consolidated financial statements of entities have a reporting date of December 31. Entities over which the Corporation has control are accounted for as subsidiaries. Control is achieved when the Corporation is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Company also has a 75% interest in an operating subsidiary named Magellan Aerospace (Tumkur) Private Limited. This subsidiary is fully consolidated and a non-controlling interest is recognized for the 25% interest which is not owned. Where the Corporation has the ability to exercise joint control, the entities are accounted for as joint ventures and are incorporated into the consolidated financial statements using the equity method of accounting. Interests acquired in entities are consolidated from the date the Corporation acquires control and interests sold are de-consolidated from the date control ceases. The material wholly owned operating subsidiaries of the Corporation are:

- Magellan Aerospace Limited
- Magellan Aerospace (UK) Limited
- Magellan Aerospace USA, Inc.

The effects of intragroup transactions are eliminated. Trade receivables and accounts payable as well as expenses and income between the consolidated entities are netted. Internal sales are transacted on the basis of market prices and intragroup profits and losses are eliminated.

Determination of Fair Value

Fair value is determined based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using the assumptions that market participants would use when pricing an asset or liability. Fair value is determined by using quoted prices in active markets for identical or similar assets or liabilities. When quoted prices in active markets are not available, fair value is determined using valuation techniques that maximize the use of observable inputs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

When observable valuation inputs are not available, significant judgement is required to determine fair value by assessing the valuation techniques and valuation inputs. The use of alternative valuation techniques or valuation inputs may result in a different fair value.

Foreign Currency Translation

The consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

Foreign currency denominated monetary assets and liabilities are translated at the rates of exchange at the statement of financial position date. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at that date, whereas non-monetary items measured at historic cost, are translated using the exchange rate prevailing on the transaction date. Translation gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in income.

Assets and liabilities of foreign operations that have a functional currency different from the presentation currency are translated using the closing exchange rate prevailing at the reporting date and revenues and expenses at average exchange rates during the period. Translation gains and losses on currency translation are recognized as a separate component of equity in other accumulated comprehensive income and do not have any impact on the net income (loss) for the year.

Segment Reporting

Management has determined the operating segments based on information regularly reviewed for the purposes of decision making, allocating resources and assessing performance by the Corporation's chief operating decision makers. The Corporation evaluates the financial performance of its operating segments primarily based on net income (loss) before interest and income taxes.

Revenue Recognition

Revenue is primarily comprised of sales of goods and rendering of services and recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Corporation expects to be entitled in exchange for those goods or services. The Corporation's revenue recognition methodology is determined on a contract-by-contract basis.

Performance Obligation

A performance obligation is a contractual promise with a customer to transfer a distinct good or service and is the unit of account for revenue recognition.

The Corporation accounts for a contract with customers when it has approval and commitment from both parties, each party's rights have been identified, payment terms are defined, the contract has commercial substance and collection is probable. The Corporation is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

A contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The transaction price includes, among other things and when applicable, an estimate of variable consideration to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur at the time when the uncertainty associated with the variable consideration is resolved. Variable consideration is usually derived from sales incentives, in the form of discounts or volume rebates. The estimation of variable consideration is largely based on the assessment of the Corporation's historical, current and forecasted information that is reasonably available.

For contracts with multiple performance obligations, the contract transaction price, including variable consideration when applicable, is allocated based on the estimated relative stand-alone price of the promised goods or services underlying each performance obligation. The Corporation generally uses the expected cost plus a margin approach to estimate the stand-alone selling price of each performance obligation when a stand-alone selling price is not directly observable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

Revenues from sale of goods are recognized over time when the Corporation's performance does not create an asset with alternative use and the Corporation has an enforceable right to payment for performance completed to date. The Corporation recognizes revenue over time using the cost-to-cost input method, which recognizes revenue as performance of the contract progresses. Contracts that do not meet the criteria for over time recognition are recognized at a point in time when the goods are dispatched or made available to the customer. The sale of consignment products are recognized on notification that the product has been used.

Revenues from rendering services are recognized over time as customers simultaneously receive and consume the benefits provided by the Corporation. The Corporation recognizes revenues for repair and overhaul services using the cost-to-cost input method as the basis for measuring the progress on the contract.

Other revenues are recognized at a point in time or over time as performance obligations are satisfied, depending on the nature of the contract.

The Corporation typically provides warranties for general repairs of defects that existed at the time of sale, as required by law. These assurance-type warranties are not separate performance obligations and are accounted for under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Contract Balances

Contract assets include unbilled amounts when over time method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer, and right to payment is not just subject to the passage of time. Amounts may not exceed their net realizable value. Contract assets are generally classified as current.

Contract liabilities consist of advance payments and deferred revenue. Contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. Advance payments are classified as current or non-current based on the timing of when revenue is expected to be recognized. The non-current portion of contract liabilities, if applicable, is included in other long-term liabilities and provisions in the consolidated statement of financial position.

Government Assistance

Government assistance is comprised of investment tax credits and scientific research and experimental development tax credits. These credits are recognized when there is reasonable assurance of their recovery using the cost reduction method. Investment tax credits are subject to the customary approvals by the pertinent tax authorities. Adjustments required, if any, are reflected in the year when such assessments are received.

Employee Benefits

Defined benefit plans

The Corporation's obligation in respect of defined benefit plans is determined periodically by independent actuaries using the projected unit credit method in accordance with IAS 19, Employee Benefits. Actuarial gains and losses are recognized in full in the period in which they occur, and are recognized in other comprehensive income and immediately transferred to retained earnings. Past service cost is recognized immediately to the extent the benefits are already vested, or otherwise is recognized on a straight-line basis over the average period until the benefits become vested. Curtailments due to the significant reduction of the expected years of future services of current employees or the elimination of the accrual of defined benefits for some or all of the future services for a significant number of employees are recognized immediately as a gain or loss in the consolidated statements of income (loss).

The defined benefit surplus or deficit represents the fair value of the plan assets less the present value of the defined benefit obligations. The recognition of a surplus has been limited to the present value of any economic benefits available in the form of reductions in future contributions to the plan, based on the plan's current funded status, the most recently filed actuarial report, and applicable pension legislation. Where a past service minimum funding requirement exists in a plan, an additional liability could arise for a plan, depending on the economic benefit available. A deficit is generally recognized in full.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

Defined contribution plans

Obligations for contributions to defined contribution plans are recognized as an expense in the consolidated statements of income (loss) as incurred.

Share-based compensation

The fair value of awards made under share-based compensation plans is measured at the grant date and allocated over the vesting period, based on the best available estimate of the number of share options expected to vest, in the consolidated statements of income (loss) with a corresponding increase in equity. The fair value is measured using an appropriate valuation model taking into account the terms and conditions of the individual plans. The amount recognized as an expense is adjusted to reflect the actual awards vesting except where any change in the awards vesting relates only to market-based criteria not being achieved.

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model, taking into account the terms and conditions upon which the share awards were granted. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized in the consolidated statements of income (loss).

Taxation

The tax charge for the period consists of both current and deferred income tax. Taxation is recognized as a charge or credit in the consolidated statements of income (loss) except to the extent that it relates to items recognized directly to equity in which case the related tax is also recognized in equity.

Current income tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are established using the balance sheet liability method, providing for temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible timing differences can be utilized.

Deferred tax liabilities are not recognized for temporary differences arising on investment in subsidiaries where the Corporation is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is calculated at the enacted or substantively enacted tax rates that are expected to apply in the period when the liability is settled or the asset is realized.

Deferred income tax assets and liabilities are only offset where they arise within the same entity and tax jurisdiction. Deferred income tax assets and liabilities are presented as non-current.

Inventories

Inventory is stated at the lower of average cost and net realizable value.

The unit cost method is the prescribed cost method under which the actual production costs are charged to each unit produced and recognized to income as the unit is sold.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment in value. Cost includes the purchase price (after deducting trade discounts and rebates), any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the estimate of the present value of the costs of dismantling and removing the item and restoring the site. Subsequent costs are included in the assets carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of property, plant and equipment are recognized in the consolidated statements of income (loss) as incurred.

Depreciation is calculated using the straight-line method to allocate the cost of property, plant and equipment to their residual values over their estimated useful lives.

Scheduled depreciation is based on the following useful lives:

Assets	In Years
Buildings	40
Machinery and equipment	10-20
Tooling	5-7
Leasehold improvements	term of lease

The residual values, useful lives and depreciation methods pertaining to property, plant and equipment are regularly assessed for relevance, at least at every statement of financial position date, and adjustments are made when necessary. An asset's carrying value is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. These impairment losses are recognized in the consolidated statements of income (loss). Following the recognition of an impairment loss, the depreciation charge applicable to the asset is adjusted prospectively in order to systematically allocate the revised carrying amount, net of any residual value, over the remaining useful life.

Investment Properties

Investment property is property held to earn rental income and/or for capital appreciation rather than for the purpose of the Corporation's operating activities. Investment property assets are carried at cost less accumulated depreciation and any recognized impairment in value. The depreciation policies for investment property are consistent with those described for property, plant and equipment.

Intangible Assets

Externally acquired and internally generated intangible assets are recognized only if they meet strict criteria, relating in particular to technical feasibility, probability that a future economic benefit associated with the asset will flow to the entity and the cost of the asset can be measured reliably. Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Intangible assets with a finite useful life are stated at cost and amortized on a unit of production basis or straight-line basis as appropriate. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statements of income (loss) when the asset is de-recognized.

Leases

At inception of a contract, the Corporation assesses whether the contract is, or contains, a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset. Leases with a term of twelve months or less are not recorded by the Corporation on the consolidated statements of financial position.

Lessee accounting

The Corporation records a right-of-use asset and a lease liability at the lease commencement date based on the present value of the future lease payments over the lease term.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate. After the commencement date, the lease liability shall be remeasured to reflect changes to the lease payments. Variable lease payments that depend on an index or a rate are included in the measurement of the lease liability when information is available. The right-of-use asset is typically depreciated on a straight-line basis over the lease term unless the Corporation expects to obtain ownership of the leased asset at the end of the lease.

Certain of the Corporation's leases contain extension or renewal options. At lease commencement, the Corporation assesses whether it will be reasonably certain to exercise any of the extension options based on its expected economic return from the lease. The Corporation periodically reassesses whether it will be reasonably certain to exercise the options and accounts for any changes at the date of reassessment.

Lessor accounting

When the Corporation acts as a lessor, it assesses at lease inception whether the lease transfers to the lessee substantially all of the risks and rewards incidental to ownership of the underlying asset. If it does, the lease is a finance lease, if not, it is an operating lease.

Business Combinations and Goodwill

The Corporation accounts for business combinations using the acquisition method, under which the acquirer measures the cost of the business combination as the total of the fair values, at the date of exchange, of the assets transferred, liabilities assumed and equity instruments issued by the acquirer in exchange for control of the acquiree. Goodwill is measured as the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally the fair value) of the identifiable assets and liabilities assumed, measured as at the acquisition date. The primary items that generate goodwill include the value of the synergies between the acquired company and the Corporation and the value of the acquired assembled workforce, neither of which qualifies for recognition as an intangible asset. Goodwill is assigned to one or more cash-generating units ("CGU") on the date of acquisition. Acquisition-related expenses and post-acquisition restructuring costs are recognized separately from the business combination and are expensed as incurred.

Impairment of Non-Financial Assets

The carrying amounts of the Corporation's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset or its CGUs recoverable amount is estimated. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Non-financial assets that have an indefinite useful life such as goodwill and certain intangible assets, are not subject to amortization and are therefore tested annually for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which goodwill is allocated must represent the lowest level at which the goodwill is monitored for internal management purposes and must not be, before allocating the goodwill, larger than an operating segment.

The Corporation's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in net income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amounts of the other assets in the CGU or group of CGUs on a pro rata basis of the carrying amount of each asset of the CGU that is subject to the impairment test.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Financial Instruments

The Corporation recognizes financial assets and financial liabilities ("financial instruments") on the date the Corporation becomes a party to the contractual provisions of the instruments. A financial asset is derecognized either when the Corporation has transferred substantially all the risks and rewards of ownership of the financial asset or when cash flows expire. A financial liability is derecognized when the obligation specified in the contract is discharged, canceled or expired.

The Corporation's financial instruments include cash and cash equivalents, trade and other receivables, contract assets and liabilities, accounts payable and accrued liabilities, lease liabilities, bank indebtedness, long-term debt, borrowings subject to specific conditions, and other non-derivative and derivative financial assets and liabilities.

The classifications of financial instruments are typically determined at the time of initial recognition and are recognized at fair value, plus attributable transaction costs where applicable. Subsequent to initial recognition, financial instruments are classified and measured as described below.

Financial instruments at fair value

Cash and cash equivalents are classified as financial assets at fair value through profit or loss, derivative instruments are classified as either financial assets or financial liabilities at fair value through comprehensive income or loss and are measured at fair value. Cash equivalents are short-term investments with initial maturities of three months or less. The Corporation manages its foreign currency and interest rate exposures through the use of derivative financial instruments. Where permissible, the Corporation accounts for these financial instruments as hedges, which ensures that counterbalancing gains and losses are recognized in income in the same period. With hedge accounting, changes in the fair value of the derivative financial instruments designated as cash flow hedges are recorded in other comprehensive income (loss) until the variability of cash flows relating to the hedged asset or liability is recognized in income (loss). Hedging instruments are reviewed on a regular basis to ensure hedges are still effective and that hedge accounting continues to be appropriate. When the hedge instrument no longer meets the criteria for hedge accounting or derivatives are not designated in a hedging relationship, they are classified as held-for-trading and changes in fair value are immediately recognized in profit or loss. Transaction costs incurred to acquire financial instruments are included in the underlying balance.

Financial instruments carried at amortized cost

Financial instruments in this category include trade and other receivables, contract assets and liabilities, accounts payable and accrued liabilities, bank indebtedness, borrowing subject to specific conditions, lease liabilities and long-term debt. Financial instruments are recorded initially at fair value and, in the case of financial assets and liabilities carried at amortized cost, adjusted for directly attributable transaction costs. Trade and other receivables include originated non-derivative financial assets with fixed or determined payments that are not quoted in an active market and are subsequently measured at amortized cost and is computed using the effective interest method less any allowance for impairment. Accounts payables and accrued liabilities, bank indebtedness, borrowing subject to specific conditions, finance lease liabilities and long-term debt are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees. The effective interest rate accretion is included as finance costs in the consolidated statements of income (loss).

Impairment

The expected credit loss impairment model applies to financial assets carried at amortized costs. The model uses a dual measurement approach, under which the loss allowance is measured as either 12 month expected credit losses or at the lifetime expected credit losses. The Corporation applies the simplified approach and records lifetime expected losses on accounts receivables and contract assets based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. If in a subsequent year, the amount of the estimated impairment loss increases or decreases due to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the carrying value of the financial assets. If a past write-off is later recovered, the recovery is recognized in the consolidated statements of income (loss).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

Provisions

A provision is recognized when there is a present legal or constructive obligation, as a result of a past event, which is more likely than not to result in an outflow of economic benefits and where a reliable estimate of the amount of the obligation can be made. If the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax risk-free rate and, where appropriate, the risks specific to the liability. A provision for onerous contracts is recognized when the expected benefits to be derived from the contracts are less than the related unavoidable costs of meeting its obligations under the contract. Such provisions are recorded as write-downs of work-in-progress for that portion of the work which has already been completed, and as liability provisions for the remainder.

Comparative Numbers

Certain classifications of the comparative figures have been changed to conform to those used in the current period.

2. SIGNIFICANT ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements requires management to make significant judgements, estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses recorded during the reporting period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could be material. The Corporation reviews its estimates and assumptions on an ongoing basis, uses the most current information available and exercises careful judgement in making these estimates and assumptions.

The significant estimates and judgements utilized in preparing the Corporation's consolidated financial statements impact the assessment of net recoverable amounts, net realizable values and fair values, depreciation and amortization rates and useful lives, value of intangible assets, ability to utilize tax losses and other tax measurements, determination of functional currency, determination of the degree of control that exists in determining the corresponding accounting basis, and the selection of accounting policies.

The main assumptions and estimates that were used in preparing the Corporation's consolidated financial statements relate to:

Financial instruments

The valuation of the Corporation's derivative instruments and certain other financial instruments requires estimation of the fair value of each instrument at the reporting date. Details of the basis on which fair value is estimated are provided in note 23 to the consolidated financial statements.

Impairment of goodwill and non-financial assets

In determining whether a long-lived asset is impaired, the Company has to exercise judgement and make estimates in assessing (1) whether an event or indicator has occurred that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount (which in the case of value-in-use is the net present value of future cash flows of the continued use of the asset); and (3) the appropriate key assumptions to be applied in estimating the recoverable amount including cash flow projections and an appropriate discount rate.

The recoverable amounts of goodwill, intangible assets and property, plant and equipment are based on estimates and assumptions regarding the expected market outlook and cash flows from each CGU or group of CGUs.

In order to estimate the recoverable amount, the Corporation typically estimates future revenue, considers market factors and estimates future cash flows. Based on these key assumptions, judgements and estimates, the Corporation determines whether to record an impairment charge to reduce the value of the asset carried on the consolidated statements of financial position to its estimated fair value. Assumptions, judgements and estimates about future values are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the Corporation's business strategy or internal forecasts. Although the Corporation believes the assumptions, judgements and estimates made in the past have been reasonable and appropriate, different assumptions, judgements and estimates could materially affect the recoverable amount of the assets being evaluated and the Corporation's reported financial results.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

Deferred taxes

Income taxes are determined based on estimates of the Corporation's current income taxes and estimates of deferred income taxes resulting from temporary differences. Deferred tax assets are assessed to determine the likelihood that they will be realized from future taxable income before they expire.

Leases

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend or terminate the lease. The lease term is estimated by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise the termination option. Both qualitative and quantitative assumptions are considered when deriving the value of the economic incentive.

The Corporation makes judgements in determining whether a contract contains an identified asset. The identified asset should be physically distinct or represent substantially all of the capacity of the asset, and should provide the Corporation with the right to substantially all of the economic benefits from the use of the asset.

Judgements are made by the Corporation in determining the incremental borrowing rate used to measure the lease liability for each lease contract, including an estimate of the asset-specific security impact. The incremental borrowing rate should reflect the interest rate that the Corporation would have to pay to borrow at a similar term and with a similar security.

Income (loss) on completion of contracts

To estimate income (loss) on completion, the Corporation takes into account factors inherent to the contract by using historical and/or forecast data.

Repayable government grants

The forecast repayment of grants received from government authorities is based on future sales. As the forecast repayments are closely related to forecasts of future sales set out in business plans prepared by the operating divisions, the estimates and assumptions underlying these business plans are instrumental in determining the timing of these repayments.

3. NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

New and Amended International Financial Reporting Standards Adopted in 2023

The following amendments to accounting standards were adopted by the Corporation in the current year.

IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*—these amendments introduce a definition of “accounting estimates” and clarify the difference between changes in accounting policies and changes in accounting estimates. The adoption of these amendments had no impact on the Corporation's consolidated financial statements.

IAS 1, *Presentation of Financial Statements and IFRS Practice Statement 2: Making materiality judgements*—the IASB issued narrow-scope amendments to IAS 1 in February 2021, the amendments require the disclosure of material accounting policy information rather than significant accounting policies. The Company has adopted these amendments in its consolidated financial statements for the period ended on December 31, 2023.

IAS 12, *Income Taxes*—these amendments clarify how companies should account for deferred taxes related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments narrowed the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, recognition of a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of the related asset and liability is required. The adoption of these amendments had no impact on the Corporation's consolidated financial statements.

New and Amended International Financial Reporting Standards to be Adopted in 2024 or Later

The following new standards and amendments to existing standards were issued by the IASB and are expected to be adopted by the Corporation in 2024 or later.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

- Amendments to IAS 1—*Presentation of Financial Statements*, clarifying the requirements for classifying liabilities as current or non-current. The amendments help to determine whether, in the consolidated statements of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. Classification requirements were also introduced for debt an entity might settle by converting it into equity. These amendments also clarify that only covenants with which an entity is obliged to comply with on or before the reporting date will affect a liability's classification as current or non-current. Further, disclosure is required for any information that enables users of financial statements to comprehend the possibility that non-current liabilities with covenants may become payable within 12 months. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. The Corporation does not expect the adoption to have an impact on its consolidated financial statements.
- Amendments to IFRS 16—*Lease Liability in a Sale and Leaseback*, specifying the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. The Corporation does not expect the adoption to have an impact on its consolidated financial statements.
- Amendments to IAS 7 and IFRS 7—*Supplier Finance Arrangements*, requiring specific disclosure to be presented to enhance current disclosure requirements, which are intended to assist users of the financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. The Corporation does not expect the adoption to have an impact on its consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

	December 31	December 31
	2023	2022
Cash on hand	1,494	38,194
Short-term deposits	–	2,746
	1,494	40,940

Cash and cash equivalents consist of bank balances and short-term deposits held by the Corporation on a short-term basis with original maturities of three months or less. The carrying amount of these assets approximates their fair value.

5. TRADE AND OTHER RECEIVABLES

	December 31	December 31
	2023	2022
Trade receivables	182,927	136,352
Less allowance for doubtful accounts	(380)	(751)
Net trade receivables	182,547	135,601
Other receivables	28,817	33,961
	211,364	169,562

Aging of trade receivables:

	Current	Less than 90 days	91-181 days	182-365 days	More than 365 days	Total
December 31, 2022	125,376	8,762	1,285	400	529	136,352
December 31, 2023	166,480	13,649	930	1,019	849	182,927

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

6. CONTRACT BALANCES

	December 31 2023	December 31 2022
Contract assets	69,052	65,456
Contract liabilities	(27,960)	(36,096)
Net contract balances	41,092	29,360

Contract assets relate to the Corporation's right to consideration for performance completed under the contract and not invoiced. The contract assets are transferred to trade and other receivables when the right to consideration becomes unconditional. Contract liabilities relate to payments received in advance of performance under the contract. Contract liabilities are recognized as revenue when the Corporation performs under the contract.

Revenue recognized in the period from:

	2023	2022
Amounts included in contract liabilities at the beginning of the year	27,876	13,418

7. INVENTORIES

	Raw materials	Work in progress	Finished goods	Total
At December 31, 2022	68,739	123,060	34,560	226,359
At December 31, 2023	75,725	150,011	32,712	258,448

The cost of inventories recognized as expense and included in cost of sales for the year ended December 31, 2023 amounted to \$793,878 [2022-\$737,456].

During the year ended December 31, 2023, the Corporation recorded an impairment expense related to the write-down of inventory in the amount of \$4,354 [2022-\$4,175]. The Corporation also recorded reversals of previous write-downs of inventory in the amount of \$624 [2022-\$2,107] due to the sale of inventory previously provided for. The carrying amount of inventory recorded at net realizable value was \$41,526 as at December 31, 2023 [2022-\$36,209], with the remaining inventory recorded at cost.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Tooling	Total
Cost					
At December 31, 2021	23,852	138,112	700,000	56,978	918,942
Additions	–	5,019	17,350	1,125	23,494
Disposals and other	–	30	(9,960)	(283)	(10,213)
Foreign currency translation	610	3,185	9,867	3,134	16,796
At December 31, 2022	24,462	146,346	717,257	60,954	949,019
Additions	1,911	–	17,466	806	20,183
Transfers to investment properties [note 10]	(2,762)	(4,254)	–	–	(7,016)
Disposals and other	–	203	(9,307)	14	(9,090)
Foreign currency translation	(172)	(486)	(3,272)	(1,166)	(5,096)
At December 31, 2023	23,439	141,809	722,144	60,608	948,000
Accumulated depreciation and impairment					
At December 31, 2021	–	(63,466)	(408,415)	(50,216)	(522,097)
Depreciation and impairment [note 28]	–	(4,531)	(32,184)	(1,360)	(38,075)
Disposal and other	–	(265)	10,518	122	10,375
Foreign currency translation	–	(1,701)	(10,512)	(2,925)	(15,138)
At December 31, 2022	–	(69,963)	(440,593)	(54,379)	(564,935)
Depreciation and impairment	–	(4,769)	(31,083)	(1,175)	(37,027)
Transfers to investment properties [note 10]	–	1,578	–	–	1,578
Disposal and other	–	(3)	7,339	2	7,338
Foreign currency translation	–	555	3,113	1,100	4,768
At December 31, 2023	–	(72,602)	(461,224)	(54,452)	(588,278)
Net book value					
At December 31, 2022	24,462	76,383	276,664	6,575	384,084
At December 31, 2023	23,439	69,207	260,920	6,156	359,722

Included in the above are assets under construction in the amount of \$11,563 [December 31, 2022–\$18,747], which as at December 31, 2023 are not amortized.

As part of its assessment of indicators of impairment in 2023, the Company determined that indicators of impairment were present at certain CGU's and impairment assessments were conducted. The recoverable amount for each CGU was determined as the higher of value-in-use ("VIU") or fair value less costs to sell ("FVLCS"). No impairment has been recognized from the Company's testing at the CGU level.

Included in the depreciation and impairment amount for 2023 are impairment charges of \$600. The charges relate to impairment indicators identified for specific programs at one of the Company's facilities. The impairment was measured using a VIU approach.

Included in the depreciation and impairment amount for 2022 are impairment charges of \$1,772. The charges relate to assets made obsolete at one of the Company's U.K facilities as a result of a multi-year restructuring plan (see note 28). The impairment charge was measured using a FVLCS approach.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

9. RIGHT-OF-USE ASSETS

	Buildings	Machinery, equipment and other	Total
At December 31, 2021	33,523	866	34,389
Additions	–	–	–
Depreciation, disposals and other	(3,927)	(386)	(4,313)
Foreign currency translation	735	14	749
At December 31, 2022	30,331	494	30,825
Additions	27	337	364
Depreciation, disposals and other	(3,900)	(277)	(4,177)
Foreign currency translation	(167)	12	(155)
At December 31, 2023	26,291	566	26,857

10. INVESTMENT PROPERTIES

	Cost	Accumulated depreciation, disposal, and impairment	Net book value
At December 31, 2022	8,633	(7,012)	1,621
At December 31, 2023	15,264	(8,632)	6,632

The Corporation's investment properties consist of land and buildings. Depreciation expense recognized in relation to the buildings in 2023 was \$118 [2022–\$22]. The Corporation recorded rental income from investment properties of \$687 in 2023 [2022–\$550].

In 2023, the closure and repurposing of the manufacturing facilities at the Corporation's Bournemouth facility changed the use of the property to an investment property earning rental income. The property, consisting of land and buildings, was reclassified from property, plant and equipment at its cost less accumulated depreciation net carrying value of \$5,438.

The fair value of the Corporation's investment properties was \$29,360 [2022–\$24,925] at December 31, 2023. The fair value was determined through the use of the market comparable approach and discounted cash flows approach which are categorized as a Level 3 in the fair value hierarchy. In 2023, the Corporation obtained opinions from external valuers, with experience in the real estate market, on \$29,360 of the total fair values of the Corporation's investment properties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

11. INTANGIBLE ASSETS AND GOODWILL

	Technology rights	Development costs	Other intangibles	Total intangible assets	Goodwill	Total intangible assets and goodwill
Cost						
At December 31, 2021	45,128	130,519	47,058	222,705	33,784	256,489
Additions	–	23	1,701	1,724	–	1,724
Foreign currency translation	128	221	(150)	199	(177)	22
At December 31, 2022	45,256	130,763	48,609	224,628	33,607	258,235
Additions	–	141	1,562	1,703	–	1,703
Disposals and other	–	(1,178)	–	(1,178)	–	(1,178)
Foreign currency translation	(48)	(104)	358	206	338	544
At December 31, 2023	45,208	129,622	50,529	225,359	33,945	259,304
Amortization and impairment						
At December 31, 2021	(38,503)	(118,219)	(18,211)	(174,933)	(11,992)	(186,925)
Amortization and impairment	(1,470)	(3,791)	(2,280)	(7,541)	–	(7,541)
Foreign currency translation	(106)	(893)	268	(731)	566	(165)
At December 31, 2022	(40,079)	(122,903)	(20,223)	(183,205)	(11,426)	(194,631)
Amortization and impairment	(1,178)	(2,269)	(2,421)	(5,868)	–	(5,868)
Disposals and other	–	1,178	–	1,178	–	1,178
Foreign currency translation	43	137	(242)	(62)	(360)	(422)
At December 31, 2023	(41,214)	(123,857)	(22,886)	(187,957)	(11,786)	(199,743)
Net book value						
At December 31, 2022	5,177	7,860	28,386	41,423	22,181	63,604
At December 31, 2023	3,994	5,765	27,643	37,402	22,159	59,561

Technology rights relate to an agreement which permits the Corporation to manufacture aerospace engine components and share in the revenue generated by the final sale of the engine.

The Corporation has certain programs that meet the criteria for deferral and amortization of development costs. Development costs are capitalized for clearly defined, technically feasible technologies which management intends to produce and promote to an identified future market, and for which resources exist or are expected to be available to complete the project. The Corporation records amortization in arriving at the carrying value of deferred development costs once the development activities have been completed and sales of the related product have commenced. The Corporation estimates the intangible assets to be amortized over a period up to 20 years based on units of production.

Included in the amortization and impairment amount for 2023 for development costs is impairment charges of \$555 [2022—\$711]. The charges relate to impairment indicators identified for specific programs at one of the Company's facilities. The impairment was measured using a VIU approach.

Other intangibles relate to application software, customer lists, brands and technical processes. Application software will be amortized over a 10 year period, customer lists will be amortized over a 5 year period and technical processes will be amortized over a 15 year period. Brands of \$8,799 (£5,226) [2022—\$8,530 (£5,226)] with indefinite useful lives assets are not subject to amortization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

As described in note 1, the carrying values of goodwill and intangible assets with indefinite lives are tested for impairment annually. The Corporation's impairment test for goodwill and intangible assets with indefinite useful lives was based on the recoverable amount determined on its value in use using a measurement date of October 1st. The Company's goodwill amount is allocated between two CGU's in amounts of \$9,344 [2022-\$9,058] and \$12,815 [2022-\$13,123] respectively. The key assumptions used to determine the recoverable amount are discussed below.

In the assessment of impairment, management used industry guidance, historical data and past experience as the key assumptions in the determination of the recoverable amount of the two CGUs. The VIU was determined based on the present value of the estimated free cash flows for the two CGUs. The cash flow projections, covering a five-year period plus a terminal year, were based on financial projections approved by management using assumptions that reflect the Corporation's most likely planned course of action, given management's judgement of the most probable set of economic conditions. These projections are inherently uncertain and continually evolving in an unpredictable manner which present many variables and contingencies for modeling. Discount rates of 11.7% [2022—11.7%] and 10.5% [2022—10.5%] per annum were used for the two CGUs, respectively, based on management's best estimate of the Corporation's weighted average cost of capital adjusted for the risks facing the CGU. Annual growth rates of 2% [2022—2%] and 3% [2022—3%] were used in the terminal year given the businesses' anticipated growth. The Corporation determined that the recoverable amounts for the two CGUs were higher than the carrying value. If the discount rate for the CGUs increased by 1%, the recoverable amount for both CGUs would be less than the carrying value.

12. INVESTMENTS IN JOINT VENTURES

The Corporation has interests in a number of individually non-material joint ventures. The Corporation's joint ventures are private entities that are not listed on any public exchange. All operations are continuing. To support the activities of certain joint ventures, the Corporation and the other investors in the joint ventures have agreed to make additional contributions, in proportion to their interests, to make up any losses, if required. In addition, profits of the joint ventures are not distributed until the parties to the arrangement provide consent for distribution. The Corporation has no share of any contingent liabilities or capital commitments in its joint ventures as at December 31, 2023 and December 31, 2022.

	December 31	December 31
	2023	2022
Balance, beginning of the year	2,722	2,453
Share of total comprehensive income (loss)	363	269
Balance, end of the year	3,085	2,722

13. 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. Indebtedness under the facility bears interest at bankers' acceptance or adjusted Secured Overnight Financing Rate ("SOFR") rates plus 1.00%. A fixed and floating charge debenture on accounts receivable, inventories and property, plant and equipment is pledged as collateral for the operating credit facility.

As at December 31, 2023, the Corporation had drawn \$26,310 under the operating credit facility, including letters of credit totalling \$3,561 [December 31, 2022-\$4,614] such that \$48,690 [December 31, 2022-\$70,386] was available to be drawn on.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

14. ACCOUNTS PAYABLE, ACCRUED LIABILITIES AND PROVISIONS

	December 31	December 31
	2023	2022
Accounts payable	65,978	69,316
Accrued liabilities	72,855	62,287
Provisions [note 18]	3,880	2,213
	142,713	133,816

15. LONG-TERM DEBT

	December 31	December 31
	2023	2022
Other loans	3,348	5,465
	3,348	5,465
Less: current portion	(3,348)	(4,831)
	—	634

Other loans include a loan of \$716 [2022—\$2,770] provided by governmental authorities (“Government Loan”) that bears interest of approximately 5.375% [2022—2.875%]. The Government Loan matures in April 2024 with accrued interest and principal repayable monthly.

Also included in other loans is a bank loan of \$2,632 (USD\$1,990) [2022—\$2,695 (USD\$1,990)] used to finance capital expenditures. The bank loan expires on October 31, 2024 and bears interest at SOFR plus 3.00% for a rate of 8.38% [2022-7.31%]. Land, machinery and equipment were pledged as collateral for the bank loan.

16. LEASE LIABILITIES

The majority of the Corporation’s leases relate to the rental of land and buildings. A continuity summary of the Corporation’s lease liabilities is as follows:

	2023	2022
Lease liabilities—at January 1	33,240	36,358
Additions	373	18
Accretion on lease liabilities	1,378	1,677
Payments	(5,637)	(5,636)
Foreign exchange and other	(225)	823
Lease liabilities—at December 31	29,129	33,240
Less: current portion	(4,815)	(5,479)
	24,314	27,761

Contractual undiscounted cash flows for lease obligations:

	December 31
	2023
Less than one year	4,815
One to five years	15,987
Over five years	14,964
	35,766

Expenses for short-term leases and leases of low-dollar value items are not material. There are no variable lease payments which are not included in the measurement of lease obligations. All extension options have been considered in the measurement of lease obligations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

17. BORROWINGS SUBJECT TO SPECIFIC CONDITIONS

The Corporation has received proceeds related to the development of its technologies and processes from Canadian government agencies. The contributions have been deducted in calculating the Corporation's investment in intangible assets, property plant and equipment or from the expense to which they relate. These amounts, plus, in certain cases, an implied return on the investment, are repayable as future royalty payments. The Corporation has included in borrowings subject to specific conditions the estimated amount of repayments based on future estimated sales in relation to the contributions received. During 2023, the Corporation received \$2,028 of government proceeds [2022—Nil] and repaid \$1,337 [2022—\$1,327]. A summary of the Corporation's borrowings subject to specific conditions is as follows:

	2023	2022
Borrowings subject to specific conditions—at December 31	25,442	24,637
Less: current portion	(1,276)	(1,337)
	24,166	23,300

18. OTHER LONG-TERM LIABILITIES AND PROVISIONS

	December 31 2023	December 31 2022
Provisions	6,402	4,700
Other	3,567	4,716
	9,969	9,416
Less current portion included in accounts payable, accrued liabilities and provisions	(3,880)	(2,213)
	6,089	7,203

Movements in provisions:

	Warranty	Environmental	Other provisions	Total
At December 31, 2021	931	2,758	1,284	4,973
Additional provisions [note 28]	678	–	548	1,226
Amount used	(533)	–	(445)	(978)
Unused amounts reversed	(20)	–	(274)	(294)
Unwind of discount	–	(198)	–	(198)
Foreign currency translation	9	–	(38)	(29)
At December 31, 2022	1,065	2,560	1,075	4,700
Additional provisions [note 28]	1,472	1,017	1,056	3,545
Amount used	(885)	–	(813)	(1,698)
Unused amounts reversed	–	–	(243)	(243)
Unwind of discount	–	81	–	81
Foreign currency translation	(3)	4	16	17
At December 31, 2023	1,649	3,662	1,091	6,402

Warranty

During the normal course of its business, the Corporation assumes the cost of certain components under warranties offered on its products. This provision for a warranty is based on historical data associated with similar products and is recorded as a current liability. Nevertheless, conditions may change and a significant amount may need to be recorded.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Environmental

Provisions for environment liabilities have been recorded for costs related to site restoration obligations. Due to the long-term nature of the liability, the related long-term portion of the liability is included in long-term liabilities.

Other

This category of provisions includes provisions related to legal, onerous contracts, and other liabilities. The provisions are based on the Corporation's best estimate of the amount of the expenditure required to address the matters.

19. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	December 31 2022	Cash flows	Foreign exchange	Other	December 31 2023
Bank indebtedness	–	15,463	71	–	15,534
Long-term debt	5,465	(2,136)	(63)	82	3,348
Lease liabilities	33,240	(5,637)	(217)	1,743	29,129
Borrowings subject to specific conditions	24,637	691	–	114	25,442
Long-term liabilities and provisions	7,203	(16)	(615)	(483)	6,089
Total	70,545	8,365	(824)	1,456	79,542

The "Other" column includes the effect of allocation of borrowing subject to specific conditions to the related assets and expenses, and the effect of interest accretion on interest bearing loans, borrowings and lease liabilities.

20. INCOME TAXES

Major components of income tax expense:

	2023	2022
Current income tax expense (recovery)		
Current tax expense for the year	10,075	5,990
Current tax expense (recovery) for prior years	1,899	(210)
	11,974	5,780
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	(526)	(2,531)
Impact of tax law changes	239	(161)
	(287)	(2,692)
Total income tax expense	11,687	3,088

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The Corporation's consolidated effective tax rate for the year ended December 31, 2023 was 55.8% [2022—(16.6)%]. The difference in the effective tax rates compared to the Corporation's statutory income tax rates were mainly caused by the following:

	2023	2022
Income (loss) before income taxes	20,934	(18,604)
Income taxes based on the applicable tax rate of 25.8% in 2023 and 2022	5,401	(4,800)
Adjustment to income taxes resulting from:		
Adjustments in respect of prior years	3,674	(210)
Permanent differences and other	(359)	(1,455)
Income tax rate differentials on income of foreign operations	253	2,269
Changes in income tax rates	(11)	(161)
Unrecognized tax losses and temporary differences	2,729	7,445
Income tax expense	11,687	3,088

Changes in the deferred tax components are adjusted through deferred income tax expense except for \$1,939 [2022—\$1,768] of investment tax credits which is adjusted through cost of revenues, \$782 [2022—recovery of \$1,122] for foreign exchange hedges which is adjusted through other comprehensive income and \$440 [2022—\$426] for employee future benefits which is adjusted through other comprehensive income.

Major components of deferred tax assets and liabilities:

	December 31 2023	December 31 2022
Operating loss carry forwards	11,011	16,933
Investment tax credits	895	1,917
Employee future benefits	(320)	(225)
Property, plant and equipment and intangibles	(55,939)	(56,588)
Other	15,288	7,987
Deferred tax liabilities	(29,065)	(29,976)

For the purposes of the above table, deferred tax assets are shown net of offsetting deferred tax liabilities where these occur in the same entity and jurisdiction, as follows:

	December 31 2023	December 31 2022
Deferred tax assets	8,376	8,731
Deferred tax liabilities	(37,441)	(38,707)

The temporary difference associated with investments in subsidiaries and joint ventures, for which a deferred tax liability has not been recognized aggregates to \$735,866 [2022—\$745,761]. Operating losses incurred by the Company's United Kingdom subsidiary for which a deferred tax asset has not been recognized were \$42,145 [2022—\$27,015].

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21. SHARE CAPITAL

The authorized capital of the Corporation consists of an unlimited number of preference shares, issuable in series, of which none are outstanding, and an unlimited number of common shares, with no par value.

Common shares

	Number	Amount
Issued and fully paid:		
Outstanding at December 31, 2022	57,446,134	251,104
Outstanding at December 31, 2023	57,231,197	250,147

Net income (loss) per share

	2023	2022
Net income (loss)	9,247	(21,692)
Weighted average number of shares	57,354,610	57,637,104
Basic and diluted net income (loss) per share	0.16	(0.38)

Dividends declared

For the year ended December 31, 2023, the Corporation declared and paid dividends on its common shares on March 31, 2023, June 30, 2023, September 29, 2023 and December 29, 2023 of \$0.0250 per share amounting to \$5,734.

For the year ended December 31, 2022, the Corporation declared and paid dividends on its common shares of \$0.105 per share on March 31, 2022, \$0.08 per share on June 30, 2022, \$0.05 per share on September 29, 2022 and \$0.025 per share on December 30, 2022 amounting to \$14,994.

Subsequent to December 31, 2023, the Corporation declared dividends to holders of its common shares in the amount of \$0.0250 per common share payable on March 28, 2024, for shareholders of record at the close of business on March 15, 2024.

Normal Course Issuer Bid

On May 27, 2021, the Corporation announced that the TSX had accepted the Corporation's notice of intention to make a normal course issuer bid (the "2021 NCIB"). Under the terms of the 2021 NCIB, the Corporation could acquire up to an aggregate of 2,886,455 common shares, over the twelve-month period that the 2021 NCIB was in place. The 2021 NCIB commenced on May 27, 2021 and ended on May 26, 2022. On May 25, 2022, the Corporation's second NCIB application was approved (the "2022 NCIB"). The 2022 NCIB allowed for the purchase of up to 2,886,455 common shares, over a twelve-month period commencing May 27, 2022 and ending May 26, 2023. On May 25, 2023, the Corporation's third NCIB application was approved (the "2023 NCIB"). The 2023 NCIB allows for the purchase of up to 2,868,106 common shares over a twelve-month period commencing May 27, 2023 and ending May 26, 2024.

During the year ended December 31, 2023, 214,937 shares were purchased for cancellation for \$1,622 at a volume weighted average price paid of \$7.55 per common share. During the year ended December 31, 2022, 282,972 shares were purchased for cancellation for \$2,062 at a volume weighted average price paid of \$7.29 per common share.

22. STOCK-BASED COMPENSATION PLAN

The Corporation has an incentive stock option plan, which provides for the granting of options for the benefit of employees and directors. The options include a cash option feature that allows option holders to elect to receive an amount in cash equal to the intrinsic value, being the excess market price of the common share over the exercise price of the option, instead of exercising the option and acquiring the common shares. Options are granted at an exercise price equal to the market price of the Corporation's common shares at the time of granting. Options normally have a life of five years with vesting at 20.0% at the end of the first, second, third, fourth and fifth years from the date of the grant. In addition, certain

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business unit income tests must be met in order for the option holder's entitlement to fully vest. As at December 31, 2023 and December 31, 2022, there were no options granted and outstanding. The maximum number of options for common shares that is available to be granted under this plan is 1,673,341.

The Corporation has a deferred share unit plan ("DSU Plan") for certain executive officers ("Officers") which provides a structure for Officers to accumulate equity-like holdings in the Corporation. The DSU Plan allows certain Officers to participate in the growth of the Corporation by providing a deferred payment based on the value of a common share at the time of redemption. Each Officer receives deferred share units ("Units") based on their annual management incentive compensation. The Units are issued based on the Corporation's common share price at the time of issue. One third of the cash payment of the Units awarded is made May 1 of the first calendar year following the date of the grant of the Units, another one third of cash payment is made May 1 of the second calendar year following the date of grant of the Units, and the remaining one third cash payment is made May 1 of the third calendar year following the date of grant of the Units. The number of Units that will actually vest ranges from 0% to 200% of the award remuneration granted and will be determined by the Corporation's three year Total Shareholder Return performance relative to a comparator group. The value each Officer ultimately receives would be determined by the number of Units earned, multiplied by the fair market value of the common share at the end of each performance period. As at December 31, 2023, 77,911 Units were outstanding at an accrued value of \$630 [December 31, 2022-\$635]. The Corporation recorded compensation expense in relation to the DSU Plan during the year of \$127 [2022-\$156].

23. FINANCIAL INSTRUMENTS

Categories of financial instruments

Financial instruments are classified into one of the following categories: financial assets/financial liabilities at fair value through profit or loss, and financial assets/financial liabilities at amortized costs.

All financial instruments, including derivatives, are included on the consolidated statement of financial position, which are measured at fair value except for financial assets and liabilities measured at amortized costs.

The carrying values of the Corporation's financial instruments are classified as follows:

	Financial assets at fair value through profit or loss ¹	Financial assets at amortized cost ²	Total financial assets	Financial liabilities at fair value through profit of loss	Financial liabilities at fair value through other comprehensive income ³	Financial liabilities at amortized cost ⁴	Total financial liabilities
December 31, 2022	40,940	235,018	275,958	–	4,235	229,019	233,254
December 31, 2023	1,494	280,416	281,910	–	1,315	242,811	244,126

¹ Includes cash and cash equivalents and restricted cash.

² Includes trade and other receivables and contract assets.

³ Includes derivative financial instruments.

⁴ Includes bank indebtedness, accounts payable and accrued liabilities, contract liabilities, long-term debt, lease liabilities, and borrowings subject to specific conditions.

The Corporation has exposure to the following risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk

Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Corporation's income or the value of its holdings of financial instruments. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Corporation may utilize derivative instruments in the management of its foreign currency and interest rate exposures.

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The Corporation thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include currency risk, interest rate risk, credit risk and liquidity risk. Where material, these risks are reviewed and monitored by the Board of Directors of the Corporation.

Currency risk

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 rate ("transaction exposures") 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 ("translation exposures"). The Corporation may use derivative financial instruments to manage foreign exchange risk with the objective of minimizing transaction exposures and the resulting volatility of the Corporation's net income.

The most significant transaction exposures arise in the Canadian operations where significant portions of the revenues are transacted in US dollars. As a result, the Corporation may experience transaction exposures because of the volatility in the exchange rate between the Canadian and US dollar. Based on the Corporation's current US denominated net inflows as of December 31, 2023, fluctuations of +/- 1% would, everything else being equal, have an effect on net income for the year ended December 31, 2023 of approximately +/- \$280. The Corporation may experience translation exposures on the consolidation of its US and European subsidiaries. Fluctuations of +/- 1% in the US dollar and British pound would, everything else being equal, have an effect on other comprehensive income of approximately \$4,566.

Interest rate risk

The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. As at December 31, 2023, \$18,882 of the Corporation's total debt portfolio is subject to movements in floating interest rates. In addition, a portion of the Corporation's trade receivables securitization programs are exposed to interest rate fluctuations. The objective of the Corporation's interest rate management activities is to minimize the volatility of the Corporation's income. The Corporation monitors its exposure to interest rates and has not entered into any derivative contracts to manage this risk. A fluctuation in interest rates of 100 basis points (1%) would have impacted the amount of interest charged to net income during the year ended December 31, 2023 by approximately +/- \$138.

Credit risk

Credit risk arises from cash and cash equivalents held with banks and financial institutions as well as credit exposure to clients, including outstanding trade receivables. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing credit risk is to prevent losses in financial assets. The Corporation is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts. The Corporation mitigates this credit risk by dealing with counterparties who are major financial institutions that the Corporation anticipates will satisfy their obligations under the contracts.

The Corporation, in the normal course of business, is exposed to credit risk from its customers, substantially all of which are in the aerospace industry. The Corporation sells the majority of its products to large international organizations with strong credit ratings. Therefore, the Corporation is not exposed to significant credit risk and overall the Corporation's credit risk has not changed significantly from the prior year.

The carrying amount of trade receivables is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of income (loss) within administrative and general expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against administrative and general expenses.

Derecognition of financial assets

The Corporation sells a portion of its trade receivables through securitization programs or factoring transactions. During 2023, the Corporation sold receivables to various financial institutions in the amount of \$Nil [2022-\$1,277] for a discount of \$Nil [2022-\$9] representing an annualized interest rate of Nil % [2022—2.71%].

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Liquidity risk

The Corporation's objective in managing liquidity risk is to ensure that there are sufficient committed loan facilities in order to meet its liquidity requirements at any point in time. The Corporation has in place a planning and budgeting process to help determine the funds required to support the Corporation's normal operating requirements on an ongoing basis, taking into account its anticipated cash flows from operations and its operating facility capacity. The primary sources of liquidity are the operating credit facility, trade receivables securitization programs or factoring transactions and cash provided by operations. 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 costs for 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.

Contractual maturity analysis

Contractual maturity of the Corporation's financial liabilities (including both interest and principal cash flows):

	Year 1	Years 2 and 3	Years 4 and 5	Thereafter	Total
Bank indebtedness	15,534	–	–	–	15,534
Long-term debt	3,348	–	–	–	3,348
Lease liabilities	4,815	7,906	8,081	14,964	35,766
Borrowings subject to specific conditions	1,276	2,889	3,336	26,162	33,663
Other long-term liabilities	379	277	183	3,106	3,945
	25,352	11,072	11,600	44,232	92,256
Interest payments	327	11	2	–	340
Total	25,679	11,083	11,602	44,232	92,596

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 and cash equivalents, trade receivables, contract assets and liabilities, and accounts payable and accrued liabilities
Due to the short period to maturity of these instruments, the carrying values as presented in the consolidated statements of financial position are reasonable estimates of their fair values.

Foreign exchange contracts

Certain of the Corporation's future cash flows are incurred in US dollars and British pounds. Decreases in the value of the Canadian dollar relative to the US dollar and British pound could have an adverse effect on the Corporation's cash flows. To mitigate some of the uncertainty in respect these cash flows, the Corporation may enter into foreign currency forward and collar contracts in respect of US dollars and British pounds. With respect to 2023, the Corporation entered into forward foreign exchange contracts to purchase US dollars of \$16,200 and British pounds of £23,540 over a period of one month commencing December of 2023 at an exchange rate of \$1.3210 and \$1.6801 Canadian dollar, respectively. Under these contracts the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in US dollars, and British pounds. The Corporation conversely entered into foreign currency collar contracts as follows:

Maturity	Notional amount	Floor	Ceiling	Carrying value	Line item in the statement of financial position
June 2025	US\$32,400	1.2500	1.3245	\$566	Accounts payable, accrued liabilities and provisions
June 2025	US\$32,400	1.2500	1.3300	\$495	Accounts payable, accrued liabilities and provisions

The fair value of foreign currency contracts is determined using an estimated credit-adjusted mark-to-market valuation using observable forward exchange rates at the end of the reporting periods and currency contract forward rates.

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For the twelve months ended December 31, 2023, a gain of \$2,251 (pre-tax gain of \$3,033) [2022—loss of \$3,255 (pre-tax loss of \$4,235)] was recorded in other comprehensive income (loss) 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 December 31, 2023, the Corporation recorded \$1,315 of derivative liabilities [2022—\$4,348], included in accounts payable, accrued liabilities and provisions on the consolidated statement of financial position.

Long-term debt

As at December 31, 2023, the carrying amount of the Corporation's long-term debt of \$3,348 [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 December 31, 2023, the Corporation has recognized \$25,442 [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 prevailing market rate for borrowings with similar terms and maturities, and is categorized as Level 2 in the fair value hierarchy.

Collateral

As at December 31, 2023, the carrying amount of all of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities and bank indebtedness was \$18,882 [2022—\$5,465].

Fair value hierarchy

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

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

24. EMPLOYEE FUTURE BENEFITS

The Corporation provides retirement benefits through a variety of arrangements comprised principally of defined benefit and defined contribution plans that cover a substantial portion of employees in accordance with local regulations and practices. The most significant plans in terms of the benefits accrued to date by participants are career average and final average earnings plans and around 100% of the obligations accrued to date come from defined benefit plans in Canada.

Defined Benefit Plans

Canada

The Canadian defined benefit plans comprise both career average and final average earnings plans which provide benefits to members in the form of a guaranteed level of pension payable for life. A majority of the plans are currently closed to new entrants. The level of pensions in the defined benefit plans depends on the member's length of service and salary at retirement age for final average earnings plans and salary during employment for career average plans. The defined benefit pension plans require contributions to be made to a separate trustee-administered fund which is governed by the Corporation. The Corporation is responsible for the administration of the plans' assets and for the definition of the investment strategy. The Corporation reviews the level of funding in the defined benefit pension plans on an annual basis as required by local government legislation. Such review includes the asset-liability matching strategy and investment risk management policy. Actuarial valuations are required at least every three years. Depending on the jurisdiction and the funded status of the plan, actuarial valuations may be required annually. The most recent actuarial valuations for the various pension plans were completed as at December 31, 2021, January 1, 2022 and December 31, 2022.

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In April 2023, the Corporation purchased annuity contracts for a portion of the Corporation's defined benefit pension plans using plan assets and settled approximately \$19,624 of benefit plan obligations resulting in the recognition of a settlement loss of \$644 in the consolidated statements of income (loss). The adjustment period for this transaction will expire in the first quarter of 2024.

Also in April 2023, the Corporation purchased \$27,350 of buy-in annuities for one of its defined benefit pension plans. As the buy-in annuity does not represent a transaction that eliminates all further legal or constructive obligations for the benefits under the plan, these obligations currently remain on the balance sheet with the fair value of the buy-in assets equalling the obligation amount. When the Corporation receives regulatory approval to wind-up the plan, the buy-in annuities will be converted to buy-out annuities and a settlement gain (loss) will be recognized. The wind-up is expected to occur in 2024.

In October 2022, the Corporation purchased annuity contracts for a portion of the Corporation's defined benefit pension plans using plan assets and settled approximately \$17,183 of benefit plan obligations resulting in the recognition of a settlement loss of \$631 in the consolidated statements of income (loss) in 2022. In November 2023, after the expiration of the adjustment period for this transaction, various adjustments resulted in a partly offsetting settlement gain of \$211 in the consolidated statements of income (loss) in 2023.

Contributions are determined by the appointed actuary and cover the going-concern normal costs and deficits (established under the assumption that the plan will continue to be in force) or solvency deficits (established under the assumption that the plan stops its operations and is being liquidated), as prescribed by laws and actuarial practices. Under the laws in effect, minimum contributions are required to amortize the going-concern deficits over a period of fifteen years and solvency deficits over a period of five years. Temporary solvency relief measures are in place that allow for the amortization of solvency deficits over a period of up to ten years.

Investment Policy

The overall investment policy and strategy for the defined benefit pension plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the risks of the plans. See below for more information about the Corporation's risk management initiatives.

The target asset allocation is determined based on expected economic and market conditions, the maturity profile of the plans' liabilities, the funded status of the respective plans and the plan stakeholders' tolerance to risk. Generally, the Corporation aims to have a portfolio mix of a combined 5% in money market securities, 30% in fixed income instruments and 65% in equity for the Canadian defined benefit plans. As the plans mature and the funded status improves through cash contributions and anticipated excess equity returns, the Corporation intends to reduce the level of investment risk by investing in more fixed-income assets that better match the liabilities.

Risk Management

The Corporation's pension plans are exposed to various risks, including equity, interest rate, inflation, liquidity and longevity risks. Several risk strategies and policies have been put in place to mitigate the impact these risks could have on the funded status of defined benefit plans and on the future level of contributions by the Corporation. The following is a description of key risks together with the mitigation measures in place to address them.

Equity risk

Equity risk is the risk that results from fluctuations in equity prices. This risk is managed by maintaining diversification of portfolios across geographies, industry sectors and investment strategies.

Interest rate risk

Interest rate risk is the risk that results from fluctuations in the fair value of plan assets and liabilities due to movements in interest rates. This risk is managed by reducing the mismatch between the duration of plan assets and the duration of pension obligation.

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This is accomplished by having a portion of the portfolio invested in long-term bonds. A decrease in corporate and/or government bond yields will increase plan liabilities, which will be partially offset by an increase in the value of the plans' bond holdings.

Liquidity risk

Liquidity risk is the risk stemming from holding assets which cannot be readily converted to cash when needed for the payment of benefits or to rebalance the portfolios. Liquidity risk is managed through investment in government bonds and equity futures.

Longevity risk

Longevity risk is the risk that increasing life expectancy results in longer-than-expected benefit payments resulting in an increase in the plans' liabilities. This risk is mitigated by using the most recent mortality tables to set the level of contributions.

The Corporation obtains actuarial valuations for its accrued benefit obligations and the fair value of plan assets for accounting purposes under IFRS as at December 31 of each year. In addition, the Corporation estimates movements in its accrued benefit liabilities at the end of each reporting period, based upon movements in discount rates and the rates of return on plan assets, as well as any significant changes to the plans. Adjustments are also made for payments made and benefits earned.

Defined Contribution Plans

The Corporation's management, administrative and certain unionized employees may participate in defined contribution pension plans. The Corporation contributes an amount expressed as a percentage of employees' contributions with such percentage varying by group.

The Corporation's expenses for defined contribution plans amounted to \$6,698 for the year ended December 31, 2023 [2022-\$7,018].

Other Benefit Plan

The Corporation has another benefit plan in the US which includes retiree medical benefits that contribute to the health care coverage of certain employees and their beneficiaries after retirement. The other benefit plan is currently closed to new entrants. The post-retirement benefits cover all types of medical expenses including, but not limited to, cost of doctor visits, hospitalization, surgery and pharmaceuticals. The other benefit plan also provides for post-employment life insurance and compensated absences for eligible current employees, including vacation to be taken before retirement, if certain age and service requirements are met. The retirees contribute to the costs of the post-retirement medical benefits. The plan is not pre-funded and costs are incurred as amounts are paid.

The Corporation recognized total defined benefit costs related to its defined and other benefit plans as follows:

	2023		2022	
	Defined benefit plans	Other benefit plan	Defined benefit plans	Other benefit plan
Current service cost	1,044	–	1,554	–
Net interest on net defined benefit liability	(134)	37	(77)	26
Other	1,130	–	962	–
Settlement cost	433	–	631	–
Total defined benefit cost recognized in net income	2,473	37	3,070	26

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The re-measurement components recognized in the statement of other comprehensive income for the Corporation's defined benefit plans comprise the following:

	2023		2022	
	Defined benefit plans	Other benefit plan	Defined benefit plans	Other benefit plan
Actuarial (gains) losses				
Return on pension assets (excluding amounts in net interest on defined benefit schemes)	(8,825)	–	21,947	–
Based on adjustment of liability assumptions	2,929	–	(26,774)	–
Due to liability experience adjustment	(316)	142	(1,108)	170
Other	29	–	–	–
Change in effect of asset ceiling	4,476	–	4,283	–
Total defined benefit (gains) loss recognized in the statement of other comprehensive income	(1,707)	142	(1,652)	170

The following tables show the changes in the fair value of plan assets and the defined benefit obligation as recognized in the consolidated financial statements for the Corporation's benefit plans:

Changes in benefit plan assets of the Corporation's benefit plans

	2023		2022	
	Defined benefit plans	Other benefit plan	Defined benefit plans	Other benefit plan
Fair value, beginning of year	93,523	–	135,517	–
Interest income on plan assets	4,022	–	3,766	–
Actual return on assets (excluding interest income on plan assets)	8,825	–	(21,947)	–
Employer contributions	345	136	1,813	202
Employee contributions	132	86	156	123
Benefit payments	(3,672)	(222)	(7,006)	(325)
Plan settlement	(21,550)	–	(17,814)	–
Administration costs	(1,159)	–	(962)	–
End of year	80,466	–	93,523	–

Changes in effect of asset ceiling

	2023		2022	
	Defined benefit plans	Other benefit plan	Defined benefit plans	Other benefit plan
Effect of asset ceiling, beginning of year	12,416	–	7,887	–
Interest on effect of asset ceiling	669	–	246	–
Change in effect of asset ceiling during the period	4,476	–	4,283	–
End of year	17,561	–	12,416	–

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Changes in the benefit plan obligations of the Corporation's benefit plans

	2023		2022	
	Defined benefit plans	Other benefit plan	Defined benefit plans	Other benefit plan
Beginning of year	78,365	750	125,283	1,038
Current service cost	1,044	–	1,554	–
Interest cost	3,219	37	3,443	26
Employee contributions	132	86	156	123
Actuarial (gains) losses in other comprehensive income from:				
Changes in demographic assumptions	(56)	–	(34)	–
Changes in financial assumptions	2,985	–	(26,740)	–
Experience adjustments	(316)	142	(1,108)	(170)
Benefit payments	(3,672)	(222)	(7,006)	(324)
Plan settlement	(21,117)	–	(17,183)	–
Exchange difference	–	(20)	–	57
End of year	60,584	773	78,365	750

Reconciliation of funded status of benefit plans to amounts recorded in the consolidated financial statements

	2023		2022	
	Defined benefit plans	Other benefit plan	Defined benefit plans	Other benefit plan
Fair value of plan assets	80,466	–	93,523	–
Accrued benefit obligation	(60,584)	(773)	(78,365)	(750)
Irrecoverable surplus (effect of asset ceiling)	(17,561)	–	(12,416)	–
Net defined benefit asset (liability)	2,321	(773)	2,742	(750)
—Included in other long-term liabilities and provisions	–	(773)	–	(750)
—Included in other assets	2,321	–	2,742	–

The Corporation expects to contribute approximately \$77 in 2024 to all its defined benefit plans in accordance with normal funding policy. Because of market driven changes that the Corporation cannot predict, the Corporation could be required to make contributions in the future that differ significantly from its estimates.

Significant assumptions and sensitivity analysis

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations represent management's best estimates reflecting the long-term nature of employee future benefits and are as follows [weighted-average assumptions as at December 31]:

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	2023		2022	
	Defined benefit plans	Other benefit plan	Defined benefit plans	Other benefit plan
Discount rate	4.65%	4.70%	5.0%	4.9%
Rate of compensation increase	2.0% / 3.0%	–	2.0% / 3.0%	–
Mortality Table				
Canadian defined benefit plans	Club Vita Canada's 2021 VitaCurves projected with CPM-B improvement scale and Club Vita Canada's 2020 VitaCurves projected with CPM-B improvement scale		Club Vita Canada's 2020 VitaCurves projected with CPM-B improvement scale and Club Vita Canada's 2019 VitaCurves projected with CPM-B improvement scale	
Other benefit plan	SOA Pri-2012 Blue Collar Mortality Table with projection Scale MP-2021		SOA Pri-2012 Blue Collar Mortality Table with projection Scale MP-2021	

The discount rate assumption used in determining the obligations for pension and other benefit plans was selected based on a review of current market interest rates of high-quality, fixed rate debt securities adjusted to reflect the duration of expected future cash outflows for pension benefit payments. At December 31, 2023, a 1.0% decrease in the discount rate used (all other assumptions remaining unchanged) could result in a \$7,008 increase in the pension benefit obligation with a corresponding charge recognized in other comprehensive income in the year.

The Corporation funds health care benefit costs, shown under other benefit plan, on a pay as you go basis. For measurement purposes, a 6.0% annual rate of increase in the per capita cost of covered health care and dental benefits was assumed for 2023. The impact of applying a one-percentage-point increase or decrease in the assumed health care and dental benefit trend rates as at December 31, 2023 was nominal.

Assets

The weighted average asset allocations of the defined benefit plans at the measurement date, by asset category:

	2023	2022
Equity investments	54%	81%
Fixed income investments	12%	18%
Buy-in annuity	33%	–
Other investments	1%	1%
	100%	100%

Defined benefit pension liability term

	2023	2022
Defined benefits schedule for disbursement within 12 months	3,883	4,899
Defined benefits schedule for disbursement within 2-5 years	15,818	23,484
Defined benefits schedule for disbursement after 5 years or more	18,910	25,757
	38,611	54,140

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25. 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 evaluated the performance of its operating segments primarily based on net income before interest and income tax expense. The Corporation accounts for intersegment and related party sales and transfers, if any, at the exchange amount.

The Corporation's primary sources of revenue:

	2023	2022
Sale of goods	712,198	611,434
Services	167,419	153,146
	879,617	764,580

Timing of revenue recognition based on transfer of control:

	2023	2022
At a point of time	523,289	428,763
Over time	356,328	335,817
	879,617	764,580

The following table presents the aggregate amount of the revenues expected to be realized in the future from partially or fully unsatisfied performance obligations as at December 31, 2023 and 2022 as the Corporation performs under contracts at delivery or recognized over time. The amounts disclosed below represent the value of firm orders only. Such orders may be subject to future modifications that might impact the amount and/or timing of revenue recognition. The amounts disclosed below do not include constrained variable consideration, unexercised options or letters of intent.

Revenues expected to be recognized in:

	2023	2022
Less than 24 months	846,926	719,422
Thereafter	161,358	195,490

Revenues from the Corporation's two largest customers accounted for 36.5% of total sales for the year ended December 31, 2023 consisting of 25.0% and 11.5%, respectively. For the year ended December 31, 2022, the three largest customers accounted for 44.4% of total sales consisting of 23.1%, 10.7% and 10.6%, respectively.

Revenues information by geographic segments:

	2023	2022
Revenues		
Canada	364,275	329,638
United States	234,234	190,011
Europe	281,108	244,931
	879,617	764,580
Export revenues ¹		
Canada	243,823	218,425
United States	43,245	26,591
Europe	84,403	67,031
	371,471	312,047

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

Corporation's long-lived assets by geographic segment:

	2023	2022
Property, plant and equipment, right-of-use assets, intangible assets and goodwill		
Canada	156,623	166,596
United States	144,232	161,155
Europe	145,285	150,762
	446,140	478,513

26. COST OF REVENUES

	2023	2022
Operating expenses	744,349	684,069
Depreciation and amortization	43,332	44,500
Investment tax credits	(1,939)	(1,768)
Impairment of inventories	3,729	2,003
Impairment of long-lived assets	1,155	711
	790,626	729,515

27. ADMINISTRATIVE AND GENERAL EXPENSES

	2023	2022
Salaries, wages and benefits	31,640	25,764
Administration and office expenses	19,809	17,658
Professional services	2,557	2,363
Depreciation and amortization	3,290	2,905
	57,296	48,690

28. RESTRUCTURING

In 2020, the Corporation committed to a plan to restructure its manufacturing divisions in Europe due to a decrease in demand as a result of a deterioration in economic conditions stemming from COVID-19. The plan included downsizing the employee base, moving various manufacturing capabilities to other sites and engaging in other actions designed to reduce the cost structure and improve productivity.

The Corporation has recognized restructuring charges of \$1,167 [2022-\$2,764 / 2021-\$2,182 / 2020-\$12,537] associated with this plan. Restructuring charges include various costs associated with the workforce restructuring, closure costs required to restructure the operations and relocate the assets involved and non-cash impairment charges related to assets made obsolete as a result of the plan. Restructuring provisions are recorded within Accounts payable, accrued liabilities and provisions on the Corporation's balance sheet. The restructuring provision at December 31, 2023 is \$Nil [2022-\$362].

The Corporation has incurred additional workforce reduction and other costs of \$571 [2022-\$1,137] associated with downsizing its employee base.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

Costs associated with the restructuring charges noted above are summarized in the table below:

	2023	2022
Workforce reduction	458	1,930
Closure costs	1,280	199
Impairment of property, plant and equipment [note 8]	–	1,772
	1,738	3,901

29. OTHER EXPENSE (INCOME)

	2023	2022
Foreign exchange loss (gain)	4,865	(2,251)
Loss on disposal of property, plant and equipment	17	22
Gain on disposal of investment properties	(20)	–
Loss on pension settlement	433	631
Other	39	(162)
	5,334	(1,760)

30. INTEREST EXPENSE

	2023	2022
Interest on bank indebtedness and long-term debt	1,237	423
Accretion charge on long-term debt and borrowings	843	637
Accretion on lease liabilities	1,378	1,677
Discount on sale of trade receivables	231	101
	3,689	2,838

31. OTHER COMPREHENSIVE INCOME

Other comprehensive income includes unrealized foreign currency translation gains and losses, which arise on the translation to Canadian dollars of assets and liabilities of the Corporation's foreign operations and actuarial gains on defined benefit pension plans, net of tax. The Corporation recorded unrealized currency translation gain for the year ended December 31, 2023 of \$420 [2022—gain of \$7,385]; an unrealized gain on foreign currency contract hedges of \$2,251 [2022—loss of \$3,255] and net actuarial gain on defined benefit plans of \$1,125 [2022—gain of \$1,402]. These gains and losses are reflected in the consolidated statements of financial position and had no impact on net income for the year.

32. RELATED PARTY DISCLOSURE

Transactions with related parties

During the year, the Corporation incurred consulting and cost recovery fees of \$200 [2022—\$200] payable to a corporation controlled by the Chairman of the Board of Directors of the Corporation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

Key management personnel

Key management includes members of the Board of Directors of the Corporation and executive officers, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Corporation. The compensation expense for key management for services is as follows:

	2023	2022
Short-term benefits	2,940	2,890
Post-employment benefits	172	133
Share-based payments	129	69
	3,241	3,092

Short-term benefits include cash payments for base salaries, bonuses and other short-term cash payments. Post-employment benefits include the Corporation's contribution pension plan. Share-based payments include amounts paid to Officers under the DSU Plan.

33. SUPPLEMENTARY CASH FLOW INFORMATION

	2023	2022
Net change in non-cash working capital		
Trade receivables	(41,962)	(3,223)
Contract assets	(4,120)	2,437
Inventories	(32,020)	(15,789)
Prepaid expenses and other	(382)	(437)
Accounts payable, accrued liabilities and provisions	9,502	28,727
Contract liabilities	(8,242)	18,503
	(77,224)	30,218
Interest paid	1,140	282
Income taxes paid	2,419	7,210

34. 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.

As at December 31, 2023, total managed capital was \$752,922 [2022-\$733,818], comprised of shareholders' equity attributable to equity holders of the Corporation of \$734,040 [2022-\$728,353] and interest-bearing debt of \$18,882 [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. 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 costs for 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. There were no changes in the Corporation's approach to capital management during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unless otherwise stated, all amounts are in thousands of Canadian dollars)

The Corporation must adhere to covenants in its operating credit facility. As at December 31, 2023, the Corporation was in compliance with these covenants.

35. CONTINGENT LIABILITIES 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 or 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.

As at December 31, 2023, capital commitments in respect of purchase of property, plant and equipment totalled \$8,400 2022-\$6,672], all of which had been ordered. There were no other material capital commitments at the end of the year.

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

EXECUTIVE OFFICERS

N. Murray Edwards

Chairman

Phillip C. Underwood

*President and
Chief Executive Officer*

Elena M. Milantoni

*Chief Financial Officer and
Corporate Secretary*

Haydn R. Martin

*Vice President,
Business Development,
Marketing and Contracts*

Michael Gripe

*Vice President,
Human Resources*

Karen Yoshiki-Gravelsins

*Vice President,
Corporate Stewardship and
Operational Excellence*

Ian Roberts

*Vice President,
Information Technology, and
Transformation*

BOARD OF DIRECTORS

N. Murray Edwards ⁽⁴⁾

Chairman
Magellan Aerospace Corporation
Mississauga, Ontario

Phillip C. Underwood

President and Chief Executive Officer
Magellan Aerospace Corporation
Mississauga, Ontario

Beth M. Budd Bandler ^(1, 2, 3, 5)

President
Beth Bandler Professional Corporation
Dundas, Ontario

Larry G. Moeller ^(3, 5)

President
Kimball Capital Corporation
Calgary, Alberta

Steven Somerville ^(1, 2, 3, 4)

President
CCM Capital Corporation
Ontario, Canada

James P. Veitch ^(1, 2, 4, 5)

Director, Secretary/Treasurer
Partner Two Corp.
Alberta, Canada

COMMITTEES OF THE BOARD

- (1) Audit Committee
Chairman:
Steven Somerville
- (2) Governance and Nominating Committee
Chairman:
James P. Veitch
- (3) Human Resources and Compensation Committee
Chairman:
Beth M. Budd Bandler
- (4) Pension Committee
Chairman:
Steven Somerville
- (5) Environmental and Health & Safety Committee
Chairman:
Beth M. Budd Bandler

OPERATING FACILITIES DIRECTORY & SHAREHOLDER INFORMATION

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