MAGELLAN AEROSPACE

QUARTERLY REPORT
SEPTEMBER 30, 2024

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Magellan Aerospace Corporation ("Magellan" or the "Corporation") should be read in conjunction with the unaudited interim condensed consolidated financial statements and the notes thereto for the three and nine month periods ended September 30, 2024, and the audited annual consolidated financial statements for the year ended December 31, 2023 (available on SEDAR at www.sedarplus.ca). Unless otherwise noted, all financial information has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), specifically International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"), which is within the framework of International Financial Reporting Standards ("IFRS"). This MD&A provides a review of the significant developments that have impacted the Corporation's performance during the three month period ended September 30, 2024 relative to the three month period ended September 30, 2023. The information contained in this report is as at November 1, 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. In particular and without limitation there are forward looking statements under the heading "Overview", "Results of Operations", "Liquidity and Capital Resources", "Risk Factors", "Changes in Accounting Policies" and "Outlook". In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", and similar expressions. The projections, estimates and beliefs contained in such forward-looking statements are based on management's assumptions relating to the production performance of Magellan's assets and competition throughout the aerospace industry and continuation of the current regulatory and tax regimes in the jurisdictions in which the Corporation operates, and necessarily involve known and unknown risks and uncertainties, including the business risks discussed in this MD&A, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Except as required by law, the Corporation does not undertake to update any forward-looking information in this document whether as to new information, future events or otherwise.

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

1. Overview

A summary of Magellan's business and significant updates

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

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

The Industry 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.

In the first nine months of 2024, 65.4% of revenues were derived from commercial markets while 34.6% of revenues related to defence markets.

Business Update
On July 25, 2024, Magellan announced the signing of a Memorandum of Understanding ("MOU") with Aequs Private Limited ("Aequs") to explore the development of a business plan for a jointly owned engine maintenance, repair and overhaul ("MRO") business in the Aequs Special Economic Zone, at Belagavi in Karnataka, India. Under the terms of this MOU, Magellan and Aequs will work together to evaluate the market for business, commercial and military aircraft engine MRO services, to develop a comprehensive business plan that expands our existing partnership into the MRO sector through this exciting new project.

On August 12, 2024, Magellan announced the signing of significant long-term agreements with Pratt & Whitney, an RTX business. These important contracts renew existing agreements and cover the supply of complex castings used on a number of legacy and new engine programs. Magellan's Haley, Ontario facility and its Glendale, Arizona facility will produce the castings.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2023 Annual Report available on www.sedarplus.ca.

2. Results of Operations

A discussion of Magellan's operating results for the third quarter ended September 30, 2024

The Corporation reported revenue in the third quarter of 2024 of $223.5 million, a $10.5 million increase from third quarter of 2023 revenue of $213.0 million. Gross profit and net income for the third quarter of 2024 were $25.0 million and $5.8 million, respectively, in comparison to gross profit of $19.9 million and net income of $3.7 million for the third quarter of 2023.

Consolidated Revenue

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2024**	2023	Change	**2024**	2023	Change
Canada	**83,299**	81,392	2.3%	**263,451**	274,015	(3.9)%
United States	**63,402**	57,704	9.9%	**202,442**	174,926	15.7%
Europe	**76,812**	73,913	3.9%	**235,771**	207,095	13.8%
Total revenues	**223,513**	213,009	4.9%	**701,664**	656,036	7.0%

Revenue in Canada increased 2.3% in the third quarter of 2024 compared to the corresponding period in 2023, primarily due to higher casting product revenues and higher MRO revenues.

Revenue in the United States increased by 9.9% in the third quarter of 2024 compared to the third quarter of 2023, largely due to higher casting product revenues, increased aircraft engine shaft revenues and favourable foreign exchange impacts due to the strengthening of the United States dollar relative to the Canadian dollar. On a currency neutral basis, revenues in the United States increased 8.1% in the third quarter of 2024 over the same period in 2023.

European revenue in the third quarter of 2024 increased 3.9% compared to the corresponding period in 2023 primarily driven by net favourable transactional and translational foreign exchange impacts offset in part by lower revenues for single aisle and wide body aircraft parts. On a currency neutral basis, European revenues in the third quarter of 2024 decreased by less than 1.0% when compared to the same period in 2023.

Gross Profit

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2024**	2023	Change	**2024**	2023	Change
Gross profit	**25,037**	19,941	25.6%	**75,463**	65,215	15.7%
Percentage of revenues	**11.2%**	9.4%		**10.8%**	9.9%	

Gross profit of $25.0 million for the third quarter of 2024 was $5.1 million higher than the $19.9 million gross profit for the third quarter of 2023, and gross profit as a percentage of revenues of 11.2% for the third quarter of 2024 increased from 9.4% recorded in the same period in 2023. The gross profit in the current quarter increased from the same quarter in the prior year as a result of volume increases and contract rehabilitations on certain programs in addition to favourable product mix, offset in part by price increases on purchased materials and supplies.

Administrative and General Expenses

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2024**	2023	Change	**2024**	2023	Change
Administrative and general expenses	**13,626**	13,874	(1.8)%	**42,757**	42,329	1.0%
Percentage of revenues	**6.1%**	6.5%		**6.1%**	6.5%	

Administrative and general expenses as a percentage of revenues was 6.1% for the third quarter of 2024, lower than the same period of 2023 percentage of revenues of 6.5%. Administrative and general expenses decreased $0.3 million or 1.8% to $13.6 million in the third quarter of 2024 compared to $13.9 million in the third quarter of 2023 mainly due to lower information technology spending offset in part by higher salary and benefit costs.

Restructuring

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2024**	2023	**2024**	2023
Restructuring	—	811	—	1,320

Restructuring in 2023 was primarily related to ongoing costs associated with the closure of the Bournemouth facility and dismantling its former operations.

Other

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2024**	2023	**2024**	2023
Foreign exchange loss (gain)	**1,068**	(925)	**171**	1,817
Loss (gain) on sale of capital assets	**141**	(14)	**228**	(37)
Other	—	494	**619**	644
Total Other	**1,209**	(445)	**1,018**	2,424

Total Other for the third quarter of 2024 included a $1.1 million foreign exchange loss compared to a $0.9 million foreign exchange gain in the third quarter of the prior year. The movements in balances denominated in foreign currencies and the fluctuations of the foreign exchange rates impact the net foreign exchange gain or loss recorded in a quarter.

Interest Expense

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2024**	2023	**2024**	2023
Interest on bank indebtedness and long-term debt	**228**	430	**1,389**	732
Accretion charge on long-term debt and borrowings	**216**	152	**587**	610
Accretion charge for lease liabilities	**431**	384	**1,129**	1,187
Discount on sale of accounts receivable	**75**	58	**215**	136
Total interest expense	**950**	1,024	**3,320**	2,665

Total interest expense of $1.0 million in the third quarter of 2024 is similar to $1.0 million in the third quarter of 2023. Lower interest charge on bank indebtedness and long-term debt was offset by higher accretion charge on long-term debt, borrowings and leases.

Provision for Income Taxes

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2024**	2023	**2024**	2023
Current income tax expense	**5,082**	1,524	**11,592**	10,428
Deferred income tax recovery	**(1,675)**	(521)	**(2,826)**	(3,464)
Income tax expense	**3,407**	1,003	**8,766**	6,964
Effective tax rate	**36.8%**	21.4%	**30.9%**	42.3%

Income tax expense for the three months ended September 30, 2024 was $3.4 million, representing an effective income tax rate of 36.8% compared to 21.4% for the same period of 2023. The change in the effective tax rate and current and deferred income tax expense year over year was primarily due to the change in mix of income and losses across the different jurisdictions in which the Corporation operates and the reversal of temporary differences.

3. Selected Quarterly Financial Information

A summary view of Magellan's quarterly financial performance

	2024				2023			2022
Expressed in millions of dollars, except per share amounts	**Sep 30**	Jun 30	Mar 31	Dec 31	**Sep 30**	Jun 30	Mar 31	Dec 31
Revenues	**223.5**	242.9	235.2	223.5	213.0	219.7	223.4	193.1
Income (loss) before taxes	**9.3**	9.9	9.2	4.4	4.7	6.1	5.7	(20.9)
Net income (loss)	**5.8**	7.5	6.3	(0.3)	3.7	1.9	3.9	(20.8)
Net income (loss) per share								
Basic and diluted	**0.10**	0.13	0.11	(0.00)	0.06	0.03	0.07	(0.36)
EBITDA[1]	**21.5**	21.9	21.7	15.9	17.7	19.3	18.3	(8.5)
Adjusted EBITDA[1]	**21.5**	21.9	21.7	16.4	18.5	19.5	18.6	(4.8)

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

Revenues and net income in the quarter were impacted by the movements of the Canadian dollar relative to the United States dollar and British pound, when the Corporation translates its foreign operations to Canadian dollars. Further, the movements in the United States dollar relative to the British pound impact the Corporation's United States dollar exposures in its European operations. During the periods reported in the quarterly financial information table above, the average quarterly exchange rate of the United States dollar relative to the Canadian dollar fluctuated between a high of 1.3684 in the second quarter of 2024 and a low of 1.3412 in the third quarter of 2023. The average quarterly exchange rate of the British pound relative to the Canadian dollar reached a high of 1.7741 in the third quarter of 2024 and hit a low of 1.5953 in the fourth quarter of 2022. The average quarterly exchange rate of the British pound relative to the United States dollar reached a high of 1.3011 in the third quarter of 2024 and hit a low of 1.1747 in the fourth quarter of 2022.

Revenue for the third quarter of 2024 of $223.5 million was higher than that in the third quarter of 2023. The average quarterly exchange rate of the United States dollar relative to the Canadian dollar in the third quarter of 2024 was 1.3637 versus 1.3412 in the same period of 2023. The average quarterly exchange rate of the British pound relative to the Canadian dollar increased from 1.6974 in the third quarter of 2023 to 1.7741 during the current quarter. The average quarterly exchange rate of the British pound relative to the United States dollar increased from 1.2658 in the third quarter of 2023 to 1.3011 in the current quarter. Had the foreign exchange rates remained at levels experienced in the third quarter of 2023, reported revenues in the third quarter of 2024 would have been lower by $2.8 million.

The Corporation's results through-out fiscal 2022 and 2023 were negatively impacted by the continued effects of the COVID-19 pandemic via reduced volumes and supply chain disruptions. The decrease in profitability in the fourth quarter of 2022 was mainly the result of the effect of inflation in materials, supplies, utilities and labour; and supply chain disruptions which impacted production of goods resulting in production system inefficiencies and lower absorption of manufacturing supplies. These impacts, although not as significant, continued to impact the results in 2023. Compared to the quarterly revenues in 2023, the Corporation has seen modest growth in same quarter versus quarter revenues as global air travel continues to recover to pre COVID-19 levels.

4. Reconciliation of Net Income to EBITDA and Adjusted EBITDA

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

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

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2024	2023	**2024**	2023
Net income	**5,845**	3,674	**19,602**	9,513
Add back:				
Interest	**950**	1,024	**3,320**	2,665
Taxes	**3,407**	1,003	**8,766**	6,964
Depreciation and amortization	**11,329**	11,947	**33,457**	36,125
EBITDA	**21,531**	17,648	**65,145**	55,267
Add back:				
Restructuring	—	811	—	1,320
Adjusted EBITDA	**21,531**	18,459	**65,145**	56,587

Adjusted EBITDA in the third quarter of 2024 increased $3.0 million to $21.5 million as compared to $18.5 million in the same quarter of 2023 mainly as a result of the gross margin improvements discussed earlier.

5. Liquidity and Capital Resources

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

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

Cash Flow from Operations

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2024	2023	**2024**	2023
Decrease (increase) in accounts receivable	**14,125**	5,199	**(4,713)**	(31,455)
Decrease (increase) in contract assets	**2,343**	(4,280)	**(6,605)**	(10,233)
Increase in inventories	**(2,279)**	(14,128)	**(14,507)**	(31,575)
Increase in prepaid expenses and other	**(1,255)**	(692)	**(1,828)**	(271)
(Decrease) increase in accounts payable, accrued liabilities and provisions	**(11,760)**	(29)	**(9,420)**	3,058
Increase (decrease) in contract liabilities	**670**	(916)	**37,101**	(9,835)
Changes in non-cash working capital balances	**1,844**	(14,846)	**28**	(80,311)
Cash provided by (used in) operating activities	**18,649**	1,228	**53,014**	(36,066)

For the three months ended September 30, 2024, the Corporation generated $18.6 million of cash from operating activities, compared to $1.2 million generated in the third quarter of 2023. Changes in non-cash working capital items provided cash of $1.8 million, $16.6 million more when compared to $14.8 million cash used in the prior year. The quarter over quarter changes were largely attributable to decreases in accounts receivables from timing of customer payments, lower increases in inventories due to timing of production and shipment offset in part by decreases in accounts payable, accrued liabilities and provisions primarily driven by timing of supplier payments.

Investing Activities

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2024**	2023	**2024**	2023
Purchase of property, plant and equipment	**(7,258)**	(3,761)	**(22,358)**	(9,550)
Proceeds from disposal of property, plant and equipment	**2**	7	**65**	185
Decrease (increase) in intangible and other assets	**51**	(1,654)	**(538)**	(2,720)
Cash used in investing activities	**(7,205)**	(5,408)	**(22,831)**	(12,085)

Investing activities used $7.2 million of cash in the third quarter of 2024 compared to $5.4 million cash used in the same quarter of the prior year, an increase of $1.8 million in investing activities primarily due to higher levels of investment in property, plant and equipment offset in part by lower spending on intangible and other assets.

Financing Activities

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2024**	2023	**2024**	2023
(Decrease) increase in bank indebtedness	**(9,472)**	7,160	**9,080**	18,550
Decrease in long-term debt	**(163)**	(540)	**(883)**	(1,596)
Lease liability payments	**(1,716)**	(1,398)	**(4,393)**	(4,258)
(Decrease) increase in borrowings subject to specific conditions, net	**—**	—	**(19)**	227
(Decrease) increase in long-term liabilities and provisions	**(199)**	(480)	**20**	(169)
Common share repurchases	**(5)**	(427)	**(689)**	(1,053)
Common share dividends	**(1,428)**	(1,434)	**(4,286)**	(4,303)
Cash (used in) provided by financing activities	**(12,983)**	2,881	**(1,170)**	7,398

Financing activities used $13.0 million of cash for the third quarter of 2024 compared to $2.9 million of cash generated in the same quarter of the prior year. The quarter over quarter change was largely attributable to decreases in bank indebtedness.

On June 14, 2023, the Corporation extended its Bank Credit Facility Agreement (“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. At September 30, 2024, there were drawings under the 2023 Credit Facility of $29.9 million, including letters of credit totaling $3.7 million.

As at September 30, 2024, the Corporation had contractual commitments to purchase $24.9 million of capital assets.

Dividends

During each of the first, second and third quarters of 2024, the Corporation declared quarterly cash dividends of $0.025 per common share and has paid aggregate dividends of $4.3 million year to date.

Subsequent to September 30, 2024, the Corporation declared dividends to holders of common shares in the amount of $0.025 per common share payable on December 31, 2024, to shareholders of record at the close of business on December 17, 2024. The Board of Directors of the Corporation continues to review its dividends on a quarterly basis to ensure that the dividend declared balances the return of capital to shareholders while maintaining adequate financial flexibility and investment for growth initiatives.

Normal Course Issuer Bid

On May 24, 2024, the Corporation’s application to extend its normal course issuer bid was approved, which allows the Corporation to purchase up to 2,857,469 common shares, over a 12-month period commencing May 28, 2024 and ending May 27, 2025.

During the nine month period ended September 30, 2024, the Corporation purchased a total of 87,942 common shares for cancellation at a volume weighted average price of $7.83 per common share at a cost of $0.7 million. During the same period in the prior year, the Corporation purchased 144,311 common shares for cancellation at a volume weighted average price of $7.30 per common share at a cost of $1.1 million.

Outstanding Share Information
The authorized capital of the Corporation consists of an unlimited number of preference shares, issuable in series, and an unlimited number of common shares. As at November 1, 2024, 57,143,255 common shares were outstanding and no preference shares were outstanding.

6. Financial Instruments
A summary of Magellan's financial instruments

Derivative Contracts
The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian dollar denominated financial statements of the Corporation's subsidiaries may vary on consolidation into the reporting currency of Canadian dollars. The Corporation from time to time may use derivative financial instruments to help manage foreign exchange risk with the objective of reducing transaction exposures and the resulting volatility of the Corporation's earnings. The Corporation does not trade in derivatives for speculative purposes. Under these contracts (forwards and collars), the Corporation is obligated to purchase specified amounts of currency – generally either the United States dollar ("USD") or British Pound ("GBP") - at predetermined dates and exchange rates if certain conditions are met. The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. A number of these contracts are designated as cash flow hedges.

As at September 30, 2024, foreign exchange contracts of USD $4.0 million and GBP 23.5 million were outstanding with an immaterial mark-to-market fair value loss. In addition, the Corporation had foreign exchange collar contracts outstanding of USD $32.4 million, which extend to June 2025, with a mark-to-market fair value loss of $0.9 million.

As at September 30, 2024, the Corporation has $0.9 million of derivative liabilities as the fair value of its derivative contracts [December 31, 2023 - $1.3 million] in Accounts payable, accrued liabilities and provisions on the interim condensed consolidated statement of financial position.

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

7. Related Party Transactions
A summary of Magellan's transactions with related parties

For the three month period ended September 30, 2024, the Corporation had no material transactions with related parties as defined in IAS 24, *Related Party Disclosures*.

8. Risk Factors
A summary of risks and uncertainties facing Magellan

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

For more information in relation to the risks inherent in Magellan's business, reference is made to the information under "Risk Factors" in the Corporation's Management's Discussion and Analysis for the year ended December 31, 2023 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2023, which have been filed with SEDAR at www.sedarplus.ca.

9. Changes in Accounting Policies

A description of accounting standards adopted in the current year

The following new standards, and amendments to standards and interpretations, are effective for the first time for interim periods beginning on or after January 1, 2023 and have been applied in preparing the consolidated interim financial statements. The adoption of these amendments had no impact on the Corporation's interim condensed consolidated financial statements.

- 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. 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.

- 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.

- 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 IASB has issued the following new standards that have not yet been adopted by the Corporation and could have an impact on future periods. The Corporation is currently assessing the potential impact on its consolidated financial statements.

- IFRS 18, *Presentation and Disclosure in Financial Statements* replaces IAS 1, Presentation of Financial Statements. IFRS 18 introduces three sets of new requirements to improve companies' reporting of financial performance and give investors a better basis for analyzing and comparing companies. The new standard is effective for annual reporting periods beginning on or after January 1, 2027, with earlier application permitted.

- Amendments to IFRS 9, *Financial Instruments* and IFRS 7, *Financial* Instruments: Disclosures, clarifying both the classification of financial assets linked to environmental, social, and governance as well as the timing in which a financial asset or financial liability is derecognized when using electronic payment systems. The new standard is effective for annual reporting periods beginning on or after January 1, 2026.

10. Critical Accounting Estimates

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

In the 2023 audited annual consolidated financial statements and management's discussion and analysis, the Corporation identified the accounting policies and estimates that are critical to the understanding of the business and results of operations. Please refer to note 2 to the audited consolidated financial statements for the year ended December 31, 2023 for a discussion regarding the critical accounting estimates.

11. Controls and Procedures

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

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at September 30, 2024 that they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting.

Management does not expect disclosure controls and procedures and internal control over financial reporting to prevent all errors, misstatements or fraud. In addition, internal control over financial reporting that management has designed and established may be circumvented and rendered ineffective as a result of unauthorized acts of individuals through collusion or management override. A system of control, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that control objectives are met. Due to the inherent limitations in a system of control, there is no absolute assurance that all controls issues, which may result in errors, misstatements, or fraud, can be prevented or detected. The inherent limitations include, amongst other things: (i) management's assumptions and judgements could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of isolated errors; (iii) assumptions about the likelihood of future events.

No changes were made in the Corporation's internal control over financial reporting during the Corporation's most recent interim period, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

12. Outlook

The outlook for Magellan's business in 2024

Suppliers of commercial aerospace products are facing a new period of significant uncertainty. The recent strike by Boeing's machinists' union has added stress to what was already becoming a challenge for suppliers to forecast production demand. Up until the strike, Boeing suppliers were manufacturing 737 components at higher rates than Boeing was outputting aircraft. This was a deliberate effort to maintain the supply chain while Boeing eventually ramped up aircraft production. For various reasons of delay, Boeing rescheduled the production ramp up twice during 2024, creating inventory surpluses beyond what was initially planned, forcing suppliers to slow down or stop production of 737 components. The strike then halted all production and delivery activities on 737, 767 and 777 programs. As well, 777-9 flight tests were placed on hold, further delaying program certification and prompting Boeing to announce that the first flight of the aircraft would be moved out to 2026. Boeing later reported that production of the 767F (freighter) aircraft would be ending once existing orders were filled, while production of the KC-46 tanker version would continue.

In October, Boeing announced that it would be cutting approximately 10% of its workforce in a plan to restructure its business and to align with its "financial reality" amid the machinists' strike and numerous other business challenges. Suppliers, including certain Magellan divisions, are facing workforce decisions in order to manage costs in light of reduced production demand.

For aerospace suppliers, the Boeing situation is compounded by delayed program ramp rates at Airbus. In June, Airbus announced that it was moving its production target of 75 A320neo aircraft per month out to 2027 from 2026, due to "persistent" and "specific" supply-chain issues. Considering the "imbalance of supply" into different parts of the aircraft, Airbus indicated that it intends to reduce scheduled deliveries from Tier I suppliers in the fourth quarter of 2024 before returning to previously announced rates during the second quarter of 2025.

Airbus was planning to produce between 58 and 62 A320 aircraft per month by the end of 2024. The actual build rate has not been disclosed. The A350 rate is at 6 aircraft per month ramping up to 7 and then 8 aircraft per month in 2025. For 2028, 12 aircraft per month is planned. Meanwhile, the A330 rate is at 4 aircraft per month, and the A220 is at 10 aircraft per month.

Within the defence market, budgets continue increasing as countries seek to modernize their fleets. Riding the surge of increased European defense spending, Boeing Defense secured its largest-ever Apache foreign order for 96 AH-64E attack helicopters with Poland, and secured Foreign Military Sale ("FMS") approval for up to 36 AH-64Es to South Korea. Boeing's modernized Block II CH47 Chinook helicopter is also enjoying success with Germany, the UK and potentially Poland procuring these versions.

Meanwhile, Sikorsky and the US Army are negotiating a deal to extend UH-60 Black Hawk helicopter production to 2032. When the US Army cancelled the new Future Armed Reconnaissance Aircraft ("FARA") program, it committed to acquiring more Black Hawks from Sikorsky and CH-47 Block II Chinook helicopters from Boeing. Sikorsky is also engaged in an effort to modernize its UH-60s, including developing and testing autonomous flight technology and integrating the new GE T901 Improved Turbine Engine.

Lockheed Martin resumed F-35 deliveries in July of this year after the Pentagon agreed to accept an interim version in advance of receiving the new Technical Refresh (TR-3) configuration. During the Pentagon's prior delivery hold period, Lockheed continued producing aircraft at full rate and consequently parked approximately 100 new F-35s. Experts speculate it will take roughly a year for Lockheed to deliver these aircraft. With a global fleet exceeding 1,000 F-35s, officials stated that the program has now reached "a level of size and strength, fundamentally transforming the way allied forces train, operate and dominate the skies, together". In total, nineteen nations are expected to operate F-35s.

The aerospace supply base is welcoming the positive news coming out of the defence aerospace market especially as production demand uncertainty in the commercial aerospace market persists. With both large commercial aircraft manufacturers further delaying program ramp ups and implementing requisite de-stocking activities, they are forcing suppliers to institute cost mitigation actions just as post pandemic capacity was being restored. This situation again illustrates how sensitive the aerospace industry is to singular events.

MAGELLAN AEROSPACE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Notes	Three month period ended September 30 **2024**	 2023	Nine month period ended September 30 **2024**	 2023
Revenues	8	**223,513**	213,009	**701,664**	656,036
Cost of revenues		**198,476**	193,068	**626,201**	590,821
Gross profit		**25,037**	19,941	**75,463**	65,215
Administrative and general expenses		**13,626**	13,874	**42,757**	42,329
Restructuring		**—**	811	**—**	1,320
Other expense (income)		**1,209**	(445)	**1,018**	2,424
Income before interest and income taxes		**10,202**	5,701	**31,688**	19,142
Interest expense		**950**	1,024	**3,320**	2,665
Income before income taxes		**9,252**	4,677	**28,368**	16,477
Income tax expense (recovery)					
Current	9	**5,082**	1,524	**11,592**	10,428
Deferred	9	**(1,675)**	(521)	**(2,826)**	(3,464)
		3,407	1,003	**8,766**	6,964
Net income		**5,845**	3,674	**19,602**	9,513
Other comprehensive income:					
Items that may be reclassified to profit and loss in subsequent periods:					
Foreign currency translation		**2,581**	2,790	**15,122**	992
Unrealized gain (loss) on foreign currency contract hedges		**594**	(1,342)	**273**	742
Items not to be reclassified to profit and loss in subsequent periods:					
Actuarial gain on defined benefit pension plans, net of tax	5	**693**	509	**972**	259
Comprehensive income		**9,713**	5,631	**35,969**	11,506
Net income per share					
Basic and diluted	6	**0.10**	0.06	**0.34**	0.17

See accompanying notes to interim condensed consolidated financial statements

MAGELLAN AEROSPACE CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	Notes	September 30 2024	December 31 2023
Current assets			
Cash		**30,697**	1,494
Trade and other receivables		**219,606**	211,364
Contract assets		**76,559**	69,052
Inventories		**279,975**	258,448
Prepaid expenses and other		**12,727**	10,441
		619,564	550,799
Non-current assets			
Property, plant and equipment		**363,845**	359,722
Right-of-use assets		**34,162**	26,857
Investment properties		**6,897**	6,632
Intangible assets		**36,003**	37,402
Goodwill		**23,114**	22,159
Other assets	5	**12,478**	13,126
Deferred tax assets		**8,990**	8,376
		485,489	474,274
Total assets		**1,105,053**	1,025,073
Current liabilities			
Bank indebtedness	4	**26,187**	15,534
Accounts payable, accrued liabilities and provisions		**138,948**	142,713
Contract liabilities	8	**65,473**	27,960
Debt due within one year		**9,919**	9,439
		240,527	195,646
Non-current liabilities			
Lease liabilities		**30,362**	24,314
Borrowings subject to specific conditions		**23,887**	24,166
Other long-term liabilities and provisions	5	**6,227**	6,089
Deferred tax liabilities		**35,639**	37,441
		96,115	92,010
Equity			
Share capital	6	**249,762**	250,147
Contributed surplus		**2,044**	2,044
Other paid in capital		**13,565**	13,565
Retained earnings		**462,936**	446,952
Accumulated other comprehensive income		**36,727**	21,332
Equity attributable to equity holders of the Corporation		**765,034**	734,040
Non-controlling interest		**3,377**	3,377
Total equity		**768,411**	737,417
Total liabilities and equity		**1,105,053**	1,025,073

See accompanying notes to interim condensed consolidated financial statements

MAGELLAN AEROSPACE CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Corporation							
(unaudited) **(expressed in thousands of Canadian dollars)**	Share capital	Contributed surplus	Other paid in capital	Retained earnings	Foreign currency translation	Total	Non-controlling interest	Total equity
December 31, 2022	251,104	2,044	13,565	442,979	18,661	728,353	3,377	731,730
Net income for the period	—	—	—	9,513	—	9,513	—	9,513
Other comprehensive income for the period	—	—	—	259	1,734	1,993	—	1,993
Common share repurchases	(630)	—	—	(423)	—	(1,053)	—	(1,053)
Common share dividends	—	—	—	(4,303)	—	(4,303)	—	(4,303)
September 30, 2023	250,474	2,044	13,565	448,025	20,395	734,503	3,377	737,880
December 31, 2023	250,147	2,044	13,565	446,952	21,332	734,040	3,377	737,417
Net income for the period	—	—	—	19,602	—	19,602	—	19,602
Other comprehensive income for the period	—	—	—	972	15,395	16,367	—	16,367
Common share repurchases	(385)	—	—	(304)	—	(689)	—	(689)
Common share dividends	—	—	—	(4,286)	—	(4,286)	—	(4,286)
September 30, 2024	249,762	2,044	13,565	462,936	36,727	765,034	3,377	768,411

See accompanying notes to interim condensed consolidated financial statements

MAGELLAN AEROSPACE CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (expressed in thousands of Canadian dollars)	Notes	Three month period ended September 30 **2024**	 2023	Nine month period ended September 30 **2024**	 2023
Cash flow from operating activities					
Net income		**5,845**	3,674	**19,602**	9,513
Amortization/depreciation of intangible assets, right-of-use assets and property, plant and equipment		**11,329**	11,947	**33,457**	36,125
Loss (gain) on disposal of property, plant and equipment		**141**	(14)	**228**	(37)
Increase in defined benefit plans		**786**	897	**1,435**	1,783
Accretion of financial liabilities		**645**	537	**1,713**	1,799
Deferred taxes		**(1,675)**	(871)	**(2,826)**	(4,516)
Income on investments in joint ventures		**(266)**	(96)	**(584)**	(247)
Other		**—**	—	**(39)**	(175)
Changes to non-cash working capital		**1,844**	(14,846)	**28**	(80,311)
Net cash provided by (used in) operating activities		**18,649**	1,228	**53,014**	(36,066)
Cash flow from investing activities					
Purchase of property, plant and equipment		**(7,258)**	(3,761)	**(22,358)**	(9,550)
Proceeds from disposal of property, plant and equipment		**2**	7	**65**	185
Decrease (increase) in intangible and other assets		**51**	(1,654)	**(538)**	(2,720)
Net cash used in investing activities		**(7,205)**	(5,408)	**(22,831)**	(12,085)
Cash flow from financing activities					
(Decrease) increase in bank indebtedness		**(9,472)**	7,160	**9,080**	18,550
Decrease in long-term debt		**(163)**	(540)	**(883)**	(1,596)
Lease liability payments		**(1,716)**	(1,398)	**(4,393)**	(4,258)
(Decrease) increase in borrowings subject to specific conditions, net		**—**	—	**(19)**	227
(Decrease) increase in long-term liabilities and provisions		**(199)**	(480)	**20**	(169)
Common share repurchases	6	**(5)**	(427)	**(689)**	(1,053)
Common share dividends	6	**(1,428)**	(1,434)	**(4,286)**	(4,303)
Net cash (used in) provided by financing activities		**(12,983)**	2,881	**(1,170)**	7,398
(Decrease) increase in cash during the period		**(1,539)**	(1,299)	**29,013**	(40,753)
Cash at beginning of the period		**31,919**	1,816	**1,494**	40,940
Effect of exchange rate differences		**317**	149	**190**	479
Cash at end of the period		**30,697**	666	**30,697**	666

See accompanying notes to interim condensed consolidated financial statements

MAGELLAN AEROSPACE

NOTE 1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Magellan Aerospace Corporation (the “Corporation” or “Magellan”) is a publicly listed company incorporated in Ontario, Canada under the Ontario Business Corporations Act and its shares are listed on the Toronto Stock Exchange (“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, controlled entity and joint venture, Magellan designs, engineers and manufactures aeroengine and aerostructure components for aerospace markets, including advanced products for defence and space markets, and complementary specialty products. The Corporation also supports the aftermarket through the supply of spare parts as well as through repair and overhaul services.

NOTE 2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”) and using the same accounting policies and methods as were used for the Corporation’s consolidated financial statements and the notes thereto for the year ended December 31, 2023, except for the new accounting pronouncements which have been adopted as disclosed in note 3.

These unaudited interim condensed consolidated financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the Corporation’s annual financial statements for the year ended December 31, 2023, which are available at www.sedarplus.ca and on the Corporation’s website at www.magellan.aero.

The timely preparation of the interim condensed consolidated financial statements requires management to make estimates and
assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates could require a material change in the interim condensed consolidated financial statements in future periods.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on November 1, 2024.

NOTE 3. ADOPTION OF NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

The Corporation adopted the following accounting standards and amendments that were effective January 1, 2024.

- 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. 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 twelve months. The adoption of these amendments had no impact on the Corporation’s interim condensed 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 adoption of these amendments had no impact on the Corporation’s interim condensed 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 adoption of these amendments had no impact on the Corporation’s interim condensed consolidated financial statements.

The IASB has issued the following new standards that have not yet been adopted by the Corporation and could have an impact on future periods. The Corporation is currently assessing the potential impact on its consolidated financial statements.

- IFRS 18, *Presentation and Disclosure in Financial Statements* replaces IAS 1, Presentation of Financial Statements. IFRS 18 introduces three sets of new requirements to improve companies' reporting of financial performance and give investors a better basis for analyzing and comparing companies. The new standard is effective for annual reporting periods beginning on or after January 1, 2027, with earlier application permitted.

- Amendments to IFRS 9, *Financial Instruments* and IFRS 7, *Financial* Instruments: Disclosures, clarifying both the classification of financial assets linked to environmental, social, and governance as well as the timing in which a financial asset or financial liability is derecognized when using electronic payment systems. The new standard is effective for annual reporting periods beginning on or after January 1, 2026.

NOTE 4. BANK INDEBTEDNESS

The Corporation has a multi-currency operating credit facility with a syndicate of banks, with a Canadian dollar limit of $75,000. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a $75,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility. On June 14, 2023 the Corporation extended its credit facility for an additional two-year period expiring on June 30, 2025. Indebtedness under the facility bears interest at the 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 September 30, 2024, the Corporation had drawn $29,910 [December 31, 2023 - $26,310] under the operating credit facility, including letters of credit totaling $3,723 [December 31, 2023 - $3,561] such that $45,089 [December 31, 2023 – $48,690] was available to be drawn on. Bank indebtedness on the balance sheet at September 30, 2024 of $26,187 [December 31, 2023 - $15,534] is presented net of cash held by parties to the credit agreement of $ Nil [December 31, 2023 - $7,215].

NOTE 5. EMPLOYEE FUTURE BENEFITS

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

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

	September 30 2024	December 31 2023
Included in Other assets - Pension benefit plans	2,195	2,321
Included in Other long-term liabilities and provisions - Other benefit plan	(734)	(773)
	1,461	1,548

The discount rate assumption used in determining the obligation for pension and other benefit plans is selected based on a review of current market interest rates of high-quality, fixed rate debt securities adjusted to reflect the duration of the expected future cash outflows for pension benefit payments. As at September 30, 2024, the assumed discount rate for the Canadian pension plans was 4.60% which is a decrease from the 4.65% rate used in calculating the pension obligation as at December 31, 2023, as a result of changes in the market interest rates of high-quality, fixed rate debt securities. The return on plan assets was above the expected return during the nine month period ended September 30, 2024. The change in the discount rate assumptions, the difference between the actual and expected rate of return on the plan assets and the effect of asset ceiling resulted in an actuarial gain of $972, net of taxes of $338, recorded in other comprehensive income in the nine month period ended September 30, 2024.

In April 2023, the Corporation purchased annuity contracts for a portion of the Corporation’s Canadian defined benefit pension plans using plan assets and settled various benefit plan obligations resulting in the recognition of a settlement loss of $644 in the second quarter of 2023. The adjustment period for this transaction expired in the first quarter of 2024 and the Corporation has recognized a settlement gain of $203 associated with the refund of various premiums associated with the transaction.

NOTE 6. SHARE CAPITAL

Net income (loss) per share

	Three month period ended September 30		Nine month period ended September 30	
	2024	2023	2024	2023
Net income	5,845	3,674	19,602	9,513
Weighted average number of shares	57,143	57,339	57,169	57,383
Basic and diluted net income per share	0.10	0.06	0.34	0.17

Dividends

The Corporation has paid the following dividends in fiscal 2024: March $1,429 (57,183,359 common shares at $0.025 per common share), June $1,429 (57,140,880 common shares at $0.025 per common share) and September $1,428 (57,138,980 common shares at $0.025 per common share). Aggregate dividend payments for the nine month period ended September 30, 2024 are $4,286.

Subsequent to September 30, 2024, the Corporation declared dividends to holders of common shares in the amount of $0.025 per common share payable on December 31, 2024, to shareholders of record at the close of business on December 17, 2024.

Normal Course Issuer Bid

On May 24, 2024, the Corporation extended it's previous normal course issuer bid ("2024 NCIB"). The 2024 NCIB allows the Corporation to purchase up to 2,857,469 common shares, over a twelve month period commencing May 28, 2024 and ending May 27, 2025.

During the nine month period ended September 30, 2024, the Corporation purchased a total of 87,942 common shares for cancellation at a volume weighted average price of $7.83 per common share at a cost of $689. During the same period in the prior year, the Corporation purchased 144,311 common shares for cancellation at a volume weighted average price of $7.30 per common share at a cost of $1,053.

NOTE 7. FINANCIAL INSTRUMENTS

Fair value hierarchy

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

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

Fair values

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

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

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

Foreign exchange contracts
The Corporation enters into foreign exchange forward and collar contracts to hedge highly probable future transactions. Under these contracts the Corporation is obliged to purchase or sell specific amounts of currency – generally either the United States dollar (“USD”) or British Pound (“GBP”) at predetermined dates and exchange rates if certain conditions are met. A number of these contracts are designated as cash flow hedges.

As at September 30, 2024, the Corporation had foreign exchange collar contracts as follows:

Maturity	Notional amount	Floor	Ceiling	Carrying value	Line item in the statement of financial position
June 2025	USD$16,200	1.2500	1.3245	$467	Accounts payable, accrued liabilities and provisions
June 2025	USD$16,200	1.2500	1.3300	$402	Accounts payable, accrued liabilities and provisions

As at September 30, 2024, the Corporation also had foreign exchange forward contracts outstanding in the amount of USD$4,000 [December 31, 2023 – USD$16,200] and GBP 23,540 [December 31, 2023 – GBP 23,540] with a derivative liability carrying value of $61.

For the nine month period ended September 30, 2024, a gain of $273 net of taxes of $112, was recorded in other comprehensive income for the effective portion of cash flow hedges. In accordance with the fair value hierarchy of financial instruments, the derivatives are considered Level 2. As at September 30, 2024, the Corporation has $930 of derivative liabilities [December 31, 2023 – $1,315], included in Accounts payable, accrued liabilities and provisions on the interim condensed consolidated statement of financial position.

Long-term debt
As at September 30, 2024, the carrying amount of the Corporation's long-term debt of $2,525 [December 31, 2022 – $3,348] approximates its fair value. The fair value was determined by discounting the expected future cash flow based on current rate for debt with similar terms and maturities, and is categorized as Level 2 in the fair value hierarchy.

Borrowings subject to specific conditions
As at September 30, 2024, the Corporation has recognized $25,278 [December 31, 2023 – $25,442] as the amount repayable to Canadian government agencies. The contributions are repayable as future royalty payments; a liability is recorded for the amounts received that will be repaid based on future estimated sales. The fair value was determined by discounting the expected future royalty payments based on the prevailing market rate for borrowings with similar terms and maturities, and is categorized as Level 2 in the fair value hierarchy. The current portion of this repayable amount is included in Debt due within one year on the interim condensed consolidated statement of financial position.

NOTE 8. SEGMENTED INFORMATION

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

The Corporation’s primary sources of revenue

	Three month period ended September 30		Nine month period ended September 30	
	2024	2023	2024	2023
Sale of goods	180,188	173,395	568,563	528,384
Services	43,325	39,614	133,101	127,652
	223,513	213,009	701,664	656,036

Timing of revenue recognition based on transfer of control

	Three month period ended September 30		Nine month period ended September 30	
	2024	2023	2024	2023
At a point of time	127,784	128,882	415,897	379,605
Over time	95,729	84,127	285,767	276,431
	223,513	213,009	701,664	656,036

Advance payments received for contracts in progress in excess of revenue recognized were recorded as contract liabilities on the interim condensed consolidated statement of financial position. As at September 30, 2024, contract liabilities were $65,473 [December 31, 2023 – $27,960].

Revenues from the Corporation's two largest customers accounted for 37.1% and 37.3% respectively of total sales for the three and nine month periods ended September 30, 2024 [September 30, 2023 – two largest customers accounted for 36.7% and 35.3% respectively of total sales for the three and nine month periods ended].

The Corporation's revenue information split by geographic segment

	Three month period ended September 30		Nine month period ended September 30	
	2024	2023	2024	2023
Revenue				
Canada	83,299	81,392	263,451	274,015
United States	63,402	57,704	202,442	174,926
Europe	76,812	73,913	235,771	207,095
	223,513	213,009	701,664	656,036
Export revenue[1]				
Canada	54,477	51,908	174,075	180,369
United States	12,319	11,447	41,410	32,468
Europe	18,003	18,971	60.599	50,276
	84,799	82,326	276,084	263,113

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

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

	September 30 2024	December 31 2023
Property, plant and equipment, right-of-use assets, intangible assets and goodwill		
Canada	153,893	156,623
United States	144,765	144,232
Europe	158,466	145,285
	457,124	446,140

NOTE 9. TAXATION

The Corporation's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Corporation operates in, adjusted for the main permanent differences identified. The effective tax rate for the three and nine month periods ended September 30, 2024 was 36.8% and 30.9% respectively [21.4% and 42.3% respectively for the three and nine month periods ended September 30, 2023]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the change in mix of income across the different jurisdictions in which the Corporation operates.

NOTE 10. MANAGEMENT OF CAPITAL

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

Total managed capital as at September 30, 2024 of $793,746 [December 31, 2023 - $752,922] is comprised of shareholders' equity attributable to equity holders of the Corporation of $765,034 [December 31, 2023 - $734,040] and interest-bearing debt of $28,712 [December 31, 2023 - $18,882].

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

NOTE 11. CONTINGENT LIABILITES AND COMMITMENTS

In the ordinary course of business activities, the Corporation may be involved in litigation and claims, with or without merit, with customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although, it is not possible to accurately estimate the extent of the potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Corporation.

At September 30, 2024, capital commitments in respect of purchases of property, plant and equipment totalled $24,893 [December 31, 2023 - $8,400], all of which had been ordered.