MAGELLAN ANNUAL REPORT 2022

Magellan closed 2022 with $764.6M in revenue, which was up by 11% as compared to $688.4M in 2021. Notwithstanding this growth in revenue, we incurred a net loss of $21.7M for the 2022 fiscal year.

Despite a growing demand for new commercial and defence aircraft, major aircraft OEM's have been pulling back on planned build rate increases due to ongoing supply chain shortages of labour and materials. There is concern that this situation will persist throughout 2023. Increases in the rate of inflation is also a concern for the industry as increasing prices have heightened the pressure on cost structures, particularly where contract terms limit the ability of suppliers and manufacturers to pass on related increases.

Magellan implemented various cost containment strategies in 2022 including negotiating with suppliers and customers to find commercial solutions to help mitigate the impact of inflation and supply disruptions upon our operations. A number of these efforts were successfully concluded by the close of 2022 while others extend into 2023. We also negotiated a number of agreements for new strategic programs and key long-term contract renewals during the year. However, more price changes are targeted and required under other agreements.

In 2022, we reimagined some of our facilities in order to improve operations and create more efficient work spaces. At our UK operations we embarked upon a new operational excellence program which focused on transformational improvements within a number of targeted work streams. We are exploring where a like approach could yield gains elsewhere within the Corporation.

The aerospace industry was dramatically impacted by the COVID-19 pandemic and now while the market is on the rebound, the industry is suffering from lingering effects of the pandemic and inflation. Magellan has been proactively taking actions to reduce the impact these effects are having upon our operations and we continue to navigate this volatile period of time. The clear objective is to maintain the health of our business and be in a position to exploit the growth potential that exists in both the commercial and defence aerospace sectors.

WE EMBARKED UPON A NEW OPERATIONAL EXCELLENCE PROGRAM WHICH FOCUSED ON TRANSFORMATIONAL IMPROVEMENTS

On behalf of the board and management of Magellan, I would like to thank all our employees and shareholders for their ongoing support.

Phillip C. Underwood
President and Chief Executive Officer
March 9, 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, 2022 and 2021 prepared in accordance with International Financial Reporting Standards ("IFRS"), and the Annual Information Form for the year ended December 31, 2022 (available on SEDAR at www.sedar.com). This MD&A provides a review of the significant developments that have impacted the Corporation's performance during the year ended December 31, 2022, relative to the year ended December 31, 2021. The information contained in this report is as at March 9, 2023. All financial references are in Canadian dollars unless otherwise noted.

The MD&A contains forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance. 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," "2022 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 2022 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 2022 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.

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.

Impact of COVID-19 and Russia's invasion of Ukraine

The COVID-19 pandemic and its variants continued to disrupt global health and impact economic conditions. Though global air travel has seen signs of recovery, Magellan's financial results and operations continued to be impacted by the COVID-19 pandemic by way of production schedule changes, either by its customers' build rate adjustments or due to a broader government directive which resulted in the need to modify work practices to meet appropriate health and safety standards, or by other COVID-19 related impacts on the availability of labour or to the supply chain. While governments have eased some COVID-19 restrictions, the reopening of businesses and economies in certain countries is creating a variety of new challenges, including, for example, higher prices for goods and services, limited availability of products, disruptions to supply chains and labour shortages. Magellan continues to monitor ongoing developments and attempts to mitigate the risks related to the COVID-19 pandemic and the impact on Magellan's operations, supply chain, and most importantly the health and safety of its employees.

The ongoing invasion of Ukraine by Russia continues to disrupt supply chains and cause instability in the global economy. The extent and potential magnitude of economic impacts on the aerospace industry remains uncertain.

In 2022, 62% of revenues were derived from commercial markets (2021–52%, 2020–54%) while 38% of revenues related to defence markets (2021–48%, 2020–46%).

2022 and Recent Updates

On February 9, 2022, Magellan announced it had been awarded a contract from MDA Ltd. ("MDA") to provide spacecraft avionics for their next Earth observation mission named CHORUS. The new spacecraft builds on MDA's RADARSAT heritage and will continue the work of RADARSAT-2, which remains operational serving its worldwide customer base. The avionics subsystems for CHORUS will be developed at Magellan's Winnipeg facility, home of western Canada's Advanced Satellite Integration Facility. Magellan has expertise in the development of satellite buses and spacecraft avionics. For MDA's CHORUS mission, Magellan will be responsible for the design, manufacture, test, and delivery of the bus avionics system for the C-band Synthetic Aperture Radar satellite. The bus avionics include the satellite bus power control and distribution, communications, altitude control, orbit determination, and on-board telemetry data collection. Key avionics deliverables include Magellan's Power Control Unit and Command and Data Handling Unit.

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

On May 2, 2022, Magellan announced it had reached a five-year agreement with Safran Landing Systems ("Safran") to manufacture complex machined landing gear components. The agreement included the continued manufacture and processing of Magellan's current work statement and additional new components, all for commercial aircraft platforms. Deliveries will take place from Magellan's North American facilities in New York, New York and Kitchener, Ontario. Magellan and Safran have established a solid working relationship over the years, delivering quality and on-time landing systems for major customers. Magellan provides complex hard metal machining expertise and engineering design input, in supporting the Safran team on new product developments.

On May 17, 2022, Magellan and RocketFrac Services Ltd. ("RocketFrac") announced, a contract for the manufacture of charges for an innovative new fracturing technology that uses solid rocket propellant as an alternative to using hydraulic fracking. RocketFrac and Magellan partnered to develop a new fracturing technology that couples RocketFrac's patent-pending downhole tool with a new and specifically formulated propellant under an exclusive global license from Magellan. All of the charges will be manufactured and delivered from Magellan's Winnipeg facility by the end of the first quarter of 2023. The oil and gas sector is actively pursuing new technologies that can address concerns with water use, groundwater protection, and other environmental concerns that are common to traditional hydraulic fracturing. The RocketFrac tool is designed to apply the pressure generated by the solid propellant to a specific portion of the well. This approach requires no water and increases production mobility via radial fracturing of the rock.

On May 25, 2022, Magellan announced that the Toronto Stock Exchange ("TSX") accepted the notice filed by Magellan to make a Normal Course Issuer Bid ("NCIB") to purchase up to 2,886,455 of the Corporation's issued and outstanding common shares for cancellation through the facilities of the TSX or alternative trading systems, during the 12 month period commencing on May 21, 2022, and ending on May 26, 2023.

On October 11, 2022, Magellan announced a contract award from Sikorsky Aircraft Corporation ("Sikorsky"), a Lockheed Martin Company, for low rate initial production ("LRIP") of assemblies to support the production of the CH-53K® LRIP configuration helicopter. The multi-year, multi-million dollar agreement will be delivered from Magellan's New York facility commencing in 2023. The contract consists of hard metal, machined deliverables for the U.S. Marine Corps ("USMC") for the production of the CH-53K King Stallion, the next generation heavy-lift helicopter being produced to replace the CH-53E Super Stallion. The CH-53K achieved initial operating capability in 2022 and is on track to deploy to the fleet in 2024. The Marine Corps plans to deploy the first CH-53K Marine Expeditionary Unit detachment in fiscal year 2024. The USMC's procurement objective is 200 helicopters.

On November 22, 2022, Magellan announced the award of a multi-year contract from Lockheed Martin Corporation ("LMCO") for complex machined titanium components for all three variants of the F-35 aircraft. This multi-million dollar contract will be carried out at Magellan Aerospace's facility in Kitchener, Ontario over the period of 2023 to 2027. The contract is for shipsets of machined wing tie bars for the aircraft's leading edge flap. Magellan's Kitchener facility has industry-leading expertise in titanium machining operations and world-class machining capability, with an emphasis on high speed machining of hard metals such as titanium, inconel and stainless steel. This latest contract is a continuation of a long-established relationship with LMCO on the global F-35 fighter aircraft program. Magellan's Kitchener facility was the first international partner on the F-35 program to deliver parts to the program in late 2003. Prior to these deliveries, Kitchener had made significant investment in both equipment and technology that proved to be pivotal in securing its role on the program.

On December 9, 2022, Magellan announced that it will continue producing F-35 Lightning II ("F-35") horizontal tail assemblies under an agreement with BAE Systems. This significant, multi-year agreement is the continuation of contract awards made to Magellan by BAE Systems and will further Magellan's participation on the global program. Magellan and BAE Systems have been working together to produce horizontal tails for the global F-35 program for more than a decade, signing the original Letter of Intent for this agreement in 2006. Both companies have since made significant investment in facilities, technologies and training to ensure the successful delivery of these flight-critical assemblies to F-35 prime contractor Lockheed Martin. The horizontal tail assemblies produced at Magellan's facility in Winnipeg, Manitoba, will be used on the Conventional Takeoff and Landing variant of the F-35. Magellan is targeting to produce more than 1,000 ship sets of horizontal tail assemblies over the life of the F-35 program.

Labour Matters

The Corporation employs 3,500 employees; of these, approximately 1,400 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 Bank Credit Facility Agreement. The Bank Credit Facility Agreement 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 Bank Credit Facility Agreement expires on June 30, 2023. Any extensions of the maturity date are subject to mutual consent of the lenders and the Corporation.

2. OUTLOOK

The outlook for Magellan's business in 2023

The International Air Transport Association ("IATA") reported that 2022 ended with domestic Revenue Passenger Kilometers ("RPK's") recovered to 79.6% of pre-pandemic levels, up 10.9% year-on-year ("YoY") from 2021 levels. International RPK's recovered to 62.2% of 2019 traffic levels and grew 152.7% YoY from 2021.

Following a challenging 2020 due to the COVID-19 pandemic, commercial aircraft manufacturing began to recover in 2021 and continued to do so in 2022. The rate of recovery has been impacted by supply chain shortages of labour and materials. Soaring inflation is also a concern for the industry as increasing prices have heightened the pressure on cost structures.

Airbus and Boeing delivered 663 and 480 aircraft in 2022 respectively. Airbus' gross order intake totaled 1,078 aircraft and with cancellations of 258, they ended the year with net orders of 820 aircraft. Boeing booked 935 gross aircraft orders, received cancellations of 161 aircraft and therefore netted 774 aircraft orders in 2022. Airbus ended 2022 with total unfilled orders of 7,239 aircraft verses 7,082 at December 31, 2021, while Boeing ended with 5,430 unfilled aircraft orders in 2022 compared to 5,136 a year earlier. Airbus is expected in 2024 to surpass its all time record high of 863 aircraft deliveries set in 2019. Boeing is predicted to exceed their pre COVID-19 level of 806 aircraft deliveries in 2025.

Airbus reached a build rate of 48 aircraft per month on their single aisle A320 aircraft in 2022. Production is expected to continue increasing in 2023 and reach a monthly rate of 65 aircraft by late 2024, which was pushed back from mid-2023 due to supply chain challenges. Airbus also confirmed 75 aircraft per month in 2026. Airbus ended 2022 with A330 production at 3 aircraft per month and is moving to 4 aircraft per month in 2024. A350 production is expected to increase from 6 aircraft per month to 9 aircraft per month by the end of 2025. The A220 is currently being produced at 6 aircraft per month.

Boeing planned to increase 737 single aisle build rates to 38 aircraft per month in the first half of 2023 however they were forced to delay those plans due to the supply chain constraints. The program is stabilizing at a production rate of 31 aircraft per month with plans now to ramp production to approximately 50 aircraft per month in the 2025/2026 timeframe. Boeing's new 737 MAX-7 and MAX-10 aircraft faced potentially significant certification delays due to a 2022 year-end deadline, beyond which new aircraft must comply with new standards issued following the two MAX aircraft accidents. Fortunately for Boeing and the industry, the US Senate granted an exemption allowing them to continue working with the FAA on certifying the MAX-7 and MAX-10 conditional upon making changes to the engine and crew alerting systems.

In 2022, Boeing pushed out the certification date of their 777X aircraft to 2025 due to an updated assessment of the time required to meet its requirements. Meanwhile, they are building the freighter version at 2 aircraft per month. Boeing continues building their 787 aircraft at a low production rate of 2 aircraft per month and is expected to go to 5 aircraft per month in late 2023, and then 10 aircraft per month in the 2025/2026 timeframe.

The defence industry has not been immune to the challenges faced by commercial aerospace. Defence OEM's have been similarly forced to limit build rate increases due to supply chain constraints. Meanwhile, global defence spending increased by almost 5% annually over the last few years and is expected to continue to increase from 3% to 5% annually over the next 5 years amid global tensions.

Late in 2022, the US Army announced a major decision under its Future Vertical Lift program to purchase Bell Helicoptor's ("Bell") V-280 Valor tiltrotor aircraft as a replacement to UH-60 Black Hawk helicopters built by Sikorsky. This was a significant win for Bell as the US Army currently operates approximately 2,300 UH-60 Blackhawk's. Sikorsky entered the competition with their SB-1 Defiant helicopter, built jointly with partner Boeing Defense.

The F-35 program celebrated key wins in 2022 with Switzerland and Finland announcing their new contracts, Canada committing to purchase 88 fighters, and NATO allies Greece and the Czech Republic indicating their desire to purchase the fighter. Lockheed is suggesting a steady annual production rate of 156 aircraft will start in the 2024 time frame based on anticipated supply chain recovery. Lockheed delivered 141 aircraft in 2022.

Despite a growing demand for new commercial and defence aircraft, there is ongoing concern over aircraft build rates being paced by the supply chain. There is also concern over inflation and the economy putting pressure on cost structures already strained by the pandemic. From a positive perspective however, air travel continues on a path towards pre-pandemic levels which is triggering airlines to increase order placements for new aircraft. Forecasts of defence market growth potential over the next 5 years is also positive. Together the two market segments offer an encouraging outlook for aerospace manufacturers as the industry navigates its way through this volatile period of time.

3. SELECTED ANNUAL INFORMATION

A summary of selected annual financial information for 2022, 2021 and 2020

Expressed in millions of dollars, except per share information	**2022**	2021	2020
Revenues	**764.6**	688.4	744.4
Net (loss) income in the year	**(21.7)**	(1.0)	3.3
Net (loss) income per common share – Basic and Diluted	**(0.38)**	(0.02)	0.06
EBITDA[1]	**31.6**	56.7	75.9
EBITDA[1] per common share – Basic and Diluted	**0.55**	0.98	1.31
Adjusted EBITDA[1]	**35.5**	58.8	100.4
Adjusted EBITDA[1] per common share – Basic and Diluted	**0.62**	1.02	1.73
Total assets	**1,010.9**	1,003.8	1,072.6
Total non-current liabilities	**97.6**	104.3	121.9

[1]EBITDA 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 2022, overall aerospace manufacturing activity has begun to recover but supply chain shortages and inflationary pressures which began in 2021 continued in 2022 to adversely impact the Corporation's results. Revenues for the year ended December 31, 2022, increased from both 2021 and 2020 levels. The increase in revenues from 2021 was primarily attributable to increased volumes for space, single aisle and casting products and favorable foreign exchange impacts. These increases were offset in part by volume decreases for certain programs that resulted from scheduling changes. Net income decreased in 2022 from 2021 mainly due to lower gross profit as a result of production inefficiencies and higher material and manufacturing costs, higher administrative and general expenses and higher restructuring charges in the year.

During 2022 and 2021, the Corporation paid dividends on common shares of $0.26 per share and $0.42 per share, amounting to $15.0 million and $24.2 million, respectively, in total for the year.

4. RESULTS OF OPERATIONS

A discussion of Magellan's operating results for 2022 and 2021

Consolidated revenues for the year ended December 31, 2022 were $764.6 million, an 11.1% increase from the $688.4 million achieved last year. Gross profit and net loss were $35.1 million and $21.7 million for the year ended December 31, 2022, respectively, in comparison to gross profit of $48.3 million and net loss of $1.0 million for the year ended December 31, 2021.

Consolidated Revenues

Twelve-months ended December 31, expressed in thousands of dollars	**2022**	2021	Change
Canada	**329,638**	315,803	4.4%
United States	**190,011**	174,260	9.0%
Europe	**244,931**	198,295	23.5%
Total revenues	**764,580**	688,358	11.1%

Revenue in Canada increased 4.4% in 2022 compared to the prior year mainly due to increased volumes for space, proprietary and casting products and favourable foreign exchange impact driven by the strengthening of the United States dollar relative to the Canadian dollar. These increases were offset in part by volume decreases for certain programs as a result of scheduling changes.

Revenue in the United States in 2022 was 9.0% higher than 2021 largely due to the favourable foreign exchange impact of the strengthening of the United States dollar relative to the Canadian dollar and increased volumes for single aisle aircraft and spare parts as Boeing continued to ramp up production for the 737 MAX, offset in part by volume decreases for wide-body aircraft products.

European revenue in 2022 increased 23.5% compared to the corresponding year in 2021 primarily driven by build rate recovery for single aisle aircraft, and the 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 2021 remained constant in 2022, consolidated revenues for 2022 would have been lower by 2.3%.

Gross Profit

Twelve-months ended December 31, expressed in thousands of dollars	**2022**	2021	Change
Gross profit	**35,065**	48,330	(27.4%)
Percentage of revenue	**4.6%**	7.0%	

Gross profit was $35.1 million in 2022, $13.2 million lower than 2021 of $48.3 million. Gross profit, as a percentage of revenues was 4.6%, a decrease of 34.3% from 7.0% recorded in 2021. The decrease in profitability is mainly the result of the effect of inflation in material, supplies, utilities and labour; and supply chain disruptions which impacted production of goods resulting in production system inefficiencies and lower absorption of manufacturing costs.

Administrative and General Expenses

Twelve-months ended December 31, expressed in thousands of dollars	**2022**	2021	Change
Administrative and general expenses	**48,690**	44,559	9.3%
Percentage of revenue	**6.4%**	6.5%	

Administrative and general expenses as a percentage of revenue were 6.4% in 2022 as compared to 6.5% in 2021. Administrative and general expenses of $48.7 million in 2022 were $4.1 million or 9.3% higher than $44.6 million in the prior year due primarily to higher salaries and benefits, increased travel following easing of COVID restrictions, and consulting services.

Restructuring

Twelve-months ended December 31, expressed in thousands of dollars	**2022**	2021
Workforce reduction	**1,930**	–
Closure costs	**199**	2,182
Impairment of property, plant and equipment	**1,772**	–
Restructuring	**3,901**	2,182

During 2022, the Corporation incurred $2.8 million [2021 - $2.2 million] of restructuring costs related to the closure of its Bournemouth manufacturing facilities in the United Kingdom in implementing the restructuring plan announced in the fourth quarter of 2020 to reorganize its European operations. An additional $1.1 million was incurred in 2022 for other workforce reduction efforts.

Other

Twelve-months ended December 31, expressed in thousands of dollars	**2022**	2021
Foreign exchange gain	**(2,251)**	(2,548)
Loss on disposal of property, plant and equipment	**22**	336
Gain on disposal of investment properties	**–**	(608)
Loss on pension settlement	**631**	–
Other	**(162)**	(355)
Other	**(1,760)**	(3,175)

Included in other is a foreign exchange gain of $2.3 million in 2022 compared to a gain of $2.5 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. In addition, a $0.6 million loss was recorded in 2022 relating to the settlement of various pension obligations. In 2021, a $0.6 million gain was recorded relating to the disposal of investment properties.

Interest Expense

Twelve-months ended December 31, expressed in thousands of dollars	**2022**	2021
Interest on bank indebtedness and long-term debt	**423**	43
Accretion charge on long-term debt and borrowings	**637**	787
Accretion charge for lease liabilities	**1,677**	1,817
Discount on sale of trade receivables	**101**	248
Interest expense	**2,838**	2,895

Total interest costs of $2.8 million for 2022 decreased by $0.1 million from $2.9 million in 2021, primarily due to lower accretion charges on long-term debt and lease liabilities as principal amounts decreased, lower discounts on sale of accounts receivables due to lower volume of receivables sold in the year offset in part by higher interest on bank indebtedness amounts during the year.

Income Taxes

Twelve-months ended December 31, expressed in thousands of dollars	**2022**	2021
Current income tax expense	**5,780**	8,898
Deferred income tax recovery	**(2,692)**	(6,052)
Income tax expense	**3,088**	2,846
Effective tax rate	**(16.6%)**	152.3%

The Corporation recorded an income tax expense of $3.1 million in 2022 on pre-tax loss of $18.6 million, representing an effective tax rate of (16.6%), compared to an income tax expense of $2.8 million on pre-tax income of $1.9 million, representing an effective tax rate of 152.3% in 2021.

During 2022 and 2021, the Corporation recognized investment tax credits totaling $1.8 million and $1.6 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 recognition of a valuation allowance against deferred tax assets of $6.7 million, changes in the mix of income and loss across the different jurisdictions in which the Corporation operates and the reversal of temporary differences.

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	**2022**	2021
Net loss	**(21,692)**	(977)
Add back:		
Interest	**2,838**	2,895
Taxes	**3,088**	2,846
Depreciation and amortization	**47,405**	51,892
EBITDA	**31,639**	56,656
Add back:		
Restructuring	**3,901**	2,182
Adjusted EBITDA	**35,540**	58,838

Adjusted EBITDA decreased $23.3 million or 39.6% to $35.5 million for the year ended 2022, compared to $58.8 million in 2021 mainly as a result of lower net income and lower depreciation and amortization expenses. In 2022, certain facilities of the Corporation continue to experience supply chain disruptions and inflationary cost pressures which is lowering EBITDA results. In addition, lower pre-COVID production volumes has resulted in lower absorption of manufacturing costs further lowering EBITDA.

6. SELECTED QUARTERLY FINANCIAL INFORMATION

A summary view of Magellan's quarterly financial performance

Expressed in millions of dollars except per share information				**2022**				2021
	Mar 31	**Jun 30**	**Sep 30**	**Dec 31**	Mar 31	Jun 30	Sep 30	Dec 31
Revenues	**187.7**	**192.7**	**191.1**	**193.1**	176.3	167.6	166.4	178.0
(Loss) income before taxes	**(1.4)**	**1.2**	**2.5**	**(20.9)**	5.2	1.6	1.3	(6.2)
Net (loss) income	**(2.0)**	**0.5**	**0.6**	**(20.8)**	3.3	1.1	0.5	(5.8)
Net (loss) income per common share								
Basic and Diluted	**(0.04)**	**0.01**	**0.01**	**(0.36)**	0.06	0.02	0.01	(0.10)
EBITDA[1]	**11.4**	**14.0**	**14.7**	**(8.5)**	19.2	14.9	16.1	6.5
Adjusted EBITDA[1]	**11.5**	**14.0**	**14.8**	**(4.8)**	19.3	15.6	16.7	7.3

[1]EBITDA 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 1.3580 in the fourth quarter of 2022 and a low of 1.2280 in the second quarter of 2021. The average quarterly exchange rate of the British pound relative to the Canadian dollar reached a high of 1.7461 in the first quarter of 2021 and hit a low of 1.5350 in the third quarter of 2022. The average quarterly exchange rate of the British pound relative to the United States dollar reached a high of 1.3974 in the second quarter of 2021 and hit a low of 1.1649 in the third quarter of 2022. Had exchange rates remained at levels experienced in 2021, reported revenues in 2022 would have been higher by $0.5 million in the first quarter of 2022 and lower by $5.4 million, $5.4 million and $7.7 million for the second, third and fourth quarters of 2022, respectively.

Revenues and net income were also negatively impacted by the continued effects from the COVID-19 pandemic, driving reduced volumes and supply chain disruptions. In addition, inflation on material, supplies, utilities and labour impacted the results in the current quarter. Since the third quarter of 2021, the Corporation began to see modest sequential growth in revenue as global domestic air travel continues to recover to pre COVID-19 levels.

In response to COVID-19, the Corporation applied and recognized the CEWS subsidy of $3.9 million and $3.8 million in the second and fourth quarters of 2021, and reduced the expense that the subsidy offsets (none in 2022). 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 2022, $58.5 million of cash was generated by operations, $23.9 million was used in investing activities and $26.3 million was used in financing activities.

Cash Flow from Operating Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2022**	2021
Increase in account receivables	**(3,223)**	(50,347)
Decrease in contract assets	**2,437**	3,895
(Increase) decrease in inventories	**(15,789)**	3,234
(Increase) decrease in prepaid expenses and other	**(437)**	2,224
Increase in accounts payable, accrued liabilities and provisions	**28,727**	7,237
Increase in contract liabilities	**18,503**	–
Net change in non-cash working capital items	**30,218**	(33,757)
Net cash provided by operating activities	**58,540**	12,526

The Corporation generated $58.5 million in 2022 from operating activities, compared to $12.5 million in the prior year. Changes in non-cash working capital items generated cash of $30.2 million in 2022 as compared to $33.8 million used in the prior year. The favourable movement of non-cash working capital balances was largely attributable to increases in accounts payable, accrued liabilities and provisions primarily driven by timing of material purchases and supplier payments, offset in part by increases in accounts receiveable from timing of customer payments and increases in inventories due to timing of production and shipment, and material purchases.

Cash Flow from Investing Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2022**	2021
Purchase of property, plant and equipment	**(23,494)**	(17,675)
Proceeds from disposal of property, plant and equipment	**607**	509
Proceeds from disposal of investment properties	**–**	1,000
Increase in intangibles and other assets	**(969)**	(4,638)
Net cash used in investing activities	**(23,856)**	(20,804)

Investing activities for 2022 used $23.9 million compared to $20.8 million in the prior year, an increase of $3.1 million primarily due to higher levels of investment in property, plant and equipment offset in part by decreases 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	**2022**	2021
Decrease in debt due within one year	**–**	(39,441)
Decrease in long-term debt	**(2,047)**	(1,516)
Lease liability payments	**(5,619)**	(6,707)
Decrease in borrowings subject to specific conditions, net	**(1,327)**	(1,104)
(Decrease) increase in long-term liabilities and provisions	**(225)**	6
Share repurchases	**(2,062)**	–
Common share dividend	**(14,994)**	(24,247)
Net cash used in financing activities	**(26,274)**	(73,009)

The Corporation used $26.3 million in 2022 for financing activities the majority of which was used to pay dividends and repay debt and lease liability obligations. In 2021, a large repayment of debt due within one year was incurred as the Corporation wound down its accounts receivable securitization program, and the payment of common share dividends.

Contractual Obligations

As at December 31, 2022, expressed in thousands of dollars	**Less than 1 year**	**1-3 Years**	**4-5 Years**	**After 5 Years**	**Total**
Long-term debt	4,831	720	–	–	5,551
Lease liabilities	5,597	9,803	7,933	19,161	42,494
Borrowings subject to specific conditions	1,337	2,702	2,853	26,079	32,971
Other long-term liabilities	369	458	187	4,071	5,085
Total Contractual Obligations	**12,134**	**13,683**	**10,973**	**49,311**	**86,101**

On June 30, 2021, the Corporation extended its Bank Credit Facility Agreement ("Agreement") with a syndicate of lenders for an additional two-year period expiring on June 30, 2023. The Agreement provides for a multi-currency global operating credit facility to be available to Magellan in a maximum aggregate amount of $75 million. The Agreement also includes a $75 million uncommitted accordion provision, which provides Magellan with the option to increase the size of the operating credit facility to $150 million. Extensions of the Agreement are subject to mutual consent of the syndicate of lenders and the Corporation.

As at December 31, 2022, the Corporation had made contractual commitments to purchase $6.7 million of capital assets. In addition, the Corporation had purchase commitments, largely for materials required for the normal course of operations, of $312.7 million as at December 31, 2022. The Corporation plans to fund all of these commitments with operating cash flow and the existing credit facility.

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 9, 2023, 57,446,134 common shares were outstanding and no preference shares were outstanding. More information on the Corporation's share capital is provided in note 20 of the Corporation's consolidated financial statements for the year ended December 31, 2022.

For the year ended December 31, 2022 and 2021, the Corporation paid quarterly dividends on its common shares ranging between $0.025 to $0.105 per common share, representing an aggregate dividend payment of $15.0 million and $24.4 million, respectively.

In the first quarter of 2023, the Corporation declared dividends of $0.025 per common share payable on March 31, 2023, to shareholders of record at the close of business on March 17, 2023.

Normal Course Issuer Bid

On May 25, 2021, the TSX accepted the Corporation's application to commence a 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 application was re-approved for a NCIB to purchase up to 2,886,455 common shares, over a 12-month period commencing May 27, 2022 and ending May 26, 2023. In 2021, the Corporation did not purchase common shares for cancellation under the program. 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 respectively.

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, 2022 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 hedges items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. As at December 31, 2022, the Corporation entered into forward foreign exchange contracts to purchase US dollars of $14.4 million and British Pounds of £23.5 million over a period of one month commencing December of 2022 at an exchange rate of $1.3559 and $1.6311 Cdn, 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$54.0 million	1.2500	1.3245	$2.2 million	Accounts payable, accrued liabilities and provisions
June 2025	US$54.0 million	1.2500	1.3300	$2.0 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 [2021–$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

The Corporation's performance may be affected by a number of risks and uncertainties. Magellan's senior management identifies key risks and has processes in place to help monitor, manage, and mitigate these risks. Additional risks and uncertainties not presently known by the Corporation, or that the Corporation does not currently anticipate, may be material and may impair the Corporation's performance.

The following risks and uncertainties apply to the Corporation. Information relating to additional risks and uncertainties are set forth in the Corporation's Annual Information Form on SEDAR at www.sedar.com.

Factors that have an adverse impact on the aerospace industry may adversely affect the Corporation's results of operations.

The Corporation's gross profit is derived from the aerospace industry. The Corporation's aerospace operations are focused on engineering and manufacturing aircraft components for new manufactured aircraft, and selling spare parts and performing repair and overhaul services on existing aircraft and aircraft components. Therefore, the Corporation's business is directly affected by economic factors and other trends that affect the Corporation's customers in the aerospace industry, including possible changes in sourcing strategies by aircraft operators and OEMs, decreased demand for air travel or projected market growth that may not materialize or be sustainable or the grounding of specific aircraft models by regulatory authorities. Since fuel prices are a significant cost factor for aircraft operators, any sizeable price increases can affect their operating margins and reduce their ability to finance capital expenditures. Constraints in the credit market may reduce the ability of airlines and others to purchase new aircraft, negatively affecting the demand for the Corporation's products. When these economic and other factors adversely affect the aerospace industry, they tend to reduce the overall customer demand for the Corporation's products and services, which decreases the Corporation's operating income.

Economic and other factors both internal and external to the aerospace industry might affect the aerospace industry and may have an adverse impact on the Corporation's results of operations. More specifically, a number of additional external risk factors may include the financial condition of the airline industry, commercial aerospace customers and government aerospace customers; government policies related to import and export restrictions and business acquisitions; changing priorities and possible spending cuts by government agencies; government support for export sales; world trade policies; increased competition from other businesses, including new entrants in market segments in which the Corporation competes. In addition, acts of terrorism, natural disasters, and global health risks including new pandemics, political instability or the outbreak of war or continued hostilities in certain regions of the world could adversely affect global travel and result in lower orders or the rescheduling or cancellation of part of the existing order backlog for some of the Corporation's products.

The Corporation faces risks from downturns in the domestic and global economies.

Potential loss due to unfavourable economic conditions, such as a macroeconomic downturn in key markets, could result in potential buyers postponing the purchase of the Corporation's products or services, lower order intake, order cancellations or deferral of deliveries, lower availability of customer financing, downward pressure on selling prices, increased inventory levels, decreased level of customer advances, slower collection of receivables, reduction in production activities, discontinued production of certain products, termination of employees and adverse impacts on the Corporation's suppliers.

The Corporation cannot predict the depth or duration of downturns in the domestic and global economies nor the effects on markets that the Corporation serves, particularly the airline industry. The Corporation's ability to increase or maintain its revenues and operating results may be impaired as a result of negative general global economic conditions including, without limitation, inflation, interest rates, general levels of economic activity, fluctuations in the market prices of securities, participation by other investors in the financial markets, economic uncertainty, national and international political circumstances, natural disasters, public health crises, pandemics and other events outside of our control. The ongoing economic impacts and health concerns associated with the COVID-19 pandemic may continue to affect the Corporation's operations for a timeframe that remains uncertain. There are also significant uncertainties surrounding the economic impacts of the war in Ukraine, continued inflationary pressures on the price the Corporation pays for the goods and services it acquires or contracts, and the possibility of an economic recession. Such economic uncertainties render estimates of future revenues and expenditures more difficult to formulate. The future direction of the overall domestic and global economies could have a significant impact on the Corporation's overall financial performance and may impact the value of its common shares.

Pandemics, including the COVID-19 *pandemic, have caused, and may in future cause disruptions in the Corporation's operations, market volatility and economic disruption, which could adversely affect the Corporation's results.*

The COVID-19 pandemic continues to affect the Corporation due to the uncertainty it has caused in the global economy, impacts on global air transportation environment, air passenger travel and Magellan's business. Pandemics such as the COVID-19 pandemic create significant volatility and uncertainty and economic disruption. A pandemic poses the risk that the Corporation and its business partners may be prevented from, or restricted in, conducting business activities for an indefinite period, due to the transmission of the disease or to emergency measures or restrictions that may be requested or mandated by governmental authorities.

As a result of the COVID-19 pandemic, global equity and capital markets have experienced and may continue to experience significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 pandemic are unknown, as are the efficacy and duration of government and central bank interventions. The extent to which the COVID-19 pandemic may impact the Corporation's future business, including its operations and the market for its securities, will depend on future economic developments, which are highly uncertain and cannot be predicted at this time. It is not possible to reliably estimate the length and severity of these developments or the negative impact on the Corporation's financial results, share price and financial condition in future periods. Many of the risks, uncertainties and other risk factors identified are, and will be, amplified by the COVID-19 pandemic. While we have implemented business continuity plans and taken additional steps and measures, there can be no assurance that these actions, in response to the COVID-19 pandemic, will succeed in preventing or mitigating the negative impacts of the COVID-19 pandemic on the Corporation, which may continue post COVID-19 pandemic.

Cancellations, reductions or delays in customer orders may adversely affect the Corporation's results of operations.

The Corporation's overall operating results are affected by many factors, including the timing of orders from large customers and the timing of expenditures to manufacture parts and purchase inventory in anticipation of future sales of products and services. A large portion of the Corporation's operating expenses is relatively fixed. As several of the Corporation's operating locations typically do not obtain long-term purchase orders or commitments from customers, the Corporation must anticipate the future volume of orders based upon the historic purchasing patterns of customers and upon discussions with customers as to their anticipated future requirements. These historic patterns may be disrupted by many factors, including grounding of specific aircraft models by regulatory authorities, changing economic conditions, inventory adjustments, work stoppages or labour disruptions and continuing impacts of COVID-19. Cancellations, reductions or delays in orders by a customer or group of customers could have a material adverse effect on the Corporation's business, financial condition and results of operations.

The war in Ukraine and any restrictive actions that may be taken by the U.S. and/or other countries in response thereto, such as sanctions or export controls

Since February 24, 2022, the United States, Canada and the United Kingdom, in coordination with European and NATO allies have issued severe sanctions targeting Russia's largest banks and removed most of Russian banks from the global SWIFT financial messaging system. Additional sanctions were imposed on Russia's oil and gas industry, and on export of technology and services to Russia and Belarus. Additional sanctions or other measures may be imposed by the global community, and counteractive measures may be taken by the Russian government, or other entities in Russia or governments or other entities outside of Russia. The war between Russia and the Ukraine and corresponding sanctions imposed upon Russia by NATO and Western countries are impacting world economic markets including areas of the aerospace industry. The impacts of the imposed sanctions are being monitored on an ongoing basis by the industry. The Corporation's customers have particularly taken actions to lessen the impact on the supply of titanium materials originally sourced from Russia. Of greater concern is the potential impact of changes in world economic markets and the follow-on effects on the aerospace industry. The Corporation cannot predict the outcome of the war nor can it predict the resulting economic fallout, therefore the corresponding impact on the Corporation remains uncertain.

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 critical 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. The critical estimates and judgements utilized in preparing the Corporation's consolidated financial statements affect 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. Any changes in estimates and assumptions could have a material impact on the Corporation's future income and/or the amounts reported in its statement of financial position. The Corporation reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgement in making these estimates and assumptions.

In March 2020, the COVID-19 pandemic adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak. In late February 2022, Russia launched a large scale military attack on Ukraine ("war"). The invasion significantly amplified already existing geopolitical tensions among Russia, Ukraine, Europe, NATO and the West, including Canada. Any estimate of the length and severity of these developments is subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic and the war may materially and adversely affect the Corporation's operations, financial results and condition in future periods are also subject to significant uncertainty. Therefore, uncertainty about judgements, estimates and assumptions made by management during the preparation of the Corporation's consolidated financial statements related to potential impacts of the COVID-19 pandemic and the war on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

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 22 to the consolidated financial statements.

Impairments

In determining whether a long-lived asset is impaired, the Company has to exercise judgment and make estimation in assessing (1) whether an event or indicator has occurred that may affect the asset values; (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 appropriate discount rate.

The recoverable amounts of goodwill, intangible assets and property, plant and equipment is 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 asset 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.

Government assistance

Investment tax credits and scientific research and experimental development tax credits are determined based on estimates of the Corporation's current year expenditures on qualifying programs. The investment tax credits are assessed to determine the likelihood that they will be applied against federal income taxes.

Capitalization of development costs

When capitalizing development costs the Corporation must assess the technical and commercial feasibility of the projects and estimate the useful lives of resulting products. Determining whether future economic benefits will flow from the assets and therefore the estimates and assumptions associated with these calculations are instrumental in (i) deciding whether project costs can be capitalized, and (ii) accurately calculating the useful life of the projects for the Corporation.

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.

Employee benefits

The Corporation considers a number of factors in developing the pension assumptions, including an evaluation of relevant discount rates, plan asset allocations, mortality, expected changes in wages and retirement benefits, analysis of current market conditions, economic benefits available and input from actuaries and other consultants. Costs of the programs are based on actuarially determined amounts and are accrued over the period from the date of hire to the full eligibility date of employees who are expected to qualify for these benefits.

12. CHANGES IN ACCOUNTING POLICIES

A description of accounting standards adopted in 2022

The Corporation has adopted the following new and amended standards in 2022.

Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*

The amendments clarify the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Prior to the application of the amendments, the Corporation had not identified any contracts as being onerous as the unavoidable costs under the contracts, which were the costs of fulfilling them, comprised only incremental costs directly related to the contracts. Upon adoption of the amendments, as of January 1, 2022, the Corporation included certain other directly related costs in determining the costs of fulfilling the contracts resulting in a $1,177 increase to other long-term liabilities and provisions, and $878 and $299 decreases to the opening retained earnings and deferred tax liabilities, respectively.

Amendments to IAS 16, *Property, Plant and Equipment*

The amendment clarifies the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment into use. The adoption had no impact on the Corporation's 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, 2022 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; (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, 2022, 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, 2022.

No changes were made in the Corporation's internal control over financial reporting during the year ended December 31, 2022, 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.sedar.com.

MANAGEMENT'S REPORT

December 31, 2022

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 9, 2023

Elena M. Milantoni
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

December 31, 2022

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 statement of financial position as at December 31, 2022, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") 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 totalling $447 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.

Based on the current economic environment, the Group concluded that impairment testing was required at certain cash generating units. The impairment testing conducted by management resulted in the recognition of a $2.5 million impairment loss in the current period. Refer to notes 7, 10 and 27 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.

How the key audit matter was addressed in the audit

Our audit approach involved the assistance of our internal valuation professionals. 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 $336 million of revenue recognized over time for the year ended December 31, 2022 as disclosed in Note 24 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 Matter

The consolidated financial statements of the Group for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those statements on March 17, 2022.

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 2022 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.

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

The 2022 Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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 IFRS, 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.

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 9, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in thousands of Canadian dollars	Notes	**December 31 2022**	December 31 2021
Current assets			
Cash	3	**40,940**	32,482
Trade and other receivables	4	**169,562**	164,234
Contract assets	5	**65,456**	66,337
Inventories	6	**226,359**	208,577
Prepaid expenses and other		**9,967**	9,664
		512,284	481,294
Non-current assets			
Property, plant and equipment	7	**384,084**	396,845
Right-of-use assets	8	**30,825**	34,389
Investment properties	9	**1,621**	1,659
Intangible assets	10	**41,423**	47,772
Goodwill	10	**22,181**	21,792
Other assets	11, 23	**9,745**	11,587
Deferred tax assets	19	**8,731**	8,480
		498,610	522,524
Total assets		**1,010,894**	1,003,818
Current liabilities			
Accounts payable, accrued liabilities and provisions	13, 17	**135,153**	105,678
Contract liabilities	5	**36,096**	17,704
Debt due within one year	14,15, 22	**10,310**	10,266
		181,559	133,648
Non-current liabilities			
Long-term debt	14	**634**	2,755
Lease liabilities	15	**27,761**	30,644
Borrowings subject to specific conditions	16, 22	**23,300**	24,101
Other long-term liabilities and provisions	17	**7,203**	7,223
Deferred tax liabilities	19	**38,707**	39,623
		97,605	104,346
Equity			
Share capital	20	**251,104**	252,342
Contributed surplus		**2,044**	2,044
Other paid in capital		**13,565**	13,565
Retained earnings		**442,979**	479,965
Accumulated other comprehensive income	29	**18,661**	14,531
Equity attributable to equity holders of the Corporation		**728,353**	762,447
Non-controlling interest		**3,377**	3,377
Total liabilities and equity		**1,010,894**	1,003,818

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 **2022**	2021
Revenues	24	**764,580**	688,358
Cost of revenues	25	**729,515**	640,028
Gross profit		**35,065**	48,330
Administrative and general expenses	26	**48,690**	44,559
Restructuring	27	**3,901**	2,182
Other	11, 32	**(1,760)**	(3,175)
(Loss) income before interest and income taxes		**(15,766)**	4,764
Interest	28	**2,838**	2,895
(Loss) income before income taxes		**(18,604)**	1,869
Income taxes			
Current	19	**5,780**	8,898
Deferred	19	**(2,692)**	(6,052)
		3,088	2,846
Net loss		**(21,692)**	(977)
Other comprehensive (loss) income			
Other comprehensive loss that may be reclassified to profit and loss in subsequent periods:			
Foreign currency translation	29	**7,385**	(7,339)
Unrealized loss on foreign currency contract hedges	22	**(3,255)**	–
Items not to be reclassified to profit and loss in subsequent periods:			
Actuarial income on defined benefit pension plans, net of tax	19, 23	**1,402**	12,508
Comprehensive (loss) income		**(16,160)**	4,192
Net loss per share			
Basic	20	**(0.38)**	(0.02)
Diluted	20	**(0.38)**	(0.02)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Corporation							
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, 2020	252,342	2,044	13,565	492,681	21,870	782,502	3,377	785,879
Net loss	–	–	–	(977)	–	(977)	–	(977)
Other comprehensive income (loss)	–	–	–	12,508	(7,339)	5,169	–	5,169
Common share dividend	–	–	–	(24,247)	–	(24,247)	–	(24,247)
December 31, 2021	252,342	2,044	13,565	479,965	14,531	762,447	3,377	765,824
IAS 37 amendments adoption [note 2]	–	–	–	(878)	–	(878)	–	(878)
Net loss	–	–	–	(21,692)	–	(21,692)	–	(21,692)
Other comprehensive income	–	–	–	1,402	4,130	5,532	–	5,532
Common share repurchase	(1,238)	–	–	(824)	–	(2,062)	–	(2,062)
Common share dividend	–	–	–	(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**

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years ended December 31	
Expressed in thousands of Canadian dollars	Notes	**2022**	2021
Cash flow from operating activities			
Net loss		**(21,692)**	(977)
Amortization/depreciation of intangible assets, right–of–use assets and property, plant and equipment	7, 8,10	**47,405**	51,892
Impairment of intangibles	10	**711**	–
Impairment of property, plant and equipment	7	**1,772**	–
Loss on disposal of property, plant and equipment	7	**22**	336
Gain on disposal of investment properties		**–**	(608)
Increase in defined benefit plans	23	**1,249**	585
Accretion of financial liabilities	28	**2,146**	2,604
Deferred taxes	19	**(3,022)**	(7,555)
(Income) loss on investment in joint ventures	11	**(269)**	6
Change in non–cash working capital	31	**30,218**	(33,757)
Net cash provided by operating activities		**58,540**	12,526
Cash flow from investing activities			
Purchase of property, plant and equipment	7	**(23,494)**	(17,675)
Proceeds from disposal of property, plant and equipment	7	**607**	509
Proceeds from disposal of investment properties		**–**	1,000
Increase in intangible and other assets		**(969)**	(4,638)
Net cash used in investing activities		**(23,856)**	(20,804)
Cash flow from financing activities			
Decrease in debt due within one year	18	**–**	(39,441)
Decrease in long–term debt	14, 18	**(2,047)**	(1,516)
Lease liability payments	15, 18	**(5,619)**	(6,707)
Decrease in borrowings subject to specific conditions, net	16, 18	**(1,327)**	(1,104)
(Decrease) increase in long–term liabilities and provisions	17, 18	**(225)**	6
Share repurchases	20	**(2,062)**	–
Common share dividends	20	**(14,994)**	(24,247)
Net cash used in financing activities		**(26,274)**	(73,009)
Increase (decrease) in cash during the year		**8,410**	(81,287)
Cash at beginning of the year		**32,482**	113,938
Effect of exchange rate differences		**48**	(169)
Cash at end of the year		**40,940**	32,482

See accompanying notes to the consolidated financial statements

1. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

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. 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.

Statement of Compliance

These consolidated financial statements are prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on March 9, 2023.

Basis of Presentation

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 significant 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.

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 (loss) income 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 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.

The Corporation's performance obligations are satisfied over time or at a point in time.

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.

Cost of Revenues
Cost of revenues consists of production-related manufacturing costs of products sold, development services paid, and the cost of products purchased for resale. In addition to the direct material cost and production costs, it also comprises systematically allocated overheads, including depreciation of production-related property, plant and equipment, and intangible assets, write-downs on inventories and an appropriate portion of production-related administrative overheads.

Government Grants
Government grants are recognized at their fair value in the period when there is reasonable assurance that the conditions attached to the grant will be met and that the grant will be received. Grants are recognized as income over the periods necessary to match them with the related costs that they are intended to compensate. Grants relating to expenditure on property, plant and equipment and on intangible assets are deducted from the carrying amount of the asset. The grant is therefore recognized as income over the life of the depreciable asset by way of a reduced depreciation charge. Repayable grants are treated as sources of financing and are recognized in borrowings subject to specific conditions in the consolidated statements of financial position. Repayments made are recorded as a reduction of the liability.

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 (loss) income.

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.

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

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 (loss) income 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.

Net Income (Loss) per Share
Net income (loss) per share is calculated based on the profit for the financial year and the weighted average number of common shares outstanding during the year. Diluted net income (loss) per share is calculated using the profit for the financial year adjusted for the effect of any dilutive instruments and the weighted average diluted number of shares (ignoring any potential common shares issued which would be anti-dilutive) during the year.

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.

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 (loss) income 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 (loss) income. 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. 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 (loss) income 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.

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 incurred 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.

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, derivatives 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 (loss) income.

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 (loss) income.

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.

Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any income taxes.

Estimates, Assumptions and Judgements

The preparation of consolidated financial statements requires management to make critical 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. The critical estimates and judgements utilized in preparing the Corporation's consolidated financial statements affect 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. Any changes in estimates and assumptions could have a material impact on the Corporation's future income and/or the amounts reported in its statement of financial position. The Corporation reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgement in making these estimates and assumptions.

In March 2020, the COVID-19 pandemic has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak. In late February 2022, Russia launched a large scale military attack on Ukraine ("war"). The invasion significantly amplified already existing geopolitical tensions among Russia, Ukraine, Europe, NATO and the West, including Canada. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic and the war may materially and adversely affect the Corporation's operations, financial results and condition in future periods are also subject to significant uncertainty. Therefore, uncertainty about judgements, estimates and assumptions made by management during the preparation of the Corporation's consolidated financial statements related to potential impacts of the COVID-19 pandemic and the war on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

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 22 to the consolidated financial statements.

Impairments
In determining whether a long-lived asset is impaired, the Company has to exercise judgment and make estimation in assessing (1) whether an event or indicator has occurred that may affect the asset values; (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 appropriate discount rate.

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

In order to estimate 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.

Government assistance
Investment tax credits and scientific research and experimental development tax credits are determined based on estimates of the Corporation's current year expenditures on qualifying programs. The investment tax credits are assessed to determine the likelihood that they will be applied against federal income taxes.

Capitalization of development costs
When capitalizing development costs the Corporation must assess the technical and commercial feasibility of the projects and estimate the useful lives of resulting products. Determining whether future economic benefits will flow from the assets and therefore the estimates and assumptions associated with these calculations are instrumental in (i) deciding whether project costs can be capitalized, and (ii) accurately calculating the useful life of the projects for the Corporation.

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.

Employee benefits
The Corporation considers a number of factors in developing the pension assumptions, including an evaluation of relevant discount rates, plan asset allocations, mortality, expected changes in wages and retirement benefits, analysis of current market conditions, economic benefits available and input from actuaries and other consultants. Costs of the programs are based on actuarially determined amounts and are accrued over the period from the date of hire to the full eligibility date of employees who are expected to qualify for these benefits.

2. NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

New and Amended International Financial Reporting Standards Adopted in 2022
The Corporation has adopted the following new and amended standards in the current year.

Amendments to IAS 37*, Provisions, Contingent Liabilities and Contingent Assets*
The amendments clarify the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Prior to the application of the amendments, the Corporation had not identified any contracts as being onerous as the unavoidable costs under the contracts, which were the costs of fulfilling them, comprised only incremental costs directly related to the contracts. Upon adoption of the amendments, as of January 1, 2022, the Corporation included certain other directly related costs in determining the costs of fulfilling the contracts resulting in a $1,177 increase to other long-term liabilities and provisions, and $878 and $299 decreases to the opening retained earnings and deferred tax liabilities, respectively.

Amendments to IAS 16, *Property, Plant and Equipment*
The amendment clarifies the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment into use. The adoption had no impact on the Corporation's consolidated financial statements.

New and Amended International Financial Reporting Standards to be Adopted in 2023 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 2023 or later.

Amendments to IAS 1 *Presentation of Financial Statements*
In January 2020, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* to clarify how to classify debt and other 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. The amendments also include clarifying the classification requirements for debt an entity might settle by converting it into equity. 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.

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

Amendments to IAS 1, in February 2021, also change the requirements in IAS 1 with regard to disclosure of accounting policies. Applying the amendments, an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments to IAS 1 were made to explain how an entity could identify a material accounting policy.

The new guidance will be effective for annual periods starting on or after January 1, 2023. The Corporation is currently assessing the potential impact on its consolidated financial statements.

Amendments to IAS 8 – *Definition of Accounting Estimates*
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a new definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Corporation is currently assessing the potential impact on its consolidated financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction — Amendments to IAS 12
In May 2021, the IASB issued amendments to IAS 12, *Income Taxes* ("IAS 12"), which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Corporation is currently assessing the potential impact on its consolidated financial statements.

3. CASH AND CASH EQUIVALENTS

	December 31 2022	December 31 2021
Cash on hand	**38,194**	15,821
Short-term deposits	**2,746**	16,661
	40,940	32,482

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.

4. TRADE AND OTHER RECEIVABLES

	December 31 2022	December 31 2021
Trade receivables	**136,352**	140,715
Less allowance for doubtful accounts	**751**	461
Net trade receivables	**135,601**	140,254
Other receivables	**33,961**	23,980
	169,562	164,234

Aging of trade receivables:

	Current	**Less than 90 days**	**91-181 days**	**182-365 days**	**More than 365 days**	**Total**
December 31, 2021	129,988	8,335	725	358	1,309	140,715
December 31, 2022	**125,376**	**8,762**	**1,285**	**400**	**529**	**136,352**

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

5. CONTRACT BALANCES

	December 31 2022	December 31 2021
Contract assets	**65,456**	66,337
Contract liabilities	**(36,096)**	(17,704)
Net contract balances	**29,360**	48,633

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:

	2022	2021
Amounts included in contract liabilities at the beginning of the year	**13,418**	16,528

6. INVENTORIES

	Raw materials	**Work in progress**	**Finished goods**	**Total**
At December 31, 2021	62,527	105,058	40,992	208,577
At December 31, 2022	**68,739**	**123,060**	**34,560**	**226,359**

The cost of inventories recognized as expense and included in cost of sales for the year ended December 31, 2022 amounted to $737,456 [2021–$630,386].

During the year ended December 31, 2022, the Corporation recorded an impairment expense related to the write-down of inventory in the amount of $4,175 [2021–$3,032]. The Corporation also recorded reversals of previous write-downs of inventory in the amount of $2,107 [2021–$774] due to the sale of inventory previously provided for. The carrying amount of inventory recorded at net realizable value was $36,209 as at December 31, 2022 [2021–$33,985], with the remaining inventory recorded at cost.

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

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Tooling	Total
Cost					
At December 31, 2020	20,933	137,985	697,789	54,538	911,245
Additions	3,061	1,089	10,971	2,554	17,675
Disposals and other	–	(33)	(4,205)	59	(4,179)
Foreign currency translation	(142)	(929)	(4,555)	(173)	(5,799)
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**
Accumulated depreciation and impairment					
At December 31, 2020	–	(58,972)	(383,302)	(48,631)	(490,905)
Depreciation	–	(4,669)	(31,061)	(1,778)	(37,508)
Disposal and other	–	9	4,214	34	4,257
Foreign currency translation	–	166	1,734	159	2,059
At December 31, 2021	–	(63,466)	(408,415)	(50,216)	(522,097)
Depreciation and impairment [note 27]	–	(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)**
Net book value					
At December 31, 2021	23,852	74,646	291,585	6,762	396,845
At December 31, 2022	**24,462**	**76,383**	**276,664**	**6,575**	**384,084**

Included in the above are assets under construction in the amount of $18,747 [December 31, 2021–$12,241], which as at December 31, 2022 are not amortized.

As part of its assessment of indicators of impairment, 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 except for that related to assets made obsolete at one of the Company's U.K. facilities as a result of a multi-year restructuring plan (see note 27). Included in the above accumulated depreciation and impairment amount for 2022 is impairment charges, measured using a FVLCS approach, of $1,772 [2021–nil] related to this facility.

The Company performed an impairment assessment using FVLCS on another CGU with a carrying value of $23,256. No impairment has been recognized, however, any downward pressure on the fair value of the related assets would lead to impairment. For other CGU's tested, the key assumptions are growth rate and discount rate and any changes in these assumptions could cause an impairment on these CGU's.

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

8. RIGHT-OF-USE ASSETS

	Buildings	Machinery, equipment and other	Total
At January 1, 2021	38,740	1,358	40,098
Additions	–	–	–
Depreciation, disposals and other	(4,637)	(464)	(5,101)
Foreign currency translation	(580)	(28)	(608)
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**

9. INVESTMENT PROPERTIES

	Cost	Accumulated depreciation, disposal, and impairment	Net book value
At December 31, 2021	8,653	(6,994)	1,659
At December 31, 2022	**8,633**	**(7,012)**	**1,621**

The Corporation's investment properties consist of land and buildings. Depreciation expense recognized in relation to the buildings in 2022 was $22 [2021–$33]. The Corporation recorded rental income from investment properties of $550 in 2022 [2021–$530].

The fair value of the Corporation's investment properties was $24,925 [2021–$24,385] at December 31, 2022. 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 2022, the Corporation obtained opinions from external valuators, with experience in the real estate market, on $24,600 of the total fair values of the Corporation's investment properties.

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10. INTANGIBLE ASSETS AND GOODWILL

	Technology rights	Development costs	Other intangibles	Total intangible assets	Goodwill	Total intangible assets and goodwill
Cost						
At December 31, 2020	45,135	131,922	46,400	223,457	34,149	257,606
Additions	–	1,124	1,245	2,369	–	2,369
Disposals and other	–	(1,957)	–	(1,957)	–	(1,957)
Foreign currency translation	(7)	(570)	(587)	(1,164)	(365)	(1,529)
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**
Amortization and impairment						
At December 31, 2020	(36,709)	(115,188)	(16,405)	(168,302)	(12,167)	(180,469)
Amortization	(1,799)	(4,189)	(2,006)	(7,994)	–	(7,994)
Disposals and other	–	682	–	682	–	682
Foreign currency translation	5	476	200	681	175	856
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)**
Net book value						
At December 31, 2021	6,625	12,300	28,847	47,772	21,792	69,564
At December 31, 2022	**5,177**	**7,860**	**28,386**	**41,423**	**22,181**	**63,604**

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 2022 for development costs is impairment charges of $711 [2021–nil]. 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 $8,530 (£5,226) [2021–$8,953 (£5,226)] with indefinite useful lives assets are not subject to amortization.

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 amount of $9,058 [2021–$9,508] and $13,123 [2021–$12,284] respectively. The key assumptions used to determine the recoverable amount are discussed below.

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

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. The COVID-19 pandemic and its impact on the economy are expected to last several years. These projections are inherently uncertain and continually evolving in an unpredictable manner which present many variables and contingencies for modeling. A discount rate of 11.7% [2021–11.4%] and 10.5% [2021–9%] per annum was 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 rate of 2% [2021–2%] and 3% [2021–3%] was 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.

11. 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, 2022 and December 31, 2021.

	December 31 2022	December 31 2021
Balance, beginning of the year	**2,453**	2,459
Share of total comprehensive income (loss)	**269**	(6)
Balance, end of the year	**2,722**	2,453

12. BANK INDEBTEDNESS

The Corporation has a multi-currency operating credit facility with a syndicate of banks, with a Canadian dollar limit of $75,000. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a $75,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility. On June 30, 2021 the Corporation extended its credit facility for an additional two-year period expiring on June 30, 2023. As at December 31, 2022, the Corporation was debt-free under its credit facility. Bank indebtedness bears interest at the bankers' acceptance or Secured Overnight Financing Rate ("SOFR") rates plus 1.00%. At December 31, 2022, the Corporation had letters of credit outstanding totalling $4,614 [2021–$4,143] such that $70,386 [2021–$70,857] was unused and available. A fixed and floating charge debenture on accounts receivable, inventories and property, plant and equipment is pledged as collateral for the operating credit facility.

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

13. ACCOUNTS PAYABLE, ACCRUED LIABILITIES AND PROVISIONS

	December 31 2022	December 31 2021
Accounts payables	**69,316**	52,101
Accrued liabilities	**62,287**	49,949
Accrued liabilities – Borrowings subject to Specific Conditions – Current	**1,337**	1,327
Provisions [note 17]	**2,213**	2,301
	135,153	105,678

14. LONG-TERM DEBT

	December 31 2022	December 31 2021
Property mortgage [a]	**–**	–
Other loans [b]	**5,465**	7,307
	5,465	7,307
Less current portion	**4,831**	4,552
	634	2,755

[a] Property mortgage of financing relating to land acquired in 2006 was repaid in June 2021.

[b] Other loans include loans of $2,770 [2021–$4,894] provided by governmental authorities (“Government Loan”) that bear interest of approximately 2.875% [2021–0.875%]. The Government Loan matures in April 2024 with accrued interest and principal repayable monthly.

Included in other loans is a bank loan used to finance capital expenditures which expires on October 31, 2023. As at December 31, 2022, the bank loan was $2,695 (US$1,990) [2021–$2,413 (USD$1,903)] and it bore interest at SOFR plus 3.00%, which was 7.31% [2021–2.66%]. Land, machinery and equipment were pledged as collateral for the bank loan.

15. LEASE LIABILITIES

The majority of the Corporation’s leases relate to the rental of land and buildings. Summary of activities related to the Corporation’s lease liabilities:

	Lease liabilities
At January 1, 2021	41,811
Additions	–
Interest on lease liabilities	1,817
Payments	(6,707)
Foreign exchange and other	(563)
At December 31, 2021	36,358
Additions	18
Interest on lease liabilities	1,677
Payments	(5,636)
Foreign exchange and other	823
At December 31, 2022	**33,240**
Less current portion	**5,479**
	27,761

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

Contractual undiscounted cash flows for lease obligations:

	December 31 2022
Less than one year	**5,597**
One to five years	**17,736**
Over five years	**19,161**
	42,494

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.

16. 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 2022, the Corporation received nil government proceeds [2021–nil] and repaid $1,327 [2021–$1,104].

17. OTHER LONG-TERM LIABILITIES AND PROVISIONS

	December 31 2022	December 31 2021
Provisions	**4,700**	4,973
Other	**4,716**	4,551
	9,416	9,524
Less current portion included in accounts payable, accrued liabilities and provisions	**2,213**	2,301
	7,203	7,223

Movements in provisions:

	Warranty	**Environmental**	**Other provisions**	**Total**
At December 31, 2020	989	2,656	4,158	7,803
Additional provisions [note 27]	609	–	243	852
Amount used	(615)	–	(3,035)	(3,650)
Unused amounts reversed	(51)	–	(43)	(94)
Unwind of discount	–	102	–	102
Foreign currency translation	(1)	–	(39)	(40)
At December 31, 2021	931	2,758	1,284	4,973
Additional provisions [note 27]	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**

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

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.

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.

18. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	December 31 2021	Cash flows	Foreign exchange	Other	**December 31 2022**
Debt due within one year	4,552	–	(1)	280	**4,831**
Long-term debt	2,755	(2,047)	177	(251)	**634**
Long-term liabilities and provisions	7,223	(225)	166	39	**7,203**
Borrowings subject to specific conditions	25,428	(1,327)	–	536	**24,637**
Lease liabilities	36,358	(5,619)	823	1,678	**33,240**
Total	76,316	(9,218)	1,165	2,282	**70,545**

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

19. INCOME TAXES

Major components of income tax expense:

	2022	2021
Current income tax expense (recovery)		
Current tax expense for the year	**5,990**	10,550
Current tax expense for prior years	**(210)**	(1,652)
	5,780	8,898
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	**(2,531)**	(6,637)
Impact of tax law changes	**(161)**	585
	(2,692)	(6,052)
Total income tax expense	**3,088**	2,846

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

The Corporation's consolidated effective tax rate for the year ended December 31, 2022 was (16.6)% [2021–152.3%]. The difference in the effective tax rates compared to the Corporation's statutory income tax rates were mainly caused by the following:

	2022	2021
Income (loss) before income taxes	**(18,604)**	1,869
Income taxes based on the applicable tax rate of 25.8% in 2022 and 2021	**(4,800)**	482
Adjustment to income taxes resulting from:		
Adjustments in respect of prior years	**(210)**	(1,136)
Permanent differences and other	**(1,455)**	(1,853)
Income tax rate differentials on income of foreign operations	**2,269**	1,770
Changes in income tax rates	**(161)**	590
Unrecognized tax losses and temporary differences	**7,445**	2,993
Income tax expense	**3,088**	2,846

Changes in the deferred tax components are adjusted through deferred income tax expense except for $1,768 [2021–$1,622] of investment tax credits which is adjusted through cost of revenues and $426 [2021–$4,360] for employee future benefits which is adjusted through other comprehensive income.

Major components of deferred tax assets and liabilities:

	December 31 2022	December 31 2021
Operating loss carry forwards	**16,933**	17,818
Investment tax credits	**1,917**	2,448
Employee future benefits	**(225)**	(123)
Property, plant and equipment and intangibles	**(56,588)**	(55,596)
Other	**7,987**	4,310
Deferred tax liabilities	**(29,976)**	(31,143)

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 2022	December 31 2021
Deferred tax assets	**8,731**	8,480
Deferred tax liabilities	**(38,707)**	(39,623)

The temporary difference associated with investments in subsidiaries and joint ventures, for which a deferred tax liability has not been recognized aggregates to $745,761 [2021–$745,761]. Operating losses incurred by the Company's United Kingdom subsidiary for which a deferred tax asset has not been recognized were $27,015 [2021–nil].

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

20. 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

Issued and fully paid:	**Number**	**Amount**
Outstanding at December 31, 2021	57,729,106	252,342
Outstanding at December 31, 2022	**57,446,134**	**251,104**

Net (loss) income per share

	2022	2021
Net loss	**(21,692)**	(977)
Weighted average number of shares	**57,637,104**	57,729,106
Basic and diluted net loss per share	**(0.38)**	(0.02)

Dividends declared

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.

For the year ended December 31, 2021, the Corporation declared and paid dividends on its common shares on March 31, 2021, June 30, 2021, September 30, 2021 and December 31, 2021 of $0.105 per share amounting to $24,247.

Subsequent to December 31, 2022, the Corporation declared dividends to holders of its common shares in the amount of $0.025 per common share payable on March 31, 2023, for shareholders of record at the close of business on March 17, 2023.

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 additional NCIB application was approved for the purchase of up to 2,886,455 common shares, over a 12-month period commencing May 27, 2022 and ending May 26, 2023. 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. During the year ended December 31, 2021, the Corporation had not purchased common shares for cancellation under the program.

21. 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 business unit income tests must be met in order for the option holder's entitlement to fully vest. As at December 31, 2022 and December 31, 2021, 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.

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

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, 2022, 84,935 Units were outstanding at an accrued value of $635 [December 31, 2021–$547]. The Corporation recorded compensation expense in relation to the DSU Plan during the year of $156 [2021–$115].

22. 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, 2021	32,482	230,571	263,053	–	–	191,148	191,148
December 31, 2022	**40,940**	**235,018**	**275,958**	**–**	**4,235**	**229,019**	**233,254**

[1] Includes cash and cash equivalents and restricted cash
[2] Includes trade receivables 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.

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, 2022, fluctuations of +/- 1% would, everything else being equal, have an effect on net income for the year ended December 31, 2022 of approximately +/- $84. 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 $4,930.

Interest rate risk
The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. As at December 31, 2022, $5,465 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, 2022 by approximately +/- $25.

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 (loss) income 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 2022, the Corporation sold receivables to various financial institutions in the amount of $1,277 [2021–$42,783] for a discount of $9 [2021–$163] representing an annualized interest rate of 2.71% [2021–1.44%].

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.

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

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
Long-term debt	4,831	720	–	–	5,551
Lease liabilities	5,597	9,803	7,933	19,161	42,494
Other long-term liabilities	369	458	187	4,071	5,085
Borrowings subject to specific conditions	1,337	2,702	2,853	26,079	32,971
	12,134	13,683	10,973	49,311	86,101
Interest payments	251	4	–	–	255
Total	12,385	13,687	10,973	49,311	86,356

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, 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 2022, the Corporation entered into forward foreign exchange contracts to purchase US dollars of $14,400 and British Pounds of £23,540 over a period of one month commencing December of 2022 at an exchange rate of $1.3559 and $1.6311 Cdn, 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$54,000	1.2500	1.3245	$2,196	Accounts payable, accrued liabilities and provisions
June 2025	US$54,000	1.2500	1.3300	$2,040	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.

For the twelve months ended December 31, 2022, a loss of $3,255 (pre-tax loss of $4,235) [2021–nil], 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, 2022, the Corporation recorded $4,235 of derivative liabilities [2021–$nil], included in accounts payable, accrued liabilities and provisions on the interim condensed consolidated statement of financial position.

Long-term debt

As at December 31, 2022, the carrying amount of the Corporation's long-term debt of $5,465 [2021–$7,307] approximates its fair value. The fair value was determined by discounting the expected future cash flow based on current rate for debt with similar terms and maturities, and is categorized as Level 2 in the fair value hierarchy.

Borrowings subject to specific conditions

As at December 31, 2022, the Corporation has recognized $24,637 [2021–$25,428] as the amount repayable to Canadian government agencies. The contributions are repayable as future royalty payments; a liability is recorded for the amounts received that will be repaid based on future estimated sales. The fair value was determined by discounting the expected future royalty payments based on prevailing market rate for borrowings with similar terms and maturities, and is categorized as Level 2 in the fair value hierarchy.

Collateral
As at December 31, 2022, the carrying amount of all of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $5,465 [2021–$7,307].

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.

23. 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, 2019.

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 (loss) income.

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.

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 interim 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 $7,018 for the year ended December 31, 2022 [2021–$6,421].

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

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:

		2022		2021
	Defined benefit plans	**Other benefit plan**	Defined benefit plans	Other benefit plan
Current service cost	**1,554**	**–**	2,139	–
Net interest on net defined benefit liability	**(77)**	**26**	321	21
Other	**962**	**–**	440	–
Settlement cost	**631**	**–**	–	–
Total defined benefit cost recognized in net income	**3,070**	**26**	2,900	21

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

		2022		2021
Actuarial (gains) losses	**Defined benefit plans**	**Other benefit plan**	Defined benefit plans	Other benefit plan
Return on pension assets (excluding amounts in net interest on defined benefit schemes)	**21,947**	**–**	(13,706)	–
Based on adjustment of liability assumptions	**(26,774)**	**–**	(9,064)	–
Due to liability experience adjustment	**(1,108)**	**170**	(1,545)	229
Change in effect of asset ceiling	**4,283**	**–**	7,218	–
Total defined benefit (gains) loss recognized in the statement of other comprehensive income	**(1,652)**	**170**	(17,097)	229

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

		2022		2021
	Defined benefit plans	**Other benefit plan**	Defined benefit plans	Other benefit plan
Fair value, beginning of year	**135,517**	**–**	124,715	–
Interest income on plan assets	**3,766**	**–**	2,958	–
Actual return on assets (excluding interest income on plan assets)	**(21,947)**	**–**	13,706	–
Employer contributions	**1,813**	**202**	2,321	289
Employee contributions	**156**	**123**	182	146
Benefit payments	**(7,006)**	**(325)**	(7,759)	(435)
Plan settlement	**(17,814)**	**–**	–	–
Administration costs	**(962)**	**–**	(606)	–
End of year	**93,523**	**–**	135,517	–

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

Changes in effect of asset ceiling

	2022		2021	
	Defined benefit plans	**Other benefit plan**	Defined benefit plans	Other benefit plan
Effect of asset ceiling, beginning of year	**7,887**	**–**	653	–
Interest on effect of asset ceiling	**246**	**–**	16	–
Change in effect of asset ceiling during the period	**4,283**	**–**	7,218	–
End of year	**12,416**	**–**	7,887	–

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

	2022		2021	
	Defined benefit plans	**Other benefit plan**	Defined benefit plans	Other benefit plan
Beginning of year	**125,283**	**1,038**	138,233	1,082
Current service cost	**1,554**	**–**	2,139	–
Interest cost	**3,443**	**26**	3,263	21
Employee contributions	**156**	**123**	182	146
Actuarial (gains) losses in other comprehensive income from:				
Changes in demographic assumptions	**(34)**	**–**	194	–
Changes in financial assumptions	**(26,740)**	**–**	(9,424)	–
Experience adjustments	**(1,108)**	**(170)**	(1,545)	229
Benefit payments	**(7,006)**	**(324)**	(7,759)	(435)
Plan settlement	**(17,183)**	**–**	–	–
Exchange difference	**–**	**57**	–	(5)
End of year	**78,365**	**750**	125,283	1,038

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

	2022		2021	
	Defined benefit plans	**Other benefit plan**	Defined benefit plans	Other benefit plan
Fair value of plan assets	**93,523**	**–**	135,517	–
Accrued benefit obligation	**(78,365)**	**(750)**	(125,283)	(1,038)
Irrecoverable surplus (effect of asset ceiling)	**(12,416)**	**–**	(7,887)	–
Net defined benefit asset (liability)	**2,742**	**(750)**	2,347	(1,038)
– Included in other long-term liabilities and provisions	**–**	**(750)**	–	(1,038)
– Included in other assets	**2,742**	**–**	2,347	–

The Corporation expects to contribute approximately $635 in 2023 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.

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

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]:

	2022		2021	
	Defined benefit plans	**Other benefit plan**	Defined benefit plans	Other benefit plan
Discount rate	**5.0%**	**4.9%**	2.9%	2.4%
Rate of compensation increase	**2.0%/3.0%**	**–**	2.0%/3.0%	–
Mortality Table				
Canadian defined benefit plans	**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**		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, 2022, a 1.0% decrease in the discount rate used (all other assumptions remaining unchanged) could result in a $8,496 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, 2022 was nominal.

Assets

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

	2022	2021
Equity investments	**81%**	85%
Fixed income investments	**18%**	14%
Other investments	**1%**	1%
	100%	100%

Defined benefit pension liability term

	Total
Defined benefits schedule for disbursement within 12 months	**4,899**
Defined benefits schedule for disbursement within 2-5 years	**23,484**
Defined benefits schedule for disbursement after 5 years or more	**25,757**

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

24. 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:

	2022	2021
Sale of goods	**611,434**	553,185
Services	**153,146**	135,173
	764,580	688,358

Timing of revenue recognition based on transfer of control:

	2022	2021
At a point of time	**428,763**	381,367
Over time	**335,817**	306,991
	764,580	688,358

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, 2022 and 2021 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:

	2022	2021
Less than 24 months	**719,422**	523,472
Thereafter	**195,490**	76,118

Revenues from the Corporation's three largest customers accounted for 44.4% of total sales for the year ended December 31, 2022 consisting of 23.1%, 10.7% and 10.6%, respectively. For the year ended December 31, 2021, the three largest customers accounted for 45.3% of total sales consisting of 22.3%, 10.0% and 13.0%, respectively.

Geographic segments:

				2022				2021
	Canada	**United States**	**Europe**	**Total**	Canada	United States	Europe	Total
Revenues	**329,638**	**190,011**	**244,931**	**764,580**	315,805	174,260	198,293	688,358
Export revenues[1]	**218,425**	**26,591**	**67,031**	**312,047**	241,935	23,678	33,305	298,918

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

				2022				2021
	Canada	**United States**	**Europe**	**Total**	Canada	United States	Europe	Total
Property, plant and equipment, right-of-use assets, intangible assets and goodwill	**166,596**	**161,155**	**150,762**	**478,513**	176,635	163,527	160,636	500,798

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

25. COST OF REVENUES

	2022	2021
Operating expenses	**684,069**	589,737
Amortization	**44,500**	48,881
Investment tax credits	**(1,768)**	(1,622)
Impairment of inventories	**2,003**	3,032
Impairment of intangible assets	**711**	–
	729,515	640,028

26. ADMINISTRATIVE AND GENERAL EXPENSES

	2022	2021
Salaries, wages and benefits	**25,764**	25,262
Administration and office expenses	**17,658**	14,142
Professional services	**2,363**	2,144
Amortization	**2,905**	3,011
	48,690	44,559

27. SPECIAL ITEMS

Special items are those items that in management's view are to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Corporation's financial performance.

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 $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, 2022 is $362 [2021-$911].

The Corporation has incurred additional workforce reduction costs of $1,137 associated with downsizing its employee base.

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

	2022	2021
Workforce reduction	**1,930**	–
Closure costs	**199**	2,182
Impairment of property, plant and equipment [note 7]	**1,772**	–
	3,901	2,182

Canada Emergency Wage Subsidy
In April 2020, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") in order to help employers retain and/or return Canadian-based employees to payrolls in response to challenges posed by the COVID-19 pandemic. The program was redesigned in July 2020 and extended until October 2021.

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

Magellan determined that it met the employer eligibility criteria and applied for the CEWS. In 2021, the Corporation has recorded and received a total gross subsidy under the CEWS program of $7,659 with $7,123 recorded as a reduction to operating expenses in cost of revenues and $536, recorded as a reduction of salaries, wages and benefits in administrative and general expenses.

28. INTEREST EXPENSE

	2022	2021
Interest on bank indebtedness and long-term debt	**423**	43
Accretion charge on long-term debt and borrowings	**637**	787
Accretion on lease liabilities	**1,677**	1,817
Discount on sale of trade receivables	**101**	248
	2,838	2,895

29. 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 net actuarial losses on defined benefit pension plans, net of tax. The Corporation recorded unrealized currency translation gain for the year ended December 31, 2022 of $7,385 [2021–loss of $7,339]; an unrealized loss on foreign currency contract hedges of $3,255 [2021–nil] and net actuarial gain on defined benefit plans of $1,402 [2021–$12,508]. These gains and losses are reflected in the consolidated statements of financial position and had no impact on net income for the year.

30. RELATED PARTY DISCLOSURE

Transactions with related parties

During the year, the Corporation incurred consulting and cost recovery fees of $200 [2021–$200] payable to a corporation controlled by the Chairman of the Board of Directors of the Corporation.

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:

	2022	2021
Short-term benefits	**2,890**	2,887
Post-employments benefits	**133**	136
Share-based payments	**69**	–
	3,092	3,023

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.

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

31. SUPPLEMENTARY CASH FLOW INFORMATION

	2022	2021
Net change in non-cash working capital		
Trade receivables	**(3,223)**	(50,347)
Contract assets	**2,437**	3,895
Inventories	**(15,789)**	3,234
Prepaid expenses and other	**(437)**	2,224
Accounts payable, accrued liabilities and provisions	**28,727**	7,237
Contract liabilities	**18,503**	–
	30,218	(33,757)
Interest paid	**282**	505
Income taxes paid	**7,210**	13,832

32. ADDITIONAL FINANCIAL INFORMATION

Included in other expenses is a foreign exchange gain of $2,251 [2021–$2,548 foreign exchange gain] on the conversion of foreign currency denominated working capital balances and debt.

33. 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, 2022, total managed capital was $733,818 [2021–$769,754], comprised of shareholders' equity attributable to equity holders of the Corporation of $728,353 [2021–$762,447] and interest-bearing debt of $5,465 [2021–$7,307].

The Corporation manages its capital structure and makes adjustments to it in light of economic conditions, the risk characteristics of the underlying assets and the Corporation's working capital requirements. In order to maintain or adjust its capital structure, the Corporation, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares through the normal course issuer bid, pay dividends or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets. 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.

The Corporation must adhere to covenants in its operating credit facility. As at December 31, 2022, the Corporation was in compliance with these covenants.

34. 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, 2022, capital commitments in respect of purchase of property, plant and equipment totalled $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 Gribe
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

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