# MAGELLAN

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2020

MAGELLAN
AEROSPACE

MAGELLAN AEROSPACE

## MAGELLAN AEROSPACE CORPORATION
## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

| (unaudited)<br>(expressed in thousands of Canadian dollars, except per share amounts) | Notes | Three month period ended September 30<br>2020 | 2019 | Nine month period ended September 30<br>2020 | 2019 |
|---|---|---|---|---|---|
| Revenues | 8 | **163,377** | 235,575 | **564,357** | 769,541 |
| Cost of revenues | | **140,635** | 200,501 | **479,500** | 646,556 |
| Gross profit | | **22,742** | 35,074 | **84,857** | 122,985 |
| Administrative and general expenses | | **11,431** | 15,195 | **39,704** | 46,785 |
| Restructuring | 13 | **5,554** | — | **6,263** | — |
| Other | | **2,486** | (819) | **(2,508)** | (514) |
| Income before interest and income taxes | | **3,271** | 20,698 | **41,398** | 76,714 |
| Interest expense | | **1,103** | 1,059 | **3,411** | 3,418 |
| Income before income taxes | | **2,168** | 19,639 | **37,987** | 73,296 |
| Income taxes | | | | | |
| Current | 9 | **731** | 1,841 | **2,642** | 7,152 |
| Deferred | 9 | **1,426** | 1,951 | **9,157** | 8,172 |
| | | **2,157** | 3,792 | **11,799** | 15,324 |
| **Net income** | | **11** | 15,847 | **26,188** | 57,972 |
| Other comprehensive income | | | | | |
| Other comprehensive (loss) income that may be reclassified to profit and loss in subsequent periods: | | | | | |
| Foreign currency translation | | **(807)** | (3,805) | **8,424** | (26,849) |
| Items not to be reclassified to profit and loss in subsequent periods: | | | | | |
| Actuarial gain (loss) on defined benefit pension plans, net of taxes | 5 | **871** | (1,234) | **(6,895)** | (4,335) |
| **Total comprehensive income, net of taxes** | | **75** | 10,808 | **27,717** | 26,788 |
| **Net income per share** | | | | | |
| Basic and diluted | 6 | **0.00** | 0.27 | **0.45** | 1.00 |

*See accompanying notes to condensed consolidated interim financial statements*

MAGELLAN AEROSPACE

# MAGELLAN AEROSPACE CORPORATION
## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

| (unaudited)<br>(expressed in thousands of Canadian dollars) | Notes | **September 30 2020** | December 31 2019 |
|---|---|---|---|
| **Current assets** | | | |
| Cash | | **91,200** | 69,637 |
| Trade and other receivables | | **136,130** | 177,801 |
| Contract assets | | **78,118** | 77,967 |
| Inventories | | **224,987** | 196,823 |
| Prepaid expenses and other | | **19,211** | 21,127 |
| | | **549,646** | 543,355 |
| **Non-current assets** | | | |
| Property, plant and equipment | | **427,445** | 439,102 |
| Right-of-use assets | | **42,395** | 44,692 |
| Investment properties | | **2,188** | 2,180 |
| Intangible assets | | **60,483** | 65,373 |
| Goodwill | | **34,509** | 34,137 |
| Other assets | | **9,028** | 8,770 |
| Deferred tax assets | | **411** | 3,556 |
| | | **576,459** | 597,810 |
| **Total assets** | | **1,126,105** | 1,141,165 |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities and provisions | 8 | **128,932** | 151,907 |
| Debt due within one year | | **39,241** | 48,144 |
| | | **168,173** | 200,051 |
| **Non-current liabilities** | | | |
| Long-term debt | | **6,764** | 6,876 |
| Lease liabilities | | **37,686** | 39,794 |
| Borrowings subject to specific conditions | | **24,768** | 24,098 |
| Other long-term liabilities and provisions | 5 | **28,636** | 20,289 |
| Deferred tax liabilities | | **36,848** | 34,181 |
| | | **134,702** | 125,238 |
| **Equity** | | | |
| Share capital | 6 | **253,175** | 254,440 |
| Contributed surplus | | **2,044** | 2,044 |
| Other paid in capital | | **13,565** | 13,565 |
| Retained earnings | | **517,106** | 516,911 |
| Accumulated other comprehensive income | | **33,963** | 25,539 |
| Equity attributable to equity holders of the Corporation | | **819,853** | 812,499 |
| Non-controlling interest | | **3,377** | 3,377 |
| **Total equity** | | **823,230** | 815,876 |
| **Total liabilities and equity** | | **1,126,105** | 1,141,165 |

*See accompanying notes to condensed consolidated interim financial statements*

## MAGELLAN AEROSPACE CORPORATION
### CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

| | Attributable to equity holders of the Corporation | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **(unaudited)**<br>**(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, 2019** | 254,440 | 2,044 | 13,565 | 516,911 | 25,539 | 812,499 | 3,377 | 815,876 |
| Net income for the period | — | — | — | 26,188 | — | 26,188 | — | 26,188 |
| Other comprehensive (loss) income for the period | — | — | — | (6,895) | 8,424 | 1,529 | — | 1,529 |
| Common share repurchase | (1,265) | — | — | (781) | — | (2,046) | — | (2,046) |
| Common share dividend | — | — | — | (18,317) | — | (18,317) | — | (18,317) |
| **September 30, 2020** | 253,175 | 2,044 | 13,565 | 517,106 | 33,963 | 819,853 | 3,377 | 823,230 |
| | | | | | | | | |
| **December 31, 2018** | 254,440 | 2,044 | 13,565 | 473,246 | 44,378 | 787,673 | — | 787,673 |
| Business combination | | — | — | — | — | — | 2,344 | 2,344 |
| Net income for the period | — | — | — | 57,972 | — | 57,972 | — | 57,972 |
| Other comprehensive loss for the period | — | — | — | (4,335) | (26,849) | (31,184) | — | (31,184) |
| Common share dividend | — | — | — | (17,463) | — | (17,463) | — | (17,463) |
| **September 30, 2019** | 254,440 | 2,044 | 13,565 | 509,420 | 17,529 | 796,998 | 2,344 | 799,342 |

*See accompanying notes to condensed consolidated interim financial statements*

## MAGELLAN AEROSPACE CORPORATION
## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

| (unaudited)<br>(expressed in thousands of Canadian dollars) | Notes | Three month period ended September 30<br>2020 | 2019 | Nine month period ended September 30<br>2020 | 2019 |
|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | |
| Net income | | **11** | 15,847 | **26,188** | 57,972 |
| Amortization/depreciation of intangible assets, right-of-use assets and property, plant and equipment | | **12,999** | 13,427 | **41,231** | 40,579 |
| Gain on disposal of property, plant and equipment | | **(22)** | (9) | **(65)** | (56) |
| Gain on disposal of joint venture investment | | **—** | — | **—** | (881) |
| (Decrease) increase in defined benefit plans | | **(358)** | 25 | **(10)** | 158 |
| Accretion | | **844** | 644 | **2,453** | 1,817 |
| Deferred taxes | | **17** | 1,279 | **7,444** | 4,652 |
| Loss (income) on investments in joint ventures | | **22** | (98) | **(84)** | (379) |
| Changes to non-cash working capital | | **31,779** | (3,589) | **(4,118)** | (42,695) |
| **Net cash provided by operating activities** | | **45,292** | 27,526 | **73,039** | 61,167 |
| **Cash flow from investing activities** | | | | | |
| Business combination, net of cash acquired | | **—** | — | **—** | (2,661) |
| Purchase of property, plant and equipment | | **(6,291)** | (16,322) | **(12,976)** | (34,668) |
| Proceeds from disposal of property, plant and equipment | | **—** | 67 | **107** | 426 |
| Decrease (increase) in intangible and other assets | | **4,511** | 3,102 | **(2,696)** | (6,127) |
| **Net cash used in investing activities** | | **(1,780)** | (13,153) | **(15,565)** | (43,030) |
| **Cash flow from financing activities** | | | | | |
| (Decrease) increase in debt due within one year | | **(5,287)** | 589 | **(9,235)** | (7,895) |
| Increase in long-term debt | | **1,409** | — | **1,409** | — |
| Decrease in long-term debt | | **(618)** | (612) | **(1,856)** | (2,061) |
| Lease liability payments | | **(1,586)** | (1,073) | **(5,053)** | (2,757) |
| (Decrease) increase in long-term liabilities and provisions | | **(84)** | 23 | **(886)** | (156) |
| (Decrease) increase in borrowings subject to specific conditions, net | | **(8)** | 19 | **31** | (803) |
| Common share repurchases | 6 | **(1,560)** | — | **(2,046)** | — |
| Common share dividend | 6 | **(6,095)** | (5,821) | **(18,317)** | (17,463) |
| **Net cash used in financing activities** | | **(13,829)** | (6,875) | **(35,953)** | (31,135) |
| **Increase (decrease) in cash during the period** | | **29,683** | 7,498 | **21,521** | (12,998) |
| Cash at beginning of the period | | **61,730** | 41,373 | **69,637** | 63,316 |
| Effect of exchange rate differences | | **(213)** | (643) | **42** | (2,090) |
| **Cash at end of the period** | | **91,200** | 48,228 | **91,200** | 48,228 |

*See accompanying notes to condensed consolidated interim financial statements*

### NOTE 1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Magellan Aerospace Corporation (the "Corporation" or "Magellan") is a publicly listed company incorporated in Ontario, Canada under the Ontario Business Corporations Act and its shares are listed on the Toronto Stock Exchange. The registered and head office of the Corporation is located at 3160 Derry Road East, Mississauga, Ontario, Canada, L4T 1A9.

The Corporation is a diversified supplier of components to the aerospace industry. Through its wholly owned subsidiaries, 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.

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") and using the same accounting policies and methods as were used for the Corporation's consolidated financial statements and the notes thereto for the year ended December 31, 2019, except for the new accounting pronouncements which have been adopted as disclosed in note 3.

These unaudited condensed consolidated interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the Corporation's annual financial statements for the year ended December 31, 2019, which are available at www.sedar.com and on the Corporation's website at www.magellan.aero.

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

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors of the Corporation on November 6, 2020.

### NOTE 3. ADOPTION OF NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

The Corporation has adopted the new and amended pronouncements issued by International Financial Reporting Standards ("IFRS") and the International Financial Reporting Interpretations Committees ("IFRIC") as listed below, in accordance with the transitional provisions outlined in the respective standards.

- Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, clarifying the definition of "material".
- Amendments to IFRS 3, *Business Combination,* to help entities determine whether an acquired set of activities and assets is a business or not.
- On May 28, 2020, the IASB published 'Covid-19-Related Rent Concessions (Amendment to IFRS 16, *Leases*)' amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after June 1, 2020.

The IASB has issued new standards and amendments to existing standards. These changes are not yet adopted by the Corporation and could have an impact on future periods.

- On January 23, 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* (the "amendments") to clarify the requirements for classifying liabilities as current or non-current. More specifically, the amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists; management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant; and the amendments clarify the situations that are considered settlement of a liability. The new guidance will be effective for annual periods starting on or after January 1, 2022.
- On May 14, 2020, the IASB issued amendments to IAS 16, *Property, Plant and Equipment – Proceeds before Intended Use*, regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

- On May 14, 2020, the IASB issued amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, clarifying the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.
- On August 27, 2020, the IASB published 'Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after January 1, 2021, with earlier application permitted.

## NOTE 4. BANK INDEBTEDNESS

The Corporation has a multi-currency operating credit facility with a syndicate of banks, with a Canadian dollar limit of $75,000. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a $75,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility. On October 28, 2019 the Corporation extended the credit agreement to September 13, 2021. As at September 30, 2020, the Corporation was debt-free under its credit facility. Bank indebtedness bears interest at the bankers' acceptance or LIBOR rates plus 1.00%. At September 30, 2020, the Corporation had letters of credit outstanding totalling $4,634 such that $70,366 was unused and available. A fixed and floating charge debenture on accounts receivable, inventories and property, plant and equipment is pledged as collateral for the operating credit facility.

## NOTE 5. EMPLOYEE FUTURE BENEFITS

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

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

| | September 30 2020 | December 31 2019 |
|---|---|---|
| Pension Benefit Plans | 21,253 | 12,000 |
| Other Benefit Plan | 834 | 1,009 |
| | 22,087 | 13,009 |

As at September 30, 2020, the Corporation changed the assumed discount rate for the Canadian pension plans to 2.6% from the 2.7% and 3.1% rates used in calculating the pension obligation as at June 30, 2020 and December 31, 2019, respectively, as a result of changes in the market interest rates of high-quality, fixed rate debt securities. The assumed discount rate for the U.S. pension plan remained at 2.5% as at September 30, 2020 and June 30, 2020 and decreased from the 3.1% rate determined at December 31, 2019. In addition, the return on plan assets exceeded the expected return during the three month period ended September 30, 2020 although underperformed against the expected return during the nine month period ended September 30, 2020. The change in the discount rate assumptions and the difference between the actual and expected rate of return on the plan assets resulted in an actuarial gain of $871 and actuarial loss of $6,895, net of taxes of $304 and $2,389, respectively, recorded in other comprehensive income in the three and nine month periods ended September 30, 2020.

## NOTE 6. SHARE CAPITAL

**Net income per share**

| | Three month period ended September 30 | | Nine month period ended September 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Net income | 11 | 15,847 | 26,188 | 57,972 |
| Weighted average number of shares | 58,069 | 58,209 | 58,149 | 58,209 |
| Basic and diluted net income per share | 0.00 | 0.27 | 0.45 | 1.00 |

**Dividends**

On March 31, 2020, June 30, 2020 and September 30, 2020, the Corporation paid quarterly dividends of $0.105 per common share, amounting to $18,317 in the aggregate.

Subsequent to September 30, 2020, the Corporation declared dividends to holders of common shares in the amount of $0.105 per common share payable on December 31, 2020, for shareholders of record at the close of business on December 17, 2020.

**Normal Course Issuer Bid**

On May 25, 2020, the Toronto Stock Exchange ("TSX") accepted the Corporation's intention to commence a normal course issuer bid ("NCIB") which allows the Corporation to repurchase up to 2,910,450 of the Corporation's issued and outstanding common shares (the "Shares") in the open market or otherwise permitted by the TSX. Common shares purchased by the Corporation are cancelled. The program commenced on May 27, 2020 and will terminate on May 26, 2021, or on such earlier date as the Corporation completes its purchase pursuant to the NCIB. During the three month and nine month periods ended September 30, 2020, 211,385 and 289,545 Shares were purchased for cancellation for $1,560 and $2,046 at a volume weighted average price paid of $7.36 and $7.04 per Share respectively.

## NOTE 7. FINANCIAL INSTRUMENTS

**Fair value hierarchy**

The Corporation's financial assets and liabilities recorded at fair value on the condensed consolidated interim 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.

**Fair values**

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

*Cash, trade and other receivables, bank indebtedness and accounts payable and accrued liabilities*

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

*Foreign exchange contracts*

The Corporation enters into foreign forward exchange contracts to mitigate future cash flow exposures in United States dollars. 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 United States dollars. There were no outstanding forward foreign exchange contracts as at September 30, 2020.

*Long-term debt*

The carrying amount of the Corporation's long-term debt of $9,316 would approximate its fair value as at September 30, 2020.

*Borrowings subject to specific conditions*

As at September 30, 2020, the Corporation has recognized $25,872 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.

*Collateral*

As at September 30, 2020, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $39,743.

## NOTE 8. SEGMENTED INFORMATION

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

The Corporation's primary sources of revenue are as follows:

| | Three month period ended September 30 | | Nine month period ended September 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Sale of goods | 131,040 | 197,799 | 461,272 | 656,873 |
| Services | 32,337 | 37,776 | 103,085 | 112,668 |
| | 163,377 | 235,575 | 546,357 | 769,541 |

Timing of revenue recognition based on transfer of control is as follows:

| | Three month period ended September 30 | | Nine month period ended September 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| At a point of time | 91,523 | 144,316 | 346,633 | 471,958 |
| Over time | 71,854 | 91,259 | 217,724 | 297,583 |
| | 163,377 | 235,575 | 564,357 | 769,541 |

Advance payments received for contracts in progress in excess of revenue recognized were recorded as contract liabilities and included in accounts payable, accrued liabilities and provisions on the condensed consolidated interim statement of financial position. As at September 30, 2020 contract liabilities were $22,778 [December 31, 2019 - $10,605].

Revenues from the Corporation's three and two largest customers accounted for 39.9% and 31.3% respectively of total sales for the three and nine month periods ended September 30, 2020 [September 30, 2019 – two largest customers accounted for 39.0% and 39.9% respectively of total sales for the three and nine month periods ended].

Geographic segments:

| | Three month period ended September 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | 2020 | | | | 2019 |
| | Canada | United States | Europe | Total | Canada | United States | Europe | Total |
| Revenue | 76,313 | 46,097 | 40,967 | 163,377 | 86,256 | 76,616 | 72,703 | 235,575 |
| Export revenue[1] | 56,343 | 7,762 | 18,987 | 83,092 | 54,802 | 13,626 | 26,739 | 95,167 |

| | Nine month period ended September 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | 2020 | | | | 2019 |
| | Canada | United States | Europe | Total | Canada | United States | Europe | Total |
| Revenue | 254,150 | 156,103 | 154,104 | 564,357 | 273,142 | 244,563 | 251,836 | 769,541 |
| Export revenue[1] | 180,963 | 27,445 | 47,929 | 256,337 | 178,640 | 49,741 | 85,772 | 314,153 |

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

| | | | | September 30, 2020 | | | | December 31, 2019 |
|---|---|---|---|---|---|---|---|---|
| | Canada | United States | Europe | Total | Canada | United States | Europe | Total |
| Property, plant and equipment, right-of-use assets, intangible assets and goodwill | 188,816 | 187,426 | 188,590 | 564,832 | 200,484 | 191,411 | 191,409 | 583,304 |

## NOTE 9. TAXATION

The Corporation's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Corporation operates in, adjusted for the main permanent differences identified. The effective tax rate for the three and nine month periods ended September 30, 2020 was 99.5% and 31.1% respectively [19.3% and 20.9% respectively for the three and nine month periods ended September 30, 2019]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the change in mix of income and loss across the different jurisdictions in which the Corporation operates.

## NOTE 10. MANAGEMENT OF CAPITAL

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

Total managed capital as at September 30, 2020 of $859,596 is comprised of shareholders' equity attributable to equity holders of the Corporation of $819,853 and interest-bearing debt of $39,743.

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

## NOTE 11. CONTINGENT LIABILITES AND COMMITMENTS

In the ordinary course of business activities, the Corporation may be contingently liable for litigation and claims with, among others, customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although, it is not possible to accurately estimate the extent of the potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Corporation.

At September 30, 2020 capital commitments in respect of purchase of property, plant and equipment totalled $7,829, all of which had been ordered. There were no other material capital commitments at the end of the period.

## NOTE 12. COVID-19

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused a material disruption to businesses globally resulting in an economic slowdown and decreased demand in the aerospace industry. Governments and central banks reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The duration and full financial effect of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions, the Corporation's business continuity plan and other mitigating measures. 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 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 judgments, estimates and assumptions made by management during the preparation of the Corporation's consolidated financial statements related to potential impacts of the COVID-19 outbreak 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 Corporation will continue to closely monitor the COVID-19 situation and should the duration, spread or intensity of the pandemic further develop in 2020, the Corporation's supply chain and customer demand will likely be further affected. These factors may further impact the Corporation's operating plan, its liquidity and cash flows.

In response to COVID-19, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") program in March 2020. CEWS provides a wage subsidy on eligible remuneration, subject to a maximum per employee, to eligible employers based on meeting certain eligibility criteria. The Company has determined that it has qualified for this subsidy. Included in personnel and compensation expenses in the three and nine month periods ended September 30, 2020, is $10,423 and $19,035, respectively, relating to the CEWS program in order to reduce the expense that the grant is intended to offset.

## NOTE 13. RESTRUCTURING COSTS

During the third quarter, Magellan implemented cost savings initiatives designed to reduce operating costs by re-balancing its workforce and recognized severance costs of $5,554. Subsequent to the quarter, a restructuring plan was approved as part of the Corporation's strategy to reorganize its European operations resulting in the closure of its Bournemouth manufacturing facilities in the United Kingdom. Magellan will continue to operate its treatments center in Bournemouth. Management estimates the restructuring costs relating to the closure to be approximately $8,000, which will be finalized and provided for in the fourth quarter.