MAGELLAN
AEROSPACE

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2022

DISCLOSURE OF NON-REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2022

The accompanying unaudited interim condensed consolidated financial statements of Magellan Aerospace Corporation (the "Corporation") for the quarter ended March 31, 2022 have been prepared in accordance with International Accouting Standards 34, *Interim Financial Reporting*, and are the responsibility of the Corporation's management.

The Corporation's external auditors, Ernst & Young LLP, have not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by Chartered Professional Accountants Canada for a review of financial statements by the external auditors of an entity.

MAGELLAN AEROSPACE

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

(unaudited) **(expressed in thousands of Canadian dollars, except per share amounts)**	Notes	**Three month period ended March 31** **2022**	**2021**
Revenues	8	**187,709**	**176,281**
Cost of revenues		**176,799**	**159,202**
Gross profit		**10,910**	**17,079**
Administrative and general expenses		**12,814**	**11,644**
Restructuring		**65**	**176**
Other		**(1,249)**	**(856)**
(Loss) income before interest and income taxes		**(720)**	**6,115**
Interest		**699**	**901**
(Loss) income before income taxes		**(1,419)**	**5,214**
Income taxes			
Current	9	**1,847**	**3,237**
Deferred	9	**(1,241)**	**(1,285)**
		606	**1,952**
Net (loss) income		**(2,025)**	**3,262**
Other comprehensive (loss) income			
Other comprehensive (loss) income that may be reclassified to profit and loss in subsequent periods:			
Foreign currency translation		**(12,684)**	**(6,385)**
Items not to be reclassified to profit and loss in subsequent periods:			
Actuarial (loss) income on defined benefit pension plans, net of taxes	5	**(264)**	**9,783**
Comprehensive (loss) income		**(14,973)**	**6,660**
Net (loss) income per share			
Basic and diluted	6	**(0.04)**	**0.06**

See accompanying notes to interim condensed consolidated financial statements

MAGELLAN AEROSPACE CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	Notes	March 31 2022	December 31 2021
Current assets			
Cash		**18,050**	32,482
Trade and other receivables		**177,348**	164,234
Contract assets		**68,008**	66,337
Inventories		**210,693**	208,577
Prepaid expenses and other		**9,181**	9,664
		483,280	481,294
Non-current assets			
Property, plant and equipment		**384,836**	396,845
Right-of-use assets		**32,769**	34,389
Investment properties		**1,627**	1,659
Intangible assets		**45,718**	47,772
Goodwill		**21,219**	21,792
Other assets	5	**12,020**	11,587
Deferred tax assets		**10,162**	8,480
		508,351	522,524
Total assets		**991,631**	1,003,818
Current liabilities			
Accounts payable and accrued liabilities and provisions	8	**136,391**	123,382
Debt due within one year		**10,038**	10,266
		146,429	133,648
Non-current liabilities			
Long-term debt		**2,240**	2,755
Lease liabilities		**29,534**	30,644
Borrowings subject to specific conditions		**22,940**	24,101
Other long-term liabilities and provisions	5	**6,858**	7,223
Deferred tax liabilities		**39,718**	39,623
		101,290	104,346
Equity			
Share capital		**252,342**	252,342
Contributed surplus		**2,044**	2,044
Other paid in capital		**13,565**	13,565
Retained earnings		**470,737**	479,965
Accumulated other comprehensive income		**1,847**	14,531
Equity attributable to equity holders of the Corporation		**740,535**	762,447
Non-controlling interest		**3,377**	3,377
		743,912	765,824
Total liabilities and equity		**991,631**	1,003,818

See accompanying notes to interim condensed consolidated financial statements

MAGELLAN AEROSPACE CORPORATION
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) (expressed in thousands of Canadian dollars)	Attributable to equity holders of the Corporation							
	Share capital	Contributed surplus	Other paid in capital	Retained earnings	Foreign currency translation	Total	Non-controlling interest	Total equity
December 31, 2021	252,342	2,044	13,565	479,965	14,531	762,447	3,377	765,824
Impact of adoption of the amendements to IAS 37 (note 3)	—	—	—	(878)	—	(878)	—	(878)
January 1, 2022 after adoption	252,342	2,044	13,565	479,087	14,531	761,569	3,377	764,946
Net loss for the period	—	—	—	(2,025)	—	(2,025)	—	(2,025)
Other comprehensive income (loss) for the period	—	—	—	(264)	(12,684)	(12,948)	—	(12,948)
Common share dividend	—	—	—	(6,061)	—	(6,061)	—	(6,061)
March 31, 2022	252,342	2,044	13,565	470,737	1,847	740,535	3,377	743,912
December 31, 2020	252,342	2,044	13,565	492,681	21,870	782,502	3,377	785,879
Net income for the period	—	—	—	3,262	—	3,262	—	3,262
Other comprehensive income (loss) for the period	—	—	—	9,783	(6,385)	3,398	—	3,398
Common share dividend	—	—	—	(6,062)	—	(6,062)	—	(6,062)
March 31, 2021	252,342	2,044	13,565	499,664	15,485	783,100	3,377	786,477

See accompanying notes to interim condensed consolidated financial statements

MAGELLAN AEROSPACE CORPORATION

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (expressed in thousands of Canadian dollars)	Notes	Three month period ended March 31 **2022**	 2021
Cash flow from operating activities			
Net (loss) income		**(2,025)**	3,262
Amortization/depreciation of intangible assets, right-of-use assets and property, plant and equipment		**12,131**	13,041
Gain on disposal of property, plant and equipment		**(121)**	(7)
(Decrease) increase in defined benefit plans		**(309)**	120
Accretion of financial liabilities		**587**	650
Deferred taxes		**(1,173)**	(1,377)
(Income) loss on investments in joint ventures		**(44)**	65
Changes to non-cash working capital		**(9,094)**	(36,652)
Net cash used in operating activities		**(48)**	(20,898)
Cash flow from investing activities			
Purchase of property, plant and equipment		**(4,356)**	(2,663)
Proceeds from disposal of property, plant and equipment		**262**	86
Increase in intangible and other assets		**(874)**	(1,003)
Net cash used in investing activities		**(4,968)**	(3,580)
Cash flow from financing activities			
Decrease in debt due within one year		**—**	(8,877)
Decrease in long-term debt		**(420)**	(458)
Lease liability payments		**(1,465)**	(1,677)
Decrease in long-term liabilities and provisions		**(233)**	(180)
Decrease in borrowings, net		**(1,327)**	(1,104)
Common share dividend	6	**(6,061)**	(6,062)
Net cash used in financing activities		**(9,506)**	(18,358)
Decrease in cash during the period		**(14,522)**	(42,836)
Cash at beginning of the period		**32,482**	113,938
Effect of exchange rate differences		**90**	208
Cash at end of the period		**18,050**	71,310

See accompanying notes to interim condensed consolidated 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, controlled entity and joint venture, Magellan designs, engineers and manufactures aeroengine and aerostructure components for aerospace markets, including advanced products for defence and space markets, and complementary specialty products. The Corporation also supports the aftermarket through the supply of spare parts as well as through repair and overhaul services.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") and using the same accounting policies and methods as were used for the Corporation's consolidated financial statements and the notes thereto for the year ended December 31, 2021, except for the new accounting pronouncements which have been adopted as disclosed in note 3.

These unaudited interim condensed consolidated financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the Corporation's annual financial statements for the year ended December 31, 2021, which are available at www.sedar.com and on the Corporation's website at www.magellan.aero.

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

The Covid-19 pandemic continues to cause disruptions to businesses globally resulting in an economic slowdown and decreased demand in the aerospace industry. 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.

The invasion of Ukraine by Russia ("Conflict") and the resulting imposition of sanctions and counter sanctions have disrupted supply chains and caused instability in the global economy. The short and long-term implications of the Conflict are difficult to predict at this time. The ongoing Conflict could result in the imposition of future economic sanctions, which may have a greater adverse effect on economic markets and could result in an even greater impact related to global supply and pricing of energy, precious metals, raw materials and other commodities and components.

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 Conflict 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 unaudited interim condensed consolidated financial statements related to potential impacts of the COVID-19 pandemic and Conflict on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected in future periods.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on May 3, 2022.

NOTE 3. ADOPTION OF NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

The Corporation adopted the following accounting standards and amendments that were effective January 1, 2022.

- 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. 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. As a result of the amendments, certain other directly related costs have been included by the Corporation in determining the costs of fulfilling the contracts. Therefore, as of January 1, 2022, the adoption of the amendments resulted 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,* clarifying 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 financial results.

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

- Amendments to IAS 1, *Presentation of Financial Statements,* clarifying the requirements for classifying liabilities as current or non-current.
- Amendments to IAS 8 – *Definition of Accounting Estimates,* helping entities distinguish changes in accounting estimates from changes in accounting policies.
- Amendments to IAS 1 and IFRS Practice Statement 2 – *Disclosure of Accounting Policies*, providing guidance and examples to help entities apply materiality judgements to accounting policy disclosures.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12, *Income Taxes,* which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

NOTE 4. BANK INDEBTEDNESS

The Corporation has a multi-currency operating credit facility with a syndicate of banks, with a Canadian dollar limit of $75,000. Extensions of the facility are subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a $75,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility. On June 30, 2021 the Corporation extended its credit facility for an additional two-year period expiring on June 30, 2023. As at March 31, 2022, the Corporation was debt-free under its credit facility. Bank indebtedness bears interest at the bankers' acceptance or LIBOR rates plus 1.00%. At March 31, 2022, the Corporation had letters of credit outstanding totalling $4,041 [December 31, 2021 – $4,143] such that $70,959 [December 31, 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.

NOTE 5. EMPLOYEE FUTURE BENEFITS

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

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

	March 31 2022	December 31 2020
Included in Other Assets - Pension Benefit Plans	2,293	2,347
Included in Other long-term liabilities and provisions - Other Benefit Plan	(947)	(1,038)
	1,346	1,309

The discount rate assumption used in determining the obligation for pension and other benefit plans is selected based on a review of current market interest rates of high-quality, fixed rate debt securities adjusted to reflect the duration of the expected future cash outflows for pension benefit payments. As a result of changes in the market interest rates of high-quality, fixed rate debt securities, the Corporation increased the assumed discount rate for the Canadian pension plans to 3.9% as at March 31, 2022 from the 2.9% rates used in calculating the pension obligation as at December 31, 2021. The return on plan assets were below the expected return during the three month period ended March 31, 2022. The change in the discount rate assumptions, the difference between the actual and expected rate of return on the plan assets and the effect of asset ceiling resulted in an actuarial loss of $264, net of taxes of $92 recorded in other comprehensive (loss) income in the first quarter of 2022.

NOTE 6. SHARE CAPITAL

Net (loss) income per share

	Three month period ended March 31	
	2022	2021
Net (loss) income	(2,025)	3,262
Weighted average number of shares	57,729	57,729
Basic and diluted net (loss) income per share	(0.04)	0.06

Dividends

On March 31, 2022, the Corporation paid quarterly dividends on 57,729,106 common shares of $0.105 per common share, amounting to $6,061 in the aggregate.

Subsequent to March 31, 2022, the Corporation declared dividends to holders of common shares in the amount of $0.08 per common share payable on June 30, 2022, for shareholders of record at the close of business on June 16, 2022.

Normal Course Issuer Bid

On May 27, 2021, the Corporation’s application to commence a normal course issuer bid (“NCIB”) was re-approved, which allowed the Corporation to purchase up to 2,886,455 common shares, over a 12-month period commencing May 27, 2021 and ending May 26, 2022. During the first quarter of 2022 and 2021, the Corporation had not purchased common shares for cancellation under the program.

NOTE 7. FINANCIAL INSTRUMENTS

Fair value hierarchy

The Corporation’s financial assets and liabilities recorded at fair value on the interim condensed consolidated statement of financial position have been categorized into three categories based on a fair value hierarchy. 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 and accounts payable and accrued liabilities

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

Foreign exchange contracts

The Corporation enters into foreign 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.

As at March 31,2022, the Corporation had forward foreign exchange contracts outstanding in the amount of $21,525 US dollars [December 31, 2021 – $6,650 US dollars] and £13,850 British pounds [December 31, 2021 – £9,490], of which the fair value is determined to be immaterial and categorized within Level 2 of the fair value hierarchy.

Long-term debt

As at March 31, 2022, the carrying amount of the Corporation's long-term debt of $6,897 [December 31, 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 March 31, 2022, the Corporation has recognized $24,282 [December 31, 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.

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.

Corporation's primary sources of revenue

	Three month period ended March 31 2022	2021
Sale of goods	150,444	142,684
Services	37,265	33,597
	187,709	176,281

Timing of revenue recognition based on transfer of control

	Three month period ended March 31 2022	2021
At a point of time	104,959	101,569
Over time	82,750	74,712
	187,709	176,281

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 interim condensed consolidated statement of financial position. As at March 31, 2022, contract liabilities were $18,550 [December 31, 2021 – $17,704].

Revenues from the Corporation's three largest customers accounted for 44.3% of total sales for the three month period ended March 31, 2022 [March 31, 2021 – three largest customers accounted for 41.3% of total sales for the three month period ended].

Geographic segments

	Three month period ended March 31 2022				2021			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenue	84,794	44,934	57,981	187,709	81,036	45,809	49,436	176,281
Export revenue[1]	59,388	8,724	10,576	78,688	57,071	6,408	10,393	73,872

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

	March 31, 2022				December 31, 2021			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment, right-of-use assets, intangible assets and goodwill	172,740	157,517	154,285	484,542	176,635	163,527	160,636	500,798

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 month period ended March 31, 2022 was negative 42.7% [37.4% for the three month period ended March 31, 2021]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the change in mix of income across the different jurisdictions in which the Corporation operates.

NOTE 10. MANAGEMENT OF CAPITAL

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

Total managed capital as at March 31, 2022 of $747,412 [December 31, 2021 – $769,754] is comprised of shareholders' equity attributable to equity holders of the Corporation of $740,535 [December 31, 2021 – $762,447] and interest-bearing debt of $6,877 [December 31, 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. 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 March 31, 2022, capital commitments in respect of purchase of property, plant and equipment totalled $8,056 [2021 – $4,948], all of which had been ordered. There were no other material capital commitments at the end of the period.