MAGELLAN AEROSPACE

ANNUAL REPORT 2020

MAGELLAN LAUNCHED VARIOUS INITIATIVES TO REDUCE OPERATING COSTS

The year just ended, 2020 was a challenging year for the commercial aerospace industry. The worldwide spread of the coronavirus ("COVID-19") early in the year largely stopped global air travel. Meanwhile, Boeing was dealing with the ongoing production suspension and recertification of its 737 MAX aircraft, and both Boeing and Airbus were adjusting to a softening wide-body market. Fortunately for a number of aerospace companies, including Magellan, defence markets remained strong during the year.

Considering the dramatic drop in air travel due to COVID-19, most OEM's and aerospace suppliers were forced to implement swift cost cutting measures. Magellan launched various initiatives to reduce operating costs such as the re-balancing of its workforce, reducing capital expenditure and general and administrative costs. The Corporation also accelerated previously planned strategies to consolidate facilities and transfer work into its Indian and Poland facilities. Given the magnitude of the reduced levels of business in Magellan's operations in Europe, a decision was made to reorganize our European operations resulting in the closure of our Bournemouth manufacturing facilities.

Magellan ended 2020 with $744.4 million in revenue which was down by 26.7% over 2019 levels primarily due to the drop in the commercial aerospace market. Magellan divisions that participate predominantly in defence markets benefited from stable or increased volumes in 2020. The stability of the defence market helped offset a portion of the commercial volume impact on the Corporation and reinforces Magellan's strategy of targeting a balanced defence/commercial market mix. With the necessary cost control measures put in place, the Corporation was able to generate cash in 2020, continue to pay dividends to its shareholders, and end the year with a strong balance sheet.

During the year, Magellan was successful in negotiating a number of new programs and contract renewals. New contract awards included one from the German Aerospace Center (DLR) for Black Brant rockets systems, one from Collins Aerospace Systems for 737 Nose Landing Gear assemblies and one from an undisclosed customer for machined rotating engine components for military aircraft platforms. Magellan also negotiated significant long term contract renewals during the year with Raytheon Missile Systems and General Electric.

A notable milestone was reached in 2020 as Magellan celebrated the delivery of the 200th set of F-35 Lightning II horizontal stabilizer assemblies under an agreement with BAE Systems. We are now ramping up for the next tranche of horizontal stabilizer deliveries in 2021.

A NOTABLE MILESTONE WAS REACHED IN 2020—MAGELLAN CELEBRATED THE DELIVERY OF THE 200TH SET OF F-35 LIGHTNING II HORIZONTAL STABILIZER ASSEMBLIES.

The continuing uncertainty resulting from the pandemic renders it difficult to issue a confident market outlook going forward. As vaccines roll out across the globe, the industry is anxiously awaiting signs of market recovery. We are cautioned that industry experts cannot agree on the shape of the recovery curve or the timing of it. Depending upon the source, recovery to 2019 levels is predicted to be no earlier than 2023 with more pessimistic views extending out to 2025. Regardless of how it will unfold, Magellan remains financially stable and ready to respond.

As we navigate through this pandemic, the safety of Magellan's employees, of their families and of our surrounding communities continues to be of paramount concern. Early on in the outbreak, Magellan implemented preventative and mitigating measures to provide a safe working environment, to protect our workforce and in the process minimized the impact on our business. We recognize the contributions of our employees and cannot thank you enough for your strength and flexibility in the face of uncertainty, for your focus on keeping yourselves and others safe, and for your efforts to keep our operations running as we deliver to our customers.

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

Phillip C. Underwood
President and Chief Executive Officer
March 5, 2021

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, 2020 and 2019 prepared in accordance with International Financial Reporting Standards ("IFRS"), and the Annual Information Form for the year ended December 31, 2020 (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, 2020 relative to the year ended December 31, 2019. The information contained in this report is as at March 5, 2021. 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," "2020 and Recent Updates," "Outlook," "Consolidated Revenues," "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 2020 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. In particular, the Corporation has not adjusted or revised any forward-looking statements in this report to account for the potential disruption to its business from the novel coronavirus outbreak, the impact from which is not immediately known or quantifiable. Except as required by law, the Corporation does not undertake to update any forward-looking information in this document whether as a result of new information, future events or otherwise.

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

1. OVERVIEW

A summary of Magellan's business and significant 2020 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

In March 2020, due to the worsening public health crisis associated with the novel coronavirus ("COVID-19"), the World Health Organization ("WHO") declared COVID-19 a global pandemic. Governments worldwide, including those countries in which Magellan operates, enacted emergency measures to combat the spread of the virus. These measures, which included the implementation of travel bans, self-imposed quarantine periods and social distancing, 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; however, the long-term success of these interventions is not yet determinable.

In 2020 and to date in 2021, the continued disruption to air travel and commercial activities, particularly within the aerospace and commercial airline industries negatively impacted global supply, demand and distribution capabilities. In particular, the significant decrease in air travel resulting from the COVID-19 pandemic is adversely affecting Magellan's customers and their demand for the Corporation's products and services. The situation remains dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Corporation remains unknown at this time.

Financial impacts

The current challenging economic climate may have material adverse impact on Magellan including, but not limited to significant declines in revenue in addition to what Magellan experienced in 2020 as the Corporation's customers are concentrated in the aerospace industry; impairment charges to the Corporation's property, plant and equipment, intangible assets and goodwill due to declines in revenue and cash flows; and restructuring charges as Magellan aligns its structure and personnel to the dynamic environment. Estimates and judgements made in the preparation of financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

Magellan has implemented measures to align its cost structure and maximize cash preservation during the current market conditions, including headcount reductions and re-balancing work force; elimination of all non-essential travel, entertaining and other discretionary spending; and reductions to the 2020 capital expenditure plan. The Corporation also applied and received the Canada Emergency Wage Subsidy ("CEWS") for its Canadian employees. The carrying value of the Corporation's long-lived assets are reviewed for indications of impairment at the end of each reporting period. For long-lived assets that have an indefinite life such as goodwill, the Corporation performs an annual impairment test. For the year ended December 31, 2020, the Corporation recorded an impairment charge of $12.0 million.

2021 will be challenging for Magellan's revenue on a year over year basis as COVID-19 continues to impact aircraft production rates over the short and medium term and flying hours of aircraft. In response to this impact, Magellan implemented cost savings initiatives in 2020 designed to reduce operating costs. In the fourth quarter of 2020, a restructuring plan was announced 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, which will result in the Corporation incurring a restructuring charge relating to the closure of approximately $8.0 million of which $5.6 million was recorded in 2020. Magellan will continue to operate its treatments center in Bournemouth. Magellan continues to actively monitor the COVID-19 situation and reassesses its operating plan as program updates become available.

Operational impacts

During this pandemic, the aerospace manufacturing industry, in the jurisdictions the Corporation operates in, has been classified as an "essential service." As a result, the Corporation's operations remained open, but at reduced levels of activity during 2020.

To manage the additional safety risks presented by COVID-19, Magellan implemented standardized tools and templates to keep its employees safe and well informed. Magellan has implemented additional safety, sanitization and physical distancing procedures, including remote work sites where possible and ceased all non-essential business travel.

Magellan's procedures are designed to align with recommendations from the WHO, the United States' Centers for Disease Control and Prevention, and applicable federal, state and provincial government health authorities.

Liquidity

During 2020, Magellan improved its overall liquidity position despite the challenges posed by COVID-19. The Corporation ended the year with a cash balance of $113.9 million and $70.5 million of available borrowing capacity under Magellan's operating credit facility, providing the Corporation with $184.4 million of total liquidity as compared with $138.9 million at December 31, 2019. The credit facility agreement also includes a $75 million uncommitted accordion provision that provides the Corporation with the option to increase the size of the operating credit facility to $150 million. Magellan expects that cash provided by operations, cash on hand and its sources of financing will be sufficient to meet the Corporation's debt obligations and fund committed and future capital expenditures.

In 2020, 54% of revenues were derived from commercial markets (2019 – 68%, 2018 – 69%) while 46% of revenues related to defence markets (2019 – 32%, 2018 – 31%).

2020 and Recent Updates

On January 13, 2020, Magellan announced an agreement with Collins Aerospace Systems for the supply of nose landing gear assemblies for the B737 aircraft. The assemblies comprised of complex machined titanium components will be delivered through 2024 from Magellan's facility in Kitchener, Ontario. In order to provide the best solution for Collins Aerospace Systems, Magellan's vertically integrated deliverable will utilize its global resources in Ontario, New York, India and Poland.

On April 16, 2020, the Corporation announced that it would provide Black Brant sounding rocket motors to The German Aerospace Center (Deutsches Zentrum für Luft- und Raumfahrt e.V. or "DLR"), which is estimated to generate revenue of up to $9.4 million over the term of the agreement. The DLR is the national aeronautics and space research centre of the Federal Republic of Germany. The Mobile Rocket Base is a department of DLR's Space Operations and Astronaut Training and conducts multiple sounding rocket missions per year for scientific purposes. Under the terms of this agreement, DLR will purchase Black Brant rocket motors over a three-year period and may exercise options for other various hardware items. DLR has a family of sounding rockets that they utilize to meet assorted mission requirements. The Black Brant is the most reliable sounding rocket motor in the market today, with a success rate of 99.4% over the last 500 launches. Responding to DLR's requirement to expand its inventory of sounding rocket vehicles, Magellan's Black Brant rocket motor has the flight heritage and on-time production delivery that this customer demands.

On May 7, 2020, the Corporation announced an agreement with an undisclosed customer for the supply of complex machined rotating engine components for military aircraft platforms. The contract, valued at approximately $46.4 million, will be carried out at Magellan's facility in Mississauga, Ontario over a five year period commencing late in 2020 and ending in 2024.

On May 25, 2020, Magellan announced that the Toronto Stock Exchange (the "TSX or Exchange") had approved its notice of intention to make a normal course issuer bid ("the Bid") to purchase for cancellation up to 2,910,450 of the Corporation's issued and outstanding common shares, through the facilities of the Exchange and/or through alternate trading systems in Canada upon which the common shares are traded. The Bid commenced on May 27, 2020 and will terminate on May 26, 2021. In 2020, the Corporation repurchased 0.5 million common shares for cancellation at a volume weighted average price of $7.10 per common share, for a total repurchase cost of $3.4 million.

On December 10, 2020, Magellan announced the delivery of the 200th set of F-35 Lightning II horizontal stabilizer assemblies under an agreement with BAE Systems. Magellan and BAE Systems have been working together to produce horizontal stabilizers for the global F-35 program since 2009. Both companies have since made significant investment in facilities, technologies and training to ensure the successful delivery of these flight-critical assemblies to the F-35 prime contractor Lockheed Martin. The horizontal stabilizers produced at Magellan are major assemblies on the Conventional Takeoff and Landing (CTOL) 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 along with various other metallic and composite components.

On January 14, 2021, the Corporation announced that Raytheon Missiles & Defense ("Raytheon") has awarded the Corporation a contract for the supply of complex missile fin components. These heat-tolerant surface control assemblies will be manufactured at Magellan's facility in Middletown, Ohio, with deliveries starting in 2021 and continuing through 2024. The value of this agreement is approximately $61.4 million. Magellan has participated in the Standard Missile ("SM") program for more than 20 years, supplying dorsal fins for various configurations, including the SM-3 and SM-6. These defensive missiles provide area defence to the U.S. Military against theater ballistic missiles, aircraft and cruise missiles.

On February 8, 2021, Magellan announced the signing of a Memorandum of Understanding ("MOU") with General Electric Aviation Canada ("GE Canada") for the purpose of exploring an arrangement whereby GE Canada would support Magellan in establishing and delivering a Canadian-based sustainment solution for the GE F414-GE-400 engine, which powers Boeing's F/A-18 Block III Super Hornet fighter jet. This initiative is in support of Boeing's proposal to provide the Block III Super Hornet as a solution for Canada's Future Fighter Capability Project ("FFCP"). Under the MOU, with the selection of the Super Hornet for the FFCP, GE Canada and Magellan would develop an appropriate and competitive sustainment solution for Canada which would provide all aircraft engine sustainment services for the Royal Canadian Air Force on their F414 engine fleet. The in-country depot level sustainment support for the engines includes onsite maintenance, repair and overhaul support services, technical services, and engineering support and would be performed in Magellan's facility in Mississauga, Ontario for the life of the program.

Labour Matters

The Corporation employs 3,400 employees; of these, approximately 1,400 are unionized and are covered by 16 collective bargaining agreements as of December 31, 2020. The Corporation maintains constructive relationships with its unions and strives to achieve mutually beneficially relationships while maintaining cost competiveness 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

On September 13, 2018 the Corporation entered into the Bank Credit Facility Agreement, with a syndicate of lenders. The Bank Credit Facility Agreement provides for a multi-currency global operating credit facility to be available to Magellan in a maximum aggregate amount of $75 million. The Bank Credit Facility 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. Under the terms of the Bank Credit Facility Agreement, the operating credit facility expires on September 13, 2021. Any extensions of the operating credit facility are subject to mutual consent of the lenders and the Corporation.

2. OUTLOOK

The outlook for Magellan's business in 2021

The worldwide outbreak of COVID-19 rapidly changed the global commercial aerospace market outlook in 2020. Leading into 2020, the aerospace market was in a strong position as single-aisle aircraft build rates were set to step further above the historically high levels reached in 2019 and defence markets were growing steadily because of evolving global threats. Two exceptions to this positive momentum were the ongoing production suspension of Boeing's 737 MAX aircraft program due to its grounding in 2019 and the softening of the commercial wide-body aircraft market.

With the COVID-19 pandemic, air travel fell sharply in March and April 2020, and although air travel began to rebound in the second quarter of 2020, it stalled in the latter half of the year with the resurgence of the virus and the imposition of new government restrictions, border closures, testing protocols and quarantine measures. Entering 2021, global demand was down 61% compared to 2019 with estimated airline losses in 2020 totaling approximately US$118 billion, according to the International Air Transport Association. As such, aircraft and engine build rates at the end of 2020 were down approximately 35% over 2019.

During 2020, Airbus' order backlog decreased from 7,482 to 7,184 aircraft. Airbus delivered 566 aircraft and received net orders for 268 aircraft in the year. Order cancellations in the period totaled 115 aircraft. Meanwhile, Boeing's order backlog decreased from 5,625 aircraft at the beginning of the year to 4,223 aircraft as of December 31, 2020. Boeing delivered just 157 aircraft in total during the year. Customers placed orders for 184 new aircraft and canceled 655 aircraft orders. Boeing's revenue recognition accounting adjustments removed a further 774 aircraft from the 5,625 aircraft backlog.

In January 2021, Airbus confirmed that A320 build rates will increase from 40 aircraft per month to 43 aircraft per month starting July 2021, then 45 aircraft per month by October 2021, 49 aircraft per month by January 2022 and 55 aircraft per month by mid-2022. Airbus confirmed that A330 build rates would remain at 2 aircraft per month and A350 at 5 aircraft per month.

Boeing resumed low rate production of its 737 MAX aircraft in May 2020 after it had been stopped in January 2020. In November 2020, the FAA certified the aircraft to return-to-service. Boeing announced plans to slowly ramp up production from the current 10 aircraft per month during 2021 and 2022, to reach a rate of 40 aircraft per month in 2023. Prior to the aircraft grounding, Boeing was anticipating reaching 57.7 aircraft per month in 2019. Meanwhile, Boeing will lower the 777 aircraft build rate from 5 aircraft per month to 2 aircraft per month in 2021. The 787 aircraft build rate will drop from 10 aircraft per month to 5 aircraft per month in 2021, and finally the 747 aircraft production will cease in September 2022.

Fortunately defence markets have been resilient during the pandemic, save for some supply chain disruptions caused by the virus. While concerns exist that funding will be reduced due to increasing government deficits driven by COVID-19 aid programs, experts suggest that evolving global security threats support continuing defence spending levels in the United States. Additionally, several European countries including the United Kingdom have recommitted or increased defence spending during the COVID-19 crisis, further removing a degree of near-term budget uncertainty.

Considering the uncertain market conditions industry experts cannot agree on the timing of the commercial market recovery, making any forecast subject to a high degree of risk. Contributing factors such as vaccine efficacy, traveler confidence, economic recovery and a possible permanent impact on future corporate travel all weigh in on what the recovery curve will look like. Once a clearer view of market demand appears, the next focus will be on how quickly the supply chain can ramp up production.

3. SELECTED ANNUAL INFORMATION

A summary of selected annual financial information for 2020, 2019 and 2018

Expressed in millions of dollars, except per share information	**2020**	2019	2018
Revenues	**744.4**	1,016.2	966.8
Net income for the year	**3.3**	67.4	89.1
Net income per common share – Basic and Diluted	**0.06**	1.16	1.53
EBITDA	**75.9**	145.2	162.1
EBITDA per common share – Basic and Diluted	**1.31**	2.49	2.78
Adjusted EBITDA	**100.4**	145.2	162.1
Adjusted EBITDA per common share – Basic and Diluted	**1.73**	2.49	2.78
Total assets	**1,072.6**	1,141.2	1,072.9
Total non-current liabilities	**121.9**	125.2	86.4

The unprecedented challenges stemming from the COVID-19 pandemic, including the continued disruption to air travel and commercial activities, particularly within the aerospace and commercial airline industries, resulted in a decrease to the demand for the Corporation's aerospace products and services. This negatively impacted revenues, mainly from the commercial market. Revenues for the year ended December 31, 2020 decreased from both 2019 and 2018 levels. The decrease in revenues from 2019 was primarily attributable to lower volume in single aisle and wide-body aircrafts, proprietary and casting products. Net income decreased in 2020 from 2019 mainly due to lower gross margin as a result of lower production volumes, production inefficiencies, restructuring costs and goodwill impairment charge, offset in part by CEWS benefits recognized, and cost reductions as a result of measures taken to align the Corporation's cost structure during the current market conditions, including headcount reductions and re-balancing work force, and elimination of all non-essential expense. In addition, a net gain of $9.7 million related to prior acquisitions was recorded in 2018.

During 2020 the Corporation paid quarterly dividends on common shares of $0.105 per share for the four quarters, amounting to $24.4 million in total for the year. During 2019, the Corporation paid quarterly dividends on common shares of $0.10 per share in the first three quarters and $0.105 per share in the fourth quarter, amounting to $23.6 million in total for the year.

4. RESULTS OF OPERATIONS

A discussion of Magellan's operating results for 2020 and 2019

Consolidated revenues for the year ended December 31, 2020 were $744.4 million, a 26.7% decrease from the $1,016.2 million achieved last year. Gross profit and net income were $96.5 million and $3.3 million, respectively, in comparison to gross profit of $157.0 million and net income of $67.4 million for the year ended December 31, 2019.

Consolidated Revenues

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019	Change
Canada	**338,883**	366,565	(7.6%)
United States	**202,284**	322,970	(37.4%)
Europe	**203,247**	326,684	(37.8%)
Total revenues	**744,414**	1,016,219	(26.7%)

In 2020, the COVID-19 pandemic caused disruption to air travel and commercial activities, particularly within the aerospace and commercial airline industries, have negatively impacted global supply, demand and distribution capabilities. As a result there was a decrease to the demand for the Corporation's aerospace products and services that led to lower revenues.

In comparison to 2019, revenues in Canada in 2020 decreased 7.6% primarily driven by lower volumes for wide-body aircraft, proprietary and casting products, offset by higher repair and overhaul services. Revenues in the United States decreased by 37.4% largely due to volume decreases for both single aisle, specifically the Boeing 737 MAX, and wide-body aircraft. Revenues in Europe decreased by 37.8% from the prior year primarily driven by build rate reductions for both single aisle and wide-body aircraft.

Consolidated revenues are also 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 2019 remained constant in 2020, consolidated revenues for 2020 would have been approximately $738.2 million.

Gross Profit

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019	Change
Gross profit	**96,491**	156,958	(38.5%)
Percentage of revenue	**13.0%**	15.4%	

Gross profit was $96.5 million in 2020, $60.5 million lower than 2019 of $157.0 million. Gross profit, as a percentage of revenues was lower than the prior year by 2.4%. Decrease in gross profit was primarily driven by lower production volumes, production inefficiencies and higher manufacturing costs, offset in part by workforce reduction, favourable product mix realized on certain programs, and recognition of $18.7 million in subsidies from the CEWS program.

Administrative and General Expenses

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019	Change
Administrative and general expenses	**52,075**	62,312	(16.4%)
Percentage of revenue	**7.0%**	6.1%	

Administrative and general expenses as a percentage of revenue were 7.0% in 2020 as compared to 6.1% in 2019. Administrative and general expenses of $52.1 million in 2020 were $10.2 million or 16.4% lower than $62.3 million in the prior year mainly due to lower discretionary expenses, lower salary and related expenses, subsidies of $1.4 million received from the CEWS program and cost reductions across the majority of the expense categories to align with current business volumes.

Restructuring

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019
Workforce reduction	**6,916**	–
Closure costs	**3,236**	–
Impairment of property, plant and equipment	**2,385**	–
Restructuring	**12,537**	–

During 2020, the Corporation incurred, as part of its cost reduction efforts in response to COVID-19, workforce reduction costs of $6.9 million related to terminations of employment, primarily in Europe. The initiative is expected to help mitigate the adverse impacts of COVID-19.

During the year ended December 31, 2020, the Corporation also announced a restructuring plan that will reorganize its European operations resulting in the closure of its Bournemouth manufacturing facilities in the United Kingdom. As a result, a total of $5.6 million was expensed during the year ended December 31, 2020.

Goodwill Impairment

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019
Goodwill impairment	**12,046**	–
Goodwill impairment	**12,046**	–

COVID-19 resulted in reduced production rates implemented by commercial aircraft manufacturers and reduced flying hours by operators. Due to the projected slow recovery of the aerospace market and the resulting depressed customer demand for products and services provided by one of the Corporation's cash generating units ("CGU"), the Corporation recorded a goodwill impairment charge of $12.0 million.

Other

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019
Foreign exchange loss	**1,138**	1,874
Loss on disposal of property, plant and equipment	**117**	32
Other	**(172)**	3,112
Other	**1,083**	5,018

Included in other is a foreign exchange loss of $1.1 million compared to a loss of $1.9 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 loss or gain recorded during the year. In 2019, $4.0 million of one-time relocation expenses were incurred for the Corporation's new Mississauga facility on its relocation to a new operating plant, offset by a $0.9 million gain recorded in relation to the step acquisition of one of its joint ventures in India.

Interest Expense

Twelve-months ended December 31, expressed in thousands of dollars	2020	2019
Interest on bank indebtedness and long-term debt	**305**	101
Accretion charge on long-term debt and borrowings	**1,103**	1,091
Accretion charge for lease liabilities	**2,026**	1,387
Discount on sale of trade receivables	**924**	2,053
Interest expense	**4,358**	4,632

Total interest costs of $4.4 million for 2020 decreased by $0.2 million from $4.6 million in 2019, primarily due to lower discount on sale of accounts receivables offset by higher accretion charge on lease liabilities.

Income Taxes

Twelve-months ended December 31, expressed in thousands of dollars	2020	2019
Current income tax expense	**7,140**	6,105
Deferred income tax expense	**3,939**	11,510
Income tax expense	**11,079**	17,615
Effective tax rate	**77.0%**	20.7%

The Corporation recorded an income tax expense in 2020 of $11.1 million on pre-tax income of $14.4 million, representing an effective tax rate of 77.0%, compared to an income tax expense of $17.6 million on pre-tax income of $85.0 million in 2019.

During 2020 and 2019, the Corporation recognized investment tax credits totaling $1.5 million and $5.2 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 an unfavourable impact of the prior year reversal of certain tax assets due to changes in estimates and changes in mix of income and loss across the different jurisdictions in which the Corporation operates.

5. RECONCILIATION OF NET INCOME TO EBITDA AND ADJUSTED EBITDA

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

In addition to the primary measures of earnings and earnings per share (basic and diluted) in accordance with IFRS, the Corporation includes EBITDA (earnings before interest, income taxes and depreciation and amortization) and Adjusted EBITDA (earnings before interest expense, 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	**2020**	2019
Net income	**3,313**	67,381
Interest	**4,358**	4,632
Taxes	**11,079**	17,615
Depreciation and amortization	**57,103**	55,593
EBITDA	**75,853**	145,221
Add back:		
Restructuring	**12,537**	–
Goodwill impairment	**12,046**	–
Adjusted EBITDA	**100,436**	145,221

EBITDA for the year ended 2020 of $75.9 million decreased by $69.3 million when compared to $145.2 million in 2019, primarily as a result of lower net income mainly driven by volume reductions, taxes and interest, offset by higher depreciation and amortization expenses.

Adjusted EBITDA decreased $44.8 million or 30.8% to $100.4 million for the year ended 2020, compared to $145.2 million in 2019 mainly as a result of lower net income, taxes and interest, offset by higher depreciation and amortization expenses and the add-back of $12.5 million and $12.0 million restructuring and goodwill impairment charges recorded in 2020, respectively.

6. SELECTED QUARTERLY FINANCIAL INFORMATION

A summary view of Magellan's quarterly financial performance

Expressed in millions of dollars except per share information				**2020**				2019
	Mar 31	**Jun 30**	**Sep 30**	**Dec 31**	Mar 31	Jun 30	Sep 30	Dec 31
Revenues	**238.8**	**162.2**	**163.4**	**180.1**	269.9	264.1	235.6	246.7
Income before taxes	**25.8**	**10.0**	**2.2**	**(23.6)**	25.9	27.8	19.6	11.7
Net income	**20.1**	**6.1**	**0.0**	**(22.9)**	20.4	21.7	15.8	9.4
Net income per common share								
Basic and Diluted	**0.34**	**0.10**	**0.00**	**(0.40)**	0.35	0.37	0.27	0.16
EBITDA[1]	**41.5**	**24.8**	**16.3**	**(6.8)**	40.5	42.7	34.1	27.9
Adjusted EBITDA[1]	**41.5**	**25.5**	**21.8**	**11.5**	40.5	42.7	34.1	27.9

[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.

Revenues and net income reported in the table above were impacted by the movements in 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 exchange rate of the United States dollar relative to the Canadian dollar fluctuated between a high of 1.3859 in the second quarter of 2020 and a low of 1.3176 in the fourth quarter of 2020. The average exchange rate of the British pound relative to the Canadian dollar moved from a high of 1.7315 in the first quarter of 2019 to a low of 1.6280 in the third quarter of 2019. The average exchange rate of the British pound relative to the United States dollar reached its high of 1.3205 in the fourth quarter of 2020 and hit a low of 1.2327 in the third quarter of 2019. Had exchange rates remained at levels experienced in 2019, reported revenues in 2020 would have been lower by $1.9 million, $4.2 million and $1.2 million for the first three quarters respectively; higher by $1.1 million in the fourth quarter.

As discussed above, net income reported in the quarterly information was impacted by the foreign exchange movements. The fourth quarter of 2019 was impacted by volume decreases in Europe, production inefficiencies in certain operating divisions and an accrual recorded in relation to the wind-down of the A380 program. Results for the second, third and fourth quarter of 2020 were impacted by volume decreases in a number of commercial programs due to COVID-19. During the third quarter of 2020, Magellan implemented cost savings initiatives designed to reduce operating costs by re-balancing its workforce and recognized severance costs of $5.6 million. A $3.4 million cost recovery was recorded against cost of sales as a result of the cancellation of A320neo program in the third quarter of 2020. In the fourth quarter of 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, and recognized $5.6 million restructuring charge including a $2.4 million impairment loss related to assets made obsolete as a result of the plan. Further, a $12.0 million goodwill impairment charge was recorded in the fourth quarter of 2020. The Corporation recognized $8.6 million, $10.4 million, and $1.0 million in respect of the government subsidy relating to the CEWS program in the second, third and fourth quarter respectively, and reduced the expense that the subsidy is intended to offset.

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 trade 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, 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 2020, $106.0 million of cash was generated by operations, $25.8 million was used in investing activities and $35.7 million was used in financing activities.

Cash Flow from Operating Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2020**	2019
Decrease in account receivables	**64,398**	12,183
Decrease (increase) in contract assets	**7,336**	(12,870)
Increase in inventories	**(16,803)**	(21,096)
Decrease (increase) in prepaid expenses and other	**8,299**	(1,124)
Decrease in accounts payable, accrued liabilities and provisions	**(41,475)**	(3,974)
Net change in non-cash working capital items	**21,755**	(26,881)
Net cash provided by operating activities	**105,970**	104,205

The Corporation generated $106.0 million in 2020 from operating activities, compared to $104.2 million in the prior year. Changes in non-cash working capital items generated cash of $21.8 million, $48.7 million higher when compared to the usage of $26.9 million in the prior year. The favourable movement of non-cash working capital balances was largely attributed to decreases in accounts receivable from lower revenues; lower contract assets from the timing of production and billing related to products transferred over time; lower inventories increases driven by volume reductions and reduced material purchases; and lower prepaid expenses. This was offset in part by decreases in accounts payable, accrued liabilities and provisions primarily driven by lower level of purchases and timing of payments.

Cash Flow from Investing Activities

Twelve-months ended December 31, expressed in thousands of dollars	2020	2019
Business combinations	–	(5,519)
Purchase of property, plant and equipment	(24,575)	(51,820)
Proceeds from disposal of property, plant and equipment	177	388
Increase in intangibles and other assets	(1,417)	(5,301)
Net cash used in investing activities	**(25,815)**	(62,252)

Investing activities for 2020 used $25.8 million compared to $62.3 million in the prior year, a decrease of $36.5 million primarily due to lower levels of investment in property, plant and equipment. In 2019, $5.5 million was invested in new business acquisitions.

Cash Flow from Financing Activities

Twelve-months ended December 31, expressed in thousands of dollars	2020	2019
Increase (decrease) in debt due within one year	285	(1,720)
Decrease in long-term debt	(754)	(4,124)
Lease liability payments	(6,970)	(3,972)
Decrease in long-term liabilities and provisions	(545)	(44)
Increase (decrease) in borrowings, net	37	(803)
Share repurchase	(3,407)	–
Common share dividend	(24,372)	(23,575)
Net cash used in financing activities	**(35,726)**	(34,238)

The Corporation used $35.7 million in 2020 mainly to repay lease liabilities, dividends, and for the repurchase of common shares.

Contractual Obligations

As at December 31, 2020, expressed in thousands of dollars	Less than 1 year	1-3 Years	4-5 Years	After 5 Years	Total
Trade receivables securitization	39,581	–	–	–	39,581
Long-term debt	3,928	4,320	720	–	8,968
Lease liabilities	6,829	10,976	8,855	26,587	53,247
Other long-term liabilities	139	374	242	720	1,475
Borrowings subject to specific conditions	1,126	1,554	1,938	21,492	26,110
Total Contractual Obligations	**51,603**	**17,224**	**11,755**	**48,799**	**129,381**

The Corporation has a Bank Credit Facility Agreement with a syndicate of lenders. The Bank Credit Facility Agreement provides for a multi-currency global operating credit facility to be available to Magellan in a maximum aggregate amount of $75 million. The Bank Credit Facility 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. Under the terms of the Bank Credit Facility Agreement, the operating credit facility expires on September 13, 2021. Any extensions of the operating credit facility are subject to mutual consent of the lenders and the Corporation.

As at December 31, 2020, the Corporation had made contractual commitments to purchase $4.1 million of capital assets. In addition, the Corporation had purchase commitments, largely for materials required for the normal course of operations, of $210.2 million as at December 31, 2020. 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 5, 2021, 57,729,106 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, 2020.

In 2020, the Corporation paid quarterly dividends on its common shares of $0.105 per common share, representing an aggregate dividend payment of $24.4 million.

For the year ended December 31, 2019, the Corporation declared and paid dividends on its common shares of $0.10 per share for the first three quarters and $0.105 per share in the fourth quarter, amounting to $23.6 million.

In the first quarter of 2021, the Corporation declared dividends of $0.105 per common share payable on March 31, 2021 to shareholders of record at the close of business on March 19, 2021.

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 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 2020, 479,895 common shares were purchased for cancellation for $3.4 million at a volume weighted average price paid of $7.10 per share.

8. FINANCIAL INSTRUMENTS

A summary of Magellan's financial instruments

Derivative Contracts

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian dollar denominated financial statements of the Corporation's subsidiaries may vary on consolidation into the reporting currency of Canadian dollars. The Corporation from time to time may use derivative financial instruments to help manage foreign exchange risk with the objective of reducing transaction exposures and the resulting volatility of the Corporation's earnings. The Corporation does not trade in derivatives for speculative purposes. Under these contracts the Corporation is obligated to purchase specified amounts at predetermined dates and exchange rates. These contracts are matched with anticipated cash flows in United States dollars. The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. As at December 31, 2020, there were no foreign exchange contracts outstanding.

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 [2019 - $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.

The ongoing COVID-19 pandemic, the rapidly evolving reactions of governments, private sector participants and the public to the pandemic and/or the associated economic impact of the pandemic and the reactions to it have had and will continue to have an effect on the Corporation's business, operations, revenues, financial condition, results of operations and growth prospects for a period of time that remains uncertain.

The extent and duration of the COVID-19 pandemic, the reactions of governments, private sector participants and the public to the pandemic and the associated disruption to business and commerce generally, and the extent to which these will continue to affect the Corporation's business, financial condition and results of operation in particular will all depend on future developments which are highly uncertain and many of which are outside the control of the Corporation and cannot be predicted with confidence. Such developments include the ultimate geographic spread, intensity and duration of the pandemic (including the possibility of further waves), new information which may emerge concerning the severity of COVID-19, the effectiveness and intensity of measures to contain COVID-19 or address its impact (including the expediency of countries' vaccination programs), short and longer-term changes in consumer travel patterns or travel restrictions imposed by governments and the other economic impacts of the pandemic and the reactions to it. For example, the Corporation has experienced or may experience or continue to experience:

- An isolated outbreak at one of the Corporation's facilities, disrupting operations, delaying deliveries, and causing financial losses;
- Operational inefficiencies and additional costs brought on by the effect of the pandemic and related mitigation methods on the workforce;
- Closure or reduction of production of key suppliers, disrupting Magellan's supply chain;
- Closure or reduction of production of customers, delaying deliveries;
- Financial duress for suppliers or customers, rendering key inputs unavailable or more costly or receivables uncollectible or subject to longer payment cycles;
- Global reduction in the demand for commercial aerospace products, resulting in production rate cuts by Airbus, Boeing and other original equipment manufacturers ("OEMs");
- Deferral of bid activities;
- Diversion of management attention.

The Corporation has put in place several measures in order to mitigate these risks, including:

- The creation of a steering committee to coordinate response;
- Local management teams at each of the Corporation's facilities;
- Restriction on all travel;
- Protocols at each location in order to mitigate transmission, including but not limited to:
  - Physical distancing measures;
  - Issuance of personal protective equipment;
  - Staggering of shifts;
  - Quarantine policies;
  - Hygiene reinforcement;
  - Work from home enhancements.
- Enhanced communication with customers in order to better forecast disruptions in demand;
- Enhanced communication with suppliers in order to secure the supply chain; and
- Additional scrutiny of credit assessments, review of overdue accounts, and provisioning of inventory.

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, 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 (such as the recent global COVID-19 pandemic) and other events outside of our control. The economic uncertainties of such events renders 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.

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 contagious illness outbreaks such as 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.

Customer unit deliveries may not reach the number projected when the basis for amortization of non- recurring costs is established.

The Corporation relies on customers' delivery projections, market forecast providers, and various other market information sources to determine the number of units over which to amortize nonrecurring costs. Unpredictable world events such as pandemics can reduce the accuracy of market forecasts provided by information sources and therefore may affect aircraft and engine build rates used in the Corporation's various business cases. Should deliveries not reach the number projected or there is a cancellation of an aircraft program, any unamortized balance that remains would then need to be written off which could have a material adverse impact on the Corporation.

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 World Health Organization declared 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.

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 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 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
The recoverable amount of 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 fair value of indefinite-lived intangible assets and goodwill resulting from business combinations, 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 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 2020

The Corporation has adopted the following new and amended standards in 2020.

Covid-19-Related Rent Concessions
On May 28, 2020, the IASB published amendment to IFRS 16, *Leases:* Covid-19-Related Rent Concessions, 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 adoption of the amendment does not have material 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, 2020 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, 2020, 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, 2020.

No changes were made in the Corporation's internal control over financial reporting during the year ended December 31, 2020, 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, 2020

To the shareholders of Magellan Aerospace Corporation

The consolidated financial statements of Magellan Aerospace Corporation were prepared by management in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this report is consistent with that shown in the 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 5, 2021

Elena M. Milantoni
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

December 31, 2020

To the Shareholders of Magellan Aerospace Corporation

Opinion

We have audited the consolidated financial statements of Magellan Aerospace Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of income and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2020 and 2019 in accordance with International Financial Reporting Standards (IFRS).

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 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 judgement, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter

Recognition of revenues on over time contracts

As detailed in Note 24 of the consolidated financial statements, a significant portion of the Group's revenues are derived from over time contracts, specifically $293 million. The Group recognizes revenue for long-term contracts over time using the input method, which recognizes revenue as performance of the contract progresses, measured by reference to the proportion of total expected costs to complete the contracts. The level of total expected costs to be incurred on each contract is estimated by the Group and includes certain significant judgements for those contracts open greater than one year that can have a material impact on the amount of revenue recognized in a reporting period as contracts run over several accounting periods. These significant judgements include those related to estimated future labour, materials and overhead costs for long-term contracts open at year-end. These judgements are subjective in nature and dependent on the complexity and status of the related contract as of the period end date.

How our audit addressed the key audit matter

We evaluated the contract judgements and estimates made by the Group in relation to the estimated costs to be incurred. For a sample of long-term contracts open at year-end, we performed the following audit procedures, among others:

— Evaluated contractual arrangements, including pricing and billing terms, change orders and terms and conditions impacting revenue recognition, if any;
— Obtained an understanding of the projects' performance throughout the year and at year-end through inquiries with project managers from the contract project team;
— Evaluated the reasonableness of management's assumptions for estimated costs to complete by comparing the key inputs in the initial budget with actual costs, and assessed trends based on our knowledge of similar projects;
— Evaluated the reasonableness of management's historical assumptions of estimated costs to complete by comparing previous cost estimation forecasts to actual results;
— Obtained management's calculation for estimated costs to complete, and agreed the costs to subsequently executed purchase orders or external price quotes; and
— Evaluated the appropriateness of accumulated costs related to claims and unapproved change orders that can result in additional charges or changes to contract revenues.

We also assessed the adequacy of the related disclosures in the consolidated financial statements.

Key Audit Matter

Recoverability of Goodwill

As detailed in Note 10 of the consolidated financial statements, the Group has a goodwill balance of $22 million. The Group holds a significant amount of goodwill relating to the United Kingdom and United States of America acquisitions over the past five years. As described in Note 1 of the consolidated financial statements, the Group uses a discounted cash flow model to determine the recoverable amount for each impairment test on each of the two cash-generating units ("CGUs") which contain goodwill. The estimated recoverable amounts are subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows, more specifically surrounding future sales, growth rates, future operating expenditures, and discount rates.

How our audit addressed the key audit matter

We evaluated the estimates made by the Group in relation to the recoverability of goodwill. We considered the Group's procedures used to develop the forecasts of each CGU's discounted cash flow model compared to the requirements within IAS 36, Impairment of Assets. We performed the following audit procedures to evaluate those cash flows, among others:

— Compared the prior year expected future cash flows to the actual results to assess the Group's budgeting process;
— Compared assumptions on the future sales and growth rates in the forecasts to publicly available information such as trends in the Aerospace & Defense industry and publicly available information from the Group's key customers;
— Reviewed available signed contracts for future period sales and services to corroborate future price growth;
— Assessed reasonableness of expenditures by performing an analysis of the forecasted future operating expenditures as compared to actual expenditures incurred and feasibility of any cost reduction plans to be implemented; and
— To the extent available subsequent to year-end, determined whether actual product sales patterns aligned with estimates used by management to establish the forecast.

With the assistance of our valuations specialists, we evaluated the Company's impairment models, valuation methodology, and certain significant assumptions, including the pre-tax discount rates by comparing to externally derived data, such as bond yields and inflation statistics.

We also assessed the adequacy of the related disclosures in the consolidated financial statements.

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

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

Our opinion on the financial statements does not cover the other information and we do 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, 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 Management's Discussion & Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, 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.

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 judgement 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 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 Stephanie Lamont.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 5, 2021

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in thousands of Canadian dollars	Notes	**December 31 2020**	December 31 2019
Current assets			
Cash	3	**113,938**	69,637
Trade and other receivables	4	**114,404**	177,801
Contract assets	5	**70,388**	77,967
Inventories	6	**213,120**	196,823
Prepaid expenses and other		**12,915**	21,127
		524,765	543,355
Non-current assets			
Property, plant and equipment	7	**420,340**	439,102
Right-of-use assets	8	**40,098**	44,692
Investment properties	9	**2,127**	2,180
Intangible assets	10	**55,155**	65,373
Goodwill	10	**21,982**	34,137
Other assets	11, 23	**7,301**	8,770
Deferred tax assets	19	**834**	3,556
		547,837	597,810
Total assets		**1,072,602**	1,141,165
Current liabilities			
Accounts payable and accrued liabilities and provisions	13	**114,706**	151,907
Debt due within one year	14,15, 22	**50,098**	48,144
		164,804	200,051
Non-current liabilities			
Long-term debt	14	**4,865**	6,876
Lease liabilities	15	**35,222**	39,794
Borrowings subject to specific conditions	16	**24,984**	24,098
Other long-term liabilities and provisions	17, 23	**21,539**	20,289
Deferred tax liabilities	19	**35,309**	34,181
		121,919	125,238
Equity			
Share capital	20	**252,342**	254,440
Contributed surplus		**2,044**	2,044
Other paid in capital		**13,565**	13,565
Retained earnings		**492,681**	516,911
Accumulated other comprehensive income	29	**21,870**	25,539
Equity attributable to equity holders of the Corporation		**782,502**	812,499
Non-controlling interest		**3,377**	3,377
Total liabilities and equity		**1,072,602**	1,141,165

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Expressed in thousands of Canadian dollars, except per share amounts	Notes	Years ended December 31 **2020**	 2019
Revenues	24	**744,414**	1,016,219
Cost of revenues	25	**647,923**	859,261
Gross profit		**96,491**	156,958
Administrative and general expenses	26	**52,075**	62,312
Restructuring	27	**12,537**	–
Goodwill impairment	10,27	**12,046**	–
Other	11	**1,083**	5,018
Income before interest and income taxes		**18,750**	89,628
Interest	28	**4,358**	4,632
Income before income taxes		**14,392**	84,996
Income taxes			
Current	19	**7,140**	6,105
Deferred	19	**3,939**	11,510
		11,079	17,615
Net income		**3,313**	67,381
Other comprehensive loss			
Other comprehensive loss that may be reclassified to profit and loss in subsequent periods:			
Foreign currency translation	29	**(3,669)**	(18,839)
Items not to be reclassified to profit and loss in subsequent periods:			
Actuarial loss on defined benefit pension plans, net of tax	19, 23	**(1,862)**	(141)
Comprehensive income		**(2,218)**	48,401
Net income per share			
Basic	20	**0.06**	1.16
Diluted	20	**0.06**	1.16

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**
January 1, 2019	254,440	2,044	13,565	473,246	44,378	787,673	–	787,673
Business combination	–	–	–	–	–	–	3,377	3,377
Net income	–	–	–	67,381	–	67,381	–	67,381
Other comprehensive loss	–	–	–	(141)	(18,839)	(18,980)	–	(18,980)
Common share dividend	–	–	–	(23,575)	–	(23,575)	–	(23,575)
December 31, 2019	254,440	2,044	13,565	516,911	25,539	812,499	3,377	815,876
Net income	–	–	–	3,313	–	3,313	–	3,313
Other comprehensive loss	–	–	–	(1,862)	(3,669)	(5,531)	–	(5,531)
Common share repurchase	(2,098)	–	–	(1,309)	–	(3,407)	–	(3,407)
Common share dividend	–	–	–	(24,372)	–	(24,372)	–	(24,372)
December 31, 2020	**252,342**	**2,044**	**13,565**	**492,681**	**21,870**	**782,502**	**3,377**	**785,879**

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in thousands of Canadian dollars	Notes	Years ended December 31 **2020**	2019
Cash flow from operating activities			
Net income		**3,313**	67,381
Amortization/depreciation of intangible assets, right-of-use assets and property, plant and equipment	7,8,10	**57,103**	55,593
Impairment of goodwill	10,27	**12,046**	–
Loss on disposal of property, plant and equipment	7	**117**	32
Restructuring	27	**5,227**	–
Gain on disposal of joint venture investment	11	**–**	(881)
Decrease in defined benefit plans	23	**(282)**	(68)
Accretion of financial liabilities	28	**3,129**	2,478
Deferred taxes	19	**3,545**	7,041
Loss (income) on investments in joint ventures	11	**17**	(490)
Change in non-cash working capital	31	**21,755**	(26,881)
Net cash provided by operating activities		**105,970**	104,205
Cash flow from investing activities			
Business combination, net of cash acquired	11	**–**	(5,519)
Purchase of property, plant and equipment	7	**(24,575)**	(51,820)
Proceeds from disposal of property, plant and equipment	7	**177**	388
Increase in intangible and other assets		**(1,417)**	(5,301)
Net cash used in investing activities		**(25,815)**	(62,252)
Cash flow from financing activities			
Increase (decrease) in debt due within one year	18	**285**	(1,720)
Decrease in long-term debt	14, 18	**(754)**	(4,124)
Lease liability payments	15, 18	**(6,970)**	(3,972)
Decrease in long-term liabilities and provisions	17, 18	**(545)**	(44)
Increase (decrease) in borrowings, net	16, 18	**37**	(803)
Share repurchase	20	**(3,407)**	–
Common share dividend	20	**(24,372)**	(23,575)
Net cash used in financing activities		**(35,726)**	(34,238)
Increase in cash during the year		**44,429**	7,715
Cash at beginning of the year		**69,637**	63,316
Effect of exchange rate differences		**(128)**	(1,394)
Cash at end of the year		**113,938**	69,637

See accompanying notes to the consolidated financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

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 5, 2021.

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. 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. 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 income (loss) for the year.

Segment Reporting
Management has determined the operating segments based on information regularly reviewed for the purposes of decision making, allocating resources and assessing performance by the Corporation's chief operating decision makers. The Corporation evaluates the financial performance of its operating segments primarily based on net income 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 current portion of contract liabilities is included in accounts payable and accrued liabilities and provisions and the non-current portion 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 income.

The defined benefit surplus or deficit represents the fair value of the plan assets less the present value of the defined benefit obligations. A surplus is recognized in the consolidated statements of financial position to the extent that the Corporation has an unconditional right to the surplus, either through a refund or reduction in future contributions. A deficit is recognized in full.

Defined contribution plans

Obligations for contributions to defined contribution plans are recognized as an expense in the consolidated statements of 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 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 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 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 per Share
Net income 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 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 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 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 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, restricted cash, trade and other receivables, accounts payable and accrued liabilities, lease liabilities, bank indebtedness, long-term debt, borrowing 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 assets at fair value through profit or loss

Cash and cash equivalents, restricted cash and derivatives instruments are classified as financial assets at fair value through profit 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. The Corporation's policy is not to utilize derivative instruments for trading or speculative purposes. The Corporation's derivative contracts are not designated as hedges and as a result are presented on the consolidated statements of financial position as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The unrealized gains or losses related to changes in fair value are reported in other expense (income) on the consolidated statements of income. 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, accounts payable and accrued liabilities, bank indebtedness, borrowing subject to specific conditions, lease liabilities and long-term debt. Financial instruments are recorded initially at fair value and, in the case of financial assets and liabilities carried at amortized cost, adjusted for directly attributable transaction costs. Trade and other receivables include originated non-derivative financial assets with fixed or determined payments that are not quoted in an active market and are subsequently measured at amortized cost and is computed using the effective interest method less any allowance for impairment. Accounts payables and accrued liabilities, bank indebtedness, borrowing subject to specific conditions, finance lease liabilities and long-term debt are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees. The effective interest rate accretion is included as finance costs in the consolidated statements of income.

Impairment

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

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 World Health Organization declared the novel 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.

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 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 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
The recoverable amount of 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 fair value of indefinite-lived intangible assets and goodwill resulting from business combinations, 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 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 REPORATING STANDARDS

New and Amended International Financial Reporting Standards Adopted in 2020
The Corporation has adopted the following new and amended standards in the current year.

Covid-19-Related Rent Concessions
On May 28, 2020, the IASB published amendment to IFRS 16, *Leases:* Covid-19-Related Rent Concessions, 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 adoption of the amendment does not have material impact on the Corporation’s consolidated financial statements.

New and Amended International Financial Reporting Standards to be Adopted in 2021 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 2021 or later.

Amendments to IAS 1 Presentation of Financial Statements

In January 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, 2023. The Corporation does not expect these amendments will have an impact on the Corporation's consolidated financial statements.

Amendments to IAS 16 Property, Plant and Equipment

In May 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. The Corporation is currently assessing the potential impact on its consolidated financial statements.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

In May 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. The Corporation is currently assessing the potential impact on its consolidated financial statements.

Interbank Offered Rate ("IBOR") Reform

In August 2020, the IASB published amendments to IFRS 9, *Financial Instruments,* IAS 39, *Financial Instruments: Recognition and Measurement,* IFRS 7, *Financial Instruments: Disclosures,* IFRS 4, *Insurance Contracts* and IFRS 16, *Leases.*

The amendments address issues that arise from implementation of IBOR reform, where IBORs are replaced with alternative benchmark rates. For financial instruments at amortized cost, the amendments introduce a practical expedient such that if a change in the contractual cash flows is as a result of IBOR reform and occurs on an economically equivalent basis, the change will be accounted for by updating the effective interest rate with no immediate gain or loss recognized. The amendments also provide additional temporary relief from applying specific IAS 39, hedge accounting requirements to hedging relationships affected by IBOR reform.

The amendments are effective for fiscal years beginning on or after January 1, 2021 with early adoption permitted. The Corporation will adopt the amendment on January 1, 2021. The Corporation is in the process of evaluating potential changes to debt and lease contracts to transition from IBORs to alternative rates prior to the cessation of IBORs.

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

3. CASH AND CASH EQUIVALENTS

	December 31 2020	December 31 2019
Cash on hand	**46,024**	34,108
Short-term deposits	**67,914**	35,529
	113,938	69,637

Bank balances and short-term deposits comprise of cash held by the Corporation on a short-term basis with original maturity of one month or less. The carrying amount of these assets approximates their fair value.

4. TRADE AND OTHER RECEIVABLES

	December 31 2020	December 31 2019
Trade receivables	**101,443**	148,451
Less allowance for doubtful accounts	**535**	369
Net trade receivables	**100,908**	148,082
Other receivables	**13,496**	29,719
	114,404	177,801

Aging of trade receivables:

	Current	**Less than 90 days**	**91-181 days**	**182-365 days**	**More than 365 days**	**Total**
December 31, 2019	133,907	11,055	1,304	21	2,164	148,451
December 31, 2020	**91,467**	**5,670**	**1,842**	**215**	**2,249**	**101,443**

5. CONTRACT BALANCES

	December 31 2020	December 31 2019
Contract assets	**70,388**	77,967
Contract liabilities [note 13]	**(16,528)**	(10,605)
Net contract balances	**53,860**	67,362

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. Contract liabilities are included in accounts payable, accrued liabilities and provision on the consolidated statement of financial position.

Revenue recognized in the period from:

	2020	2019
Amounts included in contract liabilities at the beginning of the year	**10,605**	9,029

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

6. INVENTORIES

	Raw materials	Work in progress	Finished goods	Total
At December 31, 2019	74,674	92,354	29,795	196,823
At December 31, 2020	**80,502**	**99,000**	**33,618**	**213,120**

The cost of inventories recognized as expense and included in cost of sales for the year ended December 31, 2020 amounted to $639,561 [2019 – $842,184].

During the year ended December 31, 2020, the Corporation recorded an impairment expense related to the write-down of inventory in the amount of $4,102 [2019 – $2,083]. The Corporation also recorded reversals of previous write-downs of inventory in the amount of $221 [2019 – $1,626] due to the sale of inventory previously provided for. The carrying amount of inventory recorded at net realizable value was $27,070 as at December 31, 2020 [2019 – $22,277], with the remaining inventory recorded at cost.

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Tooling	Total
Cost					
At December 31, 2018	18,926	138,689	658,449	53,084	869,148
Additions	42	6,611	40,861	4,241	51,755
Acquisitions	2,921	1,460	2,280	–	6,661
Disposals and other	–	–	(4,909)	–	(4,909)
Foreign currency translation	(456)	(2,863)	(17,040)	(2,202)	(22,561)
At December 31, 2019	21,433	143,897	679,641	55,123	900,094
Additions	–	1,157	23,051	367	24,575
Disposals and other	–	(5,870)	161	(23)	(5,732)
Foreign currency translation	(500)	(1,199)	(5,064)	(929)	(7,692)
At December 31, 2020	**20,933**	**137,985**	**697,789**	**54,538**	**911,245**
Accumulated depreciation and impairment					
At December 31, 2018	–	(57,291)	(334,951)	(48,028)	(440,270)
Depreciation	–	(4,384)	(30,878)	(1,880)	(37,142)
Disposal and other	–	–	4,489	–	4,489
Foreign currency translation	–	1,032	8,911	1,988	11,931
At December 31, 2019	–	(60,643)	(352,429)	(47,920)	(460,992)
Depreciation and impairment	–	(4,699)	(34,991)	(1,575)	(41,265)
Disposal and other	–	5,847	557	–	6,404
Foreign currency translation	–	523	3,561	864	4,948
At December 31, 2020	–	**(58,972)**	**(383,302)**	**(48,631)**	**(490,905)**
Net book value					
At December 31, 2019	21,433	83,254	327,212	7,203	439,102
At December 31, 2020	**20,933**	**79,013**	**314,487**	**5,907**	**420,340**

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

Included in the above are assets under construction in the amount of $18,705 [December 31, 2019 – $14,168], which as at December 31, 2020 are not amortized.

8. RIGHT-OF-USE ASSETS

	Buildings	Machinery, equipment and other	Total
At January 1, 2020	43,606	1,086	44,692
Additions	–	555	555
Depreciation, disposals and other	(5,038)	(279)	(5,317)
Foreign currency translation	172	(4)	168
At December 31, 2020	**38,740**	**1,358**	**40,098**

9. INVESTMENT PROPERTIES

	Cost	Accumulated depreciation, disposal, and impairment	Net book value
At December 31, 2019	9,313	(7,133)	2,180
At December 31, 2020	**9,306**	**(7,179)**	**2,127**

The Corporation's investment properties consist of land and building. Depreciation expense recognized in relation to the buildings in 2020 was $31 [2019 – $96]. The Corporation recorded rental income from investment properties of $600 in 2020 [2019 – $467].

The fair value of the Corporation's investment properties was $21,938 at December 31, 2020. 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 2020, the Corporation obtained opinions from external valuators, with experience in the real estate market, on $20,500 of the total fair values of the Corporation's investment properties.

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

10. INTANGIBLE ASSETS AND GOODWILL

	Technology rights	Development costs	Other intangibles	Total intangible assets	Goodwill	Total intangible assets and goodwill
Cost						
At December 31, 2018	45,270	128,766	32,791	206,827	35,104	241,931
Additions	–	4,563	12,997	17,560	–	17,560
Foreign currency translation	(98)	(2,270)	(784)	(3,152)	(967)	(4,119)
At December 31, 2019	45,172	131,059	45,004	221,235	34,137	255,372
Additions	–	1,282	1,184	2,466	–	2,466
Foreign currency translation	(37)	(419)	212	(244)	12	(232)
At December 31, 2020	**45,135**	**131,922**	**46,400**	**223,457**	**34,149**	**257,606**
Depreciation and impairment						
At December 31, 2018	(33,362)	(100,503)	(10,217)	(144,082)	–	(144,082)
Depreciation	(1,796)	(8,903)	(3,251)	(13,950)	–	(13,950)
Foreign currency translation	69	1,919	182	2,170	–	2,170
At December 31, 2019	(35,089)	(107,487)	(13,286)	(155,862)	–	(155,862)
Depreciation	(1,651)	(8,134)	(3,072)	(12,857)	–	(12,857)
Impairment	–	–	–	–	(12,046)	(12,167)
Foreign currency translation	31	433	(47)	417	(121)	417
At December 31, 2020	**(36,709)**	**(115,188)**	**(16,405)**	**(168,302)**	**(12,167)**	**(180,469)**
Net book value						
At December 31, 2019	10,083	23,572	31,718	65,373	34,137	99,510
At December 31, 2020	**8,426**	**16,734**	**29,995**	**55,155**	**21,982**	**77,137**

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.

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 $9,083 (£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. 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 value in use 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 11.0% and 9.0% 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% and 3% was used in the terminal year given the businesses' anticipated growth. The Corporation completed the annual impairment test on October 1, 2020 and determined the recoverable amount for the CGU in Europe was below its carrying value, which resulted in a goodwill impairment loss of $12,046 recorded in the consolidated statements of income. If the discount rate for the CGUs increased by 1%, the recoverable amount for the CGU in the United States 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, 2020 and December 31, 2019.

	December 31 2020	December 31 2019
Balance, beginning of the year	**2,476**	7,484
Disposal of joint venture investment	**–**	(5,498)
Share of total comprehensive (loss) income	**(17)**	490
Balance, end of the year	**2,459**	2,476

During 2019, in line with the Corporation's low cost sourcing strategy, the Corporation acquired an additional 26% of the issued and outstanding shares of the capital stock of Triveni Aeronautics Private Limited ("Triveni") for $3,780 to obtain a 75% controlling interest.

Prior to the effective date February 28, 2019 ("Transaction date"), the Corporation accounted for it's previously held 49% interest in Triveni as a joint venture using the equity method with a carrying value of $5,498. At Transaction date, the Corporation remeasured its previously held equity interest at fair value and recognized the resulting gain of $881 in Other in the consolidated statements of income.

Further, the Corporation recognized $4,765 current assets, $5,610 non-current assets, $6,142 intangible assets, $596 current liabilities, $2,385 non-current liabilities, and $3,377 non-controlling interest based on the fair value of the identifiable assets and liabilities. The net income recorded in the years ended December 31, 2020 and December 31, 2019 included an immaterial amount attributable to the non-controlling interest.

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

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 October 28, 2019 the Corporation extended the credit agreement to September 13, 2021. As at December 31, 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 December 31, 2020, the Corporation had letters of credit outstanding totalling $4,535 such that $70,465 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.

13. ACCOUNTS PAYABLE, ACCRUED LIABILITIES AND PROVISIONS

	December 31 2020	December 31 2019
Accounts payables	**45,171**	85,581
Accrued liabilities	**47,834**	53,159
Contract liabilities [note 5]	**16,528**	10,605
Provisions [note 17]	**5,173**	2,562
	114,706	151,907

14. LONG-TERM DEBT

	December 31 2020	December 31 2019
Property mortgage [a]	**134**	447
Other loans [b]	**8,659**	8,904
	8,793	9,351
Less current portion	**3,928**	2,475
	4,865	6,876

[a] Property mortgage includes $134 (£77) [2019 – $447 (£260)] of financing relating to land acquired in 2006. This same land is collateral for this mortgage and the mortgage bears interest at bank rate plus 0.90%, which at December 31, 2020 was 1.4% [2019 – 1.4%]. The property mortgage requires scheduled monthly repayments of accrued interest and principal and matures in June 2021.

[b] Other loans include loans of $7,025 [2019 – $8,904] provided by governmental authorities ("Government Loans") that bear interest of approximately 1.5% [2019 – 2.38%]. The Government Loans mature in April 2024 with accrued interest and principal repayable monthly.

Included in other loans is a bank loan used to finance capital expenditures, which is subject to annual renewal and expires on May 31, 2021. As at December 31, 2020, the bank loan was $1,634 (US$1,283), bearing interest at LIBOR plus 2.50%, which was 2.80% [2019 – nil]. Land, machinery and equipment are pledged as collateral for the bank loan.

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

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, 2020	46,064
Additions	555
Interest on lease liabilities	2,026
Payments	(6,970)
Foreign exchange and other	136
At December 31, 2020	**41,811**
Less current portion	**6,589**
	35,222

Contractual undiscounted cash flows for lease obligations:

	December 31 2020
Less than one year	**6,829**
One to five years	**19,831**
Over five years	**26,587**
	53,247

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 a percentage of the Corporation's revenues. The Corporation has included in borrowings subject to specific conditions the estimated amount of repayments in relation to the contributions received.

During 2020, the Corporation received $46 [2019 – $179] of government proceeds, of which $9 [2019 – $65] has been credited to the related assets, $9 [2019 – $21] has been credited to the related expense and $28 [2019 – $93] has been recorded in borrowings subject to specific conditions.

The proceeds are repayable as future royalty payments; a liability is recorded for the amounts received that will be repaid based on future estimated sales. During 2020, the Corporation repaid nil [2019 – $960].

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

17. OTHER LONG-TERM LIABILITIES AND PROVISIONS

	December 31 2020	December 31 2019
Net defined benefit plan deficits [note 23]	**14,509**	12,739
Provisions	**7,803**	5,299
Other	**4,400**	4,813
	26,712	22,851
Less current portion included in accounts payable, accrued liabilities and provisions	**5,173**	2,562
	21,539	20,289

Movements in provisions:

	Warranty	**Environmental**	**Other provisions**	**Total**
At December 31, 2018	1,085	2,820	1,602	5,507
Additional provisions	465	–	1,787	2,252
Amount used	(480)	–	(939)	(1,419)
Unused amounts reversed	(8)	(221)	(843)	(1,072)
Unwind of discount	–	58	–	58
Foreign currency translation	(26)	–	(1)	(27)
At December 31, 2019	1,036	2,657	1,606	5,299
Additional provisions [note 27]	1,128	–	2,975	4,103
Amount used	(1,169)	–	(287)	(1,456)
Unused amounts reversed	(5)	(10)	(148)	(163)
Unwind of discount	–	9	–	9
Foreign currency translation	(1)	–	12	11
At December 31, 2020	**989**	**2,656**	**4,158**	**7,803**

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.

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

18. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	December 31 2019	Cash flows	Foreign exchange	Other	**December 31 2020**
Debt due within one year	48,144	285	(103)	1,772	**50,098**
Long– term debt	6,876	(754)	(85)	(1,172)	**4,865**
Long– term liabilities and provisions	20,289	(545)	(47)	1,842	**21,539**
Borrowing subject to specific conditions	25,291	37	–	782	**26,110**
Lease liabilities	46,064	(6,970)	136	2,581	**41,811**
Total	146,664	(7,947)	(99)	5,805	**144,423**

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, changes in defined benefit plans, and the effect of interest accretion on interest bearing loans and borrowings, and lease liabilities.

19. INCOME TAXES

Major components of income tax expense:

	2020	2019
Current income tax expense		
Current tax expense for the year	**4,706**	6,105
Current tax expense for prior years	**2,434**	–
	7,140	6,105
Deferred income tax expense		
Origination and reversal of temporary differences	**3,348**	11,565
Impact of tax law changes	**591**	(55)
	3,939	11,510
Total income tax expense	**11,079**	17,615

The Corporation's consolidated effective tax rate for the year ended December 31, 2020 was 77.0% [2019 – 20.7%]. The difference in the effective tax rates compared to the Corporation's statutory income tax rates were mainly caused by the following:

	2020	2019
Income before income taxes	**14,392**	84,996
Income taxes based on the applicable tax rate of 25.8% in 2020 and 2019	**3,714**	21,929
Adjustment to income taxes resulting from:		
Adjustments in respect of prior years	**2,434**	(1,463)
Permanent differences and other	**260**	(11)
Income tax rates differentials on income of foreign operations	**3,016**	(3,236)
Changes in income tax rates	**940**	(52)
Unrecognized tax losses and temporary differences	**715**	448
Income tax expense	**11,079**	17,615

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

Changes in the deferred tax components are adjusted through deferred income tax expense except for $1,481 [2019 – $5,181] of investment tax credits which is adjusted through cost of revenues and $603 [2019 – $54] for employee future benefits which is adjusted through other comprehensive income.

Major components of deferred tax assets and liabilities:

	December 31 2020	December 31 2019
Operating loss carry forwards	**11,443**	447
Investment tax credits	**4,349**	16,017
Employee future benefits	**4,186**	3,628
Property, plant and equipment and intangibles	**(57,517)**	(53,657)
Other	**3,064**	2,940
Deferred tax liabilities	**(34,475)**	(30,625)

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 2020	December 31 2019
Deferred tax assets	**834**	3,556
Deferred tax liabilities	**(35,309)**	(34,181)

The temporary difference associated with investments in subsidiaries and joint ventures, for which a deferred tax liability has not been recognized aggregates to $745,943 [2019 – $737,968].

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, 2019	58,209,001	254,440
Outstanding at December 31, 2020	**57,729,106**	**252,342**

Net income per share

	2020	2019
Net Income	**3,313**	67,381
Weighted average number of shares	**58,056,420**	58,209,001
Basic and diluted net income per share	**0.06**	1.16

Dividends declared

On March 31, 2020, June 30, 2020, September 30, 2020 and December 31, 2020, the Corporation paid quarterly dividends of $0.105 per common share, amounting to $24,372.

For the year ended December 31, 2019, the Corporation declared and paid dividends on its common shares on March 29, 2019, June 28, 2019, and September 30, 2019 of $0.10 per share amounting to $17,463 and on December 31, 2019 of $0.105 per share amounting to $6,112.

Subsequent to December 31, 2020, the Corporation declared dividends to holders of its common shares in the amount of $0.105 per common share payable on March 31, 2021, for shareholders of record at the close of business on March 19, 2021.

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 allowed 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. 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 year ended December 31, 2020, 479,895 Shares were purchased for cancellation for $3,407 at a volume weighted average price paid of $7.10 per Share respectively.

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, 2020 and December 31, 2019, there were no options granted and outstanding. The maximum number of options for common shares that is available to be granted under this plan is 1,673,341.

The Corporation has a deferred share unit plan ("DSU Plan") for certain executive officers ("Officers") which provides a structure for Officers to accumulate equity-like holdings in the Corporation. The DSU Plan allows certain Officers to participate in the growth of the Corporation by providing a deferred payment based on the value of a common share at the time of redemption. Each Officer receives deferred share units ("Units") based on their annual management incentive compensation. The Units are issued based on the Corporation's common share price at the time of issue. A third of the Units are vested and paid upon issuance and the remaining Units are vested and paid out equally on the anniversary date of issuance in the following two year periods or upon retiring. The cash value is equal to the common share price at the date of redemption, adjusted by any dividends paid on the common shares. For Units granted subsequent to May 1, 2016, a Total Shareholder Return ("TSR") performance element was introduced to reinforce the connection between remuneration and the interests of Shareholders, by motivating and rewarding participants for improving the long-term value of the Corporation. One third of the cash payment of the Units awarded for calendar 2016 and calendar years thereafter 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 TSR 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 the performance period. As at December 31, 2020, 69,556 Units were outstanding at an accrued value of $431 [December 31, 2019 – $661]. The Corporation recorded compensation expense reversal in relation to the DSU Plan during the year of $238 [2019 expenses – $314].

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

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[3]	Financial liabilities at amortized cost [4]	Total financial liabilities
December 31, 2019	69,637	177,801	247,438	–	270,819	270,819
December 31, 2020	**113,938**	**114,404**	**228,342**	**–**	**229,875**	**229,875**

[1] Includes cash and cash equivalents and restricted cash
[2] Includes trade receivables and other receivables
[3] Includes derivatives contracts financial liabilities
[4] Includes bank indebtedness, accounts payable and accrued liabilities, long-term debt, lease liabilities, borrowings subject to specific conditions and trade receivables securitization financial liabilities

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, 2020, fluctuations of +/– 1% would, everything else being equal, have an effect on net income for the year ended December 31, 2020 of approximately +/– $110. 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 $4,914.

Interest rate risk
The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. As at December 31, 2020, $8,793 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, 2020 by approximately +/– $498.

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

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

The carrying amount of trade receivables is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of income 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 2020, the Corporation sold receivables to various financial institutions in the amount of $221,264 [2019 – $314,936] for a discount of $924 [2019 – $2,053] representing an annualized interest rate of 1.84% [2019 – 2.76%].

As at December 31, 2020, trade receivables include receivables sold and financed through securitization transactions of $39,581 [2019 – $39,399] which do not meet the IFRS 9 derecognition requirements as the Corporation continues to be exposed to credit risk. These receivables are recognized in the consolidated statement of financial position even though they have been legally sold with a corresponding financial liability recorded in debt due within one year.

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

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 program and cash provided by operations. Based on current funds available and expected cash flow from operating activities, management believes that the Corporation has sufficient funds available to meet its liquidity requirements at any point in time. However, if cash from operating activities is lower than expected or capital costs for projects exceed current estimates, or if the Corporation incurs major unanticipated expenses, it may be required to seek additional capital in the form of debt or equity or a combination of both.

Contractual maturity analysis

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

	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total
Long-term debt[1]	43,509	2,160	2,160	720	–	–	48,549
Other long-term liabilities	139	253	121	117	125	720	1,475
Borrowings subject to specific conditions	1,126	608	946	955	983	21,492	26,110
	44,774	3,021	3,227	1,792	1,108	22,212	76,134
Interest payments	141	61	28	2	–	–	232
Total	44,915	3,082	3,255	1,794	1,108	22,212	76,366

[1] The amount drawn of $39,581 on the Corporation's trade receivables securitization program is included in long-term debt in the Year 1 category

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, 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 consolidated statements of financial position are reasonable estimates of their fair values.

Foreign exchange contracts

The Corporation enters into forward foreign exchange contracts to mitigate future cash flow exposures in US 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 US dollars and Euros. There were no outstanding forward foreign exchange contracts as at December 31, 2020.

Long-term debt

The carrying amount of the Corporation's long-term debt of $8,793 approximates its fair value at December 31, 2020.

Borrowings subject to specific conditions

The Corporation has recognized $26,110 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 December 31, 2020, the carrying amount of all of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $48,374.

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 of 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 January 1, 2020, December 31, 2019 and December 31, 2017.

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.

US
The US defined benefit plan provides benefits to members in the form of a guaranteed level of pension payable for life at retirement, and is currently closed to future accrual of benefits. The benefit payments are from a trustee-administered fund and plan assets held in trusts are governed by Internal Revenue Service ("IRS") regulations. Responsibility for governance

of the plan, including investment decisions and contribution schedules, is also governed by IRS Regulations and lies with the Corporation. Actuarial valuations are required annually. Contributions are determined by appointed actuaries and cover normal cost and deficits as prescribed by law. Funding deficits are generally amortized over a period of seven years. The US defined benefit plan was fully wound up in 2020.

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, 20% in non-traditional equities, 30% in fixed income instruments and 45% in equity for the Canadian defined benefit plans and a portfolio mix of a combined 5% in cash, 20% in fixed income instruments, 60% in equity and 15% in alternative assets for the US defined benefit plan. 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.

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

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 $7,312 for the year ended December 31, 2020 [2019 – $7,145].

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:

		2020		2019
	Defined benefit plans	**Other benefit plan**	Defined benefit plans	Other benefit plan
Current service cost	**2,499**	**–**	2,091	–
Net interest cost on net defined benefit liability	**344**	**31**	390	340
Other	**294**	**–**	425	–
Total defined benefit cost recognized in net income	**3,137**	**31**	2,906	340

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

		2020		2019
Actuarial losses (gains)	**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)	**(10,718)**	**–**	(12,495)	–
Based on adjustment of liability assumptions	**12,305**	**–**	12,571	–
Due to liability experience adjustment	**392**	**486**	119	–
Total defined benefit loss recognized in the statement of other comprehensive income	**1,979**	**486**	195	–

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

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

	2020		2019	
	Defined benefit plans	**Other benefit plan**	Defined benefit plans	Other benefit plan
Fair value, beginning of year	**119,316**	**–**	115,339	–
Interest income on plan assets	**3,612**	**–**	4,061	–
Actual return on assets (excluding interest income on plan assets)	**10,718**	**–**	12,495	–
Employer contributions	**3,160**	**419**	2,966	258
Employee contributions	**177**	**125**	219	–
Benefit payments	**(10,306)**	**(544)**	(6,705)	(258)
Plan settlement	**(1,362)**	**–**	(8,313)	–
Administration costs	**(427)**	**–**	(448)	–
Exchange differences	**(173)**	**–**	(298)	–
End of year	**124,715**	**–**	119,316	–

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

	2020		2019	
	Defined benefit plans	**Other benefit plan**	Defined benefit plans	Other benefit plan
Beginning of year	**131,316**	**1,009**	127,189	976
Current service cost	**2,499**	**–**	2,091	–
Interest cost	**3,956**	**31**	4,451	341
Employee contributions	**177**	**125**	219	–
Actuarial (gains) losses in other comprehensive income from:				
Changes in demographic assumptions	**(662)**	**–**	65	–
Changes in financial assumptions	**12,965**	**–**	12,483	–
Experience adjustments	**392**	**486**	121	–
Benefit payments	**(10,306)**	**(544)**	(6,705)	(259)
Plan settlement	**(1,494)**	**–**	(8,313)	–
Exchange difference	**43**	**(25)**	(285)	(49)
End of year	**138,886**	**1,082**	131,316	1,009

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

	2020		2019	
	Defined benefit plans	**Other benefit plan**	Defined benefit plans	Other benefit plan
Fair value of plan assets	**124,715**	**–**	119,316	–
Accrued benefit obligation	**(138,886)**	**(1,082)**	(131,316)	(1,009)
Net defined benefit liability	**(14,171)**	**(1,082)**	(12,000)	(1,009)
– Included in other long-term liabilities and provisions	**(14,509)**	**(1,082)**	(12,739)	(1,009)
– Included in other assets	**338**	**–**	739	–

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

The Corporation expects to contribute approximately $1,986 in 2021 to all its defined benefit plans in accordance with normal funding policy. Because of market driven changes that the Corporation cannot predict, the Corporation could be required to make contributions in the future that differ significantly from its estimates.

Significant assumptions and sensitivity analysis

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

		2020		2019
	Defined benefit plans	**Other benefit plan**	Defined benefit plans	Oter beneft plan
Discount rate	**2.4%**	**2.0%**	3.1%	3.0%
Rate of compensation increase	**2.0%/3.0%**	**–**	2.0%/3.0%	–
Mortality Table				
Canadian defined benefit plans		**Club Vita Canada's 2016/2019 VitaCurves, projected with improvement scale CPM-B**		Club Vita Canada's 2016 VitaCurves, projected with improvement scale CPM-B
US defined benefit plan		**–**		MP-2014 mortality tables with MP-2019 projections
Other benefit plan		**MP-2014 mortality tables with MP-2020 projections (with blue collar adjustment)**		MP-2014 mortality tables with MP-2019 projections (with blue collar adjustment)

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, 2020, a 1.0% decrease in the discount rate used (all other assumptions remaining unchanged) could result in a $20,361 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 2021. 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, 2021 was nominal.

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

Assets

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

	2020	2019
Equity investments	**83%**	84%
Fixed income investments	**16%**	15%
Other investments	**1%**	1%
	100%	100%

Defined benefit pension liability term

	Total
Defined benefits schedule for disbursement within 12 months	**6,911**
Defined benefits schedule for disbursement within 2-5 years	**30,260**
Defined benefits schedule for disbursement after 5 years or more	**34,210**

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 include 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:

	2020	2019
Sale of goods	**605,958**	867,686
Services	**138,456**	148,533
	744,414	1,016,219

Timing of revenue recognition based on transfer of control:

	2020	2019
At a point of time	**450,959**	628,132
Over time	**293,455**	388,087
	744,414	1,016,219

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, 2020 and 2019 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.

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

Revenues expected to be recognized in:

	2020	2019
Less than 24 months	**535,781**	704,529
Thereafter	**79,342**	43,531

Revenues from the Corporation's two largest customers accounted for 32.2% of total sales for the year ended December 31, 2020 [December 31, 2019 – two largest customers accounted for 39.1% of total sales].

Geographic segments:

				2020				2019
	Canada	**United States**	**Europe**	**Total**	Canada	United States	Europe	Total
Revenues	**338,883**	**202,284**	**203,247**	**744,414**	366,565	322,970	326,684	1,016,219
Export revenues[1]	**241,228**	**32,780**	**57,869**	**331,877**	237,379	63,929	109,109	410,417

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

				2020				2019
	Canada	**United States**	**Europe**	**Total**	Canada	United States	Europe	Total
Property, plant and equipment, right-of-use assets, intangible assets and goodwill	**188,220**	**179,668**	**169,687**	**537,575**	200,484	191,411	191,409	583,304

25. COST OF REVENUES

	2020	2019
Operating expenses	**591,360**	810,503
Amortization	**54,163**	53,482
Investment tax credits	**(1,481)**	(5,181)
Impairment of inventories	**3,881**	457
	647,923	859,261

26. ADMINISTRATIVE AND GENERAL EXPENSES

	2020	2019
Salaries, wages and benefits	**30,637**	36,299
Administration and office expenses	**15,848**	20,618
Professional services	**2,650**	3,130
Amortization	**2,940**	2,265
	52,075	62,312

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

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.

Impairment [note 10]
In light of the COVID-19 pandemic and the state of the aerospace industry, management used a discounted cash flow model to assess the recoverability of goodwill at the Corporation's CGUs. The unprecedented drop in air travel due to the COVID-19 pandemic has adversely affected the Corporation's customers. Therefore, the demand for products and services provided by the Corporation's CGUs is expected to be depressed for a period of time. As a result of the assessment, the Corporation recorded a $12,046 impairment charge against goodwill in 2020.

Workforce Reduction and Restructuring
As a result of COVID-19, Magellan undertook a workforce reduction in 2020, achieved through layoffs, terminations of employment, early retirements and special leaves. A workforce reduction cost of $6,916 was recorded related to these measures.

The Corporation also 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. Following the announcement of the plan, the Corporation recognised a restructuring provision of $2,817 (£1,621) related to downsizing the employee base and engaging in other actions designed to reduce the cost structure and improve productivity. Asset impairment charges were also incurred for those assets made obsolete as a result of this plan. The restructuring costs recorded in 2020 represent estimated expenses required to restructure operations. Restructuring liabilities have been grouped within current accounts payable, accrued liabilities and provisions on the consolidated statement of financial position.

Costs associated with the workforce reduction and plant closure are summarized in the table below:

	2020
Workforce reduction	**6,916**
Closure costs	**3,236**
Impairment of property, plant and equipment [note 7]	**2,385**
	12,537

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. In July 2020, the program was redesigned and extended until December 2020. In September and November 2020, the Government of Canada announced further extensions of the program to June 2021.

Magellan determined that it met the employer eligibility criteria and applied for the CEWS. The Corporation has recorded and received a total gross subsidy under the CEWS program of $20,037 for the year 2020, with $18,690 recorded as a reduction to operating expenses in cost of revenues and $1,347 recorded as a reduction of salaries, wages and benefits in administrative and general expenses.

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

28. INTEREST EXPENSE

	2020	2019
Interest on bank indebtedness and long-term debt [notes 12 and 14]	**305**	101
Accretion charge on long-term debt and borrowings	**1,103**	1,091
Accretion on lease liabilities	**2,026**	1,387
Discount on sale of trade receivables	**924**	2,053
	4,358	4,632

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 loss for the year ended December 31, 2020 of $3,669 [2019 – unrealized currency translation loss of $18,839] and net actuarial loss on defined benefit plans of $1,862 [2019 – net actuarial loss of $141]. These 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 [2019 – $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:

	2020	2019
Short-term benefits	**2,776**	2,931
Post-employments benefits	**156**	132
Share-based payments	**36**	170
	2,968	3,233

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 and pension adjustment for defined benefit 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

	2020	2019
Net change in non-cash working capital		
Trade receivables	**64,398**	12,183
Contract assets	**7,336**	(12,870)
Inventories	**(16,803)**	(21,096)
Prepaid expenses and other	**8,299**	(1,124)
Accounts payable, accrued liabilities and provisions	**(41,475)**	(3,974)
	21,755	(26,881)
Interest paid	**1,074**	1,874
Income taxes paid	**2,233**	6,885

32. ADDITIONAL FINANCIAL INFORMATION

Included in other expenses is a foreign exchange loss of $1,138 [2019 – $1,874] on the conversion of foreign currency denominated working capital balances and debt.

In 2019, the Corporation remeasured its previously held equity interest in a joint venture at fair value and recognized a gain of $881.

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, 2020, total managed capital was $830,876, comprised of shareholders' equity attributable to equity holders of the Corporation of $782,502 and interest-bearing debt of $48,374.

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, 2020, the Corporation was in compliance with these covenants.

34. CONTINGENT LIABILITIES 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.

As at December 31, 2020, capital commitments in respect of purchase of property, plant and equipment totalled $4,123, 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

Haydn R. Martin
Vice President,
Business Development,
Marketing and Contracts

Jo-Ann C. Ball
Vice President,
Human Resources

Karen Yoshiki-Gravelsins
Vice President,
Corporate Stewardship and
Operational Excellence

Mark Allcock
Vice President,
Information Technology, and
Transformation

Craig A. Vaughan
Corporate Secretary

BOARD OF DIRECTORS

N. Murray Edwards (5)
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, 4)
President
Beth Bandler Professional Corporation
Toronto, Ontario

Bruce W. Gowan (1, 2, 3, 5)
Corporate Director
Huntsville, Ontario

Larry G. Moeller (4)
President
Kimball Capital Corporation
Calgary, Alberta

Steven Somerville (1, 2, 3, 4, 5)
President
Kerr Industries Limited
Oshawa, Ontario

COMMITTEES OF THE BOARD

(1) Audit Committee
Chairman:
Bruce W. Gowan

(2) Governance and Nominating Committee
Chairman:
Bruce W. Gowan

(3) Human Resources and Compensation Committee
Chairman:
Steven Somerville

(4) Environmental and Health & Safety Committee
Chairman:
Beth M. Budd Bandler

(5) Pension Committee
Chairman:
Steven Somerville

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www.computershare.com

STOCK LISTING
Toronto Stock Exchange—TSX
Common Shares—MAL

ANNUAL MEETING
The Annual Meeting of the Shareholders of Magellan Aerospace Corporation will be held on Tuesday, May 4, 2021, at 2:00 p.m. by live webcast at https://web.lumiagm.com/274057799

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