



Magellan Aerospace Corporation
First Quarter Report
March 31, 2010

Magellan Aerospace Corporation (the "Corporation" or "Magellan") is listed on the Toronto Stock Exchange under the symbol MAL. The Corporation is a diversified supplier of components to the aerospace industry. Through its network of facilities throughout North America, the United Kingdom and India, Magellan supplies leading aircraft manufacturers, airlines and defence agencies throughout the world.

Financial Results

On May 17, 2010, the Corporation released its financial results for the first quarter of 2010. All amounts are expressed in Canadian Dollars unless otherwise indicated. The results are summarized as follows:

Three months ended March 31 Expressed in thousands of dollars, except per share amounts	2010	2009	Change
Revenues	\$ 177,902	\$ 179,288	(0.8)%
Gross Profit	\$ 20,428	\$ 21,704	(5.9)%
Net Income	\$ 3,096	\$ 7,923	(60.9)%
Net Income per share – Diluted	\$ 0.06	\$ 0.41	(85.4)%

This quarterly statement contains certain forward-looking statements that reflect the current views and/or expectations of the Corporation with respect to its performance, business and future events. Such statements are subject to a number of risks, uncertainties and assumptions, which may cause actual results to be materially different from those expressed or implied. The Corporation assumes no future obligation to update these forward-looking statements.

The Corporation has included certain measures in this quarterly statement, including EBITDA, the terms for which are not defined under Canadian generally accepted accounting principles. The Corporation defines EBITDA as net income before interest, taxes, depreciation and amortization and non-cash charges. The Corporation has included these measures, including EBITDA, because it believes this information is used by certain investors to assess financial performance and EBITDA is a useful supplemental measure as it provides 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 various jurisdictions. Although the Corporation believes these measures are used by certain investors (and the Corporation has included them for this reason), these measures may not be comparable to similarly titled measures used by other companies.



Management's Discussion and Analysis

This Management Discussion and Analysis ("MD&A") has been prepared as of May 14, 2010, and should be read in conjunction with the Corporation's unaudited interim consolidated financial statements and notes thereto for the three month period ended March 31, 2010 and with the audited financial statements and notes thereto for the year ended December 31, 2009. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. All amounts are in Canadian dollars unless otherwise noted.

The consolidated financial statements and MD&A for the year ended December 31, 2009 are available on the Corporation's website at www.magellan.aero and on SEDAR at www.sedar.com.

Overview

In the first quarter of 2010, the Corporation, at the revenue line, continued the steady performance demonstrated in 2009, diminished by significant foreign exchange impacts of weakened U.S. dollar and British Pound values when compared to the Canadian dollar. Revenue generation and gross profits were slightly less in the first quarter of 2010 than those generated in the first quarter of 2009. The results in the first quarter of 2010 were impacted by increased efficiencies in production, continued demand in all subsectors of the aerospace market, except business aircraft, and improved cost controls across the Corporation.

Major international projects to field new aircraft and engines in both the civil and defence aircraft and defence products demonstrated critical progress, during the first quarter of 2010, towards full scale production. The Boeing 787 program followed up its first flight in the fourth quarter of 2009 with successful tests of critical safety elements of the aircraft, and has accomplished a series of steps toward certification of the aircraft in accordance with its planned dates in 2010. The Airbus 350XWB program has made progress towards finalizing design, configuration, and production plans to meet scheduled first flights in 2011. The F-35 Joint Strike Fighter program has demonstrated a number of key successes in its test flying, and has established a revised low rate initial production plan that will bring the program to full scale production only 13 months beyond original planning dates. Several military helicopter programs are in full production of upgraded variants or new aircraft. The Corporation has secured participation on each of these programs that will provide accelerating production rates over the next few years. In addition, the Corporation has specific repair, overhaul or spare parts participation in both civil and defence sectors.

The Corporation continues to achieve increased efficiencies as new technology, equipment, and knowledge is generated across all operating sites. Operations are progressing towards the manufacturing and support of higher level core products, and moving out non-core work to local and emerging market sites. Business development continues to tighten the focus of capturing activities to increase the level of core activity within the operating sites, and the value-added delivery to the Corporation's key customers.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Annual Report available on www.sedar.com.

Revenues

Three months ended March 31

Expressed in thousands of dollars

	2010	2009	Change
Canada	\$ 98,784	\$ 83,992	17.6%
United States	46,066	54,573	(15.6)%
United Kingdom	33,052	40,723	(18.8)%
Total revenue	177,902	179,288	(0.8)%

Consolidated revenues for the first quarter of 2010 were \$177.9 million, a decrease of \$1.4 million or 0.8% lower than the first quarter of 2009. Volumes in the first quarter of 2010 in Canada increased over those achieved in the first quarter of 2009. Increased revenue in Canada resulted from the recognition of revenue on the Corporation's electric power generation project in Ghana which commenced in the last quarter of 2009. In US dollars, revenues in the United States increased by 1.4% over the first quarter of 2009 primarily due to increased demand in the current quarter over Q1 2009 from some of the Corporation's major customers. Revenues in the United Kingdom, in British Pounds, in the current quarter decreased over revenues in the same period in 2009 by 10.5% as customer demands in the quarter had declined when compared to Q1



2009. The increase in the Canadian dollar against the US dollar and the British Pound, over the exchange rates prevailing in the first quarter of 2009, contributed, on a net basis, to a decrease of \$25.6 million in revenues quarter over quarter.

Gross Profit

Three months ended March 31 Expressed in thousands of dollars	2010	2009	Change
Gross profit	\$ 20,428	\$ 21,704	(5.9)%
Percentage of revenue	11.5%	12.1 %	

Gross profit of \$20.4 million (11.5% of revenues) was reported for the first quarter of 2010 down from \$21.7 million (12.1% of revenues) during the same period in 2009. Gross profit in the first quarter of 2010 was lower than the first quarter of 2009 as a result of reduced margins achieved from the Canadian operations as the decline in the US dollar in comparison to the Canadian dollar impacted revenues. The decline in both the US dollar and the British Pound against the Canadian dollar, over the exchange rates prevailing in the first quarter of 2009, contributed, on a net basis, to a decrease of \$8.4 million in gross profit in the first quarter of 2010 versus the first quarter of 2009. The Corporation continues its efforts, through process improvements, to achieve efficiencies in production to help mitigate the continuing effects of the strength of the Canadian dollar against the US dollar and the British Pound.

Administrative and General Expenses

Three months ended March 31 Expressed in thousands of dollars	2010	2009
Administrative and general expenses	\$ 9,689	\$ 10,766
Percentage of revenue	5.4%	6.0%

Administrative and general expenses were \$9.7 million (5.4% of revenues) in the first quarter of 2010 compared to \$10.8 million (6.0% of revenues) in the first quarter of 2009.

Other

Three months ended March 31 Expressed in thousands of dollars	2010	2009
Foreign exchange loss (gain)	\$ 1,485	\$ (1,973)
(Gain) loss on sale of capital assets	(3)	9
Other	1,482	(1,964)

Other expense of \$1.5 million in the first quarter of 2010 consisted of realized and unrealized foreign exchange losses due to the stronger Canadian dollar in comparison to the US dollar. Other income in the first quarter of 2009 resulted largely from a foreign exchange gain of \$2.0 million.

Interest Expense

Three months ended March 31 Expressed in thousands of dollars	2010	2009
Interest on bank indebtedness and long-term debt	\$ 3,995	\$ 2,994
Convertible debenture interest	986	436
Accretion charge for convertible debt	146	68
Discount on sale of accounts receivable	133	777
Total interest expense	5,260	4,275

Interest expense of \$5.3 million in the first quarter of 2010 was higher than the first quarter of 2009 amount of \$4.3 million. Increased interest on bank indebtedness and long-term debt resulted from higher borrowing spreads incurred and higher levels of long-term debt outstanding during the first quarter of 2010 when compared to the first quarter of 2009. Convertible debenture interest and the accretion charge in relation to the convertible debentures were higher in the first quarter of 2010 than the comparative quarter in 2009 due to a higher principal amount of convertible debentures outstanding. Lower discount expense on the sale of accounts receivable resulted from decreased amounts of accounts receivables sold in the first quarter of 2010 when compared to the same quarter of 2009.



Provision for Income Taxes

Three months ended March 31 Expressed in thousands of dollars	2010	2009
(Recovery of) provision for current income taxes	\$ (242)	\$ 169
Future income taxes expense	1,143	535
Total expense of income taxes	901	704
Effective Tax Rate	22.5%	8.2%

The Corporation recorded an income tax expense of \$0.9 million for the first quarter of 2010, compared to an income tax expense of \$0.7 million for the first quarter of 2009. The change in effective tax rates is a result of a changing mix of income across the different jurisdictions in which the Corporation operates. The recognition of previous unrecorded future tax assets derived from temporary differences in Canada also contributed to the lower effective tax rate. Due to the recognition of these previous unrecorded future tax assets, the Corporation's effective tax rate in the current quarter was 22.5% versus a normalized expected annual tax rate of 30% to 35%.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

In addition to the primary measures of net income and net income per share in accordance with GAAP, the Corporation includes certain measures in this MD&A, including EBITDA (net income before interest expense, income taxes, depreciation, amortization and certain non-cash charges). The Corporation has provided these measures because it believes this information is used by certain investors to assess financial performance and EBITDA is a useful supplemental measure as it provides 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 of the components of this measure is calculated in accordance with GAAP, but EBITDA is not a recognized measure under GAAP, and the Corporation's method of calculation may not be comparable with that of other companies. Accordingly, EBITDA should not be used as an alternative to net income as determined in accordance with GAAP or as an alternative to cash provided by or used in operations.

Three months ended March 31 Expressed in thousands of dollars	2010	2009
Net income	\$ 3,096	\$ 7,923
Interest	5,260	4,275
Taxes	901	704
Stock based compensation	170	232
Depreciation and amortization	8,922	9,299
EBITDA	18,349	22,433

EBITDA for the first quarter of 2010 was \$18.4 million, compared to \$22.4 million in the first quarter of 2009.



Liquidity and Capital Resources

Cash Flow from Operations

Three months ended March 31 Expressed in thousands of dollars	2010	2009
Increase in accounts receivable	\$ (7,616)	\$ (20,016)
Decrease in inventories	4,223	2,830
Decrease in prepaid expenses and other	12,738	398
Decrease in accounts payable	(9,377)	(12,555)
Changes to non-cash working capital balances	(32)	(29,343)
Cash provided by (used in) operating activities	12,497	(11,060)

In the quarter ended March 31, 2010, the Corporation generated \$12.5 million of cash in its operations, compared to a usage of cash of \$11.1 million in the first quarter of 2009. Cash was generated through positive income, decreased inventory and prepaid expenses. The Corporation has partially offset the generation of cash in operating activities through the reduction in accounts payable and an increase in accounts receivable in the first quarter of 2010. The increase in accounts receivable during the three month period resulted from increased sales in the quarter when compared to the fourth quarter of 2009. Increased receivables in 2009 resulted from a net decrease in the amount of accounts receivable sold under the Corporation's securitization facilities at the end of the first quarter of 2009. The decrease in prepaid expenses and other and the decrease in accounts payable is largely due to the recognition of advances received and advance made on the electric power generation plant in Ghana.

Investing Activities

Three months ended March 31 Expressed in thousands of dollars	2010	2009
Purchase of capital assets	\$ (2,325)	(5,345)
Proceeds of disposals of capital assets	101	144
Increase in other assets	(2,462)	(448)
Cash used in investing activities	(4,686)	(5,649)

In the first quarter of 2010, the Corporation invested \$2.3 million in capital assets to upgrade and enhance its capabilities for current and future programs.

Financing Activities

Three months ended March 31 Expressed in thousands of dollars	2010	2009
(Decrease) increase in bank indebtedness	\$ (7,998)	\$ 14,042
Decrease in long-term debt	(1,052)	(547)
Increase (decrease) in long-term liabilities	47	(100)
Issue of Common Shares	—	8
Dividends on Preference Shares	(400)	—
Cash (used in) provided by financing activities	(9,403)	13,403

On March 26, 2010, the Corporation amended its operating credit facility with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was decreased to a Canadian dollar limit of \$105 million plus a US dollar limit of \$70 million, with a maturity date of May 21, 2011. The facility is extendable for unlimited one-year renewal periods by the agreement of the Corporation and the lenders and continues to be guaranteed by the Chairman of the Board of the Corporation. On March 26, 2010 the annual standby guarantee fee provided by the Corporation in consideration for this guarantee was reduced from 1.35% to 1.15% (2009 – 1.35%) of the guaranteed amount.

The terms of the amended operating credit facility permit the Corporation to (i) repay the \$65 million secured subordinated loan from Edco Capital Corporation (the "Original Loan") in whole or in part and (ii) retract up to 20% (\$4 million) of the Corporation's 8% cumulative redeemable first preference shares series A (the "Preference Shares") on each of April 30 and October 31 (or the next business day if that day is not a business day) of each year starting with April 30, 2010, together with accrued and unpaid dividends on the shares to be retracted provided there is no current default or event of default under the operating credit facility and after the repayment of the Original Loan and the payment of the retraction amount the Corporation has at least \$25.0 million in availability under the operating credit facility. Any permitted retraction amount not



used on any prior date can be carried forward to future retraction dates. As a result, subject to such limitation under the operating credit facility and to applicable laws, the Corporation will retract on each of April 30 and October 31, beginning April 30, 2010, any Preference Shares tendered for retraction up to the permitted percentage of Preference Shares. As at March 31, 2010, \$8.0 million Preference Shares have been classified as a current liability and remaining \$12.0 million have been classified as a long-term liability.

On April 30, 2010, the Corporation completed the retraction of approximately 20% or 399,994 of its 2,000,000 Preference Shares as was permissible under the amended operating credit facility. Effective as of the Retraction Date, the holders of these Preference Shares ceased to be holders of these Preference Shares and were entitled to receive the retraction price of \$10.00 for each Preference Share held plus accrued and unpaid dividends on the shares to be retracted.

Share Data

As at April 30, 2010, the Corporation had 18,209,001 common shares outstanding, 1,600,006 outstanding First Preference Shares Series A convertible into 1,066,670 common shares and \$40.0 million convertible debentures convertible into 40,000,000 common shares. The dilutive weighted average number of common shares outstanding, resulting from the potential common shares issuable on the conversion of the convertible debentures, for the three month period ending March 31, 2010 was 58,209,001.

Risks and Uncertainties

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

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

Market events and conditions in 2008 and 2009, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions; have caused significant volatility to commodity prices. These market conditions are expected to remain challenging in 2010 due to the slow pace of recovery in many economies. 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 economic conditions. The current economic uncertainty renders estimates of future revenues and expenditures even more difficult than usual 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 impair the value of its Common Shares.

Weak capital markets reduce our financial flexibility and may result in less than optimal financing results.

As a result of the weakened global economic situation, the Corporation will have restricted access to capital and increased borrowing costs. Although Magellan's business and asset base have not changed, the lending capacity of all financial institutions has diminished and risk premiums have increased. As future capital expenditures will be financed out of cash generated from operations, borrowings and possible future equity sales, our ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the aerospace industry and Magellan's securities in particular.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, the Corporation's ability to make capital investments may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

Alternatively, the Corporation may need to issue additional Common Shares or other convertible securities from treasury at low prices to refinance existing debt or to finance the capital costs of significant projects or may wish to borrow to finance significant projects to accomplish Magellan's long-term objectives on less than optimal terms or in excess of its optional capital structure.



Based on current funds available and expected cash flow from operating activities, management believes that the Corporation has sufficient funds available to fund its projected capital expenditures. However, if cash flow from operating activities is lower than expected or capital costs for these projects exceed current estimates, or if the Corporation incurs major unanticipated expenses, it may be required to seek additional capital to maintain its capital expenditures at planned levels. Failure to obtain any financing necessary for the Corporation's capital expenditure plans may affect it in a materially adverse manner.

The Corporation's debt is significant and needs to be refinanced and such refinancing may not be available.

The Corporation and its subsidiaries have significant debt obligations. The degree to which this indebtedness could have consequences on the Corporation's prospects include the effect of such debts on the ability to obtain additional financing for working capital, capital expenditures or acquisitions, the portion of available cash flow that will need to be dedicated to repayment of principal and interest on indebtedness, thereby reducing funds available for expansion and operations, and the Corporation's vulnerability to economic downturn and its ability to withstand competitive pressure. If the Corporation is unable to meet its debt obligations, it may need to consider refinancing or adopting alternative strategies to reduce or delay capital expenditures, selling assets or seeking additional equity capital.

The Corporation amended and restated its Bank Facility Agreement with its existing lender on March 26, 2010. Under the terms of the Bank Facility Agreement, the Corporation has an operating credit facility, expiring on May 21, 2011, and extendable for unlimited one-year periods by agreement of the Corporation and the lenders. The Corporation's Bank Facility Agreement also requires the Corporation to maintain specified financial ratios. The Corporation's ability to meet the financial ratios can be affected by events beyond the Corporation's control, and there can be no assurance that the Corporation will be able to meet the ratios. There is no assurance that the Bank Facility Agreement will be renewed every year or that the terms of renewal will not be materially adverse to the Corporation. This credit facility is fully guaranteed by Mr. Edwards, a director and Chairman of the Board of the Corporation. There is also no assurance that Mr. Edward's guarantee, if required, will be available beyond the term of the current commitment which ends on May 21, 2011. There is no assurance that Magellan will be in compliance with its bank covenants at all times during the upcoming twelve months due to unforeseen events or circumstances, some of which are outlined in this "Risks and Uncertainties".

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

The majority of the Corporation's gross profit and operating income is derived from the aerospace industry. The Corporation's aerospace operations are focused on engineering and manufacturing aircraft components on new aircraft, 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 a possible decrease in outsourcing by aircraft operators and original equipment manufacturers ("OEMs"), decreased demand for air travel or projected market growth that may not materialize or be sustainable. 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 to the aerospace industry or general economic factors that might affect the aerospace industry may have an adverse impact on the Corporation's results of operations.

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. Because 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 changing economic conditions, inventory adjustments, work stoppages or labour disruptions. 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.



A reduction in defence spending by the United States or other countries could result in a decrease in revenue.

The Corporation relies on sales to military customers particularly in the United States. A significant reduction in military expenditures by the United States or other countries with which the Corporation has contracts could materially adversely affect the Corporation's business and financial condition. The loss or significant reduction in government funding of a large program in which the Corporation participates could also materially adversely affect sales and income.

Fluctuations in the value of foreign currencies could result in currency exchange losses.

A portion of the Corporation's revenues and expenses are not currently denominated in Canadian Dollars, and it is expected that some revenues and expenses will continue to be based in currencies other than the Canadian Dollar. Therefore, fluctuations in the Canadian Dollar exchange rate will impact the Corporation's results of operations and financial condition from period to period. In addition, such fluctuations affect the translation of the Corporation's results for purposes of its consolidated financial statements. The Corporation's activities to manage its currency exposure may not be successful. The following table demonstrates the change in the Canadian Dollar in the first quarter of 2010 in comparison to the U.S Dollar and the GBP.

	Beginning of Quarter	End of Quarter	% Change
USD/CAD	1.0510	1.0158	(3.3)%
GBP/CAD	1.6918	1.5422	(8.8)%

The resulting foreign exchange gains or losses are included in net income or loss and other comprehensive income or loss in the period. The Corporation cannot predict the effect of foreign exchange losses in the future; however, if significant foreign exchange losses are experienced, they could have a material adverse effect on Magellan's business, results of operations, and financial condition.

The agreements with labour unions representing certain of the Corporation's employees are subject to renewal.

The Corporation is party to collective bargaining agreements throughout its business, which are subject to expiration at various times in the future. If the Corporation is unable to renew all agreements as they become subject to renegotiation from time to time, it could result in work stoppages and other labour disturbances that could have a material adverse effect on its business.

For more information in relation to the risks inherent in Magellan's business, reference is made to the information under "Risks Inherent in Magellan's Business" in the Annual Information Form, which is filed on SEDAR at www.sedar.com.

Critical Accounting Estimates

The preparation of financial statements requires the Corporation to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies with respect to the level of judgment involved and the potential impact on the Corporation's reported financial results. Estimates are deemed critical when the Corporation's financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period.

Inventories

Raw materials, materials in process and finished products are valued at the lower of unit cost and net realizable value. Due to the long-term contractual periods of the Corporation's contracts, the Corporation may be in negotiation with its customers over amendments to pricing or other terms. Management's assessment of the recoverability of amounts capitalized in inventory may be based on judgements with respect to the outcome of these negotiations. If the negotiations are not successful or the final terms differ from what the Corporation expects, the Corporation may be required to record a loss provision on this contract. The amount of such provision, if any, cannot be reasonably estimated until such amendments are finalized.



Revenue Recognition

Revenues from certain long-term contracts are recognized on a percentage of completion basis. The percentage complete is calculated based upon contract costs incurred to date compared with total estimated contract costs. The percentage complete is then applied to total anticipated contract revenue to determine the period's revenue.

Recognized revenues and margins are subject to revisions as the contract progresses to completion. We conduct quarterly reviews, and a detailed annual review as part of our annual budget process, of our estimated costs to complete, percentage-of-completion estimates and revenues and margins recognized, on a contract-by-contract basis. The effect of any revision is accounted for by way of a cumulative catch-up adjustment in the period in which the revision takes place.

If a contract review indicates a negative gross margin, the entire expected loss on the contract is recognized in the period in which the negative gross margin is identified.

Asset Impairment

The Corporation evaluates long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. A long-lived asset is considered to be impaired if the total undiscounted estimated future cash flows are less than the carrying value of the asset. The amount of the impairment is determined based on discounted estimated future cash flows. Future cash flows are determined based on management's estimates of future results relating to the long-lived assets. These estimates include various assumptions, which are updated on a regular basis as part of the internal planning process.

The Corporation regularly reviews its investments to determine whether a permanent decline in the fair value below the carrying value has occurred. In determining whether a permanent decline has occurred, management considers a number of factors that would be indicative of a permanent decline including (i) a prolonged decrease in the fair value below the carrying value, (ii) severe or continued losses in the investment and (iii) various other factors such as a decline or restriction in financial liquidity of an entity in which the Corporation has an investment, which may be indicative of a decline in value of the investment. The consideration of these factors requires management to make assumptions and estimates about future financial results of the investment. These assumptions and estimates are updated by management on a regular basis.

Income Taxes

The Corporation operates in several tax jurisdictions. As such, its income is subject to various rates and rules of taxation. The breadth of the Corporation's operations and the complexity of the taxing legislation and practices require the Corporation to apply judgment in estimating its ultimate tax liability. The final taxes paid will depend on many factors, including the Corporation's interpretation of the legislation and the outcomes of audits by and negotiations with tax authorities. Ultimately, the final taxes may be adjusted based on the resolution of these uncertainties.

The Corporation estimates future income taxes based upon temporary differences between the assets and liabilities that are reported in its consolidated financial statements and their tax basis as determined under applicable tax legislation. The Corporation records a valuation allowance against its future income tax assets when it believes that it is not "more likely than not" that such assets will be realized. This valuation allowance can either be increased or decreased where, in the view of management, such change is warranted.

Foreign Currency Translation

The functional currency of the Corporation is Canadian Dollars. Many of the Corporation's businesses undertake transactions in currencies other than the Canadian Dollar. As part of its ongoing review of critical accounting policies and estimates, the Corporation reviews the foreign currency translation method of its foreign operations to determine if there are significant changes to economic facts and circumstances that may indicate that the foreign operations are largely self-sufficient and the economic exposure is more closely tied to their respective domestic currencies. A change, if any, in translation method resulting from this review will be accounted for prospectively. The Corporation accounts for its subsidiaries in the United States and United Kingdom as self-sustaining foreign operations.

Changes in Accounting Policies

Sections 1582, Business Combinations, 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests

In January 2009, the CICA issued Sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests".



Section 1582 will be converged with IFRS 3, "Business Combinations". Section 1602 will be converged with the requirements of IAS 27, "Consolidated and Separate Financial Statements", for non-controlling interests. Section 1601 carries forward the requirements of Section 1600, "Consolidated Financial Statements", other than those relating to non-controlling interests.

Section 1582 applies to acquisitions made from January 1, 2011 in which the acquirer obtains control of one or more businesses. The term "business" is more broadly defined than in the existing standard. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be "improbable", will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. A bargain purchase will result in recognition of a gain. Acquisition costs must be expensed. Under Section 1602, any non-controlling interest will be recognized as a separate component of shareholders' equity. Net income will be calculated without deduction for the non-controlling interest. Rather, net income will be allocated between the controlling and non-controlling interests.

The Corporation has adopted these standards as of January 1, 2010 and the adoption of these standards did not have an impact on the Corporation's consolidated financial statements.

Future Changes in Accounting Policies

The Corporation will adopt the following accounting standards recently issued by the CICA:

Multiple Deliverable Revenue Arrangements

In January 2010, the CICA issued EIC-175, Multiple Deliverable Revenue Arrangements ("EIC-175"). EIC-175, which replaces EIC-142, Revenue Arrangements with Multiple Deliverables, addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. These new standards are effective for the Corporation's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Corporation is assessing the impact of the new standards on its consolidated financial statements.

International Financial Reporting Standards

In February 2009, Canada's Accounting Standards Board ("AcSB") confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be converged with International Financial Reporting Standards ("IFRS") effective January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable to the Corporation for the first quarter of 2011 where current and comparative financial information will be prepared in accordance with IFRS.

IFRS Transition Plan

The Corporation commenced its IFRS conversion efforts during 2009. The transition project consists of four elements: planning and awareness rising; assessment; design; and implementation. Resources have been deployed and project management and governance practices are implemented to ensure a timely transition to IFRS. The progresses made to date are as follows:

Planning and awareness raising – As part of planning, the Corporation completed a high level assessment of the major differences between Canadian GAAP and IFRS. Key differences were identified which assisted in the development of the project plan as well as prioritization of issues that would have significant impact to the Corporation. With the assistance of external consultants, the Corporation has conducted sessions to raise awareness in its efforts to transition to IFRS. Throughout 2010, several training sessions were conducted at the business unit level in order to increase awareness and knowledge of the transition to IFRS. Training sessions will continue to be conducted in 2010 as planned.

Assessment and design – Detailed evaluation of the differences on recognition, measurement and disclosures between Canadian GAAP and IFRS was initiated in 2009 and continues in 2010. The impact to systems, processes, internal control over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P"), and other business activities have been incorporated into the detailed analysis. Efforts to design solutions for the transition to IFRS are ongoing in 2010. As a result of the transition to IFRS, we anticipate that the adoption of IFRS accounting standards will have an impact on processes, procedures and controls. Although impacts are anticipated, to date, we have not made changes nor have made any decisions to make changes that materially affect, or are reasonably likely to materially affect Magellan's ICFR in fiscal 2010.



Implementation – During the implementation phase leading up to the transition date, new IFRS updates are monitored and any changes that are relevant to the Corporation are identified and addressed. The Corporation is continuing the activities related to selecting and finalizing IFRS 1 and accounting policy choices, restating comparative information, testing, review and sign off will occur throughout 2010 and expects these activities to continue to the early part of 2011.

Results of the Detailed GAAP Assessment

While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of the transition to IFRS at the changeover date. The International Accounting Standard Board will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Corporation's financial results will only be measured once all the IFRS applicable at the conversion date are known. Preliminary analysis of some of the impacts of transition to IFRS on specific areas is detailed in the 2009 Management Discussion and Analysis. The Corporation continues to analyze additional potential accounting differences and will provide discussion on the impact of the differences identified as they arise.

Outlook

The economic outlook for the global aerospace market is stabilizing in most sectors and geographic regions. Generally, the North American aerospace market is stable to strong in many ways, with isolated problem areas, and weak economic growth across areas such as the United States. However, there are a number of measures that indicate on both the global and local level that the industry is growing. Some Airlines have returned to profitability in the passenger subsector, and increasingly in freight hauling. They are consolidating for strength rather than survival, and the marketplace is supportive of those who are seen to provide value, whether price or service. Globally, soft spots remain due to struggling economies or artificially supported industries, but on balance, the large global airlines are leading the growth.

As there is a strong link between the health of economies and the health of airlines, the growth in the global passenger and freight activity is encouraging, and more so for the manufacturing industries that depend on this growth. Demand for new aircraft in the civil airline sector remains stronger than expected. It is intensified by the aging fleets and ecological pressures that require lighter, cleaner and more economical aircraft and engines. Although production rates were reduced slightly in 2009, increases have already been announced in first quarter, 2010, for implementation in late 2010 and 2011. In addition, order rates are returning to more traditional levels, following slowness during the global economic crisis.

Defence has continued to be strong in North America, and will continue to expand in the aerospace sector as a transition from "Cold War" to irregular warfare requirements proceeds. This trend should expand globally through the attraction of the new aircraft, engines and systems developed to enhance capabilities. Restoration and upgrade of utility aircraft and helicopters to replenish resources after heavy use over the past decade is opening large opportunities in these areas, and may also flow to other western nations. Large new programs include the F-35 Joint Strike Fighter program, the new aerial refuelling tanker program, a number of new helicopter programs, of upgrade and replacement, and associated engine developments.

Additional Information and Continuous Disclosure

Updated information on the Corporation, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

Forward Looking Statements

This Management and Discussion Analysis contain certain forward-looking statements that reflect the current views and/or expectations of the Corporation with respect to its performance, business and future events. Such statements are subject to a number of risks, uncertainties and assumptions, which may cause actual results to be materially different from those expressed or implied. The Corporation assumes no future obligation to update these forward-looking statements.

May 17, 2010



MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

Three months ended March 31 Expressed in thousands of dollars, except per share amounts	2010	2009
Revenues	\$ 177,902	\$ 179,288
Cost of revenues [note 9]	157,474	157,584
Gross Profit	20,428	21,704
Administrative and general expenses	9,689	10,766
Other [note 14(a)]	1,482	(1,964)
Interest	5,260	4,275
	16,431	13,077
Income before income taxes	3,997	8,627
(Recovery of) provision for income taxes		
Current	(242)	169
Future	1,143	535
	901	704
Net income	3,096	7,923
Net income per common share		
Basic	0.15	0.41
Diluted	0.06	0.41

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(unaudited)

Three months ended March 31 Expressed in thousands of dollars	2010	2009
Retained earnings, beginning of period	\$ 84,137	\$ 59,752
Dividends	(400)	—
Net income	3,096	7,923
Retained earnings, end of period	86,833	67,675

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF
COMPREHENSIVE (LOSS) INCOME
(unaudited)

Three months ended March 31 Expressed in thousands of dollars	2010	2009
Net income	\$ 3,096	\$ 7,923
Other comprehensive (loss) income:		
Unrealized (loss) gain on translation of financial statements of self-sustaining foreign operations	(7,910)	4,915
Comprehensive (loss) income	(4,814)	12,838

See accompanying notes



MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED BALANCE SHEETS
(unaudited)

	As at March 31 2010	As at December 31 2009
Expressed in thousands of dollars		
ASSETS		
Current		
Cash	\$ 19,978	\$ 22,641
Accounts receivable	89,014	82,850
Inventories [note 3]	139,901	147,248
Prepaid expenses and other [note 15(b)]	25,367	38,458
Future income tax assets	3,986	3,958
Total current assets	278,246	295,155
Capital assets	244,819	254,700
Technology rights	28,308	29,158
Deferred development costs	56,753	59,510
Other assets [note 3]	27,534	24,909
Future income tax assets	17,210	17,186
Total long-term assets	374,624	385,463
	652,870	680,618
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 4]	130,606	140,590
Accounts payable and accrued charges [note 15(c)]	123,808	135,373
Preference shares [note 4]	8,000	–
Current portion of long-term debt	2,255	2,321
Total current liabilities	264,669	278,284
Long-term debt [note 5]	72,489	73,716
Convertible debentures	38,354	38,182
Future income tax liabilities	10,806	10,281
Preference shares [note 4]	12,000	–
Other long-term liabilities	9,193	9,803
Total long-term liabilities	142,842	131,982
Shareholders' equity		
Capital stock [note 6]	214,440	234,389
Contributed surplus	4,878	4,708
Other paid in capital	13,565	13,565
Retained earnings	86,833	84,137
Accumulated other comprehensive loss [note 8]	(74,357)	(66,447)
Total shareholders' equity	245,359	270,352
	652,870	680,618

See accompanying notes



MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

Three months ended March 31

Expressed in thousands of dollars

	2010	2009
OPERATING ACTIVITIES		
Net income	\$ 3,096	\$ 7,923
Add (deduct) items not affecting cash		
Depreciation and amortization	8,922	9,299
Net (gain) loss on sale of capital asset	(3)	9
Employee future benefits	(727)	149
Deferred revenue	72	68
Stock based compensation	170	232
Accretion of convertible debentures	146	68
Future income tax expense	853	535
	12,529	18,283
Net change in non-cash working capital items relating to operating activities	(32)	(29,343)
Cash provided by (used in) operating activities	12,497	(11,060)
INVESTING ACTIVITIES		
Purchase of capital assets	(2,325)	(5,345)
Proceeds from disposal of capital assets	101	144
Increase in other assets	(2,462)	(448)
Cash used in investing activities	(4,686)	(5,649)
FINANCING ACTIVITIES		
(Decrease) increase in bank indebtedness	(7,998)	14,042
Decrease in long-term debt	(1,052)	(547)
Increase (decrease) in long-term liabilities	47	(100)
Issuance of common shares	—	8
Dividends on preference shares	(400)	—
Cash (used in) provided by financing activities	(9,403)	13,403
Effect of exchange rate changes on cash	(1,071)	10
Net decrease in cash during the period	(2,663)	(3,296)
Cash, beginning of period	22,641	5,362
Cash, end of period	\$ 19,978	\$ 2,066

See accompanying notes



NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of dollars except share and per share data)

1. ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited interim consolidated financial statements have been prepared by Magellan Aerospace Corporation (the "Corporation") in accordance with generally accepted accounting principles in Canada with respect to preparation of interim financial statements on a basis consistent with those followed in the most recent audited consolidated financial statements except as noted in note 2. Accordingly, these unaudited interim consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes included in the Corporation's Annual Report for the year ended December 31, 2009.

In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments, which consist only of normal and recurring adjustments, necessary to present fairly the financial position at March 31, 2010 and the results of operations and cash flows for the three month period ended March 31, 2010 and 2009.

2. CHANGES IN ACCOUNTING POLICIES

On January 1, 2010, the Corporation adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

"Business Combinations", Section 1582, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard will impact the accounting treatment of future business combinations entered into after January 1, 2010.

"Consolidated Financial Statements", Section 1601, which, together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard had no impact on the Corporation's Consolidated Financial Statements.

"Non-controlling Interests", Section 1602, which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard had no impact on the Corporation's Consolidated Financial Statements.

The above CICA Handbook sections are converged with International Financial Reporting Standards ("IFRS"). The Corporation will be required to report its results in accordance with IFRS beginning in 2011. The Corporation is currently assessing the impact of the convergence of Canadian GAAP with IFRS on the Corporation's financial statements, results of operations, financial position and disclosures.

3. INVENTORIES AND OTHER ASSETS

Due to the long-term contractual periods of the Corporation's contracts, the Corporation may be in negotiation with its customers over amendments to pricing or other terms. Management's assessment of the recoverability of certain amounts capitalized in inventory or other assets may be based on judgements with respect to the outcome of these negotiations. If the negotiations are not successful or the final terms differ from what the Corporation expects, the Corporation may be required to record a loss provision on this contract. The amount of such provision, if any, cannot be reasonably estimated until such amendments are finalized.



4. BANK INDEBTEDNESS

On March 26, 2010, the Corporation amended and restated its credit agreement with its existing lenders. The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian dollar limit of \$105,000 plus a US dollar limit of US\$70,000 (\$176,106 at March 31, 2010). Under the terms of the credit agreement, the operating credit facility expires on May 21, 2011 and is extendable for unlimited one-year periods subject to mutual consent of the syndicate of lenders and the Corporation. Bank indebtedness as at March 31, 2010 of \$130,606 [December 31, 2009 - \$140,590] is payable on demand and bears interest at the bankers' acceptance or LIBOR rates, plus 2.75% (3.41% at March 31, 2010 [2009 – bankers' acceptance or LIBOR rates, plus 1.0% or 1.54%]). Included in the amount outstanding at March 31, 2010 is US\$43,910 [December 31, 2009 - US\$43,630]. At March 31, 2010, the Corporation had drawn \$133,699 under the operating credit, including letters of credit totalling \$3,093. A fixed and floating charge debenture on accounts receivable, inventories and capital assets is pledged as collateral for the operating credit facility. The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the operating credit facility until May 21, 2011. On March 26, 2010 the annual standby guarantee fee provided by the Corporation in consideration for this guarantee was reduced from 1.35% to 1.15% (2009 – 1.35%) of the guaranteed amount.

The terms of the amended operating credit facility permit the Corporation to (i) repay the \$65,000 secured subordinated loan from Edco Capital Corporation (the "Original Loan") in whole or in part and (ii) retract up to 20% (\$4,000) of the Corporation's 8% cumulative redeemable first preference shares series A (the "Preference Shares") on each of April 30 and October 31 (or the next business day if that day is not a business day) of each year starting with April 30, 2010, together with accrued and unpaid dividends on the shares to be retracted provided there is no current default or event of default under the operating credit facility and after the repayment of the Original Loan and the payment of the retraction amount the Corporation has at least \$25,000 in availability under the operating credit facility. Any permitted retraction amount not used on any prior date can be carried forward to future retraction dates. As a result, subject to such limitation under the operating credit facility and to applicable laws, the Corporation will retract on each of April 30 and October 31, beginning April 30, 2010, any Preference Shares tendered for retraction up to the permitted percentage of Preference Shares. As at March 31, 2010, 2,000,000 Preference Shares were outstanding which have been reclassified at their carrying amount from share capital to liabilities of which \$8,000 Preference Shares have been classified as a current liability and remaining \$12,000 have been classified as a long-term liability. On April 30, 2010 the Corporation retracted 399,997 of the 2,000,000 Preference Shares [Subsequent Events - Note 15].

5. LONG-TERM DEBT

On March 26, 2010 the Original Loan was restated and extended to July 1, 2011 on the same terms and conditions as the Original Loan except that the interest rate will be reduced from 12% to 11% per annum in consideration of the payment of a one time extension fee of 1% of the principal amount of \$65,000. The Corporation was also granted the option to further extend the Original Loan on or before July 1, 2011, for a further period of one year maturing on July 1, 2012, on payment of an additional one time extension fee of 1% of the principal amount of the loan and on the condition the bank credit facility is renewed, for an additional 364 day period beginning May 21, 2011 on terms satisfactory to the Board and on the condition that there is no material change in the business, operations or capital of the Corporation. The Corporation has the right to prepay the Original Loan at any time without penalty.

6. CAPITAL STOCK

The following table summarizes information on share capital and related matters as at March 31, 2010:

	Outstanding	Exercisable
Common shares	18,209,001	
Common shares stock options	638,200	443,320

The weighted average number of common shares outstanding during the three month period ended March 31, 2010 was 18,209,001 [three month period ended March 31, 2009 – 18,205,270]. The dilutive weighted average number of common shares outstanding, resulting from the potential common shares of 40,000,000 issuable on the conversion of the convertible debentures, for the three month period ending March 31, 2010 was 58,209,001.



7. 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. No such awards were granted in the three month period ended March 31, 2010 and March 31, 2009. The maximum number of options for common shares that remain to be granted under this plan is 1,035,141. 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, first, 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.

The Corporation accounts for stock options using the fair value method. Compensation expense recorded during the three month period ended March 31, 2010 was \$170 [three month period ended March 31, 2009 was \$232].

8. ACCUMULATED OTHER COMPREHENSIVE LOSS

Other comprehensive loss includes unrealized foreign currency translation gains and losses, which arise on the translation to Canadian dollars of assets and liabilities of the Corporation's self-sustaining foreign operations. The Corporation recorded an unrealized currency translation loss for the three month period ended March 31, 2010 of \$7,910 [three month period ended March 31, 2009 – gain of \$4,915]. These losses and gains are reflected in the consolidated balance sheet and had no impact on the net income for the period.

9. INCOME TAXES

The Corporation recorded an income tax provision of \$901 for the three months ended March 31, 2010, compared to an income tax provision of \$704 for the three months ended March 31, 2009. During the three months ended March 31, 2010, the Corporation estimated that there is reasonable assurance that a portion of the investment tax credits earned in the period will be realized and has recognized during the period investment tax credits of \$300 [three months ended March 31, 2009 – nil] as a reduction to cost of revenues.

10. 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.

[a] Categories of financial assets and liabilities

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following five categories: held for trading, held to maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheet, which are measured at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Held for trading financial instruments are subsequently measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instruments is derecognized or impaired.



The carrying values of the Corporation's financial instruments are classified as follows:

	As at March 31, 2010	As at December 31, 2009
Held for trading ¹	\$ 19,978	\$ 22,641
Loans and receivables ²	89,357	83,282
Financial liabilities ³	387,463	390,182
Derivatives not accounted for as hedges ⁴	–	1,286

¹ Includes cash and investments, which are classified as other assets

² Includes accounts receivables

³ Includes bank indebtedness, accounts payable and accrued charges, long-term debt, and the debt component of the convertible debentures

⁴ Included in accounts payable and accrued charges

[b] Fair Values

The Corporation has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment 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 below:

Cash, accounts receivable, bank indebtedness and accounts payable and accrued charges

Due to the short period to maturity of these instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of their fair values.

Long-term debt

The fair value of the Corporation's long-term debt, which includes the current portion, calculated by discounting the expected future cash flows based on current rates for debt with similar terms and maturities, is \$73,464 at March 31, 2010.

Convertible debentures

The fair market value of the Corporation's Convertible Debentures, calculated by discounting the expected future cash flows at prevailing interest rates, is estimated at \$38,315.

Preference Shares

The fair market value of the Corporation's Preference Shares, calculated by discounting the expected future cash flows at prevailing interest rates, is estimated at \$19,706.

As at March 31, 2010, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was \$74,744.

[c] Fair value hierarchy

The Corporation's financial assets and liabilities recorded at fair value on the consolidated balance sheet have been categorized into three categories based on a fair value hierarchy. Fair value of assets and liabilities included in Level I are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level II 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 III 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.

As a March 31, 2010, the Corporation did not hold any financial instruments that were measured at fair value, all financial assets and liabilities were recorded at cost.

[d] Risks arising from financial instruments and risk management

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 credit risk, liquidity risk, currency risk and interest rate. Where material, these risks are reviewed and monitored by the Board of Directors.



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 accounts receivable. 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 accounts receivables are reduced through the use of an allowance account and the amount of the loss is recognized in the income statements within administrative and general expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off are credited against administrative and general expenses.

The following table sets forth details of the age of the trade accounts receivable as at March 31, 2010:

Total trade accounts receivable	\$	82,474
Less: Allowance for doubtful accounts		(1,761)
Total trade accounts receivable, net		80,713
Of which:		
Not overdue	\$	77,674
Past due for more than one day but not more than three months		3,649
Past due for more than three months but not more than six months		1,008
Past due for more than six months but not more than one year		21
Past due for more than one year		122
Less: Allowance for doubtful accounts		(1,761)
Total trade accounts receivable, net		80,713

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 and the indebtedness provided by a company controlled by a common director, which require the continued support by the Chairman of the Board of the Corporation.

The following table summarizes the contractual maturity of the Corporation's financial liabilities. The table includes both interest and principal cash flows.

	Due less than 1 year	Due between 1 and 3 years	Due between 4 and 5 years	Due after 5 years	Total
Bank indebtedness	\$ 130,606	\$ –	\$ –	\$ –	\$ 130,606
Long-term debt	8,790	71,895	791	2,109	83,585
Capital lease obligations	1,040	1,104	–	–	2,144
Equipment leases	954	974	22	–	1,950
Facility leases	1,299	2,869	1,892	803	6,863
Other long-term liabilities	4,996	6,423	103	2,667	14,189
Convertible debentures	4,000	46,000	–	–	50,000
Preference shares	8,000	12,000	–	–	20,000
Total	159,685	141,265	2,808	5,579	309,337



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 rate. 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 uses 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 March 31, 2010, fluctuations of +/- 1% would, everything else being equal, have an effect on net income and on other comprehensive income for the three months ended March 31, 2010 of approximately +/- \$70 and \$1,300 respectively.

Interest rate risk

The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. At March 31, 2010, \$137,733 of the Corporation's total debt portfolio is subject to movements in floating interest rates. In addition, a portion of the Corporation's accounts receivable 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 net 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 percent) would have impacted the amount of interest charged to net income during the three months ended March 31, 2010 by approximately +/- \$326.

11. MANAGEMENT OF CAPITAL

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

As at March 31, 2010, total managed capital was \$509,012, comprised of shareholders' equity of \$245,359 and interest-bearing debt of \$263,653. Included in interest bearing debt is the debt component of the convertible debentures of \$38,354, where a component of the associated interest expense is a non-cash charge and the Corporation's Preference Shares of \$19,949 that have been reclassified as a liability as at March 31, 2010.

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

The Corporation must adhere to covenants in its operating credit facility. As at March 31, 2010, the Corporation was in compliance with these covenants.



12. EMPLOYEE FUTURE BENEFITS

The total benefit cost in the registered plans for the three month period ended March 31 includes the following components:

Expressed in thousands of dollars	2010		2009	
Current service cost	\$	573	\$	423
Interest cost on projected benefit obligations		1,588		1,653
Expected returns on plan assets		(1,744)		(1,571)
Amortization of net actuarial loss		321		219
Amortization of past service costs		154		175
Net benefit cost recognized	\$	892	\$	899

13. RELATED PARTY TRANSACTIONS

During the three month period ended March 31, 2010, the Corporation sold receivables to a corporation wholly owned by a common director in the amount of \$nil [2009 - \$55,144], for a discount of \$nil [2009 - \$550] representing an annualized interest rate of 7.5% in both years. As at March 31, 2009 a reserve of \$2,899 was recorded. This securitization facility expired on December 31, 2009.

During the three month period ended March 31, 2010, the Corporation paid guarantee fees in the amount of \$602 [2009 - \$697] to the Chairman of the Corporation and incurred interest of \$nil [2009 - \$1,265] in relation to the \$50,000 loan to Edco, a corporation which is controlled by the Chairman of the Corporation, which was refinanced on April 30, 2009. During the three month period ended March 31, 2010 the Corporation incurred interest of \$1,963 in relation to the \$65,000 loan due on July 1, 2011 to Edco. At March 31, 2010, the Corporation owed Edco interest of \$1,302.

On April 30, 2009 the Chairman of the Corporation subscribed to \$40,000 of the New Convertible Debentures. Interest accrued during the three month period ended March 31, 2010 on the New Convertible Debentures was \$986.

14. SEGMENTED INFORMATION

The Corporation is organized and managed as a single business segment, being aerospace, and the chief operating decision maker, for the purposes of resource allocations and assessing performance, views the Corporation as a single operating segment.

Capital assets are based on the country in which they are located. Domestic and foreign capital assets consist of:

	Capital assets			
	Canada	United States	United Kingdom	Total
2010	\$ 113,276	\$ 104,588	\$ 26,955	\$ 244,819
2009	115,116	110,054	29,530	254,700

Revenue is attributable to countries based on the location of the customers. Domestic and foreign revenues for the three month period ended March 31 consist of:

	2010				2009			
	Canada	US	UK	Total	Canada	US	UK	Total
Revenues								
Domestic	\$ 23,336	\$ 40,019	\$ 29,296	\$ 92,651	\$ 32,833	\$ 44,040	\$ 36,090	\$ 112,963
Export	75,448	6,047	3,756	85,251	51,159	10,533	4,633	66,325
Total revenues	\$ 98,784	\$ 46,066	\$ 33,052	\$ 177,902	\$ 83,992	\$ 54,573	\$ 40,723	\$ 179,288



The major customers for the Corporation for the three month period ended March 31 are as follows:

	2010	2009
Major Customers		
Canadian operations		
- Number of customers	2	3
- Percentage of total Canadian revenue	27%	35 %
US operations		
- Number of customers	1	2
- Percentage of total US revenue	37%	42%
UK operations		
- Number of customers	2	1
- Percentage of total UK revenue	84%	71 %

15. SUPPLEMENTARY INFORMATION

- (a) Included in other expenses is a foreign exchange loss on the conversion of foreign currency denominated working capital balances and debt for the three month period ended March 31, 2010 was \$1,485 [three month period ended March 31, 2009, gain of \$1,973].
- (b) Prepaid expenses and other include advance payments to suppliers and subcontractors on the amount of \$18,943 [December 31, 2009 - \$31,321].
- (c) Accounts payable and accrued charges include advance payments received from customers in the amount of \$31,337 [December 31, 2009 - \$50,197]

16. SUBSEQUENT EVENTS

On April 30, 2010, the Corporation completed the retraction of approximately 20% or 399,994 of its 2,000,000 Preference Shares, for total consideration paid of \$4,000, as was permissible under the amended operating credit facility. Effective as of the Retraction Date, the holders of these Preference Shares ceased to be holders of these Preference Shares and were entitled to receive the retraction price of \$10.00 for each Preference Share held plus accrued and unpaid dividends on the shares to be retracted.