Magellan Aerospace Corporation
First Quarter Report
March 31, 2011

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 and in certain circumstances for power generation projects. Through its network of facilities throughout North America and the United Kingdom, Magellan supplies leading aircraft manufacturers, airlines and defence agencies throughout the world.

Financial Results

On June 1, 2011, the Corporation released its financial results for the first quarter of 2011. All amounts are expressed in Canadian dollars unless otherwise indicated. The results are summarized as follows:

	Three month period ended March 31		
Expressed in thousands of dollars, except per share amounts	2011 $	2010 $	Change %
Revenues	170,487	177,617	(4.0)%
Gross Profit	23,759	21,205	12.0%
Net Income	7,222	3,787	90.7%
Net Income per share – Diluted	0.14	0.07	100.0%

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 except as required by law.

The Corporation has included certain measures in this quarterly statement, including EBITDA, the terms for which are not defined under International Financial Reporting Standards. The Corporation defines EBITDA as earnings before interest, dividends on preference shares, 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

The following discussion and analysis provides a review of activities, results of operations, and financial condition of Magellan Aerospace Corporation for the three months ended March 31, 2011, in comparison with those for the three months ended March 31, 2010. References to "Magellan" or "the Corporation refer to Magellan Aerospace Corporation and its subsidiaries, as applicable. The following discussion should be read in conjunction with the unaudited interim consolidated financial statements, including the notes thereto, for the three months ended March 31, 2011, and the audited annual consolidated financial statements for the year ended December 31, 2010. The date of the MD&A is June 1, 2011.

OVERVIEW

Magellan is a diversified supplier of components to the aerospace industry and in certain circumstances for power generation projects. Through its wholly owned subsidiaries, Magellan designs, engineers, and manufactures aeroengine and aerostructure components for aerospace markets, advanced products for military and space markets, and complementary specialty products. The Corporation also supports the aftermarket through supply of spare parts as well as performing repair and overhaul services and supplies in certain circumstances parts and equipment for power generation projects.

The Corporation's strategy has been to focus on several core competencies within the aerospace industry. These include precision machining of a wide variety of aerospace material, composites, complex high technology magnesium and aluminum alloy castings, repair and overhaul technologies and design of structures. The Corporation is now seeking to leverage these core competencies by achieving growth in applications where these abilities are critical in meeting customer needs.

BUSINESS UPDATE

As we move into 2011, the global economy has been threatened to some degree by Middle East unrest and a significant rise in oil prices. Impact on the civil airline sector will be from the potential dampening of global travel and the continued higher price of fuel resulting from higher oil prices due to events in the Middle East. Nevertheless, the airline industry continues to report higher load factors, revenue, and business travel, but profits will be reduced by the higher cost of fuel. The commercial aerospace industry has announced production rate increases through 2012 to fulfill current and projected demand. In the defence aerospace sector, spending authorizations were late in the United States, delaying in some cases program implementation, and maintained at reduced levels in much of Europe and South America. Relatively robust spending is planned for much of Asia.

The Corporation has positioned itself for growth with production on the new B787 twin-aisle from Boeing forecasted to enter service in 2011, and the new A350 twin-aisle from Airbus expected to enter service over the next several years. During 2010 and early 2011, Magellan was awarded four additional contracts for work on civil aircraft. Magellan also increased its position on the F-35 multi-national JSF program in 2010, assisted by its investment in technology, knowledge, plant and equipment. The F-35 program added new customers in 2010, and the air force and navy variants of the aircraft (F-35A and F-35C respectively) moved ahead of schedule in testing. Low rate production of these variants is expected to accelerate annually in 2011 and beyond, with the vertical landing variant, the F-35B, expected to recover to its testing schedule by 2012.

The global space market is growing in segments that include science and space exploration, defence, and media, which affect earth observation, communication, navigation, and entertainment. Magellan has been involved in various space activities for over four decades and has more recently established itself as a satellite developer, obtaining a significant and growing role within the Canadian space program over the past decade. With two complete satellites delivered, Magellan is presently under contract to design the satellite bus for Canada's RADARSAT Constellation Mission (RCM), with manufacturing and assembly of the three-satellite RCM constellation to commence in 2012.

The Corporation's results continue to reflect the benefits of investment in new technology, equipment, and knowledge across all operating sites. Operations are developing manufacturing processes that will be required over the next several years as strategically important, more complex core products are introduced. Non-core work continues to be moved out to local and emerging market sites, freeing capacity for new program ramp-up. Business development activities continue to focus on increasing the level and complexity of core activity within the operating sites, and adding value to the Corporation's key customers.

Magellan's Winnipeg location has been affected by a work stoppage of union employees that began on April 1, 2011, which will result in the Corporation having lower revenue for the aerospace segment in the second quarter of 2011 than if the work stoppage had not occurred. To date, critical customer requirements have been met. Efforts continue to arrive at a solution with the next step being binding arbitration.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2010 Annual Report available on www.sedar.com.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective, January 1, 2011, the Corporation began reporting its financial results in accordance with International Financial Reporting Standards ("IFRS"). Accordingly, these IFRS results and all future results will be reported under IFRS and prior period comparative amounts, including the opening statement of financial position at January 1, 2010, have been conformed to reflect results as if the Corporation had always prepared its financial statements using IFRS. Please see additional discussion regarding IFRS later in this MD&A.

ANALYSIS OF OPERATING RESULTS FOR THE FIRST QUARTER ENDED MARCH 31, 2011

The Corporation reported lower revenue in the first quarter of 2011 than the first quarter of 2010, reflecting lower revenue in both the aerospace segment and the power generation project segment. Gross profit and net income for the first quarter of 2011 were $23.8 million and $7.2 million, respectively, an increase from the first quarter of 2010 gross profit of $21.2 million and net income of $3.8 million.

Consolidated Revenue

Overall, the Corporation's revenues decreased when compared to the first quarter of 2010.

		Three month period ended March 31	
Expressed in thousands of dollars	**2011**	2010	Change
Aerospace	**$ 154,615**	$ 161,487	(4.3)%
Power Generation Project	**15,872**	16,130	(1.6)%
Total revenues	**170,487**	177,617	(4.0)%

Consolidated sales for the first quarter ended March 31, 2011 decreased 4.0% to $170.5 million from $177.6 million in the first quarter of 2010, due mainly to decreased revenues earned in the Aerospace segment.

Aerospace Segment

Revenues for the Aerospace segment were as follows:

		Three month period ended March 31	
Expressed in thousands of dollars	**2011**	2010	Change
Canada	**$ 72,369**	$ 82,369	(12.1)%
United States	**47,022**	46,066	2.1%
United Kingdom	**35,224**	33,052	6.6%
Total revenues	**154,615**	161,487	(4.3)%

Consolidated revenues for the first quarter of 2011 of $154.6 million were 4.3% lower than revenues of $161.5 million in the first quarter of 2010. Revenues in Canada in the first quarter of 2011 decreased 12.1% from the same period in 2010 as the Corporation experienced lower volumes on specialty products due to the cyclical nature of the business. In addition US denominated sales in Canada were negatively impacted by the decline of the US dollar against the Canadian dollar. Increased revenues in the United States in the first quarter of 2011 in comparison to the first quarter of 2010 resulted from increased volumes on several of the Corporation's single aisle aircraft programs as well as the introduction of new programs. Revenues in the United Kingdom in the first quarter of 2011 increased over revenues in the same period in 2010 as a result of the increased volumes experienced on the Airbus statement of work.

Power Generation Project Segment

Revenues for the Power Generation Project segment were as follows:

				Three month period ended March 31	
Expressed in thousands of dollars		**2011**		2010	Change
Power Generation Project	**$**	**15,872**	$	16,130	(1.6)%
Total revenues		**15,872**		16,130	

Decreased revenues in the first quarter of 2011 over the same period in 2010 represents the Corporation's progress made on the Ghana electric power generation project in the period in comparison to the progress made in the previous quarter.

Gross Profit

				Three month period ended March 31	
Expressed in thousands of dollars		**2011**		2010	Change
Gross profit	**$**	**23,759**	$	21,205	12.0%
Percentage of revenues		**13.9%**		11.9%	

Gross profit of $23.8 million (13.9% of revenues) was reported for the first quarter of 2011 compared to $21.2 million (11.9% of revenues) during the same period in 2010. Gross profit, as a percentage of revenues, increased over the same period in 2010 reflecting price increases and operational performance improvements achieved during the first quarter of 2011.

Administrative and General Expenses

		Three month period ended March 31		
Expressed in thousands of dollars		**2011**		2010
Administrative and general expenses	**$**	**9,243**	$	9,602
Percentage of revenues		**5.4%**		5.4%

Administrative and general expenses were $9.2 million (5.4% of revenues) in the first quarter of 2011 compared to $9.6 million (5.4% of revenues) in the first quarter of 2010.

Other

		Three month period ended March 31		
Expressed in thousands of dollars		**2011**		2010
Foreign exchange (gain) loss	**$**	**(121)**	$	1,485
Loss (gain) on sale of PP&E		**22**		(3)
Other		**(99)**		1,482

Other income of $0.1 million in the first quarter of 2011 consisted of realized and unrealized foreign exchange gains offset by losses realized on the sale of property plant & equipment. Other income in the first quarter of 2010 resulted from unrealized foreign exchange losses of $1.5 million.

Interest Expense

		Three month period ended March 31		
Expressed in thousands of dollars		**2011**		2010
Interest on bank indebtedness and long-term debt	**$**	**2,921**	$	3,995
Convertible debenture interest		**986**		986
Accretion charge for convertible debt and long-term debt		**203**		204
Discount on sale of accounts receivable		**152**		133
Total interest expense		**4,262**		5,318

Interest expense of $4.3 million in the first quarter of 2011 was lower than the first quarter of 2010 amount of $5.3 million. Interest on bank indebtedness and long-term debt decreased as principal amounts outstanding during the first quarter of 2011 were lower than those in the first quarter of 2010. Reduced interest rates on the long-term debt and lower interest rate spreads on bank indebtedness also contributed to the reduction in interest expense in the current quarter when compared to the first quarter of 2010.

Provision for Income Taxes

	Three month period ended March 31	
Expressed in thousands of dollars	**2011**	2010
Expense (recovery) of current income taxes	**$ 23**	$ (242)
Expense of future income taxes	**2,868**	1,258
Total expense of income taxes	**2,891**	1,016
Effective Tax Rate	**28.6%**	21.2%

The Corporation recorded an income tax expense of $2.9 million for the first quarter of 2011, compared to an income tax expense of $1.0 million for the first quarter of 2010. 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 future tax assets derived from temporary differences in Canada also contributed to the higher effective tax rate.

SELECTED QUARTERLY FINANCIAL INFORMATION

	International Financial Reporting Standards					Previous Canadian GAAP		
	2011	**2010**				**2009**		
Expressed in millions of dollars	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Revenues	$ 170.5	$ 187.9	$ 184.7	$ 181.4	$ 177.6	$ 165.8	$ 164.2	$ 177.3
Net Income	7.2	15.4	8.0	7.1	3.8	2.0	10.8	5.4
Net Income per common share								
Basic	0.40	0.85	0.44	0.39	0.21	0.09	0.57	0.27
Diluted	0.14	0.29	0.16	0.14	0.07	0.05	0.20	0.12

Revenues and net income reported in the quarterly information was impacted by the fluctuations in the Canadian Dollar exchange rate in comparison to the US dollar and British Pound. The US dollar/Canadian dollar exchange rate in the first quarter of 2011 fluctuated reaching a low of 0.9671 and a high of 1.006. During 2010, the British Pound relative to the Canadian dollar fluctuated reaching a low of 1.5579 and a high of 1.6095. Had exchange rates remained at levels experienced in the first quarter of 2010, reported revenues in the first quarter of 2011 would have been higher by $6.7 million.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

In addition to the primary measures of earnings and earnings per share (basic and diluted) in accordance with IFRS, the Corporation includes certain measures in this news release, including EBITDA (earnings before interest expense, dividends on preference shares, 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 are calculated in accordance with IFRS, but EBITDA is not a recognized measure under IFRS, 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 earnings as determined in accordance with IFRS or as an alternative to cash provided by or used in operations.

	Three-month period ended March 31	
Expressed in thousands of dollars	**2011**	2010
Net income	**$ 7,222**	$ 3,787
Interest	**4,262**	5,318
Dividends on preference shares	**240**	–
Taxes	**2,891**	1,016
Stock based compensation	**38**	94
Depreciation and amortization	**8,084**	8,786
EBITDA	**22,737**	19,001

EBITDA for the first quarter of 2011 was $22.7 million, compared to $19.0 million in the first quarter of 2010. As previously discussed, increased gross profit and a reduction in administrative and general expenses resulted in increased EBITDA for the current quarter.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow from Operations

Expressed in thousands of dollars		Three-month period ended March 31 2011		2010
Increase in accounts receivable	**$**	**(11,207)**	$	(3,831)
(Increase) decrease in inventories		**(5,227)**		4,223
(Increase) decrease in prepaid expenses and other		**(2,519)**		12,738
Increase (decrease) in accounts payable		**12,100**		(9,424)
Changes to non-cash working capital balances		**(6,853)**		3,706
Cash provided by operating activities		**9,889**		16,516

In the quarter ended March 31, 2011, the Corporation generated $9.9 million of cash from its operations, compared to cash generated by operations of $16.5 million in the first quarter of 2010. Cash was generated mainly by an increase in net income, an increase in accounts payable offset by increased accounts receivable, inventory and prepaid expenses and other.

Included in inventory is an amount of approximately $30.0 million, representing the value of certain additional work Magellan has undertaken on the Ghana electric power generation project that is over and above the initial contract. As at March 31, 2011 the customer had not yet finalized financing for this extra work. The customer has confirmed their intention to accept the additional work statement and financing is expected to be in place shortly. Until such financing is in place, the Corporation will not record revenue for the additional work and will continue to account for the related costs in inventory.

Investing Activities

Expressed in thousands of dollars		Three-month period ended March 31 2011		2010
Purchase of property plant & equipment	**$**	**(5,430)**	$	(2,325)
Proceeds of disposals of property plant & equipment		**136**		101
Increase in other assets		**(3,817)**		(3,271)
Cash used in investing activities		**(9,111)**		(5,495)

In the first quarter of 2011, the Corporation invested $5.4 million in property plant & equipment to upgrade and enhance its capabilities for current and future programs

Financing Activities

Expressed in thousands of dollars		Three-month period ended March 31 2011		2010
Decrease in bank indebtedness	**$**	**(423)**	$	(7,998)
Increase (decrease) in debt due within one year		**3,758**		(3,785)
Decrease in long-term debt		**(2,182)**		(1,052)
Increase in long-term debt		**1,167**		-
Decrease in long-term liabilities		**(337)**		(168)
Increase in borrowings		**716**		790
Dividends on Preference Shares		**-**		(400)
Cash provided by (used in) financing activities		**2,699**		(12,613)

On April 29, 2011 the Corporation amended and restated its credit agreement with its existing lenders and has extended the loan [originally $65.0 million, $44.5 million as at March 31, 2011] due on July 1, 2011 (the "Original Loan") due to Edco Capital Corporation ("Edco") in order to provide loan facilities for a two year period. Under the terms of the amended operating credit agreement, the Corporation and the lenders have agreed that the maximum available under the operating credit facility will be amended to a Canadian dollar limit of $125.0 million plus a US dollar limit of $50.0 million [previously a Canadian dollar limit of $105.0 million plus a US dollar limit of $70.0 million] and the maturity date has been extended to April 29, 2013 and will continue to be fully guaranteed until April 29, 2013 by the Chairman of the Board of the Corporation, in consideration of the continued payment by the Corporation of an annual fee payable monthly equal to 0.63% [previously 1.15%] of the gross amount of the operating credit facility. The facility is extendible for unlimited future one year renewal periods, subject to mutual consent of the syndicate of lenders and the Corporation.

The terms of the amended operating credit facility permit the Corporation to (i) repay, in whole or in part, the Original Loan outstanding from Edco and (ii) retract all [approximately $12.0 million] of the Corporation's 8.0% Cumulative Redeemable

First Preference Shares Series A (the "Preference Shares) on or after April 30, 2011, together with payment of all 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 loan and the payment of the retraction amount the Corporation has at least $25.0 million in availability under the operating credit facility.

As a result, the Corporation retracted $4.0 million of the Preference Shares on April 30, 2011, and, subject to such limitations under the operating credit facility, applicable laws and board approval, the Corporation intends to retract the remainder of the Preference Shares on June 10, 2011.

In addition, the extension and restatement of the Original Loan outstanding as at March 31, 2011 in the principal amount of $44.5 million from Edco, which is wholly owned by the Chairman of the Board of the Corporation, was completed. The Corporation has the right to repay the secured subordinated loan at any time without penalty. The interest rate was decreased from 11% per annum to 7.5% per annum commencing July 1, 2011 and the loan extended to July 1, 2013 in consideration of the payment on July 1, 2011 of a fee to Edco equal to 1% of the principal amount outstanding on such date.

During the three month period ended March 31, 2011 the Corporation repaid $1.5 million of the Original Loan.

DERIVATIVE CONTRACTS

The Corporation has entered into foreign forward 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. As at March 31, the Corporation has foreign exchange contracts outstanding as follows:

	Amount	Floor	Ceiling
Maturity – less than 1 year – US dollar	875	1.0202	1.1236
Maturity – less than 1 year – US dollar	875	1.0301	1.1111
Maturity – less than 1 year – US dollar	13,500	1.0354	1.1111

The fair values of the Corporation's forward foreign exchange contracts are based on the current market values of similar contracts with the same remaining duration as if the contract had been entered into on March 31, 2011.

SHARE DATA

As at May 31, 2011, the Corporation had 18,209,001 common shares outstanding, 800,024 outstanding First Preference Shares Series A convertible into 533,349 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, 2011 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 help identify and manage significant operational and financial risks.

For more information in relation to the risks inherent in Magellan's business, reference is made to the information under "Risk Factors" in the Corporation's Management's Discussion and Analysis for the year ended December 31, 2010 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2010, which has been filed with SEDAR (www.sedar.com).

CHANGES IN ACCOUNTING POLICIES

Transition to and initial adoption of IFRS

Starting January 1, 2011, the Corporation is applying IFRS as issued by the International Accounting Standards Board ["IASB"]. The preparation of the unaudited interim consolidated financial statements for the three-month period ending March 31, 2011 includes the initial adoption of accounting policies under IFRS which are different than the accounting policies used to prepare the most recent annual consolidated financial statements prepared under Canadian generally accepted accounting principles ["Canadian GAAP"].

The accounting policies as set out in note 2 to the unaudited interim consolidated financial statements for the three-month period ended March 31, 2011 have been applied consistently to all periods beginning on or after January 1, 2010 presented in these financial statements. Comparative information for the three-month period ended March 31, 2010 and financial statements for the year ended December 31, 2010, have thus been adjusted from amounts previously reported under

Canadian GAAP. They also have been applied in preparing an opening IFRS balance sheet at January 1, 2010 for the purpose of the transition to IFRS, as required by IFRS 1, First-time Adoption of International Financial Reporting Standards.

A reconciliation of previously reported periods in accordance with Canadian GAAP to IFRS, as well as an explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows are provided in note 16 to the unaudited interim consolidated financial statements.

Impact of IFRS on the Corporation

The conversion to IFRS impacts the way the Corporation presents its financial results. The impact of the conversion to IFRS on the accounting systems has been minimal due to limited changes in accounting policies. The internal and disclosure control processes, as currently designed, have not required significant modifications as a result of conversion to IFRS. The Corporation has assessed the impact of adopting IFRS on its contractual arrangements, and has not identified any material compliance issues. The Corporation has also considered the impact that the transition will have on its internal planning process and compensation arrangements and has not identified any significant issues.

Recent accounting pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended March 31, 2011, and have not been applied in preparing these unaudited interim consolidated financial statements. The following standards and interpretations have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

International Accounting Standards		**Effective Date**
IAS 12 – Income taxes	In December 2010, IAS 12 Income Taxes was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes − recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.	January 1, 2012
IFRS 9 - Financial Instruments	In November 2009, as part of the International Accounting Standards Board's (IASB) project to replace International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities.	January 1, 2013
IFRS 10 - Consolidation	IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.	January 1, 2013
IFRS 11 – Joint Arrangements	IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions.*	January 1, 2013
IFRS 12 - Disclosure of Interests in Other Entities	IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.	January 1, 2013
IFRS 13 – Fair Value Measurement	IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is 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. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and	January 1, 2013

	disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.	
IAS 27 – Separate Financial Statements	As a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	January 1, 2013
IAS 28 – Investments in Associates and Joint Ventures	As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.	January 1, 2013

The extent of the impact of adoption of these standards and interpretations on the consolidated financial statements of the Corporation has not been determined.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In the 2010 annual audited consolidated financial statements and management's discussion and analysis, the Corporation identified the accounting policies and estimates are critical to the understanding of the business and results of operations. With the adoption of IFRS, critical accounting policies and estimates have been updated to conform with this adoption. Please refer to note 2 to the unaudited interim consolidated financial statements for the three-month period ended March 31, 2011 for a detailed discussion regarding the significant accounting policies and application of critical accounting judgments, estimates and assumptions.

CONTROLS AND PROCEDURES

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 (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at March 31, 2011 that they are responsible for establishing and maintaining 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.

No changes were made in the Corporation's internal control over financial reporting during the Corporation's most recent interim period, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

OUTLOOK

The global economy continues to show progress in most regions, with signs of stability and growth gradually prevailing over the economic challenges of the past two to three years. Large economies, such as Europe and the United States, appear to be dealing with the remaining problem areas, and growth in various stronger regions is becoming more pronounced. The growth in China and India has regained its velocity, and Asia is likely to be a major consumer of goods and services going forward. This is particularly the case in the aerospace industry, and this consumption will include both importing and internal growth. The global defence market is still dominated by the United States and Europe, but is coming under some restraint in both regions. This downward pressure is expected to mark most of this decade, and may not be fully replaced with exports. However, specific programs with new technology will continue to be funded and produced in larger numbers at the expense of older products.

The Corporation is focused on the transition to the future state of aerospace industry technology that began as much as five years ago, in both the commercial and defence sectors of the industry. The current efforts are focused on the introduction and ramp up of production for the commercial airliner programs, and the related engines, of Airbus, Boeing and Bombardier. Equally, the rate of advancement towards full production is accelerating for the Joint Strike Fighter Program, with low rate production quantities planned to double each year through the next five years. Full scale production is targeted to be achieved in 2016 by the current plan.

The introduction of new technology and equipment is proceeding apace with the rising quantity demands, and the costs associated provide a natural hedge to reduce currency rate impacts. The new programs, equipment, training and increase in knowledge serve to move the Corporation to a new level of capability, and to refresh and invigorate the personnel of the Corporation. But over and above new equipment and facilities, the Corporation has been able to lead change in methodologies and management techniques that have generated ongoing cost reductions and created new efficiencies.

Global demand for commercial airliners has resulted in both Airbus and Boeing announcing a series of production rate increases during the period of 2011 to 2012. These increases apply primarily to the A320 and B737 families of aircraft, but also to the current twin-aisle A330 and B777 models. New twin-aisle aircraft are planned to enter into service in 2011, with additional models reaching production over the next several years. Within ten years, new designs of current aircraft will be underway, introducing additional environmental and efficiency gains.

The Corporation's industrial power generation project in Ghana is proceeding and has increased in scope. The customer has confirmed their intention to accept the additional work statement and financing is expected to be in place shortly. Until such financing is in place, the Corporation will not record revenue for the additional work and will continue to account for the related costs in inventory. Additional opportunities continue to emerge that the Corporation will assess and act on accordingly.

The strategy of positioning the Corporation to enter new aircraft and engine programs during the development phase has been effective in capturing appropriate work packages and building the technological capabilities for production. It has moved the Corporation upward in the global supply chain, and helped it to transition to higher technology and complexity. As new programs are initiated by the prime contactors, the Corporation will continue to assess each opportunity, and move to capture those best for the Corporation.

ADDITIONAL INFORMATION

Additional information relating to Magellan Aerospace Corporation, including the Corporation's 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 uncertainties and assumptions, which may cause actual results to be materially different from those expressed or implied. These forward looking statements can be identified by the words such as "anticipate", "continue", "estimate", "forecast", "may", "project", "could", "plan", "intend", "should", "believe" and similar words suggesting future events or future performance. In particular there are forward looking statements contained under the headings: "Overview" which outlines certain expectations for future operations and "Outlook" which outlines certain expectations for the future. These statements assume the continuation of the current regulatory and legal environment; the continuation of trends for passenger airliner and defence production and are subject to the risks contained herein and outlined in our annual information form. The Corporation assumes no future obligation to update these forward-looking statements except as required by law.

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

For the three month period ended March 31 **(unaudited)** **(expressed in thousands of dollars, except per share amounts)**	Notes	**2011** $	2010 $
Revenues	14	**170,487**	177,617
Cost of revenues		**146,728**	156,412
Gross profit		**23,759**	21,205
Administrative and general expenses		**9,243**	9,602
Other	15(a)	**(99)**	1,482
Dividends on preference shares	7	**240**	–
		14,375	10,121
Interest		**4,262**	5,318
Income before income taxes		**10,113**	4,803
Income taxes			
Current	8	**23**	(242)
Deferred	8	**2,868**	1,258
		2,891	1,016
Net income		**7,222**	3,787
Other comprehensive loss			
Foreign currency translation	11	**(3,380)**	(7,714)
Comprehensive income (loss)		**3,842**	(3,927)
Net income per share			
Basic	9	**$0.40**	$0.21
Diluted	9	**$0.14**	$0.07

See accompanying notes to the interim consolidated financial statements

MAGELLAN AEROSPACE CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of dollars)	Notes	March 31 2011 $	December 31 2010 $	January 1 2010 $
Current assets				
Cash		**27,974**	24,952	22,641
Trade and other receivables	12	**105,127**	94,222	97,553
Inventories	3	**154,172**	150,798	147,248
Prepaid expenses and other	15(b)	**14,349**	11,838	38,458
		301,622	281,810	305,900
Non-current assets				
Property, plant and equipment	4	**236,216**	239,119	254,256
Investment properties		**3,143**	3,192	3,369
Intangible assets	20(a)	**69,714**	71,949	71,840
Other assets		**25,879**	22,593	6,732
Deferred tax assets	8, 20(c)	**20,113**	19,836	19,861
		355,065	356,689	356,058
Total assets		**656,687**	638,499	661,958
Current liabilities				
Bank indebtedness	5	**115,931**	117,046	140,590
Accounts payable and accrued liabilities	15 (c)	**142,087**	130,563	131,196
Provisions		**5,382**	5,324	4,441
Preference shares	7	**8,000**	8,000	–
Debt due within one year	6	**60,628**	58,541	17,213
		332,028	319,474	293,440
Non-current liabilities				
Long-term debt		**18,026**	17,843	74,408
Convertible debentures		**39,094**	38,901	38,182
Deferred tax liabilities	8, 20(c)	**10,038**	7,961	4,781
Preference shares	7	**4,000**	4,000	–
Provisions		**2,079**	2,079	2,148
Borrowings subject to specific conditions		**14,088**	13,372	9,096
Other long-term liabilities	20(b)	**12,859**	14,274	19,756
Total long-term liabilities		**100,184**	98,430	148,371
Equity				
Share Capital	9	**214,440**	214,440	234,389
Contributed surplus	10	**2,011**	1,973	1,707
Other paid in capital		**13,565**	13,565	13,565
Retained earnings		**8,231**	1,009	(29,514)
Accumulated other comprehensive loss	11	**(13,772)**	(10,392)	–
Total equity		**224,475**	220,595	220,147
Total liabilities and equity		**656,687**	638,499	661,958

See accompanying notes to the interim consolidated financial statements

MAGELLAN AEROSPACE CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited) (expressed in thousands of dollars)	Share capital $	Contributed surplus $	Other paid in capital $	Retained earnings $	Foreign currency translation $	Total equity $
January 1, 2010	234,389	1,707	13,565	(29,514)	–	220,147
Net income for the year	–	–	–	34,344	–	34,344
Other comprehensive loss for the year	–	–	–	(3,421)	(10,392)	(13,813)
Stock-based compensation	–	266	–	–	–	266
Preference shares	(19,949)	–	–	–	–	(19,949)
Dividends on preference shares	–	–	–	(400)	–	(400)
December 31, 2010	214,440	1,973	13,565	1,009	(10,392)	220,595
Net income for the period	–	–	–	7,222	–	7,222
Other comprehensive loss for the period	–	–	–	–	(3,380)	(3,380)
Stock-based compensation	–	38	–	–	–	38
March 31, 2011	214,440	2,011	13,565	8,231	(13,772)	224,475
January 1, 2010	234,389	1,707	13,565	(29,514)	–	220,147
Net income for the period	–	–	–	3,787	–	3,787
Other comprehensive loss for the period	–	–	–		(7,714)	(7,714)
Stock-based compensation	–	94	–	–	–	94
Preference shares	(19,949)	–	–	–	–	(19,949)
Dividends on preference shares	–	–	–	(400)	–	(400)
March 31, 2010	214,440	1,801	13,565	(26,127)	(7,714)	195,965

See accompanying notes to the interim consolidated financial statements

MAGELLAN AEROSPACE CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

For the three month period ended March 31 (unaudited) (expressed in thousands of dollars)	Notes	2011 $	2010 $
Cash flow from operating activities			
Net income		**7,222**	3,787
Amortization/depreciation of intangible assets and property, plant and equipment	4	**8,084**	8,786
Net loss (gain) on disposal of assets		**22**	(3)
Decrease in defined benefit plans		**(692)**	(1,097)
Deferred revenue		**–**	72
Stock-based compensation	10	**38**	94
Accretion of convertible debentures		**204**	203
Deferred taxes	8	**1,864**	968
(Decrease) increase in working capital		**(6,853)**	3,486
Net cash from operating activities		**9,889**	16,296
Cash flow from investing activities			
Purchase of property, plant and equipment	4	**(5,430)**	(2,325)
Proceeds from disposal of property, plant and equipment		**136**	101
Increase in other assets		**(3,817)**	(3,051)
Net cash used in investing activities		**(9,111)**	(5,275)
Cash flow from financing activities			
Decrease in bank indebtedness	5	**(423)**	(7,998)
Increase (decrease) in debt due within one year		**3,758**	(3,785)
Decrease in long-term debt	6	**(2,182)**	(1,052)
Increase in long-term debt	6	**1,167**	–
Decrease in long-term liabilities		**(337)**	(168)
Increase in borrowings		**716**	790
Dividends on preference shares	7	**–**	(400)
Net cash from/(used in) financing activities		**2,699**	(12,613)
Increase/(decrease) in cash during the period		**3,477**	(1,592)
Cash at beginning of period		**24,952**	22,641
Effect of exchange rate differences		**(455)**	(1,071)
Cash at end of period		**27,974**	19,978

See accompanying notes to the interim consolidated financial statements

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Magellan Aerospace Corporation (the "Corporation") 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 and in certain circumstances for power generation projects. Through its wholly owned subsidiaries, Magellan designs, engineers, and manufactures aeroengine and aerostructure components for aerospace markets, advanced products for military and space markets, and complementary specialty products. The Corporation also supports the aftermarket through supply of spare parts as well as performing repair and overhaul services and supplies in certain circumstances parts and equipment for power generation projects.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These interim consolidated financial statements present the Corporation's initial financial results of operations and financial position as at and for the three months ended March 31, 2011, including comparative periods, under International Financial Reporting Standards ("IFRS") and have been prepared in accordance with First Time Adoption of IFRS ("IFRS 1") and with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using accounting policies the Corporation expects to adopt in its consolidated financial statements for the year ending December 31, 2011.

The Corporation's consolidated financial statements were previously prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Canadian GAAP differs in some areas from IFRS. In preparing these interim consolidated financial statements, management has amended certain accounting and valuation methods previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. Note 16 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, earnings and comprehensive income along with line by line reconciliations of the statement of financial position as at January 1, 2010 and December 31, 2010 and the statement of comprehensive income and statement of financial position as at and for the three months ended March 31, 2010.

These interim consolidated financial statements should be read in conjunction with the Corporation's 2010 annual financial statements and in consideration of the IFRS transition disclosures included in Note 16 to these financial statements.

These interim consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on June 1, 2011.

(b) Basis of Presentation

The consolidated financial statements of the Corporation include the assets and liabilities, and the results and cash flows, of the Corporation and its subsidiaries and the Corporation's share of the results and net assets of a jointly controlled entity. The financial statements of entities consolidated have a reporting date of March 31. Entities over which the Corporation has the power to govern the financial and operating policies are accounted for as subsidiaries. Where the Corporation has the ability to exercise joint control, the entities are accounted for as jointly controlled entities. The results and assets and liabilities of jointly controlled entities are incorporated into the consolidated financial statements using the proportionate consolidation method of accounting. Interests acquired in entities are consolidated from the date the Corporation acquires control and interests sold are de-consolidated from the date control ceases. The effect of intragroup transactions are eliminated. Accounts receivable 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 intergroup profits and losses are eliminated.

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.

(c) Foreign currency translation

The consolidated financial statements are presented in Canadian dollars which is the Corporation's functional and presentation currency.

At the statement of financial position date, 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 comprehensive income and do not have any impact on the net income/loss for the year.

(d) Revenue recognition

Revenue comprises of all sales of goods and rendering of services at the fair value of consideration received or receivable after the deduction of any trade discounts and excluding sales taxes. The Corporation's revenue recognition methodology is determined on a contract-by-contract basis. Revenue is recognized when it can be measured reliably, the significant risks and rewards of ownership are transferred to the customer, and it is probable that future economic benefits will flow to the Corporation.

Sales of goods are recognized when the goods are dispatched or made available to the customer, except for the sale of consignment products located at customers premises where revenue is recognized on notification that the product has been used.

Rendering of services and on certain long-term contracts for the sale of goods revenue is recognized using the percentage-of-completion method, which recognizes revenue as performance of the contract progresses. The contract progress is determined based on the percentage of costs incurred to date to total estimated cost for each contract after giving effect to the most recent estimates of total cost. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Provided that the outcome of construction contracts can be assessed with reasonable certainty, the revenues and costs on such contracts are recognized based on stage of completion and the overall contract profitability. If the outcome of a contract cannot be estimated reliably, the zero-profit method is applied, whereby revenues are only recognized to the extent that contract costs have been incurred and it is probable that those costs will be recovered.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The Corporation enters into transactions that represent multiple-element arrangements. These multiple-element arrangements are assessed to determine whether they can be separated into more than one unit of accounting or element for the purpose of revenue recognition. When the appropriate criteria for separating revenue into more than one unit of accounting is met and there is vendor specific objective evidence of fair value for all units of accounting or elements in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements based on each unit's relative fair value. When the fair value of a delivered element has not been established, the Corporation uses the residual method to recognize revenue if the fair value of delivered elements is determinable. This vendor specific evidence of fair value is established through prices charged for each revenue element when that element is sold separately. The revenue recognition policies described above are then applied to each unit of accounting.

Advances and progress billings received on long-term contracts are deducted from related costs in inventories. Advances and progress billings in excess of related costs are classified as deferred revenue.

(e) 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 of systematically allocated overheads, including depreciation of production-related other intangible assets, write-downs on inventories and an appropriate portion of production-related administrative overheads.

(f) Government grants

Government grants are recognized at their fair value in the period when there is reasonable assurance that the conditions attaching 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 statement of financial position. Repayments made are recorded as a reduction of the liability. A revision to the estimate of amounts to be repaid results in an increase or decrease in the liability and the related asset or expense, and a cumulative adjustment to amortization is recognized immediately in income.

(g) Inventories

Inventory is stated at the lower of average cost and estimated 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 or when there is clear evidence of an increase in selling price, the amount of the write-down previously recorded is reversed.

(h) 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 de-recognized. The cost of the day-to-day servicing of property, plant and equipment are recognized in the income statement 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 value, 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 to estimates used when compiling the financial statements. An asset's carrying value is written down to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount. These impairment losses are recognized in the income statement. 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.

(i) Investment property

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 recognised impairment in value. The depreciation policies for investment property are consistent with those described for owner-occupied property.

(j) Intangible assets

In accordance with IAS 38 *Intangible Assets,* expenditure on research activities is recognized as an expense in the period in which it is incurred. Externally acquired and internally generated intangible assets are recognized only if it meets 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.

Intangible assets with a finite useful life are stated at cost and amortized on a straight-line basis over their useful lives or 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 income statement when the asset is de-recognized.

(k) Impairment of non-financial assets

Impairment of non-financial assets is considered in accordance with IAS 36 *Impairment of Assets.* Where the asset does not generate cash flows that are independent of other assets, impairment is considered for the cash-generating unit ("CGU") to which the asset belongs.

Two types of CGUs are defined within the Corporation:
- CGUs corresponding to programs, projects, or product families associated with specific assets
- CGUs corresponding to the business segments monitored by management and relating chiefly to the Corporation's main subsidiaries

Intangible assets not yet available for use are tested for impairment annually. Other intangible assets and property, plant and equipment are assessed for any indications of impairment annually. If any indication of impairment is identified, an impairment test is performed to estimate the recoverable amount.

An impairment loss is recognized in the income statement whenever the carrying amount of the individual asset or the cash-generating unit exceeds its recoverable amount. Recoverable amount is the higher of value in use or fair value less costs to sell, if this is readily available. The value in use is the present value of future cash flows using a pre-tax discount rate that reflects the time value of money and the risk specific to the asset

An impairment loss for an individual asset or cash-generating unit shall be reversed if there has been a change in estimates used to determine the recoverable amount since the last impairment loss was recognized and is only reversed to the extent that the assets 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.

(l) Leases

A lease is defined as an agreement whereby the lessor conveys to the lessee, in return for payment or a series of payments, the right to use a specific asset for an agreed period of time. If substantially all the risks and rewards associated with ownership of the leased asset are transferred to the lessee (finance lease), the leased asset is recognized in the lessee's statement of financial position. The leased asset is recognized at its fair value as measured at the date of acquisition, or at the present value of the minimum lease payments if lower. Assets held under finance leases are depreciated on a basis consistent with similar owned assets or the lease term if shorter. Payments made under finance leases are apportioned between capital repayments and interest expense charged to the income statement.

If the lessor retains the substantial risks and rewards (operating lease), the leased asset is recognized in the lessor's statement of financial position. Payments made under operating leases are recognized in the income statement on a straight line basis over the term of the lease.

(m) Financial instruments

Financial assets
Financial assets include, in particular, cash and cash equivalents, trade receivables, loans and other receivables, financial investments held to maturity, and non-derivative and derivative financial assets held for trading.

Financial assets are recognized at the contract date and initially measured in accordance with IAS 39 *Financial Instruments: Recognition and Measurement.* The measurement of financial assets subsequent to initial recognition depends on whether the financial instrument is held for trading, held to maturity, available-for-sale, or whether it falls in the loans and receivables category. The assignment of an asset to a measurement category is performed at the time of acquisition and is primarily determined by the purpose for which the financial asset is held.

Held for trading instruments are held at fair value. Changes in fair value are included in the income statement unless the instrument is included in a cash flow hedge. If the instruments are included in a cash flow hedging relationship, which is effective, changes in value are taken to equity. When the hedged forecast transaction occurs, amounts previously recorded in equity are recognized in the income statement.

Held to maturity instruments are measured at amortized cost using the effective interest method.

Available-for-sale assets are held at fair value. Changes in fair value arising from changes in exchange rates are included in the income statement. All other changes in fair value are taken to equity. On disposal, the accumulated changes in value recorded in equity are included in the gain or loss recorded in the income statement.

Loans and receivables are held at amortized cost and not revalued (except for changes in exchange rates which are included in the income statement) unless they are included in a fair value hedge accounting relationship. Where such a relationship exists, the instruments are revalued in respect of the risk being hedged. If instruments held at amortized cost are hedged, generally by interest rate swaps, and the hedges are effective, the carrying values are adjusted for changes in fair value, which are included in the income statement.

At each statement of financial position date, the carrying amounts of financial assets that are not measured at fair value though profit or loss are assessed to determine whether there is any substantial objective indication of impairment. The amount of impairment loss is recognized in the income statement. If impairment is indicated for available-for-sale financial assets, the amounts previously recognized in equity are eliminated from other comprehensive income up to the amount of the assessed impairment loss and recognized to the income statement.

Derecognition of financial assets

Transfers of receivables in securitization transactions are recognized as sales when the contractual right to receive cash flows from the assets has expired; or when the Corporation has transferred its contractual right to receive the cash flows of the financial assets, and either: substantially all the risks and rewards of ownership have been transferred; or the Corporation has neither retained nor transferred substantially all the risks and rewards, but has not retained control.

Financial Liabilities

Financial liabilities often entitle the holder to return the instrument to the issuer in return for cash or another financial asset. These include, in particular, debentures and other debt evidenced by certificates, trade payables, liabilities to banks, finance lease liabilities, borrowers' note loans and derivative financial liabilities.

Financial liabilities are measured at their fair value at the time of acquisition, which is normally equivalent to the net loan proceeds. Transaction costs directly attributable to the acquisition are deducted from the amount of all financial liabilities that are not measured at fair value through profit or loss subsequent to initial recognition. If a financial liability is interest free or bears interest at below the market rate, it is recognized at an amount below the settlement price or nominal value. The financial liability initially recognized at fair value is amortized subsequent to initial recognition using the effective interest method.

Convertible debentures

Convertible debentures are classified according to their liability and equity elements using the residual approach, whereby the Corporation estimates the fair value of the liability element and assigns the residual value of the convertible debentures to the equity element. The liability element is classified as long-term debt and the equity element is classified as a conversion option and recorded in the contributed surplus component of equity. Upon conversion of debentures to common shares, a pro rata portion of the long-term debt, conversion option, unamortized discount and debt issue costs, as well as accrued but unpaid interest, will be transferred to share capital. If any convertible debentures mature without being converted, the remaining conversion option balance will remain in contributed surplus. The discount is amortized using the effective interest rate method over the term of the related debt. The unamortized discount is included in long-term debt and the amortization of the discount is included in interest expense.

Derivative financial instruments

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 financial instruments for trading or speculative purposes. For the quarter ended March 31, 2011, the Corporation's derivative contracts were not designated as hedges and as a result are recorded on the consolidated statement of financial position at their fair value. Any changes in fair value during the year are reported in other expenses in the consolidated statement of operations. Transaction costs incurred to acquire financial instruments are included in the underlying balance.

(n) Provisions

A provision is recognized when there is a present legal or constructive obligation, as a result of a past event, which is likely 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.

(o) Taxation

The tax charge for the period comprises of both current and deferred tax. Taxation is recognized as a charge or credit in the income statement 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 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 reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred 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 tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity in which case the deferred tax is also dealt with in equity.

(p) 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 retained earnings and included in other comprehensive income. 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 material 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 income statement.

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 statement 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 income statement 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 income statement 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 options 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 recognised in the income statement.

(q) Earnings per share

Earnings per share is calculated based on the profit for the financial year and the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is calculated using the profit for the financial year and the weighted average diluted number of share [ignoring any potential issue or ordinary shares which would be anti-dilutive] during the year.

(r) Critical judgements and estimates

The preparation of 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 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 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 earnings 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.

The main assumptions and estimates that were used in preparing the Corporation's interim 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 estimated are provided in note 12.

Impairments
The recoverable amount of goodwill, intangible assets and property, plant and equipment is based on estimates and assumptions regarding the expected market outlook and cash flows from each CGU. Details of the key estimates used in assessing the recoverable amount of each CGU at the last impairment review are provided in note 20(a).

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.

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.

Income (loss) on completion of contracts accounted for under the percentage-of-completion method
To estimate income (loss) on completion, the Corporation takes into account factors inherent to the contract by using historical and/or forecast data, as well as contractual indexes. When total contract costs are likely to exceed total contract revenue, the expected loss is recognized within losses on completion.

Repayable government grants
The forecast repayment of grants received from government authorities is based on income from 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 (as regards programs and fluctuations in exchange rates, particularly the US dollar) 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, expected long-term returns on plan assets, 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 programmes 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.

(s) New standards and interpretations

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended March 31, 2011, and have not been applied in preparing these unaudited interim consolidated financial statements. The following standards and interpretations have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

International Accounting Standards		**Effective Date**
IAS 12 – Income taxes	In December 2010, IAS 12 Income Taxes was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes − recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.	January 1, 2012
IFRS 9 - Financial Instruments	In November 2009, as part of the International Accounting Standards Board's (IASB) project to replace International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities.	January 1, 2013
IFRS 10 - Consolidation	IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.	January 1, 2013
IFRS 11 – Joint Arrangements	IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions.*	January 1, 2013
IFRS 12 - Disclosure of Interests in Other Entities	IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.	January 1, 2013
IFRS 13 – Fair Value Measurement	IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is 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. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.	January 1, 2013
IAS 27 – Separate Financial Statements	As a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	January 1, 2013
IAS 28 – Investments in Associates and Joint Ventures	As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.	January 1, 2013

The extent of the impact of adoption of these standards and interpretations on the consolidated financial statements of the Corporation has not been determined.

3. INVENTORIES

	Production costs of contracts currently in process $	Advances and progress billings $	Total $
At January 1, 2010	156,460	(9,212)	147,248
At December 31,2010	153,498	(2,700)	150,798
At March 31, 2011	155,587	(1,415)	154,172

During the three month period ended March 31, 2011, the Corporation recorded an impairment expense related to the write down of inventory in the amount of $226 [March 31, 2010 - $637]. The Corporation also recorded reversals of previous write down of inventory in the amount of $826 [March 31, 2010 - $418]. The net reduction in the provision is due to the expected recovery of inventory previously provided for.

4. PROPERTY, PLANT AND EQUIPMENT

	Land $	Buildings $	Machinery and equipment $	Tooling $	Total $
Cost					
At January 1, 2010	13,158	86,291	314,235	41,015	454,699
Additions	—	746	14,443	1,382	16,571
Disposals and other	—	(681)	(3,361)	(138)	(4,180)
Foreign currency translation	(483)	(1,724)	(11,414)	(1,882)	(15,503)
At December 31, 2010	12,675	84,632	313,903	40,377	451,587
Additions	—	576	4,532	563	5,671
Disposals and other	—	—	(929)	—	(929)
Foreign currency translation	(125)	(656)	(3,523)	(859)	(5,163)
At March 31, 2011	12,550	84,552	313,983	40,081	451,166
Accumulated depreciation and impairment					
At January 1, 2010	—	(26,040)	(148,559)	(25,844)	(200,443)
Depreciation	—	(2,508)	(15,259)	(4,333)	(22,100)
Disposal and other	—	560	3,143	84	3,787
Impairment	—	—	—	—	—
Foreign currency translation	—	362	4,581	1,345	6,288
At December 31, 2010	—	(27,626)	(156,094)	(28,748)	(212,468)
Depreciation	—	(258)	(4,209)	(771)	(5,238)
Disposal and other	—	36	184	—	220
Impairment	—	—	—	—	—
Foreign currency translation	—	171	1,728	637	2,536
At March 31, 2011	—	(27,677)	(158,391)	(28,882)	(214,950)
Net book value					
At January 1, 2010	13,158	60,251	165,676	15,171	254,256
At December 31, 2010	12,675	57,006	157,809	11,629	239,119
At March 31, 2011	12,550	56,875	155,592	11,199	236,216

As at March 31, 2011, total assets under finance leases included in property, plant and equipment have a cost of $7,805 (December 31, 2010 - $9,764, January 1, 2010 - $11,563) and a net book value of $4,802 (December 31, 2010 - $6,303, January 1, 2010 - $8,058).

5. 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 [$172,872 at March 31, 2011]. 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, 2011 of $115,931 [December 31, 2010 - $117,046] is payable on demand and bears interest at the bankers' acceptance or LIBOR rates, plus 2.75% [3.62 % at March 31, 2011 (2010 – bankers' acceptance or LIBOR rates, plus 2.75% or 3.60%)]. Included in the amount outstanding at March 31, 2011 is US$16,212 [December 31, 2010 - US$21,113]. At March 31, 2011, the Corporation had drawn $118,689 under the operating credit facility, including letters of credit totalling $2,758 such that $54,183 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. The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the operating credit facility.

As at March 31, 2011, the Corporation had advanced funds to its Indian joint ownership processing facility that exceeded the permitted amount under the credit facility by $250. On April 1, 2011, the Corporation obtained a waiver from the banking syndicate for this breach of covenant.

Subsequent to March 31, 2011 the operating credit facility was amended and renewed with an expiry date of April 29, 2013. [Subsequent Events Note 19]

6. LONG–TERM DEBT

On March 26, 2010, the $65,000 loan due on July 1, 2010 [the "Original Loan"] to Edco Capital Corporation ["Edco"] was restated and extended to July 1, 2011 on the same terms and conditions except that the interest rate was 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 has the right to prepay the Original Loan at any time without penalty. During the three month period ended March 31, 2011 the Corporation prepaid the Original Loan by $1,500. As at March 31, 2011 the principal amount outstanding was $44,500.

Subsequent to March 31, 2011 the Original Loan was restated and extended to July 1, 2013. [Subsequent Events Note 19]

7. PREFERENCE SHARES

On March 26, 2010 the Corporation's operating credit facility was amended to permit the Corporation to retract up to 20% ($4,000) of the Corporation's 8.0% 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 at March 31, 2011, 1,200,013 Preference Shares were outstanding of which Preference Shares with a face value of $8,000 classified as a current liability and $4,000 of Preference Shares classified as a long-term liability. During the three month period ended March 31, 2011, the Corporation has reclassified accrued dividends of $240 [three month period ended March 31, 2010 - $nil] from a charge to retained earnings to an expense on the income statement.

8. TAXATION

The Corporation's tax expense is calculated by using the rates applicable in each of the Group's tax jurisdictions, adjusted for the main permanent differences identified.

The effective tax rate for the three month period ended March 31, 2011 was 28.6% [21.2% - March 31, 2010]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the impact of the investment tax credit.

9. SHARE CAPITAL

Common shares

	2011 number	2010 number	2011 $	2010 $
Ordinary Shares				
Authorized, no par value	unlimited	unlimited		
Issued and fully paid:				
At December 31, 2010 and March 31, 2011	18,209,001	18,209,001	214,440	214,440

Earnings per share

	2011			2010		
	Net income $	Weighted average no. of shares thousand	Per share amount $	Net income $	Weighted average no. of shares thousand	Per share amount $
Basic earnings per share	7,222	18,209	0.40	3,787	18,209	0.21
Effect of dilutive securities:						
Convertible debentures	1,180	40,000	(0.26)	381	40,000	(0.14)
At March 31, 2011	8,402	58,209	0.14	4,168	58,209	0.07

10. 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, 2011 and March 31, 2010. The maximum number of options for common shares that remain to be granted under this plan is 1,245,391. 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.

Compensation expense recorded during the three month period ended March 31, 2011 was $38 [three month period ended March 31, 2010 was $94].

11. 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 unrealized currency translation losses for the three month period ended March 31, 2011 of $3,380 [three month period ended March 31, 2010 – loss of $7,714]. These losses are reflected in the consolidated statement of financial position and had no impact on net income for the period.

12. FINANCIAL INSTRUMENTS

Categories of financial instruments

Under IFRS, financial instruments are classified into one of the following five categories: financial assets at fair value through profit or loss, loans and receivables, financial liabilities at fair value through profit or loss, and other financial liabilities at amortized cost.

All financial instruments, including derivatives, are included on the consolidated statement of financial position, which are measured at fair value except for loans and receivables and other financial liabilities, which are measured at amortized costs. Held for trading financial investments 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 are derecognized or impaired.

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

	Fair value through profit or loss: Held for trading[1] $	Loans and receivables[2] $	Total financial assets $	Other financial liabilities (at amortized cost)[3] $	Total financial liabilities $
March 31, 2011	29,000	105,127	134,127	409,346	409,346
December 31, 2010	26,093	94,286	120,379	395,700	395,700

[1] Includes cash and forward foreign exchange contracts included in prepaid expenses and other
[2] Includes accounts receivables and loan receivables
[3] Includes bank indebtedness, accounts payable and accrued liabilities, preference shares, long-term debt, the debt component of the convertible debentures and accounts receivable securitization transactions

The Corporation has exposure to the following risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk

This note presents information about the Corporation's risks to each of the above risks, its objectives, policies and processes for measuring and managing 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 financials 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.

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 earnings.

The most significant transaction exposures arise in the Canadian operations where significant portions of the revenues are transacted in U.S. dollars. As a result, the Corporation may experience transaction exposures because of the volatility in the exchange rate between the Canadian and U.S. dollar. Based on the Corporation's current U.S. denominated net inflows, as of March 31, 2011, fluctuations of +/- 1% would, everything else being equal, have an effect on net earnings and on other comprehensive income for the three month period ended March 31, 2011 of approximately +/- $162 and $1,300 respectively.

Interest rate risk
The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. At March 31, 2011, $134,318 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 earnings. 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 earnings during the three month period ended March 31, 2011 by approximately +/- $317.

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 receivable 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, 2011:

	$
Total trade accounts receivable	95,822
Less: Allowance for doubtful accounts	(1,851)
Total trade accounts receivable, net	93,971

	Current	Less than 90 days	91-181 days	182-365 days	More than 365 days	Total
	$	$	$	$	$	$
Carrying value at March 31, 2011	88,791	5,575	198	43	1,215	95,822
Carrying value at December 31, 2010	66,828	5,593	231	18	1,362	74,032

Derecognition of financial assets
As at March 31, 2011, accounts receivables include receivables sold and financed through securitization transactions of $13,349 which do not meet the IAS 39 derecognition requirements. These receivables are recognized as such in the financial statements even though they have been legally sold; a corresponding financial liability is recorded in the consolidated statement of financial position under Debt due within one year.

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.

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

	2011	2012	2013	2014	2015	Thereafter	Total
	$	$	$	$	$	$	$
Bank indebtedness	115,931	–	–	–	–	–	115,931
Long-term debt	59,620	1,761	2,085	2,048	2,223	9,557	77,294
Finance lease obligations	1,093	267	–	–	–	–	1,360
Equipment leases	210	148	82	22	9	8	479
Facility leases	1,392	1,096	1,096	1,109	1,074	6,982	12,749
Other long-term liabilities	4,396	1,675	31	31	31	11,091	17,255
Borrowings subject to specific conditions	652	472	651	715	652	11,598	14,740
Convertible debentures	–	40,000	–	–	–	–	40,000
Preference shares	8,000	4,000	–	–	–	–	12,000
	191,294	49,419	3,945	3,925	3,989	39,236	291,808
Interest payments	8,056	2,497	356	312	251	510	11,982
Total	199,350	51,916	4,301	4,237	4,240	39,746	303,790

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 below:

Cash, accounts receivable, 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 statement of financial positions are reasonable estimates of their fair values.

Foreign exchange contracts
The Corporation has entered into foreign forward 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. During 2011, the Corporation entered into foreign exchange contracts as follows:

	Amount	Floor	Ceiling
Maturity – less than 1 year – US dollar	875	1.0202	1.1236
Maturity – less than 1 year – US dollar	875	1.0301	1.1111
Maturity – less than 1 year – US dollar	13,500	1.0354	1.1111

The fair values of the Corporation's forward foreign exchange contracts are based on the current market values of similar contracts with the same remaining duration as if the contract had been entered into on March 31, 2011.

The mark-to-market on these financial instruments as at March 31, 2011 was an unrealized gain of $1,026, which has been recorded in other expense for the period.

Long-term debt
The fair value of the Corporation's long-term debt, calculated by discounting the expected future cash flows based on current rates for debt with similar terms and maturities, is $64,120 at March 31, 2011.

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 $39,065.

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 $11,581.

Collateral
As at March 31, 2011, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $78,654.

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 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.

The following table presents the fair value of the financial instruments that are carried at fair value classified using the fair value hierarchy described above:

	Quoted Prices in Active Markets (Level 1) $	Significant Other Observable Inputs (Level II) $	Significant Unobservable Inputs (Level III) $	Total $
Financial Assets				
Forward foreign exchange contracts	–	1,026	–	1,026
Financial Liabilities				
Long-term debt	–	6,959	–	6,959

13. RELATED PARTY TRANSACTIONS
During the three month period ended March 31, 2011, the Corporation paid guarantee fees in the amount of $500 [2010 - $602] to the Chairman of the Corporation. The Corporation incurred interest of $1,248 [2010 - $1,963] in relation to the $65,000 Original loan due to Edco Capital Corporation (“Edco”), a corporation which is controlled by the Chairman of the Corporation which is due on July 1, 2011. During the three month period ended March 31, 2011 the Corporation prepaid the Original Loan by $1,500. At March 31, 2011, the Corporation owed Edco interest of $618 [2010 - $1,302]. Subsequent to March 31, 2011, the terms of the Original Loan and the guarantee fees were amended [Subsequent Events Note 19].

On April 30, 2009 the Chairman of the Corporation subscribed to $40,000 of the New Convertible Debentures. Interest incurred during the three month period ended March 31, 2011 on the New Convertible Debentures was $986 [2010 - $986].

14. SEGMENTED INFORMATION
Based on the nature of the Corporation’s markets, two main operating segments were identified: Aerospace and Power Generation Project. The Aerospace segment includes the design, development, manufacture, repair and overhaul and sale of systems and components for military and civil aviation, while the Power Generation Project segment includes the supply of gas turbine power generation units. Revenues in the Power Generation Project segment arise solely from the power generation project in Ghana and the revenue is included in Canada export revenue.

The Corporation evaluated the performance of its operating segments primarily based on income before interest expense 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 are as follows:

For the three month period ended March 31	2011 $	2010 $
Revenues		
Sale of goods	121,909	128,868
Construction contracts	22,405	26,829
Services	26,173	21,920
	170,487	177,617

The aggregate amount of revenue recognized to date for construction contracts in progress at March 31, 2011 was $277,424 [December 31, 2010 - $255,019]. Advance payments received for construction contracts in progress at March 31, was $32,736 [December 31, 2010 - $27,220]. Retention in connection with construction contracts at March 31, 2011 was $970 [December 31, 2010 - $995].

Segmented information for the three month period ended March 31 consists of the following:

Activity Segments:

			2011			2010
	Aerospace $	Power Generation Project $	Total $	Aerospace $	Power Generation Project $	Total $
Revenues	154,615	15,872	170,487	161,487	16,130	177,617
Income before interest and income taxes	13,089	1,286	14,375	8,998	1,123	10,121
Interest expense			4,262			5,318
Income before income taxes			10,113			4,803
Total assets	600,955	55,763	656,718	595,401	43,129	638,530
Total liabilities	385,330	46,913	432,243	382,664	35,271	417,935
Additions to property, plant and equipment	5,430	–	5,430	2,325	–	2,325
Depreciation and amortization	7,433	651	8,084	7,897	889	8,786

Geographic segments:

				2011				2010
	Canada $	United States $	United Kingdom $	Total $	Canada $	United States $	United Kingdom $	Total $
Revenue	88,241	47,022	35,224	170,487	98,499	46,066	33,052	177,617
Property, plant and equipment and intangible assets	163,875	111,109	30,946	305,930	165,825	114,267	30,976	311,068
Export revenue[1]	59,015	7,912	4,867	71,794	75,163	6,047	3,756	84,966

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

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

	2011	2010
Major Customers		
Canadian operations		
- Number of customers	2	2
- Percentage of total Canadian revenue	30%	27%
US operations		
- Number of customers	1	1
- Percentage of total US revenue	42%	37%
UK operations		
- Number of customers	1	2
- Percentage of total UK revenue	82%	84%

15. SUPPLEMENTARY INFORMATION

(a) Included in other expenses is a foreign exchange gain of $121 on the conversion of foreign currency denominated working capital balances and debt for the three month period ended March 31, 2011 [three month period ended March 31, 2010, losses of $1,485].

(b) Prepaid expenses and other include advance payments to suppliers and subcontractors in the amount of $8,238 [December 31, 2010 - $5,218].

(c) Accounts payable and accrued liabilities include advance payments received from customers in the amount of $35,502 [December 31, 2010 - $29,636].

16. ADOPTION OF INTERNATION FINANCIAL REPORTING STANDARDS

The Corporation has adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS the Corporation prepared its financial statements in accordance with Canadian GAAP. The Corporation's financial statements for the year ended December 31, 2011 will be the first annual financial statements that comply with IFRS. The Corporation's transition date is January 1, 2010 and the Corporation has prepared its opening IFRS statement of financial position at that date. These financial statements have been prepared in accordance with the accounting policies described in Note 2, including the application of IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"). The Corporation will ultimately prepare its opening statement of financial position and financial statements for 2010 and 2011 by applying existing IFRS with an effective date of December 31, 2011 or prior. Accordingly, the opening statement of financial position and financial statements for 2010 and 2009 may differ from these financial statements.

The following tables reconcile the financial statements previously reported under Canadian GAAP to the financial statements prepared in accordance with IFRS. Explanations of the effect of the transition to IFRS follow the reconciliations.

Reconciliation of equity at January 1, 2010

The following is a reconciliation of the Corporation's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at the transition date:

	Notes	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Cash		22,641	–	22,641
Trade and other receivable	(xiv)	82,850	14,703	97,553
Inventories		147,248	–	147,248
Prepaid expenses and other		38,458	–	38,458
Deferred tax assets - current	(xv)	3,958	(3,958)	–
Property, plant and equipment	(vi), (x)	254,700	(444)	254,256
Investment properties	(xvi)	–	3,369	3,369
Intangible assets	(viii)	88,668	(16,828)	71,840
Other assets	(iii), (ix)	24,909	(18,177)	6,732
Deferred tax assets	(xv)	17,186	2,675	19,861
Total assets		680,618	(18,660)	661,958
Bank indebtedness		140,590	–	140,590
Accounts payable and accrued liabilities	(xii)	135,373	(4,177)	131,196
Provisions - current	(xii)	–	4,441	4,441
Debt due within one year	(xi),(xiv)	2,321	14,892	17,213
Long-term debt	(xi)	73,716	692	74,408
Convertible debentures		38,182	–	38,182
Deferred tax liabilities	(xv)	10,281	(5,500)	4,781
Provisions	(xii)	–	2,148	2,148
Borrowings subject to specific conditions	(xiii)	–	9,096	9,096
Other long-term liabilities	(iii)	9,803	9,953	19,756
Total liabilities		410,266	31,545	441,811
Share Capital		234,389	–	234,389
Contributed surplus	(v)	4,708	(3,001)	1,707
Other paid in capital		13,565	–	13,565
Retained earnings		84,137	(113,651)	(29,514)
Accumulated other comprehensive loss	(iv)	(66,447)	66,447	–
Total equity		270,352	(50,205)	220,147
Total liabilities and equity		680,618	(18,660)	661,958

Reconciliation of equity at March 31, 2010

The following is a reconciliation of the Corporation's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at the transition date:

	Notes	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Cash		19,978	–	19,978
Trade and other receivable	(xiv)	89,014	10,915	99,929
Inventories	(xvii)	139,901	(178)	139,723
Prepaid expenses and other		25,367	–	25,367
Deferred tax assets - current	(xv)	3,986	(3,986)	–
Property, plant and equipment	(vi), (x)	244,819	(527)	244,292
Investment properties	(xvi)	–	3,317	3,317
Intangible assets	(viii)	85,061	(16,430)	68,631
Other assets	(iii), (ix)	27,534	(17,853)	9,681
Deferred tax assets	(xv)	17,210	2,651	19,861
Total assets		652,870	(22,091)	630,779
Bank indebtedness		130,606	–	130,606
Accounts payable and accrued liabilities	(xii)	123,808	(4,036)	119,772
Provisions - current	(xii)	–	4,312	4,312
Preference shares - current		8,000	–	8,000
Debt due within one year	(xi),(xiv)	2,255	11,034	13,289
Long-term debt	(xi)	72,489	528	73,017
Convertible debentures		38,354	–	38,354
Deferred tax liabilities	(xv)	10,806	(5,296)	5,510
Preference shares		12,000	–	12,000
Provisions	(xii)	–	2,149	2,149
Borrowings subject to specific conditions	(xiii)	–	9,922	9,922
Other long-term liabilities	(iii)	9,193	8,690	17,883
Total liabilities		407,511	27,303	434,814
Share Capital		214,440	–	214,440
Contributed surplus	(v)	4,878	(3,077)	1,801
Other paid in capital		13,565	–	13,565
Retained earnings		86,833	(112,960)	(26,127)
Accumulated other comprehensive loss	(iv)	(74,357)	66,643	(7,714)
Total equity		245,359	(49,394)	195,965
Total liabilities and equity		652,870	(22,091)	630,779

Reconciliation of equity at December 31, 2010

The following is a reconciliation of the Corporation's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at the transition date:

	Notes	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Cash		24,952	–	24,952
Trade and other receivable	(xiv)	84,287	9,935	94,222
Inventories	(xviii)	151,741	(943)	150,798
Prepaid expenses and other		11,838	–	11,838
Deferred tax assets - current	(xv)	3,742	(3,742)	–
Property, plant and equipment	(vi), (x)	239,508	(389)	239,119
Investment properties	(xvi)	–	3,192	3,192
Intangible assets	(viii)	80,322	(8,373)	71,949
Other assets	(iii), (ix)	39,791	(17,198)	22,593
Deferred tax assets	(xv)	18,082	1,754	19,836
Total assets		654,263	(15,764)	638,499
Bank indebtedness		117,046	–	117,046
Accounts payable and accrued liabilities	(xii)	135,528	(4,965)	130,563
Provisions – current	(xii)	–	5,324	5,324
Preference shares - current		8,000	–	8,000
Debt due within one year	(xi),(xiv)	48,438	10,103	58,541
Long-term debt	(xi)	17,700	143	17,843
Convertible debentures		38,901	–	38,901
Deferred tax liabilities	(xv)	13,391	(5,430)	7,961
Preference shares		4,000	–	4,000
Provisions	(xii)	–	2,079	2,079
Borrowings subject to specific conditions	(xiii)	–	13,372	13,372
Other long-term liabilities	(iii)	5,436	8,838	14,274
Total liabilities		388,440	29,464	417,904
Share Capital		214,440	–	214,440
Contributed surplus	(v)	5,289	(3,316)	1,973
Other paid in capital		13,565	–	13,565
Retained earnings		109,145	(108,136)	1,009
Accumulated other comprehensive loss	(iv)	(76,616)	66,224	(10,392)
Total equity		265,823	(45,228)	220,595
Total liabilities and equity		654,263	(15,764)	638,499

Reconciliation of net income for the three months ended March 31, 2010

	Notes	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Revenues	(xvii)	177,902	(285)	177,617
Cost of revenues	(iii), (viii), (x)	157,474	(1,062)	156,412
Gross profit		20,428	777	21,205
Administrative and general expenses	(v)	9,689	(87)	9,602
Other		1,482	–	1,482
Net income before interest and income taxes		9,257	864	10,121
Interest	(xi)	5,260	58	5,318
Income taxes		901	115	1,016
Net income		3,096	691	3,787
Foreign currency translation		(7,910)	196	(7,714)
Comprehensive income		(4,814)	887	(3,927)

Reconciliation of net income for the year ended December 31, 2010

	Notes	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Revenues	(xvii)	732,508	(873)	731,635
Cost of revenues	(iii), (viii), (x)	639,172	(10,819)	628,353
Gross profit		93,336	9,946	103,282
Administrative and general expenses	(v)	40,026	(256)	39,770
Other		127	–	127
Dividends on preference shares		880	–	880
Net income before interest and income taxes		52,303	10,202	62,505
Interest	(xi)	19,736	416	20,152
Income taxes	**(xv)**	7,159	850	8,009
Net income		25,408	8,936	34,344
Foreign currency translation		(10,169)	(223)	(10,392)
Actuarial loss on defined benefit plans		–	(3,421)	(3,421)
Comprehensive income		15,239	5,292	20,531

Explanations of the effects of the transition to IFRS

The following explanations accompany the preceding reconciliations and describe the effect of the transition to IFRS, including mandatory exceptions and optional exemptions from retrospective application of IFRS under IFRS 1 and items requiring retrospective application.

Mandatory exceptions from retrospective application

IFRS 1 requires certain mandatory exceptions from full retrospective application of all accounting standards effective at the transition date. The following mandatory exceptions were applicable to the Corporation at the transition date.

(i) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimated were in error. The Corporation's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

Optional IFRS 1 exemptions from retrospective application

In general, IFRS requires an entity to comply with all of the accounting standards effective at the end of the first reporting period after adopting IFRS. This means restating accounting transactions as if the standards had been in place when the transactions occurred. IFRS 1 provides optional exemptions from retrospectively applying the standards. The Corporation has applied the following significant optional exemptions to its opening statement of financial position prepared as at the date of transition.

(ii) Business combinations
The Corporation has elected to adopt IFRS 3, *Business Combinations* ["IFRS 3"] prospectively. Accordingly, all business combinations on or after January 1, 2010 will be accounted for in accordance with IFRS 3 and prior business combinations will not be restated.

(iii) Employee benefits
The Corporation has elected to recognize all cumulative actuarial gains and losses of $25,583 that were deferred previously under Canadian GAAP immediately in opening retained earnings at the date of transition for all of its employee benefit plans.

(iv) Cumulative translation difference
IAS 21, *The Effect of Changes in Foreign Exchange Rates* ["IAS 21"] requires cumulative translation differences to be reported as a separate component of equity and, on disposal of foreign operation, the cumulative translation difference related to that operation forms part of the gain or loss on disposal. The Corporation has elected to set previously accumulated cumulative translation differences, which was included in other comprehensive loss, to zero at January 1, 2010 and absorbed into retained earnings. This exemption has been applied to all subsidiaries. The aggregate amount at January 1, 2010 was $66,447.

(v) Share-based payment transactions
IFRS 2, *Share Based Payment* ["IFRS 2"] applies to situations where an entity grants shares or share options to employees or to other parties providing goods and services and requires these payments to be recognized as an expense in the entity's financial statements. The Corporation has elected to apply IFRS 2 to equity instruments granted after November 7, 2002 which had not vested at January 1, 2010. For equity instruments with a cash-settlement option the Corporation has not applied IFRS 2 to liabilities that were settled before January 1, 2010. In addition IFRS 1, allows for the reversal of cumulative expense previously recognized on options vested at the transition date.

Under IFRS, the Corporation moved from straight-line to graded vesting as well as to estimating forfeitures for the recognition of share-based compensation expense. The graded vesting requires a greater portion of expense to be recorded in the initial periods compared to distributing the expense equally over all vesting periods under the straight-line method.

At January 1, 2010, this change in accounting policy reduced contributed surplus and increased opening retained earnings by $3,001. The expense under IFRS is $314 lower for the year ended December 31, 2010 than under Canadian GAAP. There is no impact on the assets of the Corporation as the charge to the income statement is matched by an equal credit through equity.

(vi) Deemed cost
IFRS 1 provides the option to measure property, plant and equipment, investment properties and intangible assets at deemed cost being the fair value of the asset at the date of transition. The Corporation has elected to measure items of property, plant and equipment, investment properties and intangible assets at depreciated historical cost.

(vii) Borrowing costs
IFRS 1 provides the option to apply IAS 23, *Borrowing Costs* ("IAS 23") retrospectively or prospectively from the date of transition. The Corporation has elected to apply IAS 23 on a prospective basis.

Explanation of reconciling items from Canadian GAAP to IFRS

(viii) Impairment of assets
IAS 36, *Impairment of Assets* ("IAS 36"), requires a one-step approach to determine the recoverable amount of a CGU. Canadian GAAP's two step approach required the application of discounted cash flow techniques to measure the impairment amount, but only after the use of undiscounted cash analysis indicates the existence of impairment. The adoption of IAS 36 is expected to result in more frequent write downs since the carrying amount of the assets which are supported by undiscounted cash flows may be determined impaired when the future cash flows are discounted in accordance with the IFRS requirements. Under IFRS, except for impairment losses attributed to goodwill, previous impairment losses may be reversed or reduced if circumstances lead to a change in the impairment amount.

In accordance with IAS 36, the Corporation assessed whether there are events or circumstances indicating that an asset may be impaired both at the date of transition to IFRS and as at December 31, 2010. Recoverable amounts were calculated on value in use, using discounted cash flow models based on the Corporation's long-term planning model. The key assumptions used in those reviews are disclosed in Note 20(a). As a result of the review of recoverable amounts it was determined that certain of the Corporation's CGUs were impaired.

The total impact on the statement of financial position shows a reduction in investment property of $180 at January 1, 2010 [$170 at December 31, 2010] and a reduction in intangible assets of $19,103 at January 1, 2010 [$11,372 at December 31, 2010]. In addition, the operating expense reflects the impact on depreciation/amortization as a result of the recognition of an impairment loss on transition to IFRS.

(ix) Employee benefits
Under IAS 19, *Employee Benefits* ("IAS 19"), the Corporation has elected to recognize all actuarial gains and losses immediately in opening retained earnings without recognition to the income statement in subsequent periods. As a result, actuarial gains and losses are not amortized to the income statement but rather are recorded directly to retained earnings at the end of each reporting period. The Corporations' operating companies have adjusted their pension expense to remove the amortization of actuarial gains or losses.

IAS 19 requires the Corporation to expense vested past service costs immediately and unvested service costs on a straight-line basis until the benefits become vested. The Corporation currently amortizes past service costs over the expected average remaining service life to full eligibility of the employees covered by the plan. In addition IFRIC 14, *The Limit on a Defined Benefit Asset - Minimum Funding Requirements*, requires the Corporation to take into account solvency funding contributions it currently makes to its pension plans to cover it solvency deficit when determining its pension asset or obligation The Corporation has recorded an additional liability as a result of IFRIC 14.

The statement of financial position shows a total IAS 19 pension deficit of $10,698 at January 1, 2010 [$9,637 at December 31, 2010] which compares with an asset of $16,059 at January 1, 2010 [$22,616 at December 31, 2010] reported previously under Canadian GAAP. In addition, the operating expense through the 2010 income statement reduced by $1,328.

(x) Property, plant and equipment
Consistent with Canadian GAAP, IAS 16, *Property, Plant and Equipment* ("IAS 16") requires separable components of property, plant and equipment to be recognized initially at cost. As a result of the detailed componentization assessment, the total impact on the statement of financial position shows a reduction in property, plant and equipment of $744 at January 1, 2010 [$775 at December 31, 2010]. In addition, the operating expense reflects a reduction on depreciation and amortization as a result of derecognizing certain assets on transition to IFRS.

(xi) Leases
When classifying capital leases (or "finance leases"), more judgment is applied and additional qualitative indicators are used under IAS 17, *Leases* ("IAS 17") to determine lease classification due to the lack of quantitative threshold as specified in Canadian GAAP. The Corporation has reclassified certain leases previously accounted for as operating leases under Canadian GAAP as finance leases under IFRS. This affects the statement of financial position at January 1, 2010 by increases in property, plant and equipment of $3,786 [$3,369 at December 31, 2010]; long-term debt by $1,314 [$656 at December 31, 2010] and opening retained earnings of $2,472 [$2,857 at December 31, 2010].

(xii) Provisions
IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37") require an entity to recognize a provision when a contract is determined to be onerous. A contract is onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Canadian GAAP only requires the recognition of such a liability in certain prescribed situations. This difference resulted in the recognition of a liability under IFRS that was not previously recognized under Canadian GAAP. Other measurement differences under IFRS also resulted in the earlier recognition of provisions.

The total impact on the statement of financial position shows an increase in current and long-term provisions of $6,589 at January 1, 2010 [$7,403 at December 31, 2010]. In addition, the operating expense reflects the impact on operating expense as a result of the recognition of the additional provisions on transition to IFRS.

Under IFRS, current and long-term provisions are accounted for and disclosed separately from accounts payable and accrued liabilities and other liabilities. Provisions were reclassified from accounts payable and accrued liabilities and other liabilities to current and long-term provisions.

(xiii) Government grants
Under Canadian GAAP, government grants received are deducted from the related asset or expense and any repayments are recorded as an expense in cost of revenues. Under IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* ("IAS 20"), government grants are recognized when there is reasonable assurance that the entity will comply with the

conditions attached to them and the grants will be received. In addition, a liability is recognized for future royalty payments when it is probable that all or part of the amounts received will be repaid based on future estimated sales. Repayments made are recorded as a reduction of the liability. A revision to the estimate of amounts to be repaid results in an increase or decrease in the liability and the related asset or expense, and a cumulative adjustment to amortization is recognized immediately in income. Upon transition to IFRS, the Corporation has recorded a liability based on management's best estimate of the expected amount of government grants that may become repayable.

This affects the statement of financial position at January 1, 2010 by increasing other assets by $679 [$5,007 at December 31, 2010], intangible assets by $2,276 [$2,492 at December 31, 2010], property, plant and equipment by $63 [$379 at December 31, 2010], borrowings by $9,095 [$13,372 at December 31, 2010] and a reduction in accounts payable and accrued liabilities by $719 [increased by $45 at December 31, 2010] and opening retained earnings of $5,359 [$5,178 at December 31, 2010].

(xiv) Financial instruments

Under IAS 39, *Financial Instruments* ("IAS 39"), the criterion for derecognizing of receivables under IFRS is different from Canadian GAAP as Canadian GAAP focuses mainly on surrendering control over the transferred assets while IFRS focuses on the transfer of substantive risks and rewards. Certain receivables in which the Corporation sells but does not transfer substantially all the risks and rewards will need to be recognized on the statement of financial position.

This affects the statement of financial position at January 1, 2010 by increasing trade and other receivables and Debt due within one year by $14,270 [$9,591 at December 31, 2010].

(xv) Income taxes

While IAS 12, *Income Taxes* ("IAS 12") is similar to the existing Canadian GAAP standard, any material adjustments to balances resulting from the adoption to IFRS would have a corresponding effect on deferred tax balances.

Under Canadian GAAP, an entity is required to present both current and long-term future income taxes on its statement of financial position. Under IFRS, all future income taxes will be presented as long-term assets or liabilities.

The total impact on the statement of financial position at January 1, 2010 is an increase in the net deferred tax asset by $4,217 [$3,442 at December 31, 2010] compared with that previously reported under Canadian GAAP.

(xvi) Investment properties

Investment property as defined by IAS 40, *Investment Properties* ["IAS 40"] requires a separate line presentation called "Investment Property" on the statement of financial position for property that is held to earn rental income or for capital appreciation. If the cost model is chosen for recording purposes, then fair value information is required to be disclosed in the notes to the financial statements. The Corporation holds properties that earn rental income from third parties in addition to holdings of excess land.

The Corporation has determined that these properties meet the definition of investment property under IAS 40 and has disclosed as at January 1, 2010 investment properties of $3,369 [$3,192 at December 31, 2010] as a separate line item in the consolidated financial statements.

(xvii) Functional currency

Under IAS 21, each entity, division or branch in a group must be analyzed, through application of primary and secondary factors, to determine its functional currency. Based on this assessment, the functional currency of each of the Canadian entities in the group is the Canadian dollar, with the exception of a branch which has a US dollar functional currency. Under Canadian GAAP the functional currency of the branch was assessed as part of the integral operations of a Canadian entity of the Corporation, hence the branch had a Canadian dollar functional currency.

(xviii) Cash flows

The Corporation's cash flows under IFRS are unchanged from those under Canadian GAAP. All of the IFRS accounting adjustments net out within cash generated from operations except for the recording of borrowings in relation to the repayable government grants which have increased the 2010 net cash generated from financing activities with an offsetting increase in 2010 cash used in investing activities by $3,976, and the recognition of accounts receivables and debt due within one year under the securitization program which increased the 2010 net cash generated from financing activities by $4,679.

17. MANAGEMENT OF CAPITAL

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

As at March 31, 2011, total managed capital was $470,154, comprised of shareholders' equity of $224,475 and interest-bearing debt of $245,679. Included in interest bearing debt are the preference shares of $12,000 and the debt component of the convertible debentures of $39,094, where a component of the associated interest expense is a non-cash charge.

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.

18. CONTINGENT LIABILITES AND COMMITMENTS

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

At March 31, 2011 capital commitments in respect of purchase of property, plant and equipment totalled $65,725, all of which had been ordered. There were no other material capital commitments at the end of the period.

19. SUBSEQUENT EVENTS

On April 29, 2011 the Corporation amended and restated its credit agreement with its existing lenders and has extended the Original Loan with Edco in order to provide loan facilities for a two year period. Under the terms of the amended operating credit agreement, the Corporation and the lenders have agreed that the maximum available under the operating credit facility will be amended to a Canadian dollar limit of $125,000 plus a US dollar limit of $50,000 [previously a Canadian dollar limit of $105,000 plus a US dollar limit of $70,000] and the maturity date has been extended to April 29, 2013 and will continue to be fully guaranteed until April 29, 2013 by the Chairman of the Board of the Corporation, in consideration of the continued payment by the Corporation of an annual fee payable monthly equal to 0.63% [previously 1.15%] of the loan amount. The facility is extendible for unlimited future one year renewal periods, subject to mutual consent of the syndicate of lenders and the Corporation.

The terms of the amended operating credit facility permit the Corporation to (i) repay, in whole or in part, the Original Loan outstanding from Edco and (ii) retract all [approximately $12,000] of the Preference Shares on or after April 30, 2011, 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 loan and the payment of the retraction amount the Corporation has at least $25,000 in availability under the operating credit facility.

As a result, the Corporation has retracted $4,000 of the Preference Shares on April 30, 2011, and, subject to such limitations under the operating credit facility, applicable laws and board approval, the Corporation will retract the remainder of the Preference Shares as soon as practical thereafter.

In addition, the extension and restatement of the Original Loan outstanding as at March 31, 2011 in the principal amount of $44,500 from Edco, which is wholly owned by the Chairman of the Board of the Corporation was completed. The Corporation has the right to repay the secured subordinated loan at any time without penalty. The interest rate was decreased from 11% per annum to 7.5% per annum commencing July 1, 2011 and the loan extended to July 1, 2013 in consideration of the payment of a fee to Edco equal to 1% of the principal amount outstanding on July 1, 2011.

20. SUPPLEMENTAL ANNUAL DISCLOSURES FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010

(a) Intangible assets

	Technology rights $	Development costs $	Total $
Cost			
At January 1, 2010	38,990	85,056	124,046
Additions	–	4,230	4,230
Disposals	–	(121)	(121)
Foreign currency translation	(85)	(1,805)	(1,890)
At December 31, 2010	38,905	87,360	126,265
Additions	–	446	446
Disposals	–	–	–
Foreign currency translation	(38)	(642)	(680)
At March 31, 2011	38,867	87,164	126,031
Depreciation and impairment			
At January 1, 2010	(13,486)	(38,720)	(52,206)
Depreciation	(3,057)	(7,367)	(10,424)
Impairment reversal	3,280	4,115	7,395
Foreign currency translation	12	907	919
At December 31, 2010	(13,251)	(41,065)	(54,316)
Depreciation	(631)	(1,735)	(2,366)
Impairment	–	–	–
Foreign currency translation	8	357	365
At March 31, 2011	(13,874)	(42,443)	(56,317)
Net book value			
At January 1, 2010	25,504	46,336	71,840
At December 31,2010	25,654	46,295	71,949
At March 31, 2011	24,993	44,721	69,714

Technology rights relate to an agreement signed in 2003, which permits the Corporation to manufacture aerospace engine components and share in the revenue generated by the final sale of the engine. A follow-on contract was signed in 2005.

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 recoverable amount of programs, projects and product families is determined based on estimated future cash flows for the term over which the program is expected to be marketed, which may span several decades.

Impairments

At the end of each reporting period, the Corporation assess whether there are events or circumstances indicating that an asset may be impaired. Such events or circumstances notably include material adverse changes which in the long-term impact the economic environment (commercial prospects, procurement sources, index or cost movements, etc.) or the Corporation's assumptions or objectives (medium-term plan, profitability analyses, market share, backlog, regulations, etc.).

The main assumptions used to determine the recoverable amount of intangible assets relating to programs, projects and product families are as follows:

- The discounted cash flow approach used to estimate the value in use of the CGU's incorporated market participant assumptions. Expected future cash flows are calculated based on the medium-term plans established for the next five years and estimated cash flows for years 6 to 25.
- Growth rates of nil to 1% were used to extrapolate cash flow projections beyond the five year period covered by the long-term plan and did not exceed the long-term average growth rate of the industry.
- The average US exchange rate adopted is 1.00.
- The pre-tax discount rates used reflect the current market assessment of the risks specific to each CGU. The discount rate was estimated based on the average percentage of weighted average cost of capital for the

industry. A discount rate of 12.5% was applied to the cash flow projections determined in the year end testing of recoverable amounts [January 1, 2010 – 12.5%].

As a result of the impairment tests performed, the Corporation recognized a reversal of previous impairment losses of $3,280 against technology rights and $4,347 against development costs relating to various civil aircraft programs as the Corporation was able to achieve reductions in costs as a result of a mix of improved efficiencies and reduced material costs. These impairment reversals were treated as reduction against recurring costs of revenues. The Corporation also recognized impairment losses of $232 against development expenditures relating to a civil aircraft program.

(b) Employee future benefits

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

Defined contribution plans
The Corporation's expenses for defined contribution plans for the year ended December 31, 2010 totalled $4,212.

Defined benefit plans
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 Company 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.

The Corporation's defined benefit plans cover payments for pensions, and other benefit plans described as follows:

Pension plans
The Corporation's pension plans provide eligible employees with pension benefits based on a number of criteria including earnings, years of service, retirement age, and specified benefit levels, and include both final average earnings formulae and minimum benefit formulae.

Actuarial valuations for funding purposes are prepared and filed with the appropriate regulatory authorities at least tri-annually. The most recent actuarial valuations for the various pension plans were completed between December 31, 2007 and December 31, 2009.

Other benefit plan
The Corporation has another benefit plan to provide post-employment coverage for health care benefits including prescribed drugs, hospital and other medical, dental and vision benefits for eligible retired employees, their spouses and eligible dependants. Other benefit plans provide 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 following table summarizes the changes in benefit plan assets and obligations of the Corporation's defined benefit plans, in aggregate:

		2010
	Pension benefit plans $	Other benefit plans $
Defined Benefit Plan Assets		
Fair market value of plan assets		
Beginning of year	106,843	–
Actual return on plan assets	3,982	–
Employer contributions	8,335	–
Employee contributions	303	–
Benefit payments	(4,812)	–
Benefit payments in relation to plan wind-up	(32,255)	–
Foreign exchange loss	(327)	–
End of year	82,069	–

		2010
	Pension benefit plans $	Other benefit plans $
Defined Benefit Plan Obligations		
Accrued benefit obligation		
Beginning of year	110,616	872
Current service cost	2,293	–
Interest cost	5,828	314
Employee contributions	303	–
Benefit payments	(4,812)	(408)
Benefit payments in relation to plan wind-up	(32,255)	–
Actuarial loss	9,927	–
Foreign exchange loss	(508)	(44)
End of year	91,392	734

Reconciliation of Funded Status of Benefit Plans to Amounts Recorded in the Financial Statements

	December 31, 2010	
	Pension benefit plans $	Other benefit plans $
Defined Benefit Plan Obligations		
Fair market value of plan assets	82,069	–
Accrued benefit obligation	(91,392)	(734)
Funded status of plans – deficit	(9,323)	(734)
Effect of limit on recognition of asset	(314)	–
Accrued benefit liability	(9,637)	(734)

The accrued benefit liability related to pensions and other benefit plans is included in accounts payable and accrued charges and other long-term liabilities, respectively.

One of the five defined benefit plans was in a surplus status as at December 31, 2010 and two of the six defined benefit plans were in a surplus status as at December 31, 2009. During 2010 the Corporation completed the wind-up of one of its defined benefit plans.

Components of pension costs

The following table shows the before tax impact on net income and other comprehensive income of the Corporation's pension and other defined benefit plans.

		2010
	Pension benefit plans $	Other benefit plans $
Recognized in net income		
Current service cost	2,293	–
Interest cost	5,828	314
Expected return on plan assets	(5,994)	–
Other	–	–
Total pension cost recognized in net income	2,127	314

	2010	
	Pension benefit plans $	Other benefit plans $
Recognized in other comprehensive income		
Actuarial loss (gain) immediately recognized	(7,126)	
Effect of limit on recognition of asset	3,412	–
Total pension cost recognized in other comprehensive income	(3,714)	–

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]:

	2010	
	Pension benefit plans	Other benefit plans
Accrued benefit obligation at December 31;		
Discount rate	5.25%	7.0%
Expected long-term rate of return on plan assets	6.0%	–
Rate of compensation increase	2.9%	–
Benefit costs for the year ended December 31:		
Discount rate	5.25%	7.0%
Expected long-term rate of return on plan assets	6.0%	–
Rate of compensation increase	2.9%	–

For measurement purposes, a 5.0% to 10.0% annual rate of increase in the per capita cost of covered health care and dental benefits was assumed for 2010. The rate was assumed to decrease gradually over the next 10 years to 3.0% and to remain at that level thereafter.

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, 2010 was nominal.

(c) Income taxes

The following are the major components of the income tax expense for the year ended December 31, 2010:

	2010 $
Current tax expense	(331)
Deferred tax expense	8,340
Total income tax expense	8,009

Income taxes (recovery) recognized in other comprehensive income (loss) for the year ended December 31, 2010 are as follows:

	2010 $
Defined benefit plan actuarial losses	750

Income taxes in the Consolidated Statements of Income vary from amounts that would be computed by applying statutory income tax rates for the following reasons:

	2010 $
Income before income taxes	42,353
Income taxes based on the applicable tax rate of 29%	12,282
Adjustment to income taxes resulting from:	
Benefit of previously unrecognized tax assets	(1,460)
Change in valuation allowances	(1,317)
Adjustments in respect of prior years	(120)
Permanent differences	(781)
Higher income tax rates on earnings of foreign operations	376
Changes in income tax rates	(971)
Income tax expense	8,009