MAGELLAN AEROSPACE

2010 ANNUAL REPORT

Magellan Aerospace Corporation ("Magellan" or the "Corporation") is pleased to report to you the results for 2010, a year of lingering uncertainties in the North American and European aerospace markets during the first half of the year, with turnaround signs in the second half of 2010 in much of the world's aerospace market. This turnaround has now been muted by the rapid rise of oil prices in 2011 and the question it may have on civil airlines profits.

The global aerospace industry rallied in 2010, with world airlines reporting stronger load factors, revenues and profitability, and aircraft and engine manufacturers announcing increased production rates to accommodate growing demand for new aircraft. Business aircraft activity rates began to increase more broadly, hopefully a precursor to increased demand ahead. Production of defence aircraft, helicopters and engines maintained current build rates through 2010 due, to some degree, to the natural inertia of large capital equipment schedules, and to aftermarket support of high activity rates.

Production rate increases occurred primarily in the single-aisle sector of the civil airlines market, while regional jets, twin-aisle and large aircraft continued to lag, especially those not yet, or newly, in service. The in-service A380 has been slow to reach predicted production rates due to weaknesses in certain regional markets, while the B787 and A350 have experienced a number of development and certification delays beyond those expected of a new-design aircraft. Finally, the F-35 Joint Strike Fighter (JSF) has experienced manufacturing and testing challenges as it moved towards higher rates of production, particularly for the more complex vertical landing F-35B variant. Elections in the United States also caused delays in defense budget approvals in late 2010.

The Corporation has retained a strong position in the single-aisle market with Airbus and Boeing, with production rates for both having been raised in 2010 to record levels. Magellan also benefited from increased production on certain of the current twin-aisle aircraft of Airbus (A330) and Boeing (B777). The Corporation has positioned itself for revenue 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. Both aircraft have built strong order books, and are expected to significantly improve long range air travel world-wide.

Magellan also increased its position on the F-35 multi-nation JSF program in 2010, assisted by its investment in technology, knowledge, plant and equipment. The F-35 added new customers in 2010, and the air force and navy variants of the aircraft (F-35A and F-35C respectively) are ahead of schedule in testing. Low rate production of these variants will accelerate annually in 2011 and beyond, with the vertical landing variant expected to rejoin production within two years. In 2010, Magellan continued to renew contracts for existing manufacturing, won a landing gear package, and accessed opportunities for new packages as this large program moved forward.

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.

In the United States, the NASA budget has been stabilized at its current level as the major transition from NASA to civilian industry support of the International Space Station moves forward, and NASA returns to solar system manned space travel, targeting the mission to Mars as its major focus of the next 25 years.

In Europe, Magellan’s Verdict Aerospace division based in the United Kingdom manufactured precision exotic metal alloy components for two communications satellites in 2010, and will participate in an explorer/lander mission to Mercury in 2012. Its customers include Astrium, Europe's largest space company, Eutelsat and the European Space Agency.

Magellan/Verdict will support broadband services that can be received by smaller, more efficient terminals, and new broadcast and multicast services in Africa, Europe and parts of the Middle East.

Magellan remains actively engaged in a number of other upcoming Canadian, American and European science and operational satellite missions. Demand for other Magellan proprietary safety and defence products remains stable or will see growth as Magellan's capabilities continue to become more knowledge-based.

The power generation project sector for Magellan represents a new initiative for Magellan with current activities focused in the Republic of Ghana, where Magellan is the prime contractor of a major electrical power generation installation. Additional opportunities in this type of infrastructure growth environment may arise as the Ghana project is successfully completed.

Magellan's traditional manufacturing competencies are continuously being upgraded through introduction of increased knowledge of new material properties and manufacturing technologies. This growth in knowledge-based activity is allowing Magellan to compete successfully for higher complexity manufacturing roles in its traditional markets, which in turn raises the value of Magellan to its key customers. This transition towards knowledge-based activity throughout its spectrum of products will be the hallmark of Magellan's efforts in this coming decade.

As we move forward from our accomplishments over the past few years, we feel it is important to thank our investors and financial partners for your steadfast support. We also salute our Magellan employees, across all of our locations around the world, for your enthusiasm for the future, and for the new Magellan that is emerging from the successes of the past years.

JSButyniec

James S. Butyniec
President and Chief Executive Officer

March 23, 2011

The Management Discussion and Analysis ("MD&A") of financial condition and results of operations has been prepared as of March 23, 2011 and should be read in conjunction with the 2010 consolidated financial statements and notes thereto. Magellan Aerospace Corporation ("Magellan" or the "Corporation") reports its audited consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are reported in Canadian dollars unless otherwise noted.

The MD&A contains forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance. All statements other than statements of historical facts may be forward-looking statements. In particular and without limitation there are forward looking statements under the heading "Outlook," "2010 Updates," "Liquidity" and "Future Changes in Accounting Policies,". In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "expects," "projects," "plans," "anticipates," and similar expressions. The projections, estimates and beliefs contained in such forward-looking statements are based on management's assumptions relating to the production performance of Magellan's assets and competition throughout the aerospace industry in 2010 and continuation of the current regulatory and tax regimes in the jurisdictions in which the Corporation operates, and necessarily involve known and unknown risks and uncertainties, including the business risks discussed in this MD&A, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Except as required by law, the Corporation does not undertake to update any forward-looking information in this document whether as to new information, future events or otherwise.

COMPANY 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.

Magellan is organized and managed as two business segments and is viewed as two operating segments by the chief operating decision-makers, for the purpose of resource allocations, assessing performance, and strategic planning. These two segments are: Aerospace and Power Generation Project. The Corporation supplies both the commercial and military sectors of the Aerospace segment. In the commercial sector, the Corporation is active in the business jet, regional aircraft, helicopter and large commercial jet markets. On the military side, the Corporation provides parts and services for all major military aircraft. Magellan's sole product for the Power Generation Project segment is the electric power generation project in the Republic of Ghana.

The Corporation's revenues by segment are as follows:

	2010	2009
Aerospace	86%	99%
Power Generation Project	14%	1%
	100%	100%

Within the Aerospace segment, the Corporation has two major product groupings: aerostructures and aeroengines. Aerostructure and aeroengine products are used both in new aircraft and for spares and replacement parts.

The Corporation supplies aerostructure products to an international customer base in the civil and defence markets. Components are produced to aerospace tolerances using conventional and high-speed automated machining centres. Capabilities include precision casting of airframe-mounted components. Management believes that Magellan's dedication to technological innovation combined with low cost sourcing from emerging markets will position the Corporation to capture targeted complex assembly programs.

Within the aeroengines product grouping, the Corporation manufactures complex cast, fabricated and machined gas turbine engine components, both static and rotating, and integrated nacelle components, flow paths and engine exhaust systems for the world's leading aeroengine manufacturers. The Corporation also performs repair and overhaul services for jet engines and related components.

The Power Generation Project segment is a specialty product complementary to the Corporation's principal business. The Corporation's sole product for the Power Generation Project segment is an electric power generation project in the Republic of Ghana that is expected to be substantially completed by the end of 2011. While a number of power generation project opportunities are being considered, at this time the Corporation does not have any other committed projects.

The Corporation serves both the commercial and defence markets. In 2010, 64.4% of revenues were derived from the commercial markets (2009 – 63.9%, 2008 – 68.2%) while 35.6% of revenues related to defence markets (2009 - 36.1%, 2008 – 31.8%).

OUTLOOK

Over the last two years, from the depths of the economic recession in late 2008 and early 2009, the Corporation has been effective in making the changes required to operate in today's exchange environments, including parity between the Canadian and United States dollars. Increasingly, dollar-based costs are being sought by European and other aerospace companies as a natural currency hedge to improve their global competitiveness.

During this period of time the Corporation has increased the efficiencies of individual operating sites through a number of physical enhancements to manufacturing capabilities. 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 efficiencies.

Civil airline recovery was extensive in 2010 with the majority of airlines worldwide reporting profitable results and either operating modern aircraft or in the process of replacing old aircraft with new, efficient aircraft. The higher cost of oil and fuel recently experienced in early 2011, whether short-lived or long-term, may damage airline profitability in 2011 and beyond, especially those with older equipment. It should also spur the pace of replacement with fuel efficient aircraft, but new capacity is unlikely to be generated until the political climate allows. Global airfreight is also in recovery, and should continue to build in 2011 as newer aircraft reduce operating costs.

Nevertheless, there are uncertainties being generated by the political unrest in the Middle East. These political tensions and changes, while somewhat contained to date, represent uncertainty, oil price disruption, and higher prices for fuel, a major cost to aviation. Should the Middle East situation continue, or materially worsen, significant global economic impacts are likely, including in the air travel industry.

The defence sector is in the process of slowing, driven by economic factors in Europe and by both political and economic factors in the United States. Defence sales in India and other parts of Asia and the Middle East are likely to proceed more slowly. Selected projects, such as the F35 aircraft, are most likely to return to planned growth in the second half of 2011, and continue steadily thereafter as initial issues are corrected. The USAF KC-45A Tanker program activity is also scheduled to begin in 2011, with the first 18 aircraft deliveries programmed for 2017.

Industrial power generation opportunities continue to emerge in less developed areas such as central Africa. In the emerging world, China and India are growing rapidly, and need power sources to expand accordingly. These trends are expected to continue for much of this decade.

The Corporation's positioning in civil and defence aerospace sectors has been based on active analysis of opportunity and selective capture of new aircraft and engine opportunities. Magellan saw the opportunity in joining new programs early, applying its capabilities, and delivering value for the long term. The Corporation has significant roles in the civil airliner sector, including the Boeing B777 and B787, and the Airbus A380, and A350. Sales have been buoyed by the strength of both the B737 and the A320 single aisle aircraft that are now being delivered at an average of over 75 aircraft a month combined. The F35 aircraft is forecast to ramp up production, achieving a target of 32 aircraft annually by 2012.

The Corporation's strategy of engagement with its key customers has been very effective in Magellan targeting changes that help the customer, and the customer recognizing these changes as mutually beneficial. The level of complexity of the work being done in the Corporation's facilities is growing annually, and provides the means to apply the knowledge and capability of each site as high value-added benefit to the customer. Selective off-load of less complex work continues to grow, with increasingly positive benefits being realized.

RISK FACTORS

The Corporation's performance may be affected by a number of risks and uncertainties. Magellan's senior management identifies key risks and has processes in place to help monitor, manage, and mitigate these risks. Additional risks and uncertainties not presently known by the Corporation, or that the Corporation does not currently anticipate may be material and may impair the Corporation's performance.

The following risks and uncertainties apply to the Corporation. Additional information relating to risks and uncertainties are set forth in the Corporation's Annual Information Form on SEDAR at www.sedar.com.

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

A large portion of the Corporation's revenues and expenses are not currently denominated in Canadian dollars, and it is expected that some revenues and expenses will continue to be based in currencies other than the Canadian dollar. Therefore, fluctuations in the Canadian dollar exchange rate will impact the Corporation's results of operations and financial condition from period to period. In addition, such fluctuations affect the translation of the Corporation's results for purposes of its consolidated financial statements. The Corporation's activities to manage its currency exposure may not be successful.

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

Market events and conditions that occurred in 2007 and 2008, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, caused significant volatility in the credit and financial markets. These conditions worsened in 2008, continued into 2009, and though improved, have continued in 2010 resulting in an ongoing lack of confidence in the broader U.S. and global credit and financial markets. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. While global financial conditions and outlook have improved somewhat, these factors continue to negatively impact company valuations and impact the performance of the global economy going forward. Recent political unrest in the countries of North Africa and the Middle East may create more volatility in the price of oil and may threaten the ongoing recovery of the global economy or may have other unforeseen consequences.

The Corporation cannot predict the depth or duration of downturns in the domestic and global economies nor the effects on markets that the Corporation serves, particularly the airline industry. The Corporation's ability to increase or maintain its revenues and operating results may be impaired as a result of negative general economic conditions. The current economic uncertainty renders estimates of future revenues and expenditures even more difficult than usual to formulate. The future direction of the overall domestic and global economies could have a significant impact on the Corporation's overall financial performance and may impact the value of its Common Shares.

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

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

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

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

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

The Corporation has borrowed an amount of $65 million from Edco Capital Corporation ("Edco") pursuant to a secured subordinated loan agreement ("Original Loan"). On March 26, 2010, the Original Loan was amended by decreasing the interest rate from 12% to 11% per annum commencing on July 1, 2010 and extending the loan to July 1, 2011. In addition, on December 22, 2009, Edco also extended an option to Magellan, exercisable on or before July 1, 2011, to renew the loan for a further one year period on payment of an extension fee of 1% of the principal amount of the loan and on the condition that the operating credit facility is renewed for an additional 364 day period beginning May 22, 2011 on terms satisfactory to the Board and on the condition that there is no material change in the business, operations or capital of Magellan.

The holders of the First Preference Shares Series A issued for $20 million have the right to retract the First Preference Shares Series A for the issue price plus accrued and unpaid dividends and subject to law, the Corporation is required to retract the First Preference Shares Series A in whole or in part to the extent not restricted by any instrument of indebtedness of the Corporation.

The $40 million principal amount of the 10% convertible secured subordinated debentures ("New Convertible Debentures") is due April 30, 2012 and the Corporation may need to finance repayment of such amount. There is no assurance that alternative debt or equity financing will be available, or will be available on satisfactory terms, to the Corporation to refinance the repayment of, or to fund the offer to purchase, the New Convertible Debentures or the Original Loan. Credit ratings and access to the capital markets may be impacted by a number of matters, include those set forth in this Annual Information Form, and a number of external factors beyond the Corporation's control and there can be no assurance that access to the capital markets will be available to refinance, or to fund the offer to purchase, the New Convertible Debentures or the Original Loan.

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

The majority of the Corporation's gross profit and operating income is derived from the aerospace industry. The Corporation's aerospace operations are focused on engineering and manufacturing aircraft components on new aircraft, selling spare parts and performing repair and overhaul services on existing aircraft and aircraft components. Therefore, the Corporation's business is directly affected by economic factors and other trends that affect the Corporation's customers in the aerospace industry, including a possible decrease in outsourcing by aircraft operators and original equipment manufacturers ("OEMs"), decreased demand for air travel or projected market growth that may not materialize or be sustainable. When these economic and other factors adversely affect the aerospace industry, they tend to reduce the overall customer demand for the Corporation's products and services, which decreases the Corporation's operating income. Economic and other factors, both internal to the aerospace industry or general economic factors that might affect the aerospace industry may have an adverse impact on the Corporation's results of operations.

Cancellations, reductions or delays in customer orders may adversely affect the Corporation's results of operations.

The Corporation's overall operating results are affected by many factors, including the timing of orders from large customers and the timing of expenditures to manufacture parts and purchase inventory in anticipation of future sales of products and services. A large portion of the Corporation's operating expenses is relatively fixed. Because several of the Corporation's operating locations typically do not obtain long-term purchase orders or commitments from customers, the Corporation must anticipate the future volume of orders based upon the historic purchasing patterns of customers and upon discussions with customers as to their anticipated future requirements. These historic patterns may be disrupted by many factors, including changing economic conditions, inventory adjustments, work stoppages or labour disruptions. Cancellations, reductions or delays in orders by a customer or group of customers could have a material adverse effect on the Corporation's business, financial condition and results of operations.

SELECTED ANNUAL FINANCIAL INFORMATION

Expressed in millions of dollars except per share information	2010	2009	2008
Revenues	732.5	686.6	686.4
Net income for the year	25.4	26.0	12.9
Net income per common share			
Basic	1.37	1.34	0.62
Diluted	0.51	0.61	0.62
Total assets	654.3	680.6	670.7
Total long term liabilities	79.4	132.0	51.7

Revenues for the year ended December 31, 2010 increased from 2009 and 2008 mainly due to increased revenues earned on the Corporation's power generation project. The Corporation has not paid dividends on its common shares in the past four years. In 2005, the Corporation issued 2,000,000 8.0% Cumulative Redeemable First Preference Shares Series A of which 1,200,013 were outstanding at December 31, 2010. The Corporation declared dividends thereon of $0.80 per share during each of 2010 and 2009.

2010 UPDATES

- GKN Aerospace - Filton awarded a contract to Magellan Aerospace (UK) Limited on the Airbus A380 program. The contract contains 203 machined aluminum detail components and is expected to generate revenues in excess of US$19 million over the next five years. Initial production will utilize existing capacity at Magellan's facilities at Bournemouth and Chalfont St Peter (Verdict), with further investment in high speed 5-axis machinery.

- Magellan announced, on May 12, 2010, an agreement with Rolls-Royce Plc and Rolls-Royce Deutschland Ltd. & Co KG to manufacture mainline shafts and stub shafts for various Rolls-Royce engine programs. The work will be performed on these flight safety critical rotating parts at Magellan's Middleton Aerospace facility in Haverhill, MA. It is estimated that the gross program revenue will be approximately US$425 million over the 15-year term of the agreement. Magellan will utilize its existing equipment for initial production, but will expand its manufacturing footprint at the Haverhill facility to accommodate the new equipment and processes required to support full-scale production for the program.

- On July 7, 2010, Magellan announced that an agreement has been reached between Airbus and Magellan Aerospace (UK) Limited securing a further major work package on Airbus' new A350 XWB that is expected to generate revenues in excess of US$60 million over the next ten years. That package consists of a number of complex machined aluminium detail components and assemblies that form the structure of the pylon body. Magellan's selection reconfirms Airbus' continued confidence in Magellan's advanced capabilities.

- Magellan announced on October 8, 2010, an expansion of its manufacturing facility at Bristol Aerospace in Winnipeg. At a ground breaking ceremony, Magellan unveiled the JSF Advanced Composite Manufacturing Facility being constructed in Winnipeg. The launch customer for this new facility is BAE Systems in the United Kingdom, who awarded Magellan a contract to produce the JSF F-35 Lightning II horizontal tail components. The $22 million, 13,000 square meter facility will be equipped with advanced technology for the manufacture of complex fabrications and assemblies.

- On November 29, 2010, Magellan announced the commissioning of the first new high-velocity, hard metal machining centre to undertake F-35 opportunities of up to $212 million for various customers over the initial fifteen years of the program. Magellan currently has firm contracts for the multi-year purchase of manufacturing packages for components of the F-35 program for approximate revenues of $26 million. The components will be manufactured in Chicopee Manufacturing, Magellan's Centre of Excellence for high velocity, hard metal machining, in Kitchener, Ontario. In 2003, Chicopee Manufacturing was the first international partner on the Joint Strike Fighter program to deliver non-U.S. manufactured components to the program. This current investment is being supported through the Strategic Aerospace and Defence Initiative (SADI), a Federal Government program which supports strategic industrial research and pre-competitive development projects.

- On December 9, 2010 Magellan Aerospace (UK) announced an agreement with GKN Aerospace securing a work package containing structural components for the Airbus A320 and A330 aircraft. The package contains a number of major aluminium and titanium structural components, and is expected to generate revenues in excess of £21 million over the next five years.

LABOUR MATTERS

Labour agreements at two of the Corporation's facilities were successfully negotiated during 2010 and renewed for two and three year terms. One labour agreement at one of the Corporation's facilities expires on April 1, 2011 and two others at another of the Corporation's facilities will expire December 31, 2011.

FINANCING MATTERS

On March 26, 2010, the Corporation amended its Bank Facility Agreement with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was reallocated to a Canadian dollar limit of $105.0 million (up from $90.0 million) plus a US dollar limit of $70.0 million (down from US $85.0 million), with a maturity date of May 21, 2011. The facility is extendable for unlimited one-year renewal periods by the agreement of the Corporation and the lenders and continues to be guaranteed by the Chairman of the Board of the Corporation. The terms of the amended operating credit facility permit the Corporation to (i) repay the Original Loan in whole or in part and (ii) retract up to 20% ($4.0 million) of 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 in both cases there is no current default or event of default under the operating credit facility and after the repayment of the Original Loan and the payment of the retraction amount the Corporation has at least $25.0 million in availability under the operating credit facility.

RESULTS FROM OPERATIONS

Consolidated Revenues

Overall, the Corporations revenues increased when compared to last year. While the global economy improved throughout 2010, the Corporation continued to experience delays in the new programs that it has been investing in over the past several years.

The Corporations revenues by segment were as follows:

Twelve-months ended December 31 Expressed in thousands of dollars	2010	2009	Change
Aerospace	627,113	681,393	(8.0)%
Power Generation Project	105,395	5,221	1918.7 %
Total Revenues	732,508	686,614	6.7 %

Consolidated revenues for the year ended December 31, 2010 increased 6.7% to $732.5 million from $686.6 million last year, due mainly to increased revenues earned on the Corporation's power generation project, offset by reduced revenues in the Aerospace segment. Revenues in the Aerospace segment were primarily impacted by the movement in the Canadian dollar against the US dollar and British Pound.

Aerospace Segment

Revenues for the Aerospace segment were as follows:

Twelve-months ended December 31 Expressed in thousands of dollars	2010	2009	Change
Canada	317,342	332,544	(4.6)%
United States	187,555	200,525	(6.5)%
United Kingdom	122,216	148,324	(17.6)%
Total Revenues	627,113	681,393	(8.0)%

Aerospace revenues for the year ended December 31, 2010 were $627.1 million, a decrease of $54.3 million or 8.0% over the previous year. Revenues in Canada in 2010 decreased 4.6% in comparison to revenues earned in 2009 resulting from decreased revenues in proprietary products, delays experienced on new programs and the strengthening of the Canadian dollar against the US dollar. Revenues in the United States were also impacted negatively by the movement of the Canadian dollar in comparison to the US dollar. In native currency, revenues in the United States were higher in 2010 when compared to 2009 as the Corporation's volumes increased on several single aisle aircraft programs. Revenues in the United Kingdom decreased in 2010 in comparison to 2009 revenues mainly as a result of the decline in the British Pound in comparison to the Canadian dollar and a reduction in customer demand in 2010 when compared to 2009. Overall Aerospace revenues were impacted negatively by the movement of the Canadian dollar in comparison to both the US dollar and the British Pound. If average exchange rates for both the US dollar and British Pound experienced in 2009 remained constant in 2010, consolidated revenues for 2010 would have been approximately $682.0 million or approximately $54.9 million higher than actually realized in 2010.

Power Generation Segment

Revenues for the Power Generation Project segment were as follows:

Twelve-months ended December 31 Expressed in thousands of dollars	2010	2009	Change
Power Generation Project	105,395	5,221	1918.7%
Total Revenues	105,395	5,221	

Increased revenues in 2010 over the same period in 2009 resulted from the Ghana electric power generation project. The Corporation recognizes revenue on the project on a percentage of completion basis, hence the increase over the prior year represents the increased progress towards completion of the project made during the year.

Gross Profit

Twelve-months ended December 31 Expressed in thousands of dollars	2010	2009	Change
Gross profit	93,336	82,312	13.4%
Percentage of revenue	12.7%	12.0%	

Gross profit in 2010 was $93.3 million, an increase of $11.0 million from 2009 levels of $82.3 million. As a percentage of revenues, gross profit was 12.7% of revenues in 2010 compared to 12.0% of revenues in 2009. Increased gross profit in 2010 when compared to 2009 can be attributed to the change in revenue mix, negotiated price increases and continued operational performance improvements. The decline in both the US dollar and British Pound against the Canadian dollar, over the exchange rates prevailing in 2009, contributed negatively to the gross margin in 2010.

Administrative and General Expenses

Twelve-months ended December 31 Expressed in thousands of dollars	2010	2009
Administrative and general expenses	40,026	44,489
Percentage of revenues	5.5%	6.5%

Administrative and general expenses decreased from $44.5 million in 2009 to $40.0 million in 2010. The decrease in administrative and general expenses reflects the ongoing efforts of the Corporation to manage expenses and the effect on translation of the weakening US dollar and British Pound exchange rates against the Canadian dollar.

Other

Twelve-months ended December 31 Expressed in thousands of dollars	2010	2009
Foreign exchange loss (gain)	680	(6,383)
Loss on sale of capital assets	267	272
Plant and program closure recoveries	(820)	(642)
Other	(127)	(6,753)

Included in other income is a foreign exchange loss of $0.7 million in 2010 versus a foreign exchange gain of $6.4 million in 2009, resulting from the change in foreign exchange rates on the Corporation's US denominated working capital balances and debt in Canada and foreign exchange contracts. In 2010 and 2009, the Corporation retired assets for a loss on disposal of $0.3 million in each year.

Due to the decline in the financial markets in 2008, the Corporation recorded a provision for plant and program closure costs in 2008 in the amount of $3.8 million relating to the pension obligation on a pension plan that was in the process of being wound-up. In 2010 and 2009, as a result of the market performance of the pension plan assets in each year, the Corporation reversed a portion of the 2008 pension charge in the amount of $0.9 million and $0.6 million, respectively, on this pension plan that was wound-up in 2010.

Interest Expense

Twelve-months ended December 31 Expressed in thousands of dollars	2010	2009
Interest on bank indebtedness and long-term debt	14,651	14,614
Convertible debenture interest	4,006	3,810
Accretion charge on convertible debt and long-term debt	677	678
Discount on sale of accounts receivable	402	1,652
Total interest expense	19,736	20,754

Interest costs for 2010 were $19.7 million, a decrease of $1.0 million from 2009. Interest on bank indebtedness and long-term debt in 2010 were consistent with 2009 levels. Convertible debenture interest increased in 2010 over 2009 as the principal amount as well as the interest rate of convertible debentures increased in the second quarter of 2009. During the year, the Corporation sold $65.4 million of accounts receivable at an annualized interest rate of 2.35% compared to $182.5 million of receivables sold in 2009 at an annualized interest rate of 5.17%.

Provision for (Recovery of) Income Taxes

Twelve-months ended December 31 Expressed in thousands of dollars	2010	2009
Recovery of current income taxes	(311)	(63)
Future income tax expense (recovery)	7,490	(2,100)
Total income tax expense (recovery)	7,159	(2,163)
Effective Tax Rate	22.0%	(9.1)%

The Corporation recorded an income tax expense in 2010 of $7.2 million on pre-tax income of $32.6 million, representing an effective tax rate of 22.0%, compared to a recovery of $2.2 million on a pre-tax income of $23.8 million in 2009 for an effective tax rate of (9.1)%. In 2010, the Corporation recorded a valuation allowance of $0.6 million. During 2009, the Corporation recognized additional deferred tax assets in Canada totalling $4.4 million as the Corporation has determined that it will be able to benefit from some of its previously unrecorded future tax assets. In 2010, the Corporation continues to maintain a valuation allowance against its net future assets in Canada where recovery of the loss carry forwards or other future tax assets were not "more likely than not".

Cash Flow from Operating Activities

Twelve-months ended December 31 Expressed in thousands of dollars	2010	2009
Increase in accounts receivable	(3,810)	(19,083)
(Increase) decrease in inventories	(8,221)	22,285
Decrease (increase) in prepaid expenses and other	26,289	(28,191)
(Decrease) increase in accounts payable and accrued charges	(1,619)	11,857
Net change in non-cash working capital items	12,639	(13,132)
Cash provided by operating activities	74,760	36,156

Operating activities for 2010 generated cash flows of $74.8 million compared to $36.2 million in the prior year. Changes in non-cash working capital generated cash of $12.6 million as a result of decreases in prepaid expenses and other offset by a decrease in accounts payable and accrued charges and increases in inventory and accounts receivable. Prepaid expenses decreased during the year as advance payments made to suppliers to support the electric power generation project in Ghana were taken into expense during the year. The increase in accounts receivable during the year resulted from a net decrease in the amount of receivables drawn under the Corporation's securitization facilities at the end of the year when compared to 2009. During 2010, inventory increased to support the Corporation's electric power generation plant project in Ghana. In 2009, changes in non-cash working capital of $13.1 million were principally a result of an increase in accounts receivables and prepaid expenses and other offset by an increase in accounts payable and accrued charges and decrease in inventory.

Cash Flow from Investing Activities

Twelve-months ended December 31 Expressed in thousands of dollars	2010	2009
Purchase of capital assets	(16,255)	(21,675)
Proceeds from disposals of capital assets	206	339
Increase in other assets	(16,353)	(1,274)
Cash used in investing activities	(32,402)	(22,610)

The Corporation invested $16.3 million in capital assets during the year, to upgrade its machinery and facilities, a decrease of $5.4 million from 2009. In addition, the Corporation advanced $20.3 million in deposits on capital assets of which $7.2 million has been funded through government grants and loans. Capital additions were for advanced technology production equipment and information technology systems, both designed to increase productivity, reduce cycle time and improve technology capability.

SELECTED QUARTERLY FINANCIAL INFORMATION

Expressed in millions of dollars except per share information				2010				2009
	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
Revenues	177.9	181.5	185.1	188.1	179.3	177.3	164.2	165.8
Net income	3.1	6.3	7.8	8.1	7.9	5.4	10.8	2.0
Net income per common share								
Basic	0.15	0.35	0.43	0.45	0.41	0.27	0.57	0.09
Diluted	0.06	0.13	0.16	0.16	0.41	0.12	0.20	0.05

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 2010 fluctuated reaching a low of 0.9928 and a high of 1.0846. During 2009 the US dollar relative to the Canadian dollar moved from an exchange rate of 1.2180 at the start of the year to 1.0510 by December 31, 2009. The British Pound/Canadian dollar exchange rate in 2010 fluctuated reaching a low of 1.4894 and a high of 1.7208. During 2009 the British Pound relative to the Canadian dollar moved from an exchange rate of 1.7896 at the start of the year to 1.6918 by December 31, 2009. Had exchange rates remained at levels experienced in 2009, reported revenues in 2010 would have been higher by $25.6 million in the first quarter, $22.1 million in the second quarter, $10.3 million in the third quarter and $8.0 million in the fourth quarter.

EBITDA

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

The table below provides a reconciliation of net income to EBITDA.

Twelve-months ended December 31 Expressed in thousands of dollars	2010	2009
Net income	25,408	25,985
Interest	19,736	20,754
Dividends on preference shares	880	—
Taxes	7,159	(2,163)
Stock based compensation	582	717
Depreciation and amortization	35,008	35,093
EBITDA	88,773	80,386

LIQUIDITY

The Corporation's liquidity needs can be met through a variety of sources including cash on hand, cash provided by operations, short-term borrowings from our credit facilities and accounts receivable securitization program, and long-term debt and equity capacity. Principal uses of cash are for operational requirements and capital expenditures.

Contractual Obligations As at December 31, 2010 Expressed in thousands of dollars	Total	Less than 1 year	1-3 Years	4-5 Years	After 5 Years
Bank indebtedness	117,046	117,046	—	—	—
Long-term debt	64,868	47,631	6,112	2,108	9,017
Capital lease obligations	1,270	807	463	—	—
Equipment leases	2,058	1,745	295	18	—
Facility leases	13,321	1,417	3,370	2,090	6,444
Preference shares	12,000	8,000	4,000	—	—
Other long-term liabilities	9,996	4,560	2,719	148	2,569
Convertible debentures	40,000	—	40,000	—	—
Total Contractual Obligations	260,559	181,206	56,959	4,364	18,030

Major cash flow requirements for 2011 include the renewal of the operating credit facility, payments of equipment and facility leases of $3.2 million and the retraction of the Preference Shares to a maximum of $8.0 million if permitted by the operating credit facility. On March 26, 2010, the operating credit facility was extended for an additional year with the new expiry date of May 21, 2011. On March 26, 2010 the Original Loan was extended to July 1, 2011. The Convertible debentures become due on April 30, 2012 and are convertible, at the option of the holder at any time prior to April 30, 2012, in whole or in multiples of $1 million, into fully paid and non-assessable common shares of the Corporation at a conversion rate of $1.00 per common share.

The Corporation has made contractual commitments to purchase $45.8 million of capital assets. The Corporation also has purchase commitments, largely for materials made through the normal course of operations, of $160.7 million. The Corporation plans to finance all of these capital commitments with operating cash flow and the existing credit facility.

OFF BALANCE SHEET ARRANGEMENTS

The Corporation has entered into arrangements in which it sold certain accounts receivable to third parties at a discount. This discount typically represents approximately 1.0% to 3.0% over 60 day BA or LIBOR rates. At December 31, 2010, the amount of receivables sold to third parties that remained outstanding was $9.7 million.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian dollar denominated financial statements of the Corporation's subsidiaries may vary on consolidation into the reporting currency of Canadian dollars. The Corporation 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 Corporation does not trade in derivatives for speculative purposes.

During 2010, the Corporation entered into US dollar foreign exchange collars as follows:

	Amount	Floor	Ceiling
Maturity – less than 1 year	3,500	1.02020	1.12360
Maturity – less than 1 year	3,500	1.03010	1.11110
Maturity – less than 1 year	18,000	1.03540	1.11110

In addition, the Corporation entered into forward exchange contracts to purchase British Pounds totalling $3.7 million at exchange rates ranging from $1.53850 to $1.55550 Canadian per £1.00 British Pound expiring in 2011.

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 contracts had been entered into on December 31, 2010.

The mark-to-market on these financial instruments as at December 31, 2010 was an unrealized gain of $1.1 million [2009 – $1.3 million] which has been recorded in other expenses in the year.

RELATED PARTY TRANSACTIONS

In 2009, the Corporation sold receivables to a corporation, which is controlled by a common director, in the amount of $65.4 million for a discount of $0.8 million representing an annualized interest rate of 7.5%. This securitization facility expired on December 31, 2009.

On January 31, 2008, the Corporation entered into the Original Loan in the principal amount of $50.0 million due July 1, 2009 with a corporation, which is controlled by the Chairman of the Board of the Corporation. The loan bears interest at a rate of 10%. In 2010, $nil [2009 - $1.7 million] of interest was paid in relation to the $50.0 million Original Loan.

On April 30, 2009 the Original Loan in principal amount of $50.0 million was amended and increased to $65.0 million. In 2010, $5.5 million [2009 - $5.3 million] of interest and $19.0 million [2009 - $nil] of principal was paid in relation to the $65.0 million Original Loan.

The Chairman of the Board, who is a director, and another director of the Corporation held $18.2 million of the $20.9 million 8.5% convertible unsecured subordinated debentures that were refinanced on April 30, 2009. The related cash interest paid in the year was $nil [2009 - $0.8 million].

On April 30, 2009, the Chairman of the Board of the Corporation subscribed to $40.0 million of the New Convertible Debentures. During the period, the Corporation incurred interest of $4.0 million [2009 - $2.7 million] in relation to the New Convertible Debentures.

The Chairman of the Board of the Corporation provided a guarantee for the full amount of the Corporation's operating credit facility. An annual fee averaging 1.2% [2009 – 1.35%] of the guaranteed amount or $2.1 million [2009 - $2.8 million] was paid in consideration for the guarantee.

During the year, the Corporation incurred consulting costs of $0.1 million [2009 - $0.1 million] payable to a corporation controlled by the Chairman of the Board of the Corporation. As well, the Corporation paid legal fees of $0.1 million [2008 - $0.2 million] to a law firm in which a director is a partner.

CRITICAL ACCOUNTING ESTIMATES

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

Inventories

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

Asset Impairment

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

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

Revenue Recognition

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

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

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

Income Taxes

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

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

Foreign Currency Translation

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

CHANGES IN ACCOUNTING POLICIES

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

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

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

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

FUTURE CHANGES IN ACCOUNTING POLICIES

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

International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be converged with International Financial Reporting Standards ("IFRS") effective January 1, 2011. The Corporation will begin reporting under IFRS for the quarter ending March 31, 2011 including presenting an opening balance sheet at January 1, 2010 and reporting under IFRS for comparative periods presented. The Corporation will also include its IFRS 1 note in the March 31, 2011 interim unaudited consolidated financial statements.

The Corporation commenced its IFRS conversion efforts during 2008. The transition project consists of four elements: planning and awareness raising; assessment; design; and implementation. The transition project addresses key areas such as accounting policies, financial reporting, disclosure controls and procedures, information systems, education and training and other business activities. The Corporation is tracking the changeover plan against key project milestones and will be ready to report all required financial statement information and reconciliations for the quarter ending March 31, 2011.

Adoption of IFRS requires that the IFRS standards be applied on a retroactive basis with the exception of those specifically exempted under IFRS 1 for first-time adopters. Absent an exemption, any changes to existing standards must be applied retroactively and reflected in the opening balance sheet of the comparative period. Noted within the summary table below are the Corporation's exemptions that it plans to apply upon transition. Other exemptions available under IFRS have been reviewed and are either not applicable or are not expected to have a significant impact on the Corporation's consolidated financial statements.

The Corporation is in the last element of the transition project, focusing on opening balance sheet adjustments and financial statement presentation. The Corporation is in the process of quantifying the expected material differences between IFRS and the current accounting treatment under Canadian GAAP. Differences with respect to recognition, measurement, presentation and disclosure of financial information are disclosed in the tables below.

IFRS 1 (First-time adoption of IFRS)

IFRS 1 requires that an entity apply IFRSs effective at the end of its first IFRS reporting period respectively. However, IFRS does provide certain mandatory exceptions and limited optional exemptions in specific areas of certain standards that will not require retroactive application of IFRS. The following are the exemptions and exceptions under IFRS 1 that are significant to the Corporation and that will be applied in preparing the first financial statements under IFRS.

AREAS OF IFRS	SUMMARY OF EXEMPTIONS AND EXCEPTIONS
Business combinations	IFRS 1 allows for the guidance under IFRS 3 (revised), Business Combinations, to be applied either retrospectively or prospectively. The Corporation has elected to adopt IFRS 3 (revised) prospectively. Accordingly, all business combinations on or after January 1, 2010 will be accounted for in accordance with IFRS 3 (revised) and prior business combinations will not be restated.
Employee benefits	IFRS 1 provides the option of retrospectively applying either the "corridor" approach under International Accounting Standard ("IAS") 19, Employee Benefits, for the recognition of actuarial gains or losses, or recognize all cumulative gains or losses deferred under Canadian GAAP in opening retained earnings at the date of transition. The Corporation will elect to recognize all cumulative actuarial gains or losses that existed at the date of transition in opening retained earnings for all employee benefit plans at the operating companies. The Corporation's opening shareholders' equity is expected to decrease.
Property, plant and equipment	Under IAS 16, Property, Plant and Equipment, an entity is required to choose to account for each class of property, plant and equipment, using either the cost model or the revaluation model. At date of transition, the Corporation has elected to use the depreciated historical cost to value all classes of property and equipment. The Corporation does not expect an impact to opening shareholders' equity upon transition to IFRS.
Cumulative translation differences	IAS 21, The Effects of Changes in Foreign Exchange Rates, requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from periods prior to the date of transition to IFRS. The Corporation will deem all cumulative translation differences to be zero on transition to IFRS. The Corporation expects to reclassify amounts between opening retained earnings and accumulated other comprehensive earnings, which are both within shareholders' equity.
Borrowing costs	IAS 23, Borrowing Costs, requires an entity to capitalize the borrowing costs related to all qualifying assets. The Corporation plans to adopt IAS 23 prospectively. Accordingly, borrowing costs related to qualifying assets on or after January 1, 2010 will be capitalized. The Corporation does not expect an impact to opening shareholders' equity upon transition to IFRS
Share based payments	IFRS 2, Share Based Payments, 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 plans to not apply IFRS 2 to equity instruments granted on or before November 7, 2002, or granted after November 7, 2002, that vested before January 1, 2010. For equity instruments with a cash-settlement option the Corporation plans not to apply IFRS 2 to liabilities that were settled before January 1, 2010. The Corporation expects to reclassify amounts between opening retained earnings and contributed surplus, which are both within shareholders' equity.

IFRS to Canadian GAAP difference

In addition to the exemptions and exceptions discussed above, the following discussion explains the significant accounting policy differences between Canadian GAAP and IFRS that may result in material adjustments to the Corporation's consolidated financial statements.

ACCOUNTING POLICY AREAS	IMPACT OF POLICY ADOPTION
Presentation of financial statements	Under IAS 1, Presentation of Financial Standards ("IAS 1"), a complete set of financial statements should include a statement of financial position, a statement of comprehensive income, a statement of changes in equity, and a statement of cash flows, accounting policies, and explanatory notes. IAS 1 prescribes various formats and requirements for statement presentation and disclosure. The Corporation expects the adoption of IAS 1 to result in several changes to the format of the financial statements, in expanded note disclosure, and in different classification and presentation of line items in our consolidated statements of financial position and consolidated statements of income.
Foreign Currency	Under IAS 21, The Effects of Changes in Exchange Rate ("IAS 21"), each entity must determine its functional currency of the primary economic environment in which the entity operates. This assessment is made by first evaluating primary indicators, which include: 1) currency which mainly influences sales prices; and 2) currency which mainly influences labour material and other costs. If these indicators are mixed, and the functional currency is not obvious, secondary indicators are evaluated to determine the functional currency. Under Canadian GAAP, functional currency for a reporting entity is determined based on a number of criteria including: 1) currency which determines sales prices; 2) denomination of labour, materials and other costs; and 3) funding of the entities operations. Historically, based on facts and circumstances the Corporation has determined its functional currency under Canadian GAAP to be the Canadian dollar.
Employee benefits	Under IAS 19, Employee Benefits ("IAS 19"), the Corporation will elect to recognize all actuarial gains and losses immediately in a separate statement of comprehensive income 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 comprehensive income at the end of each reporting period. The Corporations' operating companies will adjust their pension expense to remove the amortization of actuarial gains or losses. The Corporation currently uses the "corridor" approach to recognize the actuarial gains or losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets. 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 to 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.

Impairment of assets	Under IAS 36, Impairment of Assets ("IAS 36"), an impairment loss is recognized if the recoverable amount, defined as the higher of the asset's fair value less costs to sell and its value in use, is less than the carrying amount. Value in use is defined as being equal to the present value of future cash flows expected to be derived from the asset in its current state. In the absence of an active market, fair value less costs to sell may also be determined using discounted cash flows. The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP where undiscounted future cash flows are used to compare against the asset's carrying value to determine if impairment exists. This may result in more frequent write-downs in the carrying value of assets under IFRS. In addition, previous impairment losses may be reversed where circumstances change such that the impairment loss has reduced.
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. The detailed assessment showed that no changes to current component accounting are required under IFRS. Under IAS 16, an entity is required to choose to account for each class of property, plant and equipment, using either the cost model or the revaluation model. The Corporation will account for each class of property, plant and equipment using the cost model. IAS 16 also, provides specific guidance such that when an individual component of an item within property, plant and equipment is replaced and capitalized, the carrying value of the replaced component of the original asset must be derecognized even if the replacement part was not separately accounted for.
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 identified certain leases with classification differences between Canadian GAAP and IFRS, which may result in certain operating leases under Canadian GAAP being classified as capital leases under IFRS.
Provisions, contingent liabilities and contingent assets	IAS 37, Provisions, Contingent Liabilities and Contingent Assets ("IAS 37") requires 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 could result in the recognition of a liability under IFRS that was not previously recognized under Canadian GAAP. Other measurement differences under IFRS could result in the earlier recognition of provisions or the recognition of a different amount than under Canadian GAAP. IFRS also requires provisions for which payment extends beyond one year to be adjusted for time value of money.

Government grants	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. Under Canadian GAAP, government grants are recognized when received. In addition, IAS 20 accounts for the payment of royalties made in relation to government grants received against capital assets as an increase in the asset value with a corresponding increase in the depreciation charge against the asset. Under Canadian GAAP, the Corporation recognizes these royalty payments as a cost of revenues when incurred and as a result an adjustment may be required upon transition to IFRS.
Financial Instruments	Under IAS 39, Financial Instruments ("IAS 39"), the criterion for derecognition 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. A change will be required to the Corporation's opening balance sheet with respect to certain receivables which the company sells and which, under IFRS, the transfer of substantive risks and rewards does not occur.
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 future income tax balance. Under Canadian GAAP, an entity is required to present both current and long-term future income taxes on its balance sheet. Under IFRS, all future income taxes will be presented as long-term assets or liabilities.
Investment properties	Investment property as defined by IAS 40, Investment Properties ("IAS 40") requires any item of property, plant and equipment to be presented as a separate item on the face of the balance sheet called "Investment Property" where the property is held to earn rentals 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 therefore may be separately disclosed as investment property in the consolidated financial statements.
Interests in joint ventures	Under IAS 31, Interest in Joint Ventures ("IAS 31"), an entity may account for interest in joint ventures using either the equity method or the proportionate consolidation method. Canadian GAAP requires the use of proportionate consolidation method to account for joint ventures. In 2007, the IASB issued an exposure draft to amend IAS 31, thereby prohibiting proportionate consolidation. The Corporation is not expecting the new standard to become effective before the Corporation's changeover date. Since proportionate consolidation is permitted under the current IAS 31, the Corporation has decided to maintain it as the current accounting policy choice.

The Corporation acknowledges that the above anticipated changes in accounting policy are not an exhaustive list of all possible significant items that will occur upon the transition to IFRS. The Corporation will continue to monitor developments in and interpretations of standards as well as industry practices and may change accounting policies described in the above tables.

The Corporation has completed its IFRS training for key financial staff impacted by IFRS, and further investments in training and resources will be made throughout the transition to facilitate any changes in IFRS. The Corporation also continues to deliver it's communication plan, informing key internal stakeholders about the anticipated effects of the IFRS transition, and to provide status updates to the Audit Committee.

The Corporation's IFRS changeover plan includes the modification of internal controls over financial reporting for changes in accounting policy arising from the transition to IFRS and the education of key stakeholders including the Board of Directors, management and employees. The impact on the Corporation's information technology, data systems and processes will be dependent upon the magnitude of change resulting from these and other items. At this time, no significant impact on information or data systems has been identified and the Corporation does not expect to make changes which will materially affect the internal controls over financial reporting.

The Corporation continues to monitor the potential changes proposed by the International Accounting Standards Board (IASB) and considers the impact changes in the standards would have on the Corporation's operations. In November 2009, the IASB issued IFRS 9 to amend how financial instruments are classified and measured. The standard is effective for annual periods beginning on or after January 1, 2013. The Corporation is analyzing the impact the new standard will have on its financial assets and liabilities.

The Corporation is monitoring the potential impact of other changes to financial reporting processes, disclosure controls and procedures, and internal controls over financial reporting though the Corporation does not expect the initial adoption of IFRS will have a considerable impact on the disclosure controls and procedures for financial reporting. The Corporation continues to capture IFRS comparative information for fiscal 2010 to quantify the effects of the potential significant difference between IFRS and Canadian GAAP which may or may not be material.

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 December 31, 2010 that they are responsible for establishing and maintaining, and have assessed the design and operating effectiveness of disclosure controls and procedures and internal control over financial reporting.

Management does not expect disclosure controls and procedures and internal control over financial reporting to prevent all errors, misstatements or fraud. In addition, internal control over financial reporting that management has designed and established may be circumvented and rendered ineffective as a result of unauthorized acts of individuals through collusion or management override. A system of control, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that control objectives are met. Due to the inherent limitations in a system of control, there is no absolute assurance that all controls issues, which may result in errors, misstatements, or fraud, can be prevented or detected. The inherent limitations include, amongst other things: (i) management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of isolated errors; (iii) assumptions about the likelihood of future events.

In preparation for this certification, Magellan has dedicated resources in place to document and evaluate the design and operating effectiveness of disclosure controls and procedures and internal control over financial reporting. As of December 31, 2010, an evaluation was carried out, under the supervision of the President and Chief Executive Officer and the Vice-President, Finance and Corporate Secretary, of the effectiveness of the Corporation's disclosure controls and internal controls over financial reporting, as those terms are defined in National Instrument 52-109. Based on that evaluation, the Corporation's management concluded that the Corporation's design and operating disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2010.

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.

OTHER INFORMATION

The authorized capital of the Corporation consists of an unlimited number of Preference Shares, issuable in series, and an unlimited number of common shares. As at March 23, 2011, 18,209,001 common shares were outstanding and 1,200,013 Preference Shares were outstanding. Subject to law the Corporation will be required to retract the Preference Shares in whole or in part to the extent permitted by any instrument of indebtedness of the Corporation.

At December 31, 2010, the Corporation had outstanding approximately $40.0 million of 10.0% convertible secured subordinated debentures, due April 30, 2012. The convertible debentures are convertible, at the option of the holder at any time prior to April 30, 2012, in whole or in multiples of $1,000, into fully paid and non-assessable common shares of the Corporation at the conversion price of $1.00 per common share which is equal to the issuance on conversion of approximately 40,000,000 common shares in total.

Additional information relating to Magellan Aerospace Corporation, including the Corporation's Annual Information Form is on SEDAR at www.sedar.com.

MANAGEMENT'S REPORT

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

Management maintains a system on internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information. External auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, consisting of non management directors, has reviewed these consolidated financial statements with management and the auditors and has reported to the Board of Directors. The Board of Directors approved the consolidated financial statements.

James S. Butyniec
President and Chief Executive Officer

John B. Dekker
Vice President Finance and Corporate Secretary

March 23, 2011

To the shareholders of Magellan Aerospace Corporation

We have audited the accompanying consolidated financial statements of Magellan Aerospace Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations and retained earnings, cash flows and comprehensive income for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2010 and 2009, and the result of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada,
March 23, 2011

Chartered Accountants
Licensed Public Accountants

As at December 31
(Expressed in thousands of dollars)

	2010	2009
Assets		
Current		
Cash	$ 24,952	$ 22,641
Accounts receivable (NOTES 18 and 20 [f])	84,287	82,850
Inventories (NOTE 3)	151,741	147,248
Prepaid expenses and other (NOTE 20 [h])	11,838	38,458
Future income tax assets (NOTE 16)	3,742	3,958
Total current assets	276,560	295,155
Capital assets, net (NOTE 4)	239,508	254,700
Technology rights (NOTE 5)	25,654	29,158
Deferred development costs (NOTE 6)	54,668	59,510
Other assets (NOTES 17 AND 20 [j])	39,791	24,909
Future income tax assets (NOTE 16)	18,082	17,186
Total long-term assets	377,703	385,463
	654,263	680,618
Liabilities And Shareholders' Equity		
Current		
Bank indebtedness (NOTE 7)	117,046	140,590
Accounts payable and accrued charges (NOTE 20 [i])	135,528	135,373
Preference shares (NOTE 9)	8,000	—
Current portion of long-term debt (NOTE 8)	48,438	2,321
Total current liabilities	309,012	278,284
Long-term debt (NOTE 8)	17,700	73,716
Convertible debentures (NOTE 10)	38,901	38,182
Preference shares (NOTE 9)	4,000	—
Future income tax liabilities (NOTE 16)	13,391	10,281
Other long-term liabilities (NOTE 11)	5,436	9,803
Total long-term liabilities	79,428	131,982
Shareholders' equity		
Capital stock (NOTES 9, 12 AND 13)	214,440	234,389
Contributed surplus (NOTE 20 [g])	5,289	4,708
Other paid in capital (NOTE 10)	13,565	13,565
Retained earnings	109,145	84,137
Accumulated other comprehensive loss (NOTE 14)	(76,616)	(66,447)
Total shareholders' equity	265,823	270,352
	654,263	680,618

Commitments and contingencies (NOTE 22)
See accompanying notes

On behalf of the Board:

N. Murray Edwards
Director

William A. Dimma
Director

CONSOLIDATED STATEMENTS OF OPERATION AND RETAINED EARNINGS

Years ended December 31
(Expressed in thousands of dollars except per share information)

	2010	2009
Revenues	$ 732,508	$ 686,614
Cost of revenues	639,172	604,302
Gross profit	93,336	82,312
Expenses		
Administrative and general expenses (NOTE 19)	40,026	44,489
Other (NOTE 20 [e])	127	(6,753)
Dividends on preference shares (NOTE 9)	880	—
Interest (NOTES 7 AND 20 [a])	19,736	20,754
	60,769	58,490
Income before taxes	32,567	23,822
(Recovery of) provision for income taxes (NOTE 16)		
Current	(331)	(63)
Future	7,490	(2,100)
	7,159	(2,163)
Net income for the year	25,408	25,985
Retained earnings, beginning of year	84,137	59,752
Dividends of preference shares (NOTE 9)	(400)	(1,600)
Net income for the year	25,408	25,985
Retained earnings, end of year	109,145	84,137
Net income per common share (NOTE 12)		
Basic	1.37	1.34
Diluted	0.51	0.61

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31
(Expressed in thousands of dollars)

	2010	2009
Operating Activities		
Net Income	$ 25,408	$ 25,985
Add (deduct) items not affecting cash		
Depreciation and amortization	35,008	35,093
Net loss on sale of capital assets	267	272
Employee future benefits	(3,219)	(5,799)
Deferred revenue	271	466
Stock-based compensation (NOTE 13)	582	717
Accretion of convertible debentures	677	678
Future income tax expense (recovery)	3,127	(8,124)
	62,121	49,288
Net change in non-cash working capital items related to operating activities (NOTE 20 [c])	12,639	(13,132)
Cash provided by operating activities	74,760	36,156
Investing Activities		
Purchase of capital assets	(16,255)	(21,675)
Proceeds from disposal of capital assets	206	339
Increase in other assets	(16,353)	(1,274)
Cash used in investing activities	(32,402)	(22,610)
Financing Activities		
Decrease in bank indebtedness	(21,128)	(27,454)
Decrease in long-term debt	(21,900)	(2,824)
Increase in long-term debt	12,813	15,000
Decrease in convertible debentures	—	(20,950)
Increase in convertible debentures	—	39,667
Increase in other long-term liabilities	110	2,211
Issuance of common shares	—	8
Redemption of preference shares	(8,000)	—
Dividends on preference shares	(400)	(1,600)
Cash (used in) provided by financing activities	(38,505)	4,058
Effect of exchange rate changes on cash	(1,542)	(325)
Net increase in cash during the year	2,311	17,279
Cash, beginning of the year	22,641	5,362
Cash, end of the year	24,952	22,641

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31
(Expressed in thousands of dollars)

	2010	2009
Net income for the year	$ 25,408	$ 25,985
Other comprehensive loss:		
Net unrealized loss on translation of net investment in foreign operations (NOTE 14)	(10,169)	(20,486)
Comprehensive income	15,239	5,499

See accompanying notes

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") within the framework of the significant accounting policies summarized below. The consolidated financial statements of Magellan Aerospace Corporation [the "Corporation"] include the accounts of the Corporation and its wholly-owned subsidiaries.

These consolidated financial statements have been prepared on the "going concern" basis which presumes that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

Segment reporting

The Corporation's presentation of reportable segments is based on how management has organized the business in making operating and capital allocation decisions and assessing performances.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect: the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and the reported amount of revenue and expenses during the reporting period. Significant estimates made by management include, but are not limited to, average production costs, asset impairment, allowance for uncollectible accounts receivable, allowance for inventory obsolescence, percentage-of-completion on long-term contracts, income taxes, stock-based compensation assumptions and pension plan assumptions. Management believes that the estimates included in preparing its consolidated financial statements are reasonable and prudent; however, actual results could differ from these estimates.

Revenue recognition

The Corporation's revenue recognition methodology is determined on a contract-by-contract basis.

The most significant revenue recognition policies are outlined below:

Revenue from the sale of manufactured units is recognized when the price is fixed or determinable, collectibility is reasonably assured and upon shipment to, or receipt by, customers, depending on contractual terms, and acceptance by customers.

The majority of revenue on long-term contracts is recognized using the units of delivery method as the contracts require shipments of a large number of units over an extended period of time.

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

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.

Inventory

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.

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.

Capital assets

Capital assets are recorded at cost less related government grants and investment tax credits and are depreciated over their estimated useful lives, with a 10% residual value, as follows:

Buildings	40 years
Machinery and equipment	20 years
Tooling	5-7 years

Amortization of machinery and equipment commences once the asset is put into commercial production.

Impairment of long-lived assets

The Corporation assesses long-lived assets for recoverability whenever indicators of impairment exist. If the carrying value of the asset exceeds the estimated undiscounted cash flows from use of the asset, an impairment loss is recognized. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value. Fair value is based on discounted cash flows.

Technology rights

Included in technology rights are costs to purchase technological rights applicable to a specific long-term contract. These costs will be amortized on a unit of production basis to cost of revenues over the anticipated term of the long-term contract.

Research and development

Research costs are charged to operations as incurred, due to the nature of the projects. Where government investment in the form of investment tax credits and grants are received for research and development projects initiated by the Corporation for its own purposes, these incentives are deducted from the applicable category of expenditures, that is, either cost of revenues, capital assets or research and development costs.

Development costs are capitalized when certain criteria are met for deferral and their recovery is reasonably assured. Deferred development costs are amortized on an estimated unit of production basis.

Government investment

The Corporation makes periodic applications for government investment under available government programs, including investment tax credits. Government investment relating to capitalized expenditures is reflected as a reduction of the related costs of such assets. Government investment relating to operating expenses is recorded as a reduction of the related expenses as incurred.

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 shareholders' 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.

Foreign currency translation

Monetary assets and liabilities of the Corporation denominated in foreign currencies are translated at the year-end exchange rates. Exchange gains and losses on these items are recognized in income in the current year.

Revenue and expenses are translated at actual rates of exchange when the transaction occurred. The Corporation's operations outside of Canada are considered self-sustaining. Consequently, the assets and liabilities are translated to Canadian dollars using the year-end exchange rates and revenue and expenses are translated at the average rates during the year. Exchange gains or losses on translation of the Corporation's net equity investment in these operations are deferred as a separate component of accumulated other comprehensive loss.

The appropriate amounts of exchange gains or losses accumulated in other accumulated comprehensive loss are reflected in income when there is a reduction, as a result of capital transactions, in the Corporation's net investment in the operations that gave rise to such exchange gains or losses.

Employee benefit plans

The cost of pension and post-employment benefits (including medical benefits, dental care, life insurance and certain compensated absences) related to employees' current service is charged to income annually. The cost is computed on an actuarial basis using the projected benefit method prorated on services and management's best estimates of investment yields, salary escalation and other factors. Pension plan assets are valued at fair value for purposes of calculating the expected return on plan assets. Past service costs resulting from plan amendments are amortized on a straight-line basis over the remaining average service life of active employees at the date of amendments. Actuarial gains (losses) arise from the difference between the actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) which is more than 10% of the greater of the benefit obligations and the fair value of plan assets is amortized over the average remaining service period of active employees.

Stock based compensation plan

Stock options granted after January 1, 2003 are accounted for under the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period with a corresponding credit to contributed surplus. On the exercise of stock options, consideration received and the accumulated contributed surplus amount is credited to capital stock. Stock options which have a cash settlement feature are accounted for as liability instruments and are carried at their intrinsic value, measured as the difference between the current stock price and the option exercise price. The intrinsic value of the liability is marked to market each period.

Income taxes

The Corporation follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Income per common share

Basic income per common share is computed by dividing the net income adjusted for preference share dividends by the weighted average number of common shares outstanding during the year. Diluted income per common share reflects the assumed conversion of all dilutive securities using the "if converted" method for convertible debentures and preference shares and the "treasury stock" method for options.

Under the "if converted" method:

- the convertible debentures and preference shares are assumed to be converted at the beginning of the year or at the date of issuance, if later.

Under the "treasury stock" method:

- the exercise of options is assumed to be at the beginning of the year or at the time of issuance, if later;
- the proceeds from the exercise, plus future period compensation expense on options granted are assumed to be used to purchase common shares at the average price during the year; and
- the incremental number of common shares, which is the difference between the number of shares assumed issued and the number of shares assumed purchased, is included in the denominator of the diluted income per common share computation.

Convertible debentures, preference shares and options that are anti-dilutive are not included in the computation of diluted net income per common share.

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 year ended December 31, 2010, the Corporation's derivative contracts were not designated as hedges and as a result are recorded on the consolidated balance sheets at their fair value. Any changes in fair value during the year are reported in foreign exchange in the consolidated statement of operations. Transaction costs incurred to acquire financial instruments are included in the underlying balance.

Sale of receivables

Transfers of receivables in securitization transactions are recognized as sales when the Corporation is deemed to have surrendered control over the transferred receivables and consideration in the transferred receivables has been received. The Corporation continues to service the accounts receivables but does not retain any interest in the transferred receivables.

Future changes in accounting policies

The Corporation will adopt the following accounting standards recently issued by the Canadian Institute of Chartered Accountants ("CICA"):

[a] International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be converged with International Financial Reporting Standards ("IFRS") effective January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures. IFRSs have now been incorporated into the CICA Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The Corporation will prepare financial statements in accordance with IFRS starting with the interim financial statements for the quarter ended March 31, 2011. These statements will require 2010 comparatives in accordance with IFRS. As a result, the financial statements that have been prepared under Canadian GAAP for 2010 will need to be restated to conform to IFRS for comparative purposes. The Corporation's transition date is January 1, 2010.

[Expressed in thousands of dollars except share and per share data]

2. CHANGES IN ACCOUNTING POLICIES

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

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

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

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

3. INVENTORIES

	2010	2009
Production costs of contracts currently in process	$ 154,441	$ 156,460
Advances and progress billings	(2,700)	(9,212)
	151,741	147,248

Inventory is valued at the lower of cost and net realizable value. The cost of raw materials is calculated on an average cost basis. The cost of work in process and finished goods inventory also includes an allocation of overhead for indirect manufacturing costs and direct labour expenses.

Cost of sales for the year ended December 31, 2010 was $639,172 [2009 - $604,302] which included $621,426 [2009 - $593,396] of costs associated with inventory. The remaining costs of $17,746 [2009 - $10,906] related principally to freight, commissions and other direct costs of revenues.

During the year ended December 31, 2010, the Corporation recorded a net reduction in the provision of $661 [2009 – recognized a provision of $2,337] related to slow moving and obsolete inventory. The net reduction in the provision is due to the expected recovery of inventory previously provided for.

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

[Expressed in thousands of dollars except share and per share data]

4. CAPITAL ASSETS

			2010
	Cost	Accumulated depreciation	Net book value
Land	$ 14,504	$ —	$ 14,504
Buildings	93,817	35,279	58,538
Machinery, equipment and tooling	350,809	184,343	166,466
	459,130	219,622	239,508

			2009
	Cost	Accumulated depreciation	Net book value
Land	$ 15,014	$ —	$ 15,014
Buildings	95,476	33,533	61,943
Machinery, equipment and tooling	351,646	173,903	177,743
	462,136	207,436	254,700

Included in machinery, equipment and tooling are construction in progress expenditures of $4,423 [2009 - $738].

The above amounts include $6,507 [2009 - $6,580] of capital assets under capital leases and accumulated depreciation of $2,624 [2009 - $2,308] related thereto. Depreciation recorded in the year related to capital assets under capital leases totaled $339 [2009 - $352].

5. TECHNOLOGY RIGHTS

As at December 31, 2010, the Corporation's technology rights amounted to $25,654 [2009 - $29,158] net of accumulative amortization of $13,251 [2009 - $9,832]. 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.

6. DEFERRED DEVELOPMENT COSTS

As at December 31, 2010, the Corporation's deferred development costs amounted to $54,668 [2009 - $59,510] net of accumulative amortization of $30,418 [2009 - $23,175]. 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. During the year ended December 31, 2010, $7,701 [2009 - $7,360] was expensed as amortization of deferred development costs.

7. BANK INDEBTEDNESS

The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian limit of $105,000 plus a US limit of $70,000 ($174,622 at December 31, 2010). Bank indebtedness of $117,046 [2009 - $140,590] is payable on demand and bears interest at the bankers' acceptance or LIBOR rates, plus 2.75% (3.60% at December 31, 2010 [2009 – bankers' acceptance or LIBOR rates, plus 3.25% or 3.51%]). Included in the amount outstanding at December 31, 2010 is US $21,113 [2009 – US $43,630]. At December 31, 2010, the Corporation had drawn $119,838 under the operating credit facility, including issued letters of credit totaling $2,792 such that $54,784 was unused and available. The operating credit facility expires on May 21, 2011 and is extendable for unlimited one-year periods subject to mutual consent of the syndicate leaders and the Corporation. A fixed and floating charge debenture on accounts receivable, inventories and capital assets is pledged as collateral for the operating credit facility. The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the operating credit facility.

[Expressed in thousands of dollars except share and per share data]

8. LONG-TERM DEBT

	2010	2009
Property mortgage [a]	$ 2,793	$ 3,314
Other loans [b]	16,411	5,941
Related party loans [c]	45,664	64,578
Obligations under capital leases [d]	1,270	2,204
	66,138	76,037
Less current portion	48,438	2,321
	17,700	73,716

[a] The property mortgage of $2,793 (£1,800) is comprised of financing of certain land in the United Kingdom acquired in 2006. This same land is collateral for this mortgage and the mortgage bears interest at bank rate plus 0.90%, which at December 31, 2010 was 1.4% [2009 – 1.4%]. The fair value of this property mortgage was not significantly different from its recorded amount.

[b] Other loans include loans of $9,844 [2009 - $5,050] provided by governmental authorities ["Government Loans"] that bear interest of approximately 1.2% to 2.0% [2009 – 2.0%] and a $5,968 (US$6,000) 10 year bank loan ["Commercial Loan"] entered into during 2010 by the Corporation to finance equipment and leasehold improvements. The same equipment is collateral for the Commercial Loan which bears interest at LIBOR plus 2.75%, which at December 31, 2010 was 3.04%. At December 31, 2010, the Corporation has the availability to draw an additional $13,264 against the Government Loans and $13,924 (US$14,000) against the Commercial Loan.

[c] On January 31, 2008, Edco Capital Corporation ["Edco"], a corporation controlled by the Chairman of the Board of the Corporation, provided a $50,000 loan due July 1, 2009 [the "Original Loan"] to the Corporation. The Original Loan bears interest at a rate of 10% per annum calculated and payable monthly and is collateralized and subordinated to the Corporation's existing operating credit facility. The Original Loan is secured by subordinated mortgages on two of the Corporation's real properties.

On April 30, 2009, the Original Loan from Edco in the principal amount of $50,000 was increased to $65,000; was extended to July 1, 2010 in consideration of the payment of a one time fee to Edco equal to 1% of the principal amount outstanding of $50,000 and the interest rate on the loan was increased from 10% to 12% per annum.

On March 26, 2010, the Original Loan was further extended and restated. The interest rate was decreased from 12% per annum to 11% per annum commencing July 1, 2010 and the loan extended to July 1, 2011 in consideration of the payment of an aggregate fee to Edco equal to 1% of the principal amount. The Corporation was also granted the option, exercisable on or before July 1, 2011, to renew the Original Loan for a further one year period on payment of a an additional one time extension fee of 1% of the principal amount of the loan and on the condition the operating credit facility is renewed, for an additional 364 day period beginning May 22, 2011 on terms satisfactory to the Board and on the condition that there is no material change in the business, operations or capital of the Corporation. The Corporation has the right to prepay the Original loan at anytime without penalty and during 2010 the Corporation prepaid $19,000 of the principal amount. As at December 31, 2010 the principal amount outstanding was $46,000.

[d] Obligations under capital leases bear interest at a rate of 7.9% to 14.3%. Future minimum lease payments under the capital leases in effect at December 31, 2010 are as follows:

2011	$ 895
2012	476
Total minimum capital lease payments	1,371
Less capital lease payments representing interest	101
Principal amount of capital lease payments	1,270

[Expressed in thousands of dollars except share and per share data]

The expected maturities for the next five years and thereafter for long-term debt are as follows:

2011	$ 48,438
2012	2,256
2013	2,124
2014	2,195
2015	2,108
Thereafter	9,017
	66,138

9. PREFERENCE SHARES

	Number of Shares	Stated Capital
Outstanding at December 31, 2009 and 2008	2,000,000	19,949
Retraction	799,987	7,949
Outstanding at December 31, 2010	1,200,013	12,000

On May 27, 2005, the Corporation issued 2,000,000 8.0% Cumulative Redeemable First Preference Shares Series A (the "Preference Shares") at a price of $10.00 per Preference Share for total gross proceeds of $20,000. Each Preference Share is convertible at the holder's option into 0.67 common shares of the Corporation (1,333,333 common shares in aggregate) at a price of $15.00 per common share. Directors and officers of the Corporation purchased, directly or indirectly, 1,135,000 of the Preference Shares issued.

The Preference Shares were not redeemable by the Corporation at any time prior to July 1, 2008. Thereafter, the Preference Shares are redeemable, under certain conditions, at the option of the Corporation at $10.00 per Preference Share plus accrued and unpaid dividends. In addition, subject to the terms of the Ontario Business Corporations Act (the "OBCA"), the Preference Shares will be retractable by the holder at the issue price plus accrued and unpaid dividends: i) from July 1, 2010 in the event that at any point after such date the volume weighted average trading price of the common shares on the TSX for at least 20 trading days in any consecutive 30-day period ending on the fifth trading day prior to such date is less than $12.00 per common share; or (ii) upon the occurrence of a change of control of the Corporation involving the acquisition of voting control or direction over at least 66-2/3% of the common shares and instruments convertible into common shares.

The acquisition of the New Convertible Debentures on April 30, 2009 [Note 10] resulted in Mr. Edwards holding in excess of 66-2/3% of the common shares of the Corporation on a fully diluted basis, which holdings constituted a change of control as defined in the Preference Shares' terms. Pursuant to the change of control definition in the Corporation's outstanding Preference Shares' terms, the Corporation is required to retract its outstanding Preference Shares at a price of $10.00 per share plus accrued and unpaid dividends, unless such retraction contravenes any instrument of indebtedness of the Corporation or the terms of the OBCA. As at December 31, 2009, the Corporation was not in the position to retract the Preference Shares as it was prohibited from doing so by the terms of its operating credit facility.

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 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.

On April 30, 2010 and October 31, 2010, the Corporation completed the retraction of 399,994 and 399,993 respectively of its 2,000,000 Preference Shares, for total consideration paid of $8,000, as was permissible under the amended operating credit facility. Effective as of the Retraction Date, the holders of these Preference Shares ceased to be holders of these Preference Shares and were entitled to receive the retraction price of $10.00 for each Preference Share held plus accrued and unpaid dividends on the shares to be retracted.

As at December 31, 2010, 1,200,013 Preference Shares were outstanding of which Preference Shares with a face value of $8,000 have been reclassified from shareholders' equity to a current liability and a further $4,000 of Preference Shares have been reclassified from shareholders' equity to a long-term liability.

During 2010, the Corporation declared dividends of $1,280 on its Preference Shares and has reclassified $880 of the dividends from a charge to retained earnings to an expense on the income statement. As at December 31, 2009, the Corporation accrued the cumulative $1,600 dividends declared and paid subsequent to the year end.

10. CONVERTIBLE DEBENTURES

On January 30, 2008, the Corporation closed a private placement of an aggregate of $20,950 8.5% convertible unsecured subordinated debentures [the "2008 Debentures"], due January 31, 2010. The 2008 Debentures were redeemable by the Corporation for the first six months of the term at 102.5% of principal value and the holders had no conversion rights. After the first six months of the term, the 2008 Debentures were convertible, at the option of the holder, at any time prior to maturity into common shares of the Corporation at a conversion price of $10.00 per share. The 2008 Debentures were unsecured obligations of the Corporation and were subordinated in right of payment to all of the Corporation's existing and future senior indebtedness. As a result of the requirement under a change of control provision in the 2008 Debentures, the Corporation was required to make an offer to purchase the $20,950 of the 2008 Debentures at a price of 102.5% of the principal amount plus accrued and unpaid interest. During the second quarter of 2009, the 2008 Debentures were fully repurchased.

On April 30, 2009, the Corporation closed a private placement in which the Chairman of the Board of the Corporation, directly or indirectly, purchased $40,000 principal amount of 10% convertible secured subordinated debentures (the "New Convertible Debentures") due on April 30, 2012. Interest is due semi-annually in arrears on April 30 and October 31 in each year. The New Convertible Debentures are convertible, at the option of the holder at any time prior to April 30, 2012, in whole or in multiples of $1,000, into fully paid and non-assessable Common Shares of the Corporation at the conversion price of $1.00 per Common Share which is equal to the issuance on conversion of approximately 40,000,000 Common Shares in total. The New Convertible Debentures are secured obligations of the Corporation and are subordinated in right of payment to all of the Corporation's senior indebtedness.

At December 31, 2010, $38,901 of the New Convertible Debentures, net of transaction costs, has been attributed to the debt component and $1,920 has been attributed to the equity component of the instrument. The difference between the carrying value and the face value of the New Convertible Debentures will be accredited using the effective interest rate method.

As explained under "Significant Accounting Policies – Convertible Debentures," $1,920 of the New Convertible Debentures, $545 of the 2008 Debentures issued in 2008 and $11,100 of debentures issued in 2003 have been attributed to the equity component of the debenture and are classified as other paid in capital.

[Expressed in thousands of dollars except share and per share data]

11. OTHER LONG-TERM LIABILITIES

	2010	2009
Accrued costs related to plant and program closures [a]	$ 790	$ 3,884
Other [b]	9,206	10,915
	9,996	14,799
Less current portion included in accounts payable and accrued charges	4,560	4,996
	5,436	9,803

Amounts are due as follows:

2011	$ 4,560
2012	2,410
2013	157
2014	152
2015	148
Thereafter	2,569
	9,996

[a] During 2003, the Corporation announced its decision to cease operations at its Fleet Industries plant in Fort Erie, Ontario. Management estimated the potential costs and losses resulting from this decision and recorded total cumulative charges of $41,996. At December 31, 2010, a balance of $790 [2009 - $766] remains as a liability. During 2010 the Corporation completed the wind-up of its defined benefit plan in relation to these operations and has settled all pension related liabilities [2009 - $3,118 provision recorded in accounts payable and accrued charges].

[b] Other long-term liabilities include $5,596 [2009 – $5,576] of deferred revenue in relation to long-term production contracts.

12. CAPITAL STOCK

The authorized capital of the Corporation consists of an unlimited number of Preference Shares, issuable in series, and an unlimited number of common shares.

Common shares:

Effective May 21, 2008, as approved at the Annual General and Special Meeting of the Corporation's shareholders held on May 13, 2008, the Corporation completed a five-for-one consolidation of its common shares. All current and comparative share and per share amounts have been retroactively adjusted to reflect the five-for-one stock consolidation.

	Number of Shares	Stated Capital
Outstanding at December 31, 2008	18,198,757	$ 214,432
Issued to employees	10,244	8
Outstanding at December 31, 2009	18,209,001	214,440
Issued to employees	—	—
Outstanding at December 31, 2010	18,209,001	214,440

Under the terms of the Corporation's Employee Share Purchase Plan (the "ESPP"), eligible employees were able to purchase common shares at 100% of the average market price for the period preceding the purchase. The Corporation then matched purchased shares on a 50% basis after a vesting period of approximately one year. During the year, the Corporation did not issue common shares under the ESPP [2009 - 10,244 for $8]. The Board of Directors of the Corporation discontinued the ESPP effective January 31, 2009.

[Expressed in thousands of dollars except share and per share data]

The reconciliation of the numerator and denominator for the calculation of basic and diluted income per common share is as follows:

	2010	2009
Net income	$ 25,408	$ 25,985
Dividends on Preference Shares	(400)	(1,600)
Net income attributable to common shareholders	25,008	24,385
Weighted average shares outstanding	18,209,001	18,207,853
Net effect of dilutive instruments (NOTE 10 AND 13)	40,000,000	26,849,000
Diluted weighted average shares outstanding	58,209,001	45,056,853
Net income per common share		
Basic	1.37	1.34
Diluted	0.51	0.61

For the years ended December 31, 2010 and 2009, the inclusion of the Corporation's stock options and preference shares in the computation of diluted net income per common share would have an anti-dilutive effect on the net income per common share and are, therefore, excluded from the computation.

13. STOCK-BASED COMPENSATION PLAN

The Corporation has an incentive stock option plan, which provides for the granting of options for the benefit of employees and directors. The 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% 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.

A summary of the plan and changes during each of 2010 and 2009 are as follows:

	2010		2009	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	638,200	$ 15.02	755,210	$ 15.02
Forfeited/expired	(210,250)	13.58	(117,010)	15.01
Outstanding, end of year	427,950	15.72	638,200	15.02

The following table summarizes information about options outstanding and exercisable at December 31, 2010:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at December 31, 2010	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable at December 31, 2010	Weighted average exercise price
$ 15.40 – 16.00	427,950	1.54	$ 15.72	286,690	$ 15.68

Compensation expense recorded during the year was $582 [2009 - $717].

[Expressed in thousands of dollars except share and per share data]

On November 7, 2008, the Corporation amended the incentive stock option plan by adding a cash option feature to all new and previously granted options outstanding. The cash option feature allows option holders to elect to receive an amount in cash equal to the intrinsic value, being the excess market price of the common share over the exercise price of the option, instead of exercising the option and acquiring the common shares. The result of such an amendment is that the outstanding share options awards largely take on the characteristics of liability instruments rather than equity instruments. All outstanding stock options are now classified as liabilities and are carried at their intrinsic value, measured as the difference between the current stock price and the option exercise price. The intrinsic value of the liability is marked to market each period for new awards to be granted subsequent to the amendment date. The intrinsic value is amortized to expense over the period in which the related services are rendered, which is usually the graded vesting period or, as applicable, over the period to the date an employee is eligible to retire, whichever is shorter. No such awards were granted in 2009 and 2010. For the outstanding share option awards that were amended, the minimum expense recognized for them will be their grant-date fair values. Previously, all stock options were classified as equity and were measured at the estimated fair value established by the Black-Scholes model on the date of grant. Under this method, the estimated fair value was and will continue to be amortized to compensation expense and contributed surplus over the period in which the related services were rendered, which is usually the vesting period or, as applicable, over the period to the date an employee was eligible to retire, whichever was shorter.

The Corporation's employee stock options are not transferable, cannot be traded and are subject to vesting restrictions and exercise restrictions under the Corporation's black-out policy which would tend to reduce the fair value of the Corporation's stock options. Changes to the subjective input assumptions used in the model can cause a significant variation in the estimate of the fair value of the options.

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss consists solely of the net unrealized loss on the translation of the Corporation's net investment in self-sustaining foreign operations. The following is a continuity schedule of accumulated other comprehensive loss.

	2010	2009
Balance, beginning of year	$ (66,447)	$ (45,961)
Net unrealized loss on translation of net investment in foreign operations	(10,169)	(20,486)
Total accumulated other comprehensive loss	(76,616)	(66,447)

15. 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 debenture.

As at December 31, 2010, total managed capital was $499,908, comprised of shareholders' equity of $265,823 and interest-bearing debt of $234,085. Included in interest-bearing debt are the Preference Shares of $12,000 and the debt component of the convertible debentures of $38,901, where a component of the associated interest expense includes a non-cash charge.

The Corporation manages its capital structure and makes adjustments to it in light of general 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 a 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 year.

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

[Expressed in thousands of dollars except share and per share data] 42

16. INCOME TAXES

The following is a reconciliation of the expected tax expense (recovery) obtained by applying the combined corporate tax rates to income before income taxes:

	2010	2009
Corporate tax rate for manufacturing companies	29.6%	28.3%
Expected tax expense	$ 9,644	$ 6,746
Benfit of previously unrecognized tax assets	(1,460)	(5,194)
Change in valuation allowances	613	(4,395)
Adjustments in respect of prior years	(120)	—
Permanent differences	(795)	825
Changes in income tax rates	(723)	(145)
	7,159	(2,163)

Components of future income tax assets and liabilities by jurisdiction are summarized as follows:

	2010	2009
Canada		
Future income tax asset - current		
Accounting provisions not currently deductible for tax purposes	$ 1,754	$ 2,675
Future income tax assets - long-term		
Operating loss carryforwards	750	2,994
Investment tax credits	31,509	26,596
Accounting provisions not currently deductible for tax purposes	19,062	24,322
	51,321	53,912
Valuation allowance	(12,893)	(12,280)
	38,428	41,632
Future income tax liabilities - long-term		
Tax depreciation in excess of book depreciation	14,785	19,479
Deferred employee future benefits	5,561	4,967
	20,346	24,446
Net future income tax asset - long-term	18,082	17,186

	2010	2009
United Kingdom		
Future income tax asset - long-term		
Operating loss carry forwards and investment tax credits	$ 986	$ 965
Future income tax liabilities - long-term		
Tax depreciation in excess of book depreciation	3,055	2,067
Net future income tax liabilities - long-term	2,069	1,102

[Expressed in thousands of dollars except share and per share data]

	2010	2009
United States		
Future income tax asset - current		
Accounting provisions not currently deductible for tax purposes	$ 1,988	$ 1,283
Future income tax assets - long-term		
Operating loss carry forwards and investment tax credits	11,247	14,580
Accrued employee benefits	59	232
	11,306	14,812
Future income tax liabilities - long-term		
Tax depreciation in excess of book depreciation	22,628	23,991
Net future income tax liabilities - long-term	11,322	9,179

The valuation allowance primarily relates to unrecognized tax assets in Canada where realization is not likely due to a history of losses and the uncertainty of sufficient taxable earnings in the future. In 2010, the Corporation recorded a valuation allowance of $613 [2009 – reversal of $4,395] as the Corporation has assessed that it is more likely than not that certain future income tax benefits will not be realized.

During the year the Corporation estimated that there is reasonable assurance that a portion of the investment tax credits earned in the period will be realized and has recognized during the year investment tax credits of $3,608 [2009 - $3,828] as a reduction to cost of revenues.

The Corporation operates in different jurisdictions and accordingly is subject to income and other taxes under the various tax regimes in the countries in which it operates. The tax rules and regulations in many countries are highly complex and subject to interpretation. The Corporation may be subject in the future to a review of its historical income and other tax filings, and in connection with such reviews, disputes can arise with the taxing authorities over the interpretation or application of certain tax rules and regulations to the Corporation's business conducted with the country involved. The Corporation is not aware of any pending review of its filing positions for which adequate reserves have not been provided in these financial statements.

17. 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.

Cash payments contributed by the Corporation for employee future benefits related to its defined benefit and defined contribution pension plans and payments directly to beneficiaries for its unfunded other benefits plan totaled $13,282 [2009 - $13,136].

[a] Defined contribution plans

The Corporation's expenses for defined contribution plans for the year ended December 31, 2010 totaled $4,212 [2009 - $4,663].

[b] Defined benefit plans

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.

[Expressed in thousands of dollars except share and per share data]

The Corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 for each year. 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 obligation and plan assets of the Corporation's defined benefit plans, in aggregate:

	Pension		Other benefit plan	
	2010	2009	2010	2009
Change in benefit obligation				
Benefit obligation, beginning of year	$ 110,616	$ 97,564	$ 872	$ 980
Current service cost (employer)	2,293	1,635	—	—
Member contributions during the year	303	297	—	—
Interest cost	5,828	6,524	314	337
Benefits paid	(4,812)	(7,586)	(408)	(308)
Benefits paid in relation to plan wind-up	(32,255)	—	—	—
Actuarial loss	9,927	13,757	—	—
Foreign exchange gain	(508)	(1,575)	(44)	(137)
Benefit obligation, end of year	91,392	110,616	734	872
Change in plan assets				
Market value of plan assets, beginning of year	106,843	95,241	—	—
Actual return of plan assets	3,982	11,611	—	—
Member contributions during the year	303	297	—	—
Employer contributions	8,662	8,165	—	—
Benefits paid	(4,812)	(7,586)	—	—
Benefits paid in relation to plan wind-up	(32,255)	—	—	—
Foreign exchange loss	(327)	(885)	—	—
Market value of plan assets, end of year	82,396	106,843	—	—
Reconciliation of funded status				
Funded status - deficit	(8,996)	(3,773)	(734)	(872)
Unamortized past service costs	483	768	—	—
Unamortized net actuarial loss	31,129	19,446	—	—
Accrued benefit asset (liability)	22,616	16,441	(734)	(872)

The accrued benefit asset related to pensions is included in other assets and 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.

[Expressed in thousands of dollars except share and per share data]

Net benefit plan costs

The components of the Corporation's net benefit costs are as follows:

	Pension		Other benefit plan	
	2010	2009	2010	2009
Change in benefit obligation				
Current service cost	$ 2,293	$ 1,635	$ —	$ —
Interest cost	5,828	6,524	314	357
Actual return on plan assets	(3,982)	(11,611)	—	—
Actuarial loss	9,927	13,757	—	—
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefits	14,066	10,305	314	357
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between expected return and actual return on plan assets for the year	(2,360)	(12,371)	—	—
Difference between actuarial loss recognized for the year and actual actuarial losses on accrued benefit obligation for the year	(8,423)	5,345	—	—
Difference between amortization of past service costs for the year and actual plan amendments for the year	242	242	—	—
Net benefit cost recognized	3,525	3,521	314	357

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]:

	Pension		Other benefit plan	
	2010	2009	2010	2009
Accrued Benefit Obligation at December 31				
Discount rate	5.25%	5.75%	7.0%	7.0%
Expected long-term rate of return on plan assets	6.0%	6.5%	—	—
Rate of compensation increase	2.9%	2.9%	—	—
Benefit costs for the years ended December 31				
Discount rate	5.25%	5.75%	7.0%	7.0%
Expected long-term rate of return on plan assets	6.0%	6.5%	—	—
Rate of compensation increase	2.9%	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.

[Expressed in thousands of dollars except share and per share data]

Plan assets

The percentage of the fair value of total pension plan assets held at the measurement date of December 31 of each year were as follows:

	Percentage of plan assets	
	2010	2009
Equities	46.7%	43.2%
Fixed income	48.2%	47.2%
Cash and short-term investments	5.1%	9.6%
Total	100.0%	100.0%

At December 31, the market value of the plan assets directly invested in common shares of the Corporation was as follows:

	2010	2009
Defined benefit plans	$ 55	$ 37

18. 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.

[a] Categories of financial assets and liabilities

Under Canadian GAAP, financial instruments are classified into one of the following five categories: held for trading, held to maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheet, which are measured at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized 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 accumulated other comprehensive income until the instrument is derecognized or impaired.

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

	2010	2009
Held for trading[1]	$ 24,952	$ 22,641
Loans and receivables[2]	84,351	83,282
Financial liabilities[3]	369,613	390,182
Derivatives not accounted for as hedges[4]	1,141	1,286

[1] Includes cash
[2] Includes accounts receivable
[3] Includes bank indebtedness, accounts payable and accrued charges, long-term debt, and the debt component of the convertible debentures
[4] Included in prepaid expenses and other

[b] Fair values

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

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

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

[Expressed in thousands of dollars except share and per share data]

Forward exchange contracts

The Corporation has entered into forward foreign exchange contracts to mitigate future cash flow exposures in US dollars and British Pounds. Under these contracts the Corporation is obliged to purchase specific amounts of foreign currencies at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in US dollars and British Pounds expiring in 2011.

During 2010, the Corporation entered into US dollar foreign exchange collars as follows:

	Amount	Floor	Ceiling
Maturity – less than 1 year	$ 3,500	1.02020	1.12360
Maturity – less than 1 year	3,500	1.03010	1.11110
Maturity – less than 1 year	18,000	1.03540	1.11110

In addition, the Corporation entered into forward exchange contracts to purchase British Pounds totaling $3,667 at exchange rates ranging from $1.53850 to $1.55550 Canadian per £1.00 British Pound expiring in 2011.

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 contracts had been entered into on December 31, 2010.

The mark-to-market on these financial instruments as at December 31, 2010 was an unrealized gain of $1,141 [2009 – $1,286] which has been recorded in administrative and general expenses in the year.

Long-term debt

The fair value of the Corporation's long-term debt, which includes the current portion, calculated by discounting the expected future cash flows based on current rates for debt with similar terms and maturities, is $65,183 at December 31, 2010.

Convertible Debentures

The fair market value of the Corporation's convertible debentures, calculated by discounting the expected future cash flows at prevailing interest rates, is estimated at $38,936.

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 $12,133.

As at December 31, 2010, the carrying amount of the financial assets (consisting of cash and accounts receivable) that the Corporation has pledged as collateral for its long-term debt facilities was $66,138.

[c] Fair value hierarchy

The Corporation's financial assets and liabilities recorded at fair value on the consolidated balance sheet have been categorized into three categories based on a fair value hierarchy. Fair value of assets and liabilities included in Level I are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level II include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level III valuations are based on inputs that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

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:

[Expressed in thousands of dollars except share and per share data]

	Quoted Prices in Active Markets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total
Financial Assets				
Forward foreign exchange contracts	$ —	$ 1,141	$ —	$ 1,141
Financial Liabilities				
Long-term debt	$ —	$ 5,904	$ —	$ 5,904

[d] Risks arising from financial instruments and risk management

The Corporation thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

Credit Risk

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

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

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

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

Total trade accounts receivable	$ 74,032
Less: Allowance for doubtful accounts	(1,963)
Total trade accounts receivable, net	72,069
Of which:	
Not overdue	66,828
Past due for more than one day but not more than three months	5,593
Past due for more than three months but not more than six months	231
Past due for more than six months but not more than one year	18
Past due for more than one year	1,362
Less: Allowance for doubtful accounts	(1,963)
Total trade accounts receivable, net	72,069

[Expressed in thousands of dollars except share and per share data]

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 credit facility capacity. The primary sources of liquidity are the operating credit facility and the indebtedness provided by a corporation controlled by the Chairman of the Board of the Corporation.

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

	Due less than 1 year	Due between 1 and 3 years	Due between 4 and 5 years	Due after 5 years	Total
Bank indebtedness	$ 117,046	$ —	$ —	$ —	$ 117,046
Long-term debt	50,981	6,975	2,308	9,441	69,705
Capital lease obligations	895	476	—	—	1,371
Equipment leases	1,745	295	18	—	2,058
Facility leases	1,417	3,370	2,090	6,444	13,321
Preference shares	8,800	4,160	—	—	12,960
Other long-term liabilities	4,560	2,719	148	2,569	9,996
Convertible debentures	4,000	42,000	—	—	46,000
Total	189,444	59,995	4,564	18,454	272,457

As at December 31, 2010, the Corporation had undrawn lines of credit available to it of $54,784. The Corporation's operating credit facility is due within a one-year period.

On March 26, 2010, Edco extended the due date of the Original Loan to July 1, 2011. In addition, the Corporation has an option, exercisable on or before July 1, 2011, to renew the loan for a further one year period on the condition the operating credit facility is renewed, for an additional 364 day period beginning May 22, 2011 [Long-Term Debt – Note 8].

Currency risk

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates ("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 US dollars. As a result, the Corporation may experience transaction exposures because of the volatility in the exchange rate between the Canadian and US dollar. Based on the Corporation's current US denominated net inflows, as of December 31, 2010, fluctuations of +/- 1% would, everything else being equal, have an effect on net income and on other comprehensive income for year ended December 31, 2010 of approximately +/- $110 and $1,300 respectively.

Interest rate risk

The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. At December 31, 2010, $134,953 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 income during the year by approximately +/- $1,300.

19. RELATED PARTY TRANSACTIONS

In 2009, the Corporation sold receivables to a corporation, which is controlled by a common director, in the amount of $65,448 for a discount of $832 representing an annualized interest rate of 7.5%. This securitization facility expired on December 31, 2009.

On January 31, 2008, the Corporation entered into the Original Loan in principal amount of $50,000 due July 1, 2009 with a corporation, which is controlled by the Chairman of the Board of the Corporation. The loan bears interest at a rate of 10%. In 2010, $nil [2009 - $1,665] of interest was paid in relation to the $50,000 Original Loan.

On April 30, 2009 the Original Loan in principal amount of $50,000 was amended and increased to $65,000 [Note 8]. In 2010, $5,524 [2009 - $5,280] of interest and $19,000 [2009 - $nil] of principal was paid in relation to the $65,000 Original Loan.

The Chairman of the Board, who is a director, and another director of the Corporation held $18,150 of the $20,950 2008 Debentures that were refinanced on April 30, 2009. The related cash interest paid in the year was $nil [2009 - $832].

On April 30, 2009, the Chairman of the Board of the Corporation subscribed to $40,000 of the New Convertible Debentures. During the period, the Corporation incurred interest of $4,006 [2009 - $2,667] in relation to the New Convertible Debentures.

The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the Corporation's operating credit facility. An annual fee averaging 1.2% [2009 – 1.35%] of the guaranteed amount or $2,127 [2009 - $2,801] was paid in consideration for the guarantee.

During the year, the Corporation incurred consulting costs of $100 [2009 - $100] payable to a corporation controlled by the Chairman of the Board of the Corporation. As well, the Corporation paid legal fees of $57 [2009 - $215] to a law firm in which a director is a partner.

[Expressed in thousands of dollars except share and per share data]

20. SUPPLEMENTARY INFORMATION

[a] Interest expense on long-term debt in 2010 was $12,093 [2009 - $11,622]. Interest on capital leases in 2010 was $146 [2009 - $237].

[b] During 2010, the Corporation received $6,635 [2009 - $2,183] of government assistance, of which $5,296 [2009- $2,183] has been credited to the related assets and $1,339 [2009 - $nil] has been credited to the related expense. The Corporation is eligible for an additional government assistance of $35,419 for the period from January 1, 2010 to December 31, 2014 based on approved expenditures. The assistance is repayable as royalties on certain future revenue.

[c] Details of changes in non-cash working capital balances related to operating activities are as follows:

	2010	2009
Accounts receivable	$ (3,810)	$ (19,083)
Inventories	(8,221)	22,285
Prepaid expenses and other	26,289	(28,191)
Accounts payable and accrued charges	(1,619)	11,857
	12,639	(13,132)

[d] Interest paid during 2010 amounted to $19,924 [2009 - $19,698] and income taxes paid during 2010 amounted to $249 [2009 - $678].

[e] During the year, the Corporation realized a foreign exchange loss on the translation of foreign currency denominated working capital balances and debt of $680 [2009 – gain of $6,383] which is included in other expenses.

[f] During 2010, the Corporation sold receivables to various financial institutions in the amount of $65,375 [2009 - $117,105], for a discount of $254 [2009 - $672] representing an annualized interest rate of 2.35% [2009 – 2.83%].

[g] Contributed surplus arises solely from the recording of stock based compensation expense.

[h] Prepaid expenses and other include advance payments to suppliers and subcontractors in the amount of $5,218 [2009 – $31,321].

[i] Accounts payable and accrued charges include advance payments received from customers in the amount of $29,636 [2009 – $50,197].

[j] Other assets include advances to contractors in the amount of $15,185 [2009 - $1,626].

[Expressed in thousands of dollars except share and per share data]

21. 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 accounting policies used to account for the operating segments are the same as those described in the summary of the Corporation's significant accounting policies.

Segmented information consists of the following:

Activity Segments

			2010			2009
	Aerospace	Power Generation Project	Total	Aerospace	Power Generation Project	Total
Revenues	$ 627,113	$ 105,395	$ 732,508	$ 681,393	$ 5,221	$ 686,614
Income before interest and income tax expense	44,711	7,592	52,303	44,002	574	44,576
Interest expense	—	—	19,736	—	—	20,754
Income before taxes	—	—	32,567	—	—	23,822
Total Assets	610,347	43,916	654,263	636,408	44,210	680,618
Additions to capital assets	16,255	—	16,255	21,675	—	16,255
Depreciation and amortization	32,078	2,930	35,008	35,093	—	35,093

Geographic segments

				2010				2009
	Canada	United States	United Kingdom	Total	Canada	United States	United Kingdom	Total
Revenue	$ 422,737	$ 187,555	$ 122,216	$ 732,508	$ 337,765	$ 200,525	$ 148,324	$ 686,614
Capital assets	112,471	99,159	27,878	239,508	115,116	110,054	29,530	254,700
Export revenue[1]	330,821	29,214	9,237	369,272	224,179	30,805	17,430	272,414

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

[Expressed in thousands of dollars except share and per share data]

	2010	2009
Major Customers		
Canadian operations		
Number of customers	1	2
Percentage of total Canadian revenue	25%	25%
United States Operations		
Number of customers	1	1
Percentage of total United States revenue	38%	35%
United Kingdom operations		
Number of customers	1	2
Percentage of total United Kingdom revenue	84%	80%

22. COMMITMENTS AND CONTINGENCIES

[a] Operating lease commitments

The Corporation has lease commitments related to properties, equipment and other items. At December 31, 2010, future minimum annual lease payments are as follows:

2011	$ 3,162
2012	1,290
2013	1,215
2014	1,160
2015	1,107
Thereafter	7,445
	15,379

[b] Contingencies

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.

Corporate Officers

N. Murray Edwards
Chairman

Richard A. Neill
Vice Chairman

James S. Butyniec
President and Chief Executive Officer

John B. Dekker
Vice President,
Finance and Corporate Secretary

Daniel R. Zanatta
Vice President,
North American Operations

Jo-Ann C. Ball
Vice President,
Human Resources

Larry A. Winegarden
Vice President,
Corporate Strategy

Konrad B. Hahnelt
Vice President,
Strategic Global Sourcing

Board Of Directors

N. Murray Edwards
Chairman,
Magellan Aerospace Corporation
President,
Edco Financial Holdings Ltd.
Calgary, Alberta

Richard A. Neill (4)
Vice Chairman,
Magellan Aerospace Corporation
Mississauga, Ontario

James S. Butyniec
President and Chief Executive Officer
Magellan Aerospace Corporation
Mississauga, Ontario

Hon. William G. Davis P.C., C.C., Q.C. (3)
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Chairman Emeritus,
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Bruce W. Gowan (1, 2, 3)
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Huntsville, Ontario

Donald C. Lowe (1, 4)
Corporate Director,
Toronto, Ontario

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

James S. Palmer C.M., Q.C., (2, 3)
Chairman,
Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Committees Of The Board

(1) *Audit Committee*
Chairman:
William A. Dimma

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

(3) *Human Resources and Compensation Committee*
Chairman:
William G. Davis

(4) *Environmental and Health and Safety Committee*
Chairman:
Donald C. Lowe

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Stock Listing

Toronto Stock Exchange—TSX
Common Shares—MAL

Annual Meeting

The Annual Meeting of the Shareholders of Magellan Aerospace Corporation will be held on Wednesday, May 11th, 2011 at 2:00 p.m. at The Living Arts Centre, 4141 Living Arts Drive, Mississauga, Ontario L5B 4B8

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