# MAGELLAN ANNUAL REPORT 2011

## The Corporation's results in 2011 continued to reflect our commitment to achieving and sustaining a position and a reputation in the industry as an efficient, profitable world-class supplier of aerospace and power generation products and services.

# LETTER TO SHAREHOLDERS

Magellan Aerospace Corporation ("Magellan" or the "Corporation") is pleased to report results for 2011. The Corporation's results in 2011 continued to reflect our commitment to achieving and sustaining a position and a reputation in the industry as an efficient, profitable world-class supplier of aerospace and power generation products and services.

Sales revenue for 2011 was lower than 2010 primarily due to delayed receipt of revenue from our Ghana Power Generation Project and the impact of the work stoppage in our Winnipeg division. In the Winnipeg situation, due to the work stoppage, the Corporation was unable to fully recover delayed revenue in 2011 and now expects full recovery by mid-2012. The Corporation's 2011 results continued to demonstrate improvement in key areas of gross margin performance, inventory management and debt retirement .

**Industry Status**

In 2011 Magellan benefited from the continued growth in the commercial aerospace market which was fuelled predominately by the growing travel demands in the Asian market and the world-wide need to secure and operate cleaner, more cost efficient aircraft. Production rates for both the single and twin aisle platforms for the major OEM's, Boeing and Airbus, continued to increase in 2011 with peak production rates still being forecasted into 2013/2014. The introduction of the A320 NEO and the B737MAX are the main drivers behind the single aisle rate increases. The maturing of Boeing's B787 into production and delivery in 2011, to be followed in late 2012 by Airbus' A350, fits well with Magellan's invested position on these programs.

While the commercial aerospace sector was robust in 2011, the defence sector remained somewhat restrained due to the continuing challenges and uncertainties in the world economy. Pressure to reduce defence spending, specifically in Europe and North America, has had an impact on new programs. While U.S. budget restraint has delayed activities on this program, the F-35 Global Lightning II Program continued to report successful milestone accomplishments as the program moves into production. The Corporation continues to

develop its capabilities and capacity in support of the F-35 production with five locations (Winnipeg, Kitchener, New York, Haley and Phoenix) actively involved in supporting the program. Conversely, the world market for military legacy products has gained momentum, which has helped to balance Magellan's defence based businesses.

**The Global Space Market**

Magellan's space activities are focused largely in support of Canadian programs where we are primarily engaged in the design and manufacture of three satellites for the Radarsat Constellation Mission. Launch dates are scheduled for 2015, 2016 and 2017.

**Power Generation**

In 2011 Magellan's power generation business continued to evolve as we continued the installation of a major electrical power generation plant for the Republic of Ghana. While interest in additional and complementary business opportunities in this sector remains high, at this time the Corporation does not have any additional committed projects .

**Magellan Going Forward**

In 2011 the Corporation expanded its 3-year commitment to develop and implement Magellan Operating System™, initially consisting of a system of standardized activities and essential services to improve operational execution. As a result of successes achieved so far, the scope was expanded to finance, costing, business development, contracting and quality. These initiatives provide Magellan's divisions with necessary tools and methodologies to support our efforts to achieve a premier position in the global supply chain.

Our measurable success in standardizing our practices using common sense solutions has resulted in improvements in meeting our customers' needs, reducing inventories, improving our balance sheet and improving our profitability in an environment which has been challenging for Canadian manufacturers and exporters. Additionally, early in 2011, the Corporation undertook a review of our brand and how we were perceived in the indus-

try. As a result of this review a number of initiatives were launched to refresh our brand across all communication platforms to reflect the Corporation's maturing and evolving identity which has now been firmly established within the industry. Our efforts in this area will continue into 2012.

The Corporation is committed to increase shareholder value by continuing to serve our customers with performance that provides them with confidence and surety of product quality and delivery. Through our improved performance, Magellan has positioned itself with its customers to maximize business opportunities that meet its customer needs and our business case parameters. Our progress in 2011 could not have been achieved without the continued support of our shareholders and financial partners. A special note of thanks to the customers and Magellan employees who have supported the Corporation in adopting and implementing the Magellan Operating System™. This willingness to move away from traditional and ingrained methodologies has and will continue to have a significant and positive impact on our financial results.

James S. Butyniec
*President and Chief Executive Officer*

March 23, 2012

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Magellan Aerospace Corporation ("Magellan" or the "Corporation") has been prepared in accordance with International Financial Reporting Standards ("IFRS"). Accordingly, the Corporation commenced reporting on this basis in its 2011 consolidated financial statements. The MD&A should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2011 (available on SEDAR at www.sedar.com). This MD&A provides a review of the significant developments that have impacted the Corporation's performance during the year ended December 31, 2011 relative to the year ended December 31, 2010. The 2010 prior period comparative financial information throughout this report has been restated to conform with current period presentation, which has been prepared in accordance with IFRS. The information contained in this report is as at March 23, 2012. All financial references are in Canadian dollars unless otherwise noted.

The MD&A contains forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance. All statements other than statements of historical facts may be forward-looking statements. In particular and without limitation there are forward looking statements under the heading "Company Overview," "Outlook," "Consolidated Revenues," "2011 Updates," "Liquidity and Capital Resources" 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 2011 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.

The MD&A presents certain non-IFRS financial measures to assist readers in understanding the Corporation's performance. Non-IFRS financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with Generally Accepted Accounting Principles ("GAAP"). Throughout this discussion, reference is made to EBITDA (defined as net income before interest, income taxes, depreciation, amortization, dividends and stock based compensation), which the Corporation considers to be an indicative measure of operating performance and a metric to evaluate profitability. Reference is also made to gross profit which represents revenues less direct costs and expenses. Not included in the calculation of gross profit are administrative and general expenses, foreign exchange, gains or losses on the sale of assets, dividends, interest and income taxes. EBITDA and gross profit are not generally accepted earnings measures and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, the Corporation's EBITDA and gross profit may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA to net income (loss) reported in accordance with IFRS are included in this MD&A.

## 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 major military aircraft. Magellan's sole product for the Power Generation Project segment is an electric power generation project in the Republic of Ghana.

The Corporation's percentages of revenues by segment are as follows:

| | 2011 | 2010 |
|---|---|---|
| Aerospace | **88%** | 86% |
| Power Generation Project | **12%** | 14% |
| | **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 aero-engine 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 completed in 2012. 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 2011, 67.0% of revenues were derived from the commercial markets (2010 – 64.4%, 2009 – 63.9%) while 33.0% of revenues related to defence markets (2010 – 35.6%, 2009 – 36.1%).

## OUTLOOK

In 2011 Magellan benefited from the sustained growth in demand for commercial aircraft and its continued efforts to implement and expand the Magellan Operating System™ ("MOS") throughout the organization. The Corporations expects that the MOS initiatives will continue to have a growing and positive effect on Magellan's future performance.

It is expected that the civil airline production rates will continue to increase in 2012 with peak rates now being projected into 2013 and 2014. This growth is fueled by the pent-up and growing demand in the Asian countries and the worldwide airline demand for cleaner, more fuel efficient aircraft. The Corporation has invested in and is well positioned in this sector with participation levels on many of the major Boeing and Airbus platforms including the A350, B747-8 and the B787 and new variants of the A320 and B737.

In the defence sector, as expected, worldwide economic factors are negatively impacting defence budgets. Fiscal restraints are in many cases affecting the launch and ramp-up of new programs. The Corporation, having invested in the F-35 Lightning II Program, remains confident that its position as an active global supplier on this international program remains solid. Presently five Magellan locations (Winnipeg, New York, Kitchener, Haley and Phoenix) are manufacturing products in support of the F-35 Program. In 2011 the F-35, as it ramped up into production, completed or surpassed all scheduled project performance milestones. Partially as a result of the slower-than-anticipated emergence of the new programs, legacy work in support of 3rd and 4th generation defence aircraft is now projected to stay strong. The

Corporation enjoys a direct and balancing benefit from these programs, both in the aeroengine and aerostructure parts of its business.

In 2012, Magellan expects to complete the facilitization of its location in Haverhill, MA home of the Corporation's aeroengine shaft facility. Significant effort is underway to support the investment made in this facility in support of Rolls-Royce. Additional business opportunities for the shaft center in Haverhill are in the discussion stages.

The space market in the United States and Canada has stabilized for ongoing projects specifically with respect to Radarsat in Canada and the next generation weather and communication missions. Funding for these missions is expected to be sustained.

Magellan's Power Generation business has continued to evolve with its efforts in the Republic of Ghana. The Corporation is anticipating completion of the initial electric power generation plant later this year. While interest in additional and complementary business opportunities in this sector remains high, at this time the Corporation does not have any additional committed projects .

The Corporation remains sensitive to, and closely monitors uncertainties in the world that could destabilize and impact its market sectors. Economic challenges and political unrest continue to be the major areas of concern. Magellan has assessed a shrinking worldwide capacity in some areas of the aerospace supply chain which is currently and will in the future drive capital investment demand in the industry. Magellan is constantly evaluating the capacity and more importantly the utilization of capital within each of its locations in order to ensure that any investment made is prudent and matched strategically to both customer's needs and the Corporation's core competencies.

## CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Please refer to Note 30 of the Audited Consolidated Financial Statements for the years ended December 31, 2011 and 2010 for a discussion regarding the Corporation's accounting choices with regards to IFRS and the impact of this transition on the financial statements.

## SELECTED ANNUAL FINANCIAL INFORMATION

| Expressed in millions of dollars except per share information | **2011** | 2010 | 2009[1] |
|---|---|---|---|
| Revenues | **691.4** | 731.6 | 686.6 |
| Net income for the year | **37.4** | 34.3 | 26.0 |
| Net income per common share | | | |
| Basic | **2.04** | 1.86 | 1.34 |
| Diluted | **0.73** | 0.66 | 0.61 |
| Total assets | **661.7** | 638.5 | 680.6 |
| Total long term liabilities | **260.5** | 98.4 | 132.0 |

[1]The Corporation's IFRS transition date was January 1, 2010, comparative information for 2009 has not been restated and the 2009 results shown are in accordance with Canadian GAAP ("CGAAP").

Revenues for the year ended December 31, 2011 decreased from 2010 and increased over 2009. The decrease in revenues from 2010 is mainly due to lower revenues earned on the Corporation's power generation project. The Corporation has not paid dividends on its common shares in the past four years. During 2011, the Corporation redeemed all of the outstanding 8.0% Cumulative Redeemable First Preference Shares Series A ("Preference Shares Series A"). The Corporation declared dividends thereon at an annual rate of $0.80 per share during each of 2011 and 2010.

## 2011 UPDATES

- Magellan announced on February 7, 2011 that an agreement has been reached between Airbus and Magellan Aerospace (UK) Limited securing a further work package on Airbus' new A350 XWB. It is expected to generate revenues in excess of US$20.0 million over the next ten years. The contract requires the machining and treatment of complex machined aluminium lithium detail components, and delivery to the final assembly line in Toulouse, France.
- On February 7, 2011 Magellan announced an agreement with Hindustan Aeronautics Limited ("HAL") in Bangalore, India for a new Wire Strike Protection System® ("WSPS®"). The agreement includes the design and development of a WSPS® for the HAL Advanced Light Helicopter ("ALH"). The ALH system is comprised of an upper and lower cutter, and windshield deflector, designed by Magellan's Winnipeg facility to be integrated into the unique structure of the ALH.
- On March 8, 2011 Magellan announced a new agreement with Bell Helicopter for a WSPS® kit development. The helicopter to be fitted with WSPS® will be the Bell UH-1Y. The design and production of the WSPS® will be carried out at Magellan's Winnipeg, Manitoba location for delivery of the prototype kits in 2011.
- On June 30, 2011 Magellan announced that its facility in Haverhill, MA has achieved the globally recognized ISO 14001 certification for its environmental management system.
- Magellan held a ceremonial ribbon cutting event on October 25, 2011 celebrating the final stages of completion of the Corporation's new Advanced Composite Manufacturing Centre in Winnipeg to support the Joint Strike Fighter ("JSF") program. A year following an official ground breaking, the Corporation hosted this ceremony to acknowledge the support and dedicated efforts of all three levels of government, major funding partners, their customer, and all of the other stakeholders in this major new undertaking.
- Magellan announced on December 20, 2011 that an agreement has been reached between GKN Aerospace and Magellan Aerospace (UK) Limited securing a contract extension to deliver aluminum and titanium components from Magellan's facilities in Bournemouth and Chalfont St Peter, UK. The components are destined to GKN's Filton facility, which manufactures and assembles wing structures. This contract is projected to generate revenues in excess of £200.0 million through to December 2017. To support this program Magellan will make further investments in high speed 5-axis machining technology. These future investments demonstrate Magellan's commitment to world class manufacturing facilities focused on core competencies.

## LABOUR MATTERS

Labour agreements at one of the Corporation's facilities were successfully negotiated during 2011 after a seven week labour disruption. Two labour agreements at two of the Corporation's facilities expired December 31, 2011 and two other labour agreements at another of the Corporation's facilities expired March 15, 2012. The Corporation is currently in negotiation on these four labour agreements.

## FINANCING MATTERS

On April 28, 2011, the Corporation extended and restated the 11% loan payable ("Original Loan") to Edco Capital Corporation ("Edco"), a corporation controlled by the Chairman of the Board of the Corporation. The Original Loan was amended decreasing the interest rate from 11% per annum to 7.5% per annum commencing July 1, 2011 and was extended to July 1, 2013 in consideration of the payment of a fee to Edco equal to 1% of the principal amount outstanding on July 1, 2011. The Corporation has the right to repay the Original Loan at any time without penalty.

On April 29, 2011, the Corporation amended its credit 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 $125.0 million (up from $105.0 million) plus a US dollar limit of $50.0 million (down from US $70.0 million), with a maturity date of April 29, 2013. 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, in whole or in part, the Original Loan outstanding from Edco and (ii) retract all (approximately $12.0 million) of the Preference Shares Series A outstanding on or after April 30, 2011, together with accrued and unpaid dividends on the shares to be retracted provided there is no current default or event of default under the operating credit facility and after the repayment of the loan and the payment of the retraction amount the Corporation has at least $25.0 million in availability under the operating credit facility.

As at December 31, 2011, the Corporation had retracted all outstanding Preference Shares Series A and the outstanding principal amount of the Original Loan was $33.5 million.

On December 31, 2011, the Chairman of the Board exercised his conversion rights under the debenture agreement and $38.0 million principal amount of the 10% convertible secured subordinated debentures ("Convertible Debentures") were converted into 38,000,000 common shares of the Corporation. As at December 31, 2011, $2.0 million [2010 - $40.0 million] of the Convertible Debentures were outstanding. Given that the conversion price of the Convertible Debentures is in the money, it is likely that the remaining $2.0 million Convertible Debentures will be converted into common shares of the Corporation on or before their maturity.

## RESULTS FROM OPERATIONS

### Consolidated Revenues

Overall, the Corporation's revenues decreased when compared to the prior year. While the global economy improved throughout 2011, the Corporation continued to experience customer delays in the supply of products in the support of new programs that it has been investing in over the past several years.

The Corporation's revenues by segment were as follows:

| Twelve-months ended December 31, expressed in thousands of dollars | 2011 | 2010 | Change |
|---|---|---|---|
| Aerospace | 609,942 | 627,113 | (2.7)% |
| Power Generation Project | 81,468 | 104,522 | (22.1)% |
| Total revenues | 691,410 | 731,635 | (5.5)% |

Consolidated revenues for the year ended December 31, 2011 decreased 5.5% to $691.4 million from $731.6 million last year, due mainly to decreased revenues earned on the Corporation's Power Generation Project as well as 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 | 2011 | 2010 | Change |
|---|---|---|---|
| Canada | 284,385 | 317,342 | (10.4)% |
| United States | 187,658 | 187,555 | (0.0)% |
| United Kingdom | 137,899 | 122,216 | 12.8% |
| Total revenues | 609,942 | 627,113 | (2.7)% |

Aerospace revenues for the year ended December 31, 2011 were $609.9 million, a decrease of $17.2 million or 2.7% over the previous year. Revenues in Canada in 2011 decreased 10.4% in comparison to revenues earned in 2010 resulting from a work stoppage in one the Corporation's locations, reduced volumes experienced in the year for proprietary products 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 2011 when compared to 2010 as the Corporation's volumes continued to increase on several single aisle aircraft programs. Revenues in the United Kingdom increased in 2011 in comparison to 2010 revenues mainly as a result of higher customer demand in 2011 when compared to 2010. 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 2010 remained constant in 2011, consolidated revenues for 2011 would have been approximately $627.5 million or approximately $17.6 million higher than actually realized in 2011.

### Power Generation Segment

Revenues for the Power Generation segment were as follows:

| Twelve-months ended December 31, expressed in thousands of dollars | 2011 | 2010 | Change |
|---|---|---|---|
| Power Generation Project | 81,468 | 104,522 | (22.1)% |
| Total revenues | 81,468 | 104,522 | |

Revenues earned in 2011 and in 2010 resulted from the Ghana electric power generation project. The Corporation recognizes revenue on this project on a percentage of completion basis, hence the decrease in revenue over the prior year represents the Corporation's progress made towards completion of the project during the year. As the Corporation moves into 2012, revenue from the power generation project will decrease on a year over year basis unless the Corporation receives further contracts in this area.

**Gross Profit**

| Twelve-months ended December 31, expressed in thousands of dollars | 2011 | 2010 | Change |
|---|---|---|---|
| Gross Profit | **97,410** | 103,282 | (5.7)% |
| Percentage of revenue | **14.1%** | 14.1% | |

Gross profit in 2011 was $97.4 million, a decrease of $5.9 million from 2010 levels of $103.3 million. As a percentage of revenues, gross profit was consistent at 14.1% in 2011 and 2010. The decline in both the US dollar and British Pound against the Canadian dollar, over the exchange rates prevailing in 2010, contributed negatively to the gross margin in 2011. The negative impact of the movement in exchange rates in 2011 when compared to 2010 was offset by changes in revenue mix, negotiated price increases and continued operational performance improvements.

**Administrative and General Expenses**

| Twelve-months ended December 31, expressed in thousands of dollars | 2011 | 2010 | Change |
|---|---|---|---|
| Administrative and general expenses | **38,264** | 39,770 | (3.8)% |
| Percentage of revenue | **5.5%** | 5.4% | |

Administrative and general expenses decreased from $39.8 million in 2010 to $38.3 million in 2011. 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 | 2011 | 2010 |
|---|---|---|
| Foreign exchange loss | **238** | 680 |
| Loss on disposal of property, plant and equipment | **198** | 267 |
| Plant and program closure recoveries | **–** | (820) |
| Other | **436** | 127 |

Included in other income is a foreign exchange loss of $0.2 million in 2011 versus a loss of $0.7 million in 2010, 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 2011 and 2010, the Corporation retired assets for a loss on disposal of approximately $0.2 million and $0.3 million respectively.

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, 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 $0.8 million on this pension plan that was wound-up in 2010.

**Interest Expense**

| Twelve-months ended December 31, expressed in thousands of dollars | 2011 | 2010 |
|---|---|---|
| Interest on bank indebtedness and long-term debt | **9,397** | 14,799 |
| Convertible debenture interest | **4,000** | 4,006 |
| Accretion costs | **3,155** | 1,093 |
| Discount on sale of accounts receivable | **447** | 254 |
| Total interest expense | **16,999** | 20,152 |

Interest costs for 2011 were $17.0 million, a decrease of $3.2 million from 2010. Interest on bank indebtedness and long-term debt in 2011 decreased as principal amounts outstanding during 2011 were lower than 2010 levels. A reduced interest rate on long-term debt and lower interest rate spreads on bank indebtedness also contributed to the reduction in interest expense in 2011 when compared to 2010. Accretion costs related to the Convertible Debentures, long-term provisions and borrowings under specific conditions were $3.2 million in 2011 and $1.1 million in 2010. During 2011, the Corporation sold $167.1 million of accounts receivable at an annualized interest rate of 1.73% compared to $65.4 million of receivables sold in 2010 at an annualized interest rate of 2.35%.

**Provision for (Recovery of) Income Taxes**

| Twelve-months ended December 31, expressed in thousands of dollars | 2011 | 2010 |
|---|---|---|
| Current income tax expense (recovery) | 280 | (331) |
| Future income tax expense | 3,708 | 8,340 |
| Total income tax expense | 3,988 | 8,009 |
| Effective tax rate | 9.6% | 18.9% |

The Corporation recorded an income tax expense in 2011 of $4.0 million on pre-tax income of $41.4 million, representing an effective tax rate of 9.6%, compared to a tax expense of $8.0 million on a pre-tax income of $42.4 million in 2010 for an effective tax rate of 18.9%.

During 2011 and 2010, the Corporation recognized additional deferred tax assets in Canada totalling $7.9 million and $4.4 million respectively, as a reduction of cost of revenues, as the Corporation has determined that it will be able to benefit from a portion of its previously unrecorded future tax assets. In 2011, the Corporation continued to have unrecognized deferred tax 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 | 2011 | 2010 |
|---|---|---|
| (Increase) decrease in accounts receivable | (10,908) | 869 |
| Decrease (increase) in inventories | 24,704 | (8,221) |
| Decrease in prepaid expenses and other | 6,559 | 26,289 |
| Decrease in accounts payable, accrued liabilities and provisions | (32,881) | (1,396) |
| Net change in non-cash working capital items | (12,526) | 17,541 |
| Cash provided by operating activities | 51,444 | 80,371 |

Operating activities for 2011 generated cash flows of $51.4 million compared to $80.4 million in the prior year. Changes in non-cash working capital used cash of $12.5 million as a result of a decrease in accounts payable and accrued liabilities charges and increases accounts receivable offset by a decrease in inventory and prepaid expense and other. Prepaid expenses decreased during the year as advance payments made to suppliers to support the Corporation's 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 2010. During 2011, inventory levels decreased as a result of operational efficiencies. In 2010, changes in non-cash working capital of $17.5 million were principally a result of a decrease prepaid expenses and other offset by an increase in inventory.

**Cash Flow from Investing Activities**

| Twelve-months ended December 31, expressed in thousands of dollars | 2011 | 2010 |
|---|---|---|
| Purchase of property, plant and equipment | (59,260) | (16,571) |
| Proceeds from disposals of property, plant and equipment | 514 | 206 |
| Decrease (increase) in other assets | 10,381 | (20,241) |
| Cash used in investing activities | (48,365) | (36,606) |

The Corporation invested $59.3 million in capital assets during the year, of which $43.5 million represented the Corporation's investment in an advanced composite manufacturing centre in Winnipeg, Manitoba to support the JSF program. A portion of the costs of the advanced

composite manufacturing centre was financed through a mortgage in the amount of $16.1 million. 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 | | | | 2011 | | | | 2010 |
|---|---|---|---|---|---|---|---|---|
| | **Mar 31** | **Jun 30** | **Sep 30** | **Dec 31** | Mar 31 | Jun 30 | Sep 30 | Dec 31 |
| Revenues | **170.5** | **186.0** | **161.6** | **173.3** | 177.6 | 181.4 | 184.7 | 187.9 |
| Net income | **7.2** | **4.9** | **8.6** | **16.7** | 3.8 | 7.1 | 8.0 | 15.4 |
| Net income per common share | | | | | | | | |
| Basic | **0.40** | **0.27** | **0.47** | **0.90** | 0.21 | 0.39 | 0.44 | 0.85 |
| Diluted | **0.14** | **0.10** | **0.17** | **0.31** | 0.07 | 0.14 | 0.16 | 0.29 |

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 2011 fluctuated reaching a low of 0.9440 and a high of 1.0561. During 2010, the US dollar relative to the Canadian dollar moved from an exchange rate of 1.0505 at the start of the year to 0.999 by December 31, 2010. The British Pound/Canadian dollar exchange rate in 2011 fluctuated reaching a low of 1.5302 and a high of 1.6354. During 2010, the British Pound relative to the Canadian dollar moved from an exchange rate of 1.6940 at the start of the year to 1.5467 by December 31, 2010. Had exchange rates remained at levels experienced in 2010, reported revenues in 2011 would have been higher by $6.7 million in the first quarter, $5.3 million in the second quarter and $6.5 million in the third quarter and were $1.2 million lower in the fourth quarter. Net income for the fourth quarter of 2010 and 2011 of $15.4 million and $16.7 million respectively was higher than any other quarterly net income disclosed in the table above. In the fourth quarter of each year, the Corporation recognized a reversal of previous impairment losses against intangible assets relating to various civil aircraft programs and recognized a portion of previously unrecognized deferred tax asset as the Corporation determined that it will be able to benefit from these assets.

## RECONCILIATION OF NET INCOME TO EBITDA

| Twelve-months ended December 31, expressed in thousands of dollars | 2011 | 2010 |
|---|---|---|
| Net income | **37,413** | 34,344 |
| Interest | **16,999** | 20,152 |
| Dividends on preference shares | **310** | 880 |
| Taxes | **3,988** | 8,009 |
| Stock based compensation | **68** | 268 |
| Depreciation and amortization | **32,835** | 34,599 |
| **EBITDA** | **91,613** | 98,252 |

EBITDA for the year ended 2011 was $91.6 million, compared to $98.3 million in 2010. As previously discussed decreased revenue levels resulted in decreased EBITDA for the year.

## LIQUIDITY AND CAPITAL RESOURCES

The Corporation's liquidity needs can be met through a variety of sources including cash on hand, cash provided by operations, short-term borrowings from its credit facility and accounts receivable securitization program, and long-term debt and equity capacity. Principal uses of cash are for operational requirements and capital expenditures. Based on current funds available and expected cash flow from operating activities, management believes that the Corporation has sufficient funds available to meet its liquidity requirements at any point in time. However, if cash from operating activities is lower than expected or capital projects exceed current estimates, or if the Corporation incurs major unanticipated expenses, it may be required to seek additional capital in the form of debt or equity or a combination of both.

**Contractual Obligations**

| As at December 31, 2011, expressed in thousands of dollars | Less than 1 year | 1-3 Years | 4-5 Years | After 5 Years | Total |
|---|---|---|---|---|---|
| Bank indebtedness | – | 120,674 | – | – | 120,674 |
| Long-term debt[1] | 10,064 | 43,791 | 10,235 | 29,739 | 93,829 |
| Finance lease obligations | 463 | – | – | – | 463 |
| Equipment leases | 229 | 249 | 39 | 3 | 520 |
| Facility leases | 1,386 | 2,693 | 2,520 | 6,541 | 13,140 |
| Other long-term liabilities | 1,000 | 85 | 83 | 1,354 | 2,522 |
| Borrowings subject to specific conditions | 601 | 1,052 | 1,279 | 16,516 | 19,448 |
| Convertible debentures | 2,000 | – | – | – | 2,000 |
| **Total Contractual Obligations** | **15,743** | **168,544** | **14,156** | **54,153** | **252,596** |

[1] The Corporation's accounts receivable securitization program is included in long-term debt in the less than 1 year category

Major cash flow requirements for 2012 include the repayment of long-term debt of $10.1 million of which $6.0 million is expected to be refinanced, payments of equipment and facility leases of $1.6 million and the repayment of convertible debentures in the amount of $2.0 million. On April 29, 2011, the operating credit facility was extended for an additional two year period with the new expiry date of April 29, 2013. On April 28, 2011 the Original Loan was extended to July 1, 2013. 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 $1.0 thousand, 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 $16.6 million of capital assets. The Corporation also has purchase commitments, largely for materials made through the normal course of operations, of $212.3 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 does not have any off-balance sheet arrangements that have or reasonably are likely to have a material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. As a result, the Corporation is not exposed materially to any financing, liquidity, market or credit risk that could arise if it had engaged in these arrangements.

## DERIVATIVE CONTRACTS

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rates. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-Canadian dollar denominated financial statements of the Corporation's subsidiaries may vary on consolidation into the reporting currency of Canadian dollars. The Corporation uses derivative financial instruments to help manage foreign exchange risk with the objective of reducing transaction exposures and the resulting volatility of the Corporation's earnings. The Corporation does not trade in derivatives for speculative purposes. Under these contracts the Corporation is obligated to purchase specified amounts at predetermined dates and exchange rates. These contracts are matched with anticipated cash flows in US dollars.

As at December 31, 2011, the Corporation has foreign exchange contracts outstanding as follows:

| Foreign exchange collars | Amount | Floor | Ceiling |
|---|---|---|---|
| Maturity – less than 1 year | 17,000 | 1.0000 | 1.1111 |

| Foreign exchange forward contracts | Amount | FX Rate |
|---|---|---|
| Maturity – less than 1 year – US dollar | 18,700 | 1.0400 |
| Maturity – less than 1 year – Euros | 1,292 | 1.3400 |

The fair values of the Corporation's foreign exchange forward 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, 2011.

The mark-to-market on these financial instruments as at December 31, 2011 was an unrealized gain of $0.5 million [2010 – $1.1 million] which has been recorded in other expenses in the year.

## RELATED PARTY TRANSACTIONS

On April 28, 2011, the Original Loan was extended and restated. During 2011, the Corporation incurred interest of $3.7 million [2010 - $5.5 million] in relation to the Original Loan and prepaid the Original Loan by $12.5 million [2010 - $19.0 million]. At December 31, 2011, the Corporation owed Edco interest of $0.2 million [2010 - $1.0 million].

On April 30, 2009, the Chairman of the Board of the Corporation subscribed to $40.0 million of the Convertible Debentures. On December 31, 2011, the Chairman of the Board exercised his conversion rights under the debenture agreement and $38.0 million principal amount of the Convertible Debentures, the entire amount of Convertible Debentures then held by the Chairman, were converted into 38,000,000 common shares of the Corporation. Interest incurred during the year ended December 31, 2011 on the Convertible Debentures was $4.0 million [2010 - $4.0 million]. As at December 31, 2011, Convertible Debentures in the principal amount of $2.0 million were held by a director of the Corporation.

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 0.8% [2010 – 1.2%] of the guaranteed amount or $1.4 million [2010 - $2.1 million] was paid in consideration for the guarantee.

During the year, the Corporation incurred consulting costs of $0.1 million [2010 - $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 [2010 - $0.1 million] to a law firm in which a director is a chairman emeritus.

## 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.

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

Heightened sovereign debt issues in the European Union have created instability and volatility in the international credit and financial markets and has caused a number of countries in the European Union to focus on their respective recurring yearly deficit budgeting practices, resultant aggregate debt levels and to implement austerity measures. Likewise the governments in the United States and Canada have recognized the need to reduce budget deficits. The United States is the principal purchaser under the JSF program and the JSF program represents a significant item in the budget. Canada is also a participant in the JSF program and has invested in an Advanced Composite Manufacturing Facility at Magellan's Winnipeg facility, primarily in support of the JSF program.

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 material contracts such as the JSF program could materially adversely affect the Corporation's business and financial condition. The loss or significant reduction in government funding of a large program such as the JSF program in which the Corporation participates could also materially adversely affect sales and earnings.

**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 continued in 2011 and linger in 2012 resulting in a lack of confidence in the broader U.S. and global credit and financial markets. While global financial conditions and outlook have improved, these factors continue to impact the performance of the global economy going forward. 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. Sovereign debt issues in Europe continue to create uncertainty in the marketplace.

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.

**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. The price of fuel has increased the pressure on the operating margins of aircraft companies which will reduce their ability to finance capital expenditures. 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.

**Potentially volatile capital markets may reduce the Corporation's financial flexibility and may result in less than optimal financing results.**
As future capital expenditures will be financed out of cash generated from operations, borrowings and possible future equity sales, the Corporation's ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the aerospace industry and Magellan's securities in particular.

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

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

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

**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.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make critical judgements, estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses recorded during the reporting period. The critical estimates and judgements utilized in preparing the Corporation's financial statements affect the assessment of net recoverable amounts, net realizable values and fair values, depreciation and amortization rates and useful lives, value of intangible assets, ability to utilize tax losses and other tax measurements, determination of functional currency, determination of the degree of control that exists in determining the corresponding accounting basis, and the selection of accounting policies. Any changes in estimates and assumptions could have a material impact on the Corporation's future earnings and/or the amounts reported in its statement of financial position. The Corporation reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgement in making these estimates and assumptions.

The main assumptions and estimates that were used in preparing the Corporation's consolidated financial statements relate to:

*Financial instruments*
The valuation of the Corporation's derivative instruments and certain other financial instruments requires estimation of the fair value of each instrument at the reporting date. Details of the basis on which fair value estimated are provided in note 18 of the audited consolidated financial statements.

*Impairments*
The recoverable amount of intangible assets and property, plant and equipment is based on estimates and assumptions regarding the expected market outlook and cash flows from each cash-generating unit.

*Deferred taxes*
Income taxes are determined based on estimates of the Corporation's current income taxes and estimates of deferred income taxes resulting from temporary differences. Deferred tax assets are assessed to determine the likelihood that they will be realized from future taxable income before they expire.

*Government assistance*
Investment tax credits and scientific research and experimental development tax credits are determined based on estimates of the Corporation's current year expenditures on qualifying programs. The investment tax credits are assessed to determine the likelihood that they will be applied against federal income tax.

*Capitalization of development costs*
When capitalizing development costs the Corporation must assess the technical and commercial feasibility of the projects and estimate the useful lives of resulting products. Determining whether future economic benefits will flow from the assets and therefore the estimates and assumptions associated with these calculations are instrumental in (i) deciding whether project costs can be capitalized, and (ii) accurately calculating the useful life of the projects for the Corporation.

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

*Repayable government grants*

The forecast repayment of grants received from government authorities is based on income from future sales. As the forecast repayments are closely related to forecasts of future sales set out in business plans prepared by the operating divisions, the estimates and assumptions (as regards programs and fluctuations in exchange rates, particularly the US dollar) underlying these business plans are instrumental in determining the timing of these repayments.

*Employee benefits*

The Corporation considers a number of factors in developing the pension assumptions, including an evaluation of relevant discount rates, expected long-term returns on plan assets, plan asset allocations, mortality, expected changes in wages and retirement benefits, analysis of current market conditions, economic benefits available and input from actuaries and other consultants. Costs of the programmes are based on actuarially determined amounts and are accrued over the period from the date of hire to the full eligibility date of employees who are expected to qualify for these benefits.

## CHANGES IN ACCOUNTING POLICIES

**Transition to and initial adoption of IFRS**

Starting January 1, 2010, the Corporation is applying IFRS as issued by the International Accounting Standards Board ["IASB"]. The preparation of the consolidated financial statements for the year ended December 31, 2011 includes the initial adoption of accounting policies under IFRS which are different than the accounting policies used to prepare the most recent consolidated financial statements prepared under Canadian generally accepted accounting principles ["Canadian GAAP"].

The accounting policies as set out in Note 2 to the audited consolidated financial statements for the year ended December 31, 2011 have been applied consistently to all periods beginning on or after January 1, 2010 presented in these financial statements. Comparative information for the year ended December 31, 2010 has thus been adjusted from amounts previously reported under Canadian GAAP. They also have been applied in preparing an opening IFRS balance sheet at January 1, 2010 for the purpose of the transition to IFRS, as required by IFRS 1, First-time Adoption of International Financial Reporting Standards.

Details on the changes to previously reported amounts as a result of the transition to IFRS were included in Note 30 to the audited consolidated financial statements for the year ended December 31, 2011. The financial statements were filed on SEDAR and are also available on Magellan's website www.magellan.aero.

**Impact of IFRS on the Corporation**

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

## FUTURE CHANGES IN ACCOUNTING POLICIES

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

| International Accounting Standards | | Effective Date |
|---|---|---|
| IAS 12 – Income Taxes | In December 2010, IAS 12, *Income Taxes* was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, *Income taxes—recovery of revalued non-depreciable assets*, will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. | January 1, 2012 |
| IFRS 7 – Financial Instruments, Disclosures | IFRS 7 has been amended to provide more extensive quantitative disclosures for financial instruments that are offset in the statement of financial position or that are subject to enforceable master netting or similar arrangements. | January 1, 2013 |
| IFRS 9 – Financial Instruments, Recognition and Measurement | In November 2009, as part of the IASB project to replace IAS 39, *Financial Instruments: Recognition and Measurement,* the IASB issued the first phase of IFRS 9, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities. | January 1, 2015 |
| IFRS 10 – Consolidation | IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation—Special* Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements. | January 1, 2013 |
| IFRS 11 – Joint Arrangements | IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions.* | January 1, 2013 |
| IFRS 12 – Disclosure of Interests in Other Entities | IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. | January 1, 2013 |
| IFRS 13 – Fair Value Measurement | IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. | January 1, 2013 |

| International Accounting Standards | | Effective Date |
|---|---|---|
| IAS 1 – Presentation of Financial Statements | The IASB amended IAS 1 with a new requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss. | January 1, 2013 |
| IAS 19 – Employee Benefits | A number of amendments have been made to IAS 19, which included eliminating the use of the "corridor" approach and requiring remeasurements to be presented in OCI. The standard also includes amendments related to termination benefits as well as enhanced disclosures. | January 1, 2013 |
| IAS 27 – Separate Financial Statements | As a result of the issue of the new consolidation suite of standards, IAS 27 has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. | January 1, 2013 |
| IAS 28 – Investments in Associates and Joint Ventures | As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. | January 1, 2013 |
| IAS 32 – Financial Instruments, Presentation | In December 2011, IAS 32 was been amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future event. | January 1, 2014 |

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

## 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, 2011 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, 2011, 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, 2011.

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, 2012, 56,209,001 common shares were outstanding.

At December 31, 2011, the Corporation had outstanding $2.0 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 $1.0 thousand, 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 2,000,000 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.

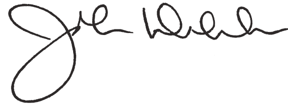
# MANAGEMENT'S REPORT

**To the shareholders of Magellan Aerospace Corporation**

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

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

James S. Butyniec
*President and Chief Executive Officer*
March 23, 2012



John B. Dekker
*Vice President Finance and Corporate Secretary*

# INDEPENDENT AUDITORS' REPORT

**To the shareholders of Magellan Aerospace Corporation**

We have audited the accompanying consolidated financial statements of Magellan Aerospace Corporation, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and January 1, 2010, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010, 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 International Financial Reporting Standards, 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 auditors consider 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 audits 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 Magellan Aerospace Corporation as at December 31, 2011 and 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Canada
March 26, 2012

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of Canadian dollars)

| | Notes | December 31 2011 | December 31 2010 | January 1 2010 |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash | | **26,520** | 24,952 | 22,641 |
| Trade and other receivables | 3 | **106,480** | 94,222 | 97,553 |
| Inventories | 4 | **127,473** | 150,798 | 147,248 |
| Prepaid expenses and other | | **5,326** | 11,838 | 38,458 |
| | | **265,799** | 281,810 | 305,900 |
| **Non-current assets** | | | | |
| Property, plant and equipment | 5 | **289,744** | 239,119 | 254,256 |
| Investment properties | 6 | **3,041** | 3,192 | 3,369 |
| Intangible assets | 7 | **66,134** | 71,949 | 71,840 |
| Other assets | | **8,660** | 22,593 | 6,732 |
| Deferred tax assets | 15 | **28,360** | 19,836 | 19,861 |
| | | **395,939** | 356,689 | 356,058 |
| **Total assets** | | **661,738** | 638,499 | 661,958 |
| **Current liabilities** | | | | |
| Bank indebtedness | 8 | **–** | 117,046 | 140,590 |
| Accounts payable, accrued liabilities and provisions | 9 | **106,022** | 135,887 | 135,637 |
| Preference shares | 12 | **–** | 8,000 | – |
| Debt due within one year | 10 | **12,513** | 58,541 | 17,213 |
| | | **118,535** | 319,474 | 293,440 |
| **Non-current liabilities** | | | | |
| Bank indebtedness | 8 | **120,674** | – | – |
| Long-term debt | 10 | **81,768** | 17,843 | 74,408 |
| Convertible debentures | 11 | **–** | 38,901 | 38,182 |
| Preference shares | 12 | **–** | 4,000 | – |
| Borrowings subject to specific conditions | 13 | **18,847** | 13,372 | 9,096 |
| Other long-term liabilities and provisions | 14 | **29,131** | 16,353 | 21,904 |
| Deferred tax liabilities | 15 | **10,088** | 7,961 | 4,781 |
| | | **260,508** | 98,430 | 148,371 |
| **Equity** | | | | |
| Share capital | 16 | **252,440** | 214,440 | 234,389 |
| Contributed surplus | | **2,041** | 1,973 | 1,707 |
| Other paid in capital | 11 | **13,565** | 13,565 | 13,565 |
| Retained earnings (deficit) | | **20,892** | 1,009 | (29,514) |
| Accumulated other comprehensive loss | 23 | **(6,243)** | (10,392) | – |
| | | **282,695** | 220,595 | 220,147 |
| **Total liabilities and equity** | | **661,738** | 638,499 | 661,958 |

See accompanying notes to the consolidated financial statements

# CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years ended December 31
(Expressed in thousands of Canadian dollars, except per share amounts)

| | Notes | 2011 | 2010 |
|---|---|---|---|
| Revenues | 20 | **691,410** | 731,635 |
| Cost of revenues | 21 | **594,000** | 628,353 |
| Gross profit | | **97,410** | 103,282 |
| | | | |
| Administrative and general expenses | 22 | **38,264** | 39,770 |
| Other | 27 | **436** | 127 |
| Dividends on preference shares | 12 | **310** | 880 |
| | | **58,400** | 62,505 |
| | | | |
| Interest | 23 | **16,999** | 20,152 |
| Income before income taxes | | **41,401** | 42,353 |
| | | | |
| Income taxes | | | |
| Current | 15 | **280** | (331) |
| Deferred | 15 | **3,708** | 8,340 |
| | | **3,988** | 8,009 |
| **Net income** | | **37,413** | 34,344 |
| | | | |
| Other comprehensive income (loss) | | | |
| Foreign currency translation | 24 | **4,149** | (10,392) |
| Actuarial losses on defined benefit pension plans, net of tax | 15, 19 | **(17,530)** | (3,421) |
| **Comprehensive income** | | **24,032** | 20,531 |
| | | | |
| **Net income per share** | | | |
| Basic | 16 | **2.04** | 1.86 |
| Diluted | 16 | **0.73** | 0.66 |

See accompanying notes to the consolidated financial statements

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in thousands of Canadian dollars)

| | Share capital | Contributed surplus | Other paid in capital | Retained (deficit) earnings | Foreign currency translation | Total equity |
|---|---|---|---|---|---|---|
| January 1, 2010 | 234,389 | 1,707 | 13,565 | (29,514) | – | 220,147 |
| Net income | – | – | – | 34,344 | – | 34,344 |
| Other comprehensive loss | – | – | – | (3,421) | (10,392) | (13,813) |
| Stock-based compensation | – | 266 | – | – | – | 266 |
| Preference shares | (19,949) | – | – | – | – | (19,949) |
| Dividends on preference shares | – | – | – | (400) | – | (400) |
| December 31, 2010 | 214,440 | 1,973 | 13,565 | 1,009 | (10,392) | 220,595 |
| Net income | – | – | – | 37,413 | – | 37,413 |
| Other comprehensive (loss) income | – | – | – | (17,530) | 4,149 | (13,381) |
| Stock-based compensation | – | 68 | – | – | – | 68 |
| Convertible debentures | 38,000 | – | – | – | – | 38,000 |
| **December 31, 2011** | **252,440** | **2,041** | **13,565** | **20,892** | **(6,243)** | **282,695** |

See accompanying notes to the consolidated financial statements

# CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended December 31
(Expressed in thousands of Canadian dollars)

| | Notes | 2011 | 2010 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net income | | **37,413** | 34,344 |
| Amortization/depreciation of intangible assets and property, plant and equipment | 5,7 | **32,835** | 34,599 |
| Net loss on disposal of assets | | **198** | 267 |
| Decrease in defined benefit plans | | **(3,979)** | (4,594) |
| Impairment reversal | 7 | **(1,847)** | (7,395) |
| Deferred revenue | | **–** | 271 |
| Stock-based compensation | 17 | **68** | 268 |
| Accretion | | **3,155** | 1,093 |
| Deferred taxes | 15 | **(3,873)** | 3,977 |
| (Increase) decrease in non-cash working capital | 26 | **(12,526)** | 17,541 |
| **Net cash from operating activities** | | **51,444** | 80,371 |
| | | | |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | 5 | **(59,260)** | (16,571) |
| Proceeds from disposal of property, plant and equipment | | **514** | 206 |
| Decrease (increase) in other assets | | **10,381** | (20,241) |
| **Net cash used in investing activities** | | **(48,365)** | (36,606) |
| | | | |
| **Cash flow from financing activities** | | | |
| Increase (decrease) in bank indebtedness | 8 | **2,704** | (21,128) |
| Decrease in debt due within one year | | **(3,617)** | (4,679) |
| Decrease in long-term debt | 10 | **(17,221)** | (21,900) |
| Increase in long-term debt | 10 | **21,011** | 12,813 |
| Increase (decrease) in long-term liabilities and provisions | | **824** | (593) |
| Increase in borrowings | | **6,353** | 3,976 |
| Dividends on preference shares | 12 | **–** | (400) |
| Redemption of preference shares | 12 | **(12,000)** | (8,000) |
| **Net cash used in financing activities** | | **(1,946)** | (39,911) |
| | | | |
| **Increase in cash during the year** | | **1,133** | 3,854 |
| Cash at beginning of the year | | **24,952** | 22,641 |
| Effect of exchange rate differences | | **435** | (1,543) |
| **Cash at end of the year** | | **26,520** | 24,952 |

See accompanying notes to the consolidated financial statements

# Notes To Consolidated Financial Statements

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

## 1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Magellan Aerospace Corporation (the "Corporation") is a publicly listed company incorporated in Ontario, Canada under the Ontario Business Corporations Act and its shares are listed on the Toronto Stock Exchange. The registered and head office of the Corporation is located at 3160 Derry Road East, Mississauga, Ontario, Canada, L4T 1A9.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These consolidated financial statements represent the Corporation's first annual financial statements prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Corporation adopted IFRS in accordance with IFRS 1, *First Time Adoption of IFRS* as discussed in Note 30.

The Corporation's consolidated financial statements were previously prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). Canadian GAAP differs in some areas from IFRS. In preparing these consolidated financial statements, management has amended certain accounting methods previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. Note 30 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, income and comprehensive income for the year ended December 31, 2010 along with line by line reconciliations of the statement of financial position as at January 1, 2010 and December 31, 2010.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on March 23, 2012.

### (b) Basis of presentation

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

- Magellan Aerospace Limited
- Magellan Aerospace (UK) Limited
- Magellan Aerospace USA, Inc.

The effects of intragroup transactions are eliminated. Accounts receivable and accounts payable as well as expenses and income between the consolidated entities are netted. Internal sales are transacted on the basis of market prices and intergroup profits and losses are eliminated.

The Corporation's significant accounting policies are set out below. These accounting policies have been applied consistently to all periods presented in these consolidated financial statements and by all entities.

### (c) Foreign currency translation

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

At the statement of financial position date, foreign currency denominated monetary assets and liabilities are translated at the rates of exchange at the statement of financial position date. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at that date, whereas non-monetary items measured at historic cost, are translated using the exchange rate prevailing on the transaction date. Translation gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in income.

Assets and liabilities of foreign operations that have a functional currency different from the presentation currency are translated using the closing exchange rate prevailing at the reporting date and revenues and expenses at average exchange rates during the period. Translation gains and losses on currency translation are recognized as a separate component of equity in other comprehensive income and do not have any impact on the net income/loss for the year.

### (d) Segment reporting

Management has determined the operating segments based on information regularly reviewed for the purposes of decision making, allocating resources and assessing performance by the Corporation's chief operating decision makers. The Corporation evaluates the financial performance of its operating segments primarily based on net income before interest and income taxes.

### (e) Revenue recognition

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

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

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

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

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

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

### (f) Cost of revenues

Cost of revenues consists of production-related manufacturing costs of products sold, development services paid, and the cost of products purchased for resale. In addition to the direct material cost and production costs, it also comprises of systematically allocated overheads, including depreciation of production-related intangible assets, write-downs on inventories and an appropriate portion of production-related administrative overheads.

### (g) Government grants

Government grants are recognized at their fair value in the period when there is reasonable assurance that the conditions attaching to the grant will be met and that the grant will be received. Grants are recognized as income over the periods necessary to match them with the related costs that they are intended to compensate. Grants relating to expenditure on property, plant and equipment and on intangible assets are deducted from the carrying amount of the asset. The grant is therefore recognized as income over the life of the depreciable asset by way of a reduced depreciation charge. Repayable grants are treated as sources of financing and are recognized in borrowings subject to specific conditions in the consolidated statement of financial position. Repayments made are recorded as a reduction of the liability. A revision to the estimate of amounts to be repaid results in an increase or decrease in the liability and the related asset or expense, and a cumulative adjustment to amortization is recognized immediately in income.

### (h) Government assistance

Government assistance is comprised of investment tax credits and scientific research and experimental development tax credits. These credits are recognized when there is reasonable assurance of their recovery using the cost reduction method. Investment tax credits are subject to the customary approvals by the pertinent tax authorities. Adjustments required, if any, are reflected in the year when such assessments are received.

### (i) Employee benefits

*Defined benefit plans*

The Corporation's obligation in respect of defined benefit plans is determined periodically by independent actuaries using the projected unit credit method in accordance with IAS 19, *Employee Benefits*. Actuarial gains and losses are recognized in full in the period in which they occur, and are recognized in retained earnings and included in other comprehensive income. Past service cost is recognized immediately to the extent the benefits are already vested, or otherwise is recognized on a straight-line basis over the average period until the benefits become vested. Curtailments due to the material reduction of the expected years of future services of current employees or the elimination of the accrual of defined benefits for some or all of the future services for a significant number of employees are recognized immediately as a gain or loss in the income statement.

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

*Defined contribution plans*

Obligations for contributions to defined contribution plans are recognized as an expense in the income statement as incurred.

*Share-based compensation*

The fair value of awards made under share-based compensation plans is measured at the grant date and allocated over the vesting period, based on the best available estimate of the number of share options expected to vest, in the income statement with a corresponding increase in equity. The fair value is measured using an appropriate valuation model taking into account the terms and conditions of the individual plans. The amount recognized as an expense is adjusted to reflect the actual awards vesting except where any change in the awards vesting relates only to market-based criteria not being achieved.

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model, taking into account the terms and conditions upon which the share awards were granted. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in the income statement.

### (j) Taxation

The tax charge for the period comprises of both current and deferred tax. Taxation is recognized as a charge or credit in the income statement except to the extent that it relates to items recognized directly to equity in which case the related tax is also recognized in equity.

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are established using the balance sheet liability method, providing for temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible timing differences can be utilized.

Deferred tax liabilities are not recognized for temporary differences arising on investment in subsidiaries where the Corporation is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is calculated at the enacted or substantively enacted tax rates that are expected to apply in the period when the liability is settled or the asset is realized.

Deferred income assets and liabilities are only offset where they arise within the same entity and tax jurisdiction.

Deferred income tax assets and liabilities are presented as non-current.

### (k) Net income per share

Net income per share is calculated based on the profit for the financial year and the weighted average number of ordinary shares in issue during the year. Diluted net income per share is calculated using the profit for the financial year and the weighted average diluted number of share (ignoring any potential issue or ordinary shares which would be anti-dilutive) during the year.

### (l) Inventories

Inventory is stated at the lower of average cost and net realizable value.

The unit cost method is the prescribed cost method under which the actual production costs are charged to each unit produced and recognized to income as the unit is sold.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed.

### (m) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment in value. Cost includes the purchase price (after deducting trade discounts and rebates), any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the estimate of the present value of the costs of dismantling and removing the item and restoring the site. Subsequent costs are included in the assets carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognized. The cost of the day-to-day servicing of property, plant and equipment are recognized in the income statement as incurred.

Depreciation is calculated using the straight-line method to allocate the cost of property, plant and equipment to their residual values over their estimated useful lives.

Scheduled depreciation is based on the following useful lives:

| Assets | in years |
|---|---|
| Buildings | 40 |
| Machinery and equipment | 10-20 |
| Tooling | 5-7 |
| Leasehold improvements | term of lease |

The residual value, useful lives and depreciation methods pertaining to property, plant and equipment are regularly assessed for relevance, at least at every statement of financial position date, and adjustments are made when necessary to estimates used when compiling the financial statements. An asset's carrying value is written down to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount. These impairment losses are recognized in the income statement. Following the recognition of an impairment loss, the depreciation charge applicable to the asset is adjusted prospectively in order to systematically allocate the revised carrying amount, net of any residual value, over the remaining useful life.

### (n) Investment properties

Investment property is property held to earn rental income and/or for capital appreciation rather than for the purpose of the Corporation's operating activities. Investment property assets are carried at cost less accumulated depreciation and any recognised impairment in value. The depreciation policies for investment property are consistent with those described for owner-occupied property.

### (o) Intangible assets

In accordance with IAS 38, *Intangible Assets*, expenditure on research activities is recognized as an expense in the period in which it is incurred. Externally acquired and internally generated intangible assets are recognized only if they meet strict criteria, relating in particular to technical feasibility, probability that a future economic benefit associated with the asset will flow to the entity and the cost of the asset can be measured reliably.

Intangible assets with a finite useful life are stated at cost and amortized on a straight-line basis over their useful lives or on a unit of production basis. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the income statement when the asset is de-recognized.

### (p) Impairment of non-financial assets

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

Two types of CGUs are defined within the Corporation:

» CGUs corresponding to programs, projects, or product families associated with specific assets;
» CGUs corresponding to the business units monitored by management and relating chiefly to the Corporation's main subsidiaries.

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

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

An impairment loss for an individual asset or cash-generating unit shall be reversed if there has been a change in estimates used to determine the recoverable amount since the last impairment loss was recognized and is only reversed to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### (q) Leases

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

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

### (r) Financial instruments

*Financial assets*

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

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

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

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

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

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

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

*Derecognition of financial assets*

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

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

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

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

*Derivative financial instruments*
The Corporation manages its foreign currency and interest rate exposures through the use of derivative financial instruments. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes. For the year ended December 31, 2011, the Corporation's derivative contracts were not designated as hedges and as a result are recorded on the consolidated statement of financial position at their fair value. Any changes in fair value during the year are reported in other expenses in the consolidated statement of income. Transaction costs incurred to acquire financial instruments are included in the underlying balance.

### (s) Provisions
A provision is recognized when there is a present legal or constructive obligation, as a result of a past event, which is likely to result in an outflow of economic benefits and where a reliable estimate of the amount of the obligation can be made. If the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax risk-free rate and, where appropriate, the risks specific to the liability. A provision for onerous contracts is recognized when the expected benefits to be derived from the contracts are less than the related unavoidable costs of meeting its obligations under the contract. Such provisions are recorded as write-downs of work-in-progress for that portion of the work which has already been completed, and as liability provisions for the remainder.

### (t) Share capital
Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any income tax.

### (u) Critical judgements and estimates
The preparation of financial statements requires management to make critical judgements, estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses recorded during the reporting period. The critical estimates and judgements utilized in preparing the Corporation's financial statements affect the assessment of net recoverable amounts, net realizable values and fair values, depreciation and amortization rates and useful lives, value of intangible assets, ability to utilize tax losses and other tax measurements, determination of functional currency, determination of the degree of control that exists in determining the corresponding accounting basis, and the selection of accounting policies. Any changes in estimates and assumptions could have a material impact on the Corporation's future income and/or the amounts reported in its statement of financial position. The Corporation reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgement in making these estimates and assumptions.

The main assumptions and estimates that were used in preparing the Corporation's consolidated financial statements relate to:

*Financial instruments*
The valuation of the Corporation's derivative instruments and certain other financial instruments requires estimation of the fair value of each instrument at the reporting date. Details of the basis on which fair value estimated are provided in Note 18.

*Impairments*
The recoverable amount of intangible assets and property, plant and equipment is based on estimates and assumptions regarding the expected market outlook and cash flows from each CGU.

*Deferred taxes*
Income taxes are determined based on estimates of the Corporation's current income taxes and estimates of deferred income taxes resulting from temporary differences. Deferred tax assets are assessed to determine the likelihood that they will be realized from future taxable income before they expire.

*Government assistance*
Investment tax credits and scientific research and experimental development tax credits are determined based on estimates of the Corporation's current year expenditures on qualifying programs. The investment tax credits are assessed to determine the likelihood that they will be applied against federal income tax.

*Capitalization of development costs*
When capitalizing development costs the Corporation must assess the technical and commercial feasibility of the projects and estimate the useful lives of resulting products. Determining whether future economic benefits will flow from the assets and therefore the estimates and assumptions associated with these calculations are instrumental in (i) deciding whether project costs can be capitalized, and (ii) accurately calculating the useful life of the projects for the Corporation.

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

*Repayable government grants*
The forecast repayment of grants received from government authorities is based on income from future sales. As the forecast repayments are closely related to forecasts of future sales set out in business plans prepared by the operating divisions, the estimates and assumptions (as regards programs and fluctuations in exchange rates, particularly the US dollar) underlying these business plans are instrumental in determining the timing of these repayments.

*Employee benefits*
The Corporation considers a number of factors in developing the pension assumptions, including an evaluation of relevant discount rates, expected long-term returns on plan assets, plan asset allocations, mortality, expected changes in wages and retirement benefits, analysis of current market conditions, economic benefits available and input from actuaries and other consultants. Costs of the programmes are based on actuarially determined amounts and are accrued over the period from the date of hire to the full eligibility date of employees who are expected to qualify for these benefits.

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

| International Accounting Standards | | Effective Date |
|---|---|---|
| IAS 12 – Income Taxes | In December 2010, IAS 12 Income Taxes was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, *Income taxes—recovery of revalued non-depreciable assets*, will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. | January 1, 2012 |
| IFRS 7 – Financial Instruments, Disclosures | IAS 7 has been amended to provide more extensive quantitative disclosures for financial instruments that are offset in the statement of financial position or that are subject to enforceable master netting or similar arrangements. | January 1, 2013 |
| IFRS 9 – Financial Instruments, Recognition and Measurement | In November 2009, as part of the IASB project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, the IASB issued the first phase of IFRS 9 that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities. | January 1, 2015 |
| IFRS 10 – Consolidation | IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation—Special* Purpose Entities and parts of IAS 27, *Consolidated and Separate Financial Statements*. | January 1, 2013 |
| IFRS 11 – Joint Arrangements | IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions*. | January 1, 2013 |
| IFRS 12 – Disclosure of Interests in Other Entities | IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. | January 1, 2013 |
| IFRS 13 – Fair Value Measurement | IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. | January 1, 2013 |

| International Accounting Standards | | Effective Date |
|---|---|---|
| IAS 1 – Presentation of Financial Statements | The IASB amended IAS 1 with a new requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss. | January 1, 2013 |
| IAS 19 – Employee Benefits | A number of amendments have been made to IAS 19, which included eliminating the use of the "corridor" approach and requiring remeasurements to be presented in OCI. The standard also includes amendments related to termination benefits as well as enhanced disclosures. | January 1, 2013 |
| IAS 27 – Separate Financial Statements | As a result of the issue of the new consolidation suite of standards, IAS 27 has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. | January 1, 2013 |
| IAS 28 – Investments in Associates and Joint Ventures | As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. | January 1, 2013 |
| IAS 32 – Financial Instruments, Presentation | In December 2011, IAS 32 was been amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future event. | January 1, 2014 |

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

## 3. TRADE AND OTHER RECEIVABLES

| | **December 31 2011** | December 31 2010 | January 1 2010 |
|---|---|---|---|
| Total trade accounts receivable | **80,592** | 83,623 | 94,393 |
| Less allowance for doubtful accounts | **2,076** | 1,963 | 1,782 |
| Net trade receivables | **78,516** | 81,660 | 92,611 |
| Other receivables | **27,964** | 12,562 | 4,942 |
| Trade and other receivables | **106,480** | 94,222 | 97,553 |

Included in the above amounts are accured receivables for construction contracts in progress at December 31, 2011 of $11,391 [December 31, 2010 – $3,921, January 1, 2010 – $2,091].

The aging of gross trade accounts receivables at each reporting date was as follows:

| | Current | Less than 90 days | 91-181 days | 182-365 days | More than 365 days | Total |
|---|---|---|---|---|---|---|
| December 31, 2010 | 76,419 | 5,593 | 231 | 18 | 1,362 | 83,623 |
| **December 31, 2011** | **74,119** | **4,780** | **360** | **67** | **1,266** | **80,592** |

## 4. INVENTORIES

| | Raw materials | Work in progress | Finished goods | Total |
|---|---|---|---|---|
| At January 1, 2010 | 38,740 | 91,139 | 17,369 | 147,248 |
| At December 31,2010 | 35,841 | 96,958 | 17,999 | 150,798 |
| **At December 31, 2011** | **33,631** | **80,198** | **13,644** | **127,473** |

The cost of inventories recognized as expense and included in cost of sales for the year ended December 31, 2011 amounted to $590,128 [2010 - $618,677].

During the year ended December 31, 2011, the Corporation recorded an impairment expense related to the write-down of inventory in the amount of $2,044 [December 31, 2010 - $1,783]. The Corporation also recorded reversals of previous write-down of inventory in the amount of $1,417 [December 31, 2010 - $2,444] due to the sale of inventory previously provided for. The carrying amount of inventory recorded at net realizable value was $21,530 as at December 31, 2011, with the remaining inventory recorded at cost.

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.

## 5. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings | Machinery and equipment | Tooling | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At January 1, 2010 | 13,158 | 86,291 | 314,235 | 41,015 | 454,699 |
| Additions | – | 746 | 14,443 | 1,382 | 16,571 |
| Disposals and other | – | (681) | (3,361) | (138) | (4,180) |
| Foreign currency translation | (483) | (1,724) | (11,414) | (1,882) | (15,503) |
| At December 31, 2010 | 12,675 | 84,632 | 313,903 | 40,377 | 451,587 |
| Additions | – | 25,880 | 41,428 | 1,348 | 68,656 |
| Disposals and other | – | (235) | (2,536) | – | (2,771) |
| Foreign currency translation | 156 | 679 | 3,854 | 790 | 5,479 |
| **At December 31, 2011** | **12,831** | **110,956** | **356,649** | **42,515** | **522,951** |
| **Accumulated depreciation and impairment** | | | | | |
| At January 1, 2010 | – | (26,040) | (148,559) | (25,844) | (200,443) |
| Depreciation | – | (2,508) | (15,259) | (4,333) | (22,100) |
| Disposal and other | – | 560 | 3,143 | 84 | 3,787 |
| Foreign currency translation | – | 362 | 4,581 | 1,345 | 6,288 |
| At December 31, 2010 | – | (27,626) | (156,094) | (28,748) | (212,468) |
| Depreciation | – | (2,221) | (15,000) | (2,868) | (20,089) |
| Disposal and other | – | 127 | 1,858 | – | 1,985 |
| Foreign currency translation | – | (138) | (1,870) | (627) | (2,635) |
| **At December 31, 2011** | **–** | **(29,858)** | **(171,106)** | **(32,243)** | **(233,207)** |
| **Net book value** | | | | | |
| At January 1, 2010 | 13,158 | 60,251 | 165,676 | 15,171 | 254,256 |
| At December 31, 2010 | 12,675 | 57,006 | 157,809 | 11,629 | 239,119 |
| **At December 31, 2011** | **12,831** | **81,098** | **185,543** | **10,272** | **289,744** |

As at December 31, 2011, total assets under finance leases included in property, plant and equipment have a cost of $5,710 [December 31, 2010 - $9,764, January 1, 2010 - $11,563] and a net book value of $3,362 [December 31, 2010 - $6,303, January 1, 2010 - $8,058].

Included in the above are assets under construction in the amount of $46,550 [December 31, 2010 - $3,986, January 1, 2010 - $943].

## 6. INVESTMENT PROPERTIES

| | Cost | Accumulated depreciation and impairment | Net book value |
|---|---|---|---|
| At January 1, 2010 | 9,306 | (5,937) | 3,369 |
| At December 31, 2010 | 9,277 | (6,085) | 3,192 |
| **At December 31, 2011** | **9,288** | **(6,247)** | **3,041** |

The Corporation recognized depreciation expense of $158 in 2010 and 2011 and recorded an impairment charge of $180 as at January 1, 2010.

The fair value was determined based on valuations performed by independent professional valuators. At December 31, 2011, the fair value of the investment properties was $6,952.

## 7. INTANGIBLE ASSETS

| | Technology rights | Development costs | Total |
|---|---|---|---|
| **Cost** | | | |
| At January 1, 2010 | 38,990 | 85,056 | 124,046 |
| Additions | – | 4,230 | 4,230 |
| Disposals | – | (121) | (121) |
| Foreign currency translation | (85) | (1,805) | (1,890) |
| At December 31, 2010 | 38,905 | 87,360 | 126,265 |
| Additions | – | 3,266 | 3,266 |
| Foreign currency translation | 34 | 652 | 686 |
| **At December 31, 2011** | **38,939** | **91,278** | **130,217** |
| **Depreciation and impairment** | | | |
| At January 1, 2010 | (13,486) | (38,720) | (52,206) |
| Depreciation | (3,057) | (7,367) | (10,424) |
| Impairment reversal | 3,280 | 4,115 | 7,395 |
| Foreign currency translation | 12 | 907 | 919 |
| At December 31, 2010 | (13,251) | (41,065) | (54,316) |
| Depreciation | (2,595) | (8,651) | (11,246) |
| Impairment reversal | – | 1,899 | 1,899 |
| Foreign currency translation | (9) | (411) | (420) |
| **At December 31, 2011** | **(15,855)** | **(48,228)** | **(64,083)** |
| **Net book value** | | | |
| At January 1, 2010 | 25,504 | 46,336 | 71,840 |
| At December 31,2010 | 25,654 | 46,295 | 71,949 |
| **At December 31, 2011** | **23,084** | **43,050** | **66,134** |

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

The Corporation has certain programs that meet the criteria for deferral and amortization of development costs. Development costs are capitalized for clearly defined, technically feasible technologies which management intends to produce and promote to an identified future market, and for which resources exist or are expected to be available to complete the project. The Corporation records amortization in arriving at the carrying value of deferred development costs once the development activities have been completed and sales of the related product have commenced.

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

*Impairments*

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

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

» The discounted cash flow approach used to estimate the value in use of the CGU's incorporated market participant assumptions. Expected future cash flows are calculated based on the medium-term plans established for the next five years and estimated cash flows for years 5 to 24 [2010 – 6 to 25 years].
» Growth rates of nil [2010 – nil to 1%] were used to extrapolate cash flow projections beyond the five year period covered by the long-term plan and did not exceed the long-term average growth rate of the industry.
» The average US exchange rate adopted is 1.00 [2010 – 1.00].
» The pre-tax discount rates used reflect the current market assessment of the risks specific to each CGU. The discount rate was estimated based on the average percentage of weighted average cost of capital for the industry. A discount rate of 12.5% was applied to the cash flow projections determined in the year end testing of recoverable amounts [December 31, 2010 and January 1, 2010 –12.5%].

As a result of the impairment tests performed in 2011, the Corporation recognized a reversal of previous impairment losses of $1,899 against development costs relating to a civil aircraft program as the Corporation was able to negotiate price increases. These impairment reversals were treated as reduction against recurring costs of revenues.

In 2010, the Corporation recognized a reversal of previous impairment losses of $3,280 against technology rights and $4,347 against development costs relating to various civil aircraft programs as the Corporation was able to achieve reductions in costs as a result of a mix of improved efficiencies and reduced material costs. These impairment reversals were treated as a reduction against recurring costs of revenues. The Corporation also recognized impairment losses in 2010 of $232 against development expenditures relating to a civil aircraft program.

## 8. BANK INDEBTEDNESS

On April 29, 2011, the Corporation amended its credit agreement with its existing lenders. The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian dollar limit of $125,000 plus a US dollar limit of US$50,000 [$175,850 at December 31, 2011]. Under the terms of the amended credit agreement, the operating credit facility expires on April 29, 2013 and is extendable for unlimited one-year periods subject to mutual consent of the syndicate of lenders and the Corporation. Accordingly, the Corporation reclassified the operating credit facility from a short term liability to a long term liability. Bank indebtedness as at December 31, 2011 of $120,674 [December 31, 2010 - $117,046] bears interest at the bankers' acceptance or LIBOR rates, plus 1.50% [2.44% at December 31, 2011 (2010 – bankers' acceptance or LIBOR rates plus 2.75% or 3.60%)]. Included in the amount outstanding at December 31, 2011 is US$11,908 [December 31, 2010 - US$21,113]. At December 31, 2011, the Corporation had drawn $123,558 under the operating credit facility, including letters of credit totalling $2,884 such that $52,292 was unused and available. A fixed and floating charge debenture on accounts receivable, inventories

and property, plant and equipment is pledged as collateral for the operating credit facility. The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the operating credit facility.

## 9. ACCOUNTS PAYABLE, ACCRUED LIABILITIES AND PROVISIONS

| | December 31 2011 | December 31 2010 | January 1 2010 |
|---|---|---|---|
| Accounts payables | **52,685** | 46,200 | 49,715 |
| Accrued liabilities | **47,567** | 84,363 | 81,481 |
| Provisions | **5,770** | 5,324 | 4,441 |
| | **106,022** | 135,887 | 135,637 |

## 10. LONG-TERM DEBT

| | December 31 2011 | December 31 2010 | January 1 2010 |
|---|---|---|---|
| Property mortgages [a] | **18,689** | 2,793 | 3,314 |
| Other loans [b] | **33,927** | 16,411 | 5,941 |
| Related party loans [c] | **33,197** | 45,664 | 64,578 |
| Obligations under capital leases [d] | **463** | 1,926 | 3,518 |
| | **86,276** | 66,794 | 77,351 |
| Less current portion | **4,508** | 48,951 | 2,943 |
| | **81,768** | 17,843 | 74,408 |

[a] Property mortgages include $2,589 (£1,639) [2010 - $2,793 (£1,800)] of financing of certain land acquired in 2006. This same land is collateral for this mortgage and the mortgage bears interest at bank rate plus 0.90%, which at December 31, 2011 was 1.4% [2010 - 1.4%].

During the year, the Corporation entered into a 5 year variable rate term mortgage in the amount of $16,100, under which interest is charged at a margin of 1.75% over the lender's prime lending rate of 3.0% as at December 31, 2011. The mortgage is secured by certain land and building.

[b] Other loans include loans of $19,886 [2010 - $9,844] provided by governmental authorities ("Government Loans") that bear interest of approximately 2.0% to 3.82% [2010 - 1.2% to 2.0%] of which a loan in the amount of $1,264 provides for a five year interest free period if certain job criteria has been met.

During 2011 and 2010, the Corporation entered into bank loans aggregating $13,479 (US$13,253) [2010 - $5,968 (US$6,000)] ("Commercial Loan") to finance equipment over a ten year period and leasehold improvements over a three year period. The same equipment is collateral for the Commercial Loan which bears interest at LIBOR plus 2.75%, which at December 31, 2011 was 3.01% [2010 – 3.04%].

As at December 31, 2011, the Corporation has the availability to draw an additional $8,851 against the Government Loans and $6,861 (US$6,747) 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 originally had an interest 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 under certain conditions. The Corporation has the right to prepay the Original Loan at any time without penalty. On April 28, 2011, the Original Loan was restated and extended to July 1, 2013 on the same terms and conditions except that the interest rate was reduced from 11% to 7.5% per annum in consideration of the payment of a one time extension fee of 1% of the principal amount outstanding as of July 1, 2011 of $39,600.

During the twelve month period ended December 31, 2011, the Corporation prepaid the Original Loan by $12,500 [2010 - $19,000]. As at December 31, 2011, the principal amount outstanding of $33,500 was classified as a long-term liability [2010 - $46,000 was classified as debt due within one year].

[d] Obligations under capital leases bear interest at a rate of 7.9%. Future minimum lease payments of $475 under the capital leases are due in 2012 and include $12 in interest payments.

## 11. CONVERTIBLE DEBENTURES

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 "Convertible Debentures") due on April 30, 2012. Interest is due semi-annually in arrears on April 30 and October 31 in each year. 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. The Convertible Debentures are secured obligations of the Corporation and are subordinated in right of payment to all of the Corporation's senior indebtedness.

On December 31, 2011, the Chairman of the Board of the Corporation exercised his conversion rights under the debenture agreement and $38,000 principal amount of the Convertible Debentures, the entire amount of the Convertible Debentures then held by the Chairman, were converted into 38,000,000 common shares of the Corporation. As at December 31, 2011, $2,000 [2010 - $40,000] of the Convertible Debentures were outstanding. Given that the conversion price of the convertible debentures is in the money, it is likely that these will be converted into common shares of the Corporation on or before their maturity.

At December 31, 2011, $1,986 [2010 - $38,901] of the Convertible Debentures, net of transaction costs, has been attributed to the debt component and is included in the consolidated statement of financial position under debt due within one year. The difference between the carrying value and the face value of the Convertible Debentures will be accredited using the effective interest rate method.

As explained under "Significant Accounting Policies – Convertible Debentures," $1,920 of the Convertible Debentures, $545 of the 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.

## 12. PREFERENCE SHARES

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 Convertible Debentures [Note 11] on April 30, 2009 resulted in the Chairman of the Board of the Corporation 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.

In 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.

During 2010, the Corporation completed the retraction of 799,987 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.

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.

In 2011 the Corporation's operating credit facility was further amended to permit the Corporation to retract all of the remaining Preference Shares on or after April 30, 2011, together with accrued and unpaid dividends on the shares to be retracted provided there is no current default or event of default under the operating credit facility and after the repayment of the Original Loan and the payment of the retraction amount the Corporation has at least $25,000 in availability under the operating credit facility.

During 2011, the Corporation retracted the remaining 1,200,013 Preference Shares in the amount of $12,000 and declared and recorded dividends of $310 as an expense on the consolidated statement of income.

## 13. BORROWINGS SUBJECT TO SPECIFIC CONDITIONS

The Corporation has received contributions related to the development of its technologies and processes from Canadian government agencies. The contributions have been deducted in calculating the Corporation's investment in intangible assets, property plant and equipment or from the expense to which they relate. These amounts, plus, in certain cases, an implied return on the investment, are repayable as a percentage of the Corporation's revenues. The Corporation has included in borrowings subject to specific conditions the estimated amount of repayments in relation to the contributions received.

The Corporation received contributions from the Canadian Government's Strategic Aerospace and Defence Initiative Program ("SADI") and Technology Partnerships Canada Program ("TPC") for technology and process development. The SADI participation supports the development of new manufacturing and process technology for composite and metallic materials for the multi-national Joint Strike Fighter F-35 Lightning II aircraft and under SADI, the Corporation is to receive repayable cash flow support of up to $43,400. During 2011, the Corporation received $7,867 [2010 - $6,635] of government contributions under SADI, of which $2,801 [2010 - $1,477] has been credited to the related assets, $333 [2010 - $373] has been credited to the related expense and $4,733 [2010 - $4,785] has been recorded in borrowings subject to specific conditions. The Corporation received contributions from TPC in years prior to 2010, and no new funding had been received in 2011 and 2010. The contributions are repayable as future royalty payments when it is probable that all or part of the amounts received will be repaid based on future estimated sales. During 2011, the Corporation repaid $934 [2010 - $715] in government contributions.

As at December 31, 2011, the Corporation has recognized $18,847 as the estimated amount repayable to SADI and TPC. The Corporation is eligible for additional government contributions of $26,285 for the period from January 1, 2012 to December 31, 2014 based on approved expenditures.

## 14. OTHER LONG-TERM LIABILITIES AND PROVISIONS

| | **December 31 2011** | December 31 2010 | January 1 2010 |
|---|---|---|---|
| Net defined benefit plan deficits [Note 19] | **23,678** | 9,637 | 14,198 |
| Provisions | **8,196** | 7,403 | 6,589 |
| Other | **3,027** | 9,197 | 10,554 |
| | **34,901** | 26,237 | 31,341 |
| Less current portion included in accounts payable, accrued liabilities and provisions | **5,770** | 9,884 | 9,437 |
| | **29,131** | 16,353 | 21,904 |

The following table presents the movement in provisions for the years ended December 31, 2011 and 2010:

| | Warranty | Environmental | Other provisions | Total |
|---|---|---|---|---|
| At January 1, 2010 | 1,072 | 2,957 | 2,560 | 6,589 |
| Additional provisions | 965 | 28 | 915 | 1,908 |
| Amount used | (503) | (336) | (407) | (1,246) |
| Unused amounts reversed | 365 | – | (16) | 349 |
| Unwind of discount | – | (9) | – | (9) |
| Foreign currency | (60) | (15) | (113) | (188) |
| At December 31, 2010 | 1,839 | 2,625 | 2,939 | 7,403 |
| Additional provisions | 846 | 346 | 1,117 | 2,309 |
| Amount used | (344) | (110) | (535) | (989) |
| Unused amounts reversed | (491) | – | (100) | (591) |
| Foreign currency | 34 | 4 | 26 | 64 |
| **At December 31, 2011** | **1,884** | **2,865** | **3,447** | **8,196** |

*Warranty*

During the normal course of its business, the Corporation assumes the cost of certain components under warranties offered on its products. This provision for a warranty is based on historical data associated with similar products and is recorded as a current liability. Nevertheless, conditions may change and a significant amount may need to be recorded.

*Environment*

Provisions for environment liabilities have been recorded for costs related to site restoration obligations. Due to the long-term nature of the liability, the related long-term portion of the liability is included in long-term liabilities.

*Other*

This category of provisions includes provisions related to legal, onerous contracts, and other contract related liabilities. The provisions are based on the Corporation's best estimate of the amount of the expenditure required to address the matters.

## 15. INCOME TAXES

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

| | 2011 | 2010 |
|---|---|---|
| Current tax expense: | | |
| Current tax expense for the year | 202 | 248 |
| Adjustments of previous year's tax expense | 78 | (579) |
| Current income tax expense (recovery) | 280 | (331) |
| | | |
| Deferred tax expense: | | |
| Origination and reversal of temporary differences | 3,975 | 8,316 |
| Impact of tax law changes | (267) | 24 |
| Deferred income tax expense | 3,708 | 8,340 |
| | | |
| Total income tax expense | 3,988 | 8,009 |

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

| | 2011 | 2010 |
|---|---|---|
| Actuarial losses on defined benefit pension plans | 579 | 293 |

The Corporation's consolidated effective tax rate for the year ended December 31, 2011 was 9.6% [2010 – 18.9%]. The difference in the effective tax rates compared to the Corporations' statutory income tax rates were mainly caused by the following:

| | 2011 | 2010 |
|---|---|---|
| Income before income taxes | 41,401 | 42,353 |
| | | |
| Income taxes based on the applicable tax rate of 27.2% in 2011 and 29% in 2010 | 11,261 | 12,282 |
| Adjustment to income taxes resulting from: | | |
| Benefit of previously unrecognized tax assets | (10,483) | (2,777) |
| Adjustments in respect of prior years | 979 | (120) |
| Permanent differences and other | 1,629 | (781) |
| Higher income tax rates on income of foreign operations | 869 | 376 |
| Changes in income tax rates | (267) | (971) |
| Income tax expense | 3,988 | 8,009 |

The Canadian statutory tax rate decreased to 27.2 percent in 2011 from 29.0 percent in 2010 as a result of government enacted changes in tax legislation.

Changes in the deferred income tax components are adjusted through deferred tax expense except for $9,047 [2010 – 3,607] for investment tax credits which is adjusted through cost of revenues and $579 [2010 - $293] for employee future benefits which is adjusted through other comprehensive income.

Deferred tax movement in the income statement is as follows:

| | 2011 | 2010 |
|---|---|---|
| Operating loss carry forwards | (1,422) | (3,834) |
| Employee future benefits | 991 | 305 |
| Property, plant and equipment and intagibles | 4,171 | 7,965 |
| Other | (32) | 3,904 |
| Deferred income tax expense | 3,708 | 8,340 |

| | December 31 2011 | December 31 2010 | January 1 2010 |
|---|---|---|---|
| Operating loss carry forwards | 11,999 | 11,019 | 6,976 |
| Investment tax credits | 29,075 | 25,689 | 22,095 |
| Employee future benefits | 2,801 | 3,424 | 3,804 |
| Property, plant and equipment and intangibles | (43,573) | (37,605) | (40,745) |
| Other | 17,970 | 9,348 | 22,950 |
| Deferred tax asset | 18,272 | 11,875 | 15,080 |
| Presented as follows: | | | |
| Deferred tax assets | 28,360 | 19,836 | 19,861 |
| Deferred tax liabilities | (10,088) | (7,961) | (4,781) |

For the purposes of the above table, deferred income tax assets are shown net of offsetting deferred income tax liabilities where these occur in the same entity and justification.

As at December 31, 2011, the Corporation has not recognized Canadian deferred tax assets relating to non-capital losses of $104 and investment tax credits of $5,896 expiring through 2031 and deferred tax assets with no expiry date of $11,458.

The temporary difference associated with investments in subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognized aggregates to $131,070 [2010 - $90,220].

## 16. SHARE CAPITAL

The authorized capital of the Corporation consists of an unlimited number of Preference Shares, issuable in series, and an unlimited number of common shares, with no par value.

**Common shares**

| | Number | Amount |
|---|---|---|
| Issued and fully paid: | | |
| Outstanding at December 31, 2010 and 2009 | 18,209,001 | 214,440 |
| Issued upon conversion of convertible debentures [Note 11] | 38,000,000 | 38,000 |
| **Outstanding at December 31, 2011** | **56,209,001** | **252,440** |

**Net income per share**

| | | | 2011 | | | 2010 |
|---|---|---|---|---|---|---|
| | Amount | Weighted average no. of shares | Per share amount ($) | Amount | Weighted average no. of shares | Per share amount ($) |
| Net income | 37,413 | | | 34,344 | | |
| Dividends declared on preference shares | – | | | (400) | | |
| Basic | 37,413 | 18,313,000 | 2.04 | 33,944 | 18,209,000 | 1.86 |
| Effect of dilutive securities: | | | | | | |
| Convertible debentures | 5,082 | 39,896,000 | (1.31) | 4,724 | 40,000,000 | (1.20) |
| Diluted | 42,495 | 58,209,000 | 0.73 | 38,668 | 58,209,000 | 0.66 |

## 17. STOCK-BASED COMPENSATION PLAN

The Corporation has an incentive stock option plan, which provides for the granting of options for the benefit of employees and directors. No such awards were granted during the years ended December 31, 2011 and December 31, 2010. The maximum number of options for common shares that remain to be granted under this plan is 1,449,141. Options are granted at an exercise price equal to the market price of the Corporation's common shares at the time of granting. Options normally have a life of five years with vesting at 20.0% at the end of the first, second, 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 2011 and 2010 are as follows:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| | Shares | Weighted average exercise price ($) | Shares | Weighted average exercise price ($) |
| Outstanding, beginning of year | 427,950 | 15.72 | 638,200 | 15.02 |
| Forfeited/expired | (203,750) | 13.38 | (210,250) | 13.58 |
| Outstanding, end of year | 224,200 | 16.00 | 427,950 | 15.72 |

The following table summarizes information about options outstanding and exercisable at December 31, 2011:

| | | | Options outstanding | | Options exercisable |
|---|---|---|---|---|---|
| Exercise price ($) | Number outstanding at December 31, 2011 | Weighted average remaining contractual life (in years) | Weighted average exercise price ($) | Number exercisable at December 31, 2011 | Weighted average exercise price ($) |
| 16.00 | 224,200 | 1.00 | 16.00 | 178,080 | 16.00 |

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 fair value. The fair value of the liability is marked to market each period for new awards to be granted subsequent to the amendment date. The fair 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 2010 and 2011. 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.

The Corporation has a deferred share unit plan ("DSU Plan") for certain executive officers ("Officers") which provides a structure for Officers to accumulate equity-like holdings in the Corporation. The DSU Plan allows certain Officers to participate in the growth of the Corporation by providing a deferred payment based on the value of a common share at the time of redemption. Each Officer receives deferred share units ("Units") based on their annual management incentive compensation. The Units are issued based on the Corporation's common share price at the time of issue. A third of the Units are paid upon issuance and the remaining Units are paid out equally on the anniversary date of issuance in the following two year period or upon retiring. The redemption value is equal to the common share price at the date of redemption, adjusted by any dividends paid on the common shares. As at December 31, 2011, 25,609 units were outstanding at a value of $78 [December 31, 2010 – nil].

The Corporation recorded compensation expense in relation to the plans during the year of $298 [2010 - $268].

## 18. FINANCIAL INSTRUMENTS

**Categories of financial instruments**

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

All financial instruments, including derivatives, are included on the consolidated statement of financial position, which are measured at fair value except for loans and receivables and other financial liabilities, which are measured at amortized costs. Held for trading financial investments are subsequently measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instruments are derecognized or impaired.

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

| | Fair value through profit or loss: Held for trading[1] | Loans and receivables[2] | Total financial assets | Other financial liabilities (at amortized cost)[3] | Total financial liabilities |
|---|---|---|---|---|---|
| December 31, 2010 | 26,093 | 94,286 | 120,379 | 395,700 | 395,700 |
| **December 31, 2011** | **27,028** | **106,480** | **133,508** | **342,250** | **342,250** |

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

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

» Market risk
» Credit risk
» Liquidity risk

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

**Market risk**

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Corporation's income or the value of its holdings of financial instruments. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Corporation may utilize derivative instruments in the management of its foreign currency and interest rate exposures.

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

*Currency risk*

The Corporation operates internationally, which gives rise to a risk that its income, cash flows and shareholders' equity may be adversely impacted by fluctuations in foreign exchange rate. Currency risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rate ("transaction exposures") and because the non-Canadian dollar denominated financial statements of the Corporation's subsidiaries may vary on consolidation into the reporting currency of Canadian dollars ("translation exposures"). The Corporation uses derivative financial instruments to manage foreign exchange risk with the objective of minimizing transaction exposures and the resulting volatility of the Corporation's net income.

The most significant transaction exposures arise in the Canadian operations where significant portions of the revenues are transacted in U.S. dollars. As a result, the Corporation may experience transaction exposures because of the volatility in the exchange rate between the Canadian and U.S. dollar. Based on the Corporation's current U.S. denominated net inflows, as of December 31, 2011, fluctuations of +/- 1% would, everything else being equal, have an effect on net income and on other comprehensive income for the year ended December 31, 2011 of approximately +/- $148 and $1,300 respectively.

*Interest rate risk*

The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. At December 31, 2011, $172,023 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 income. The Corporation monitors its exposure to interest rates and has not entered into any derivative contracts to manage this risk. A fluctuation in interest rates of 100 basis points (1 percent) would have impacted the amount of interest charged to net income during the year ended December 31, 2011 by approximately +/- $1,746.

**Credit risk**

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

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

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

*Derecognition of financial assets*

The Corporation sells a portion of its accounts receivables through securitization programs or factoring transactions. During 2011, the Corporation sold receivables to various financial institutions in the amount of $167,100 [2010 - $65,375] for a discount of $447 [2010 - $254] representing an annualized interest rate of 1.73% [2010 – 2.35%].

As at December 31, 2011, accounts receivables include receivables sold and financed through securitization transactions of $6,019 [2010 - $9,591] which do not meet the IAS 39 derecognition requirements. These receivables are recognized as such in the financial statements even though they have been legally sold; a corresponding financial liability is recorded in the consolidated statement of financial position under debt due within one year.

**Liquidity risk**

The Corporation's objective in managing liquidity risk is to ensure that there are sufficient committed loan facilities in order to meet its liquidity requirements at any point in time. The Corporation has in place a planning and budgeting process to help determine the funds required to support the Corporation's normal operating requirements on an ongoing basis, taking into account its anticipated cash flows from operations and its operating facility capacity. The primary sources of liquidity are the operating credit facility and the indebtedness provided by a company controlled by a common director, which require the continued support by the Chairman of the Board of the Corporation. Based on current funds available and expected cash flow from operating activities, management believes that the Corporation has sufficient funds available to meet its liquidity requirements at any point in time. However, if cash from operating activities is lower than expected or capital costs for projects exceed current estimates, or if the Corporation incurs major unanticipated expenses, it may be required to seek additional capital in the form of debt or equity or a combination of both.

*Contractual maturity analysis*

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

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Bank indebtedness | – | 120,674 | – | – | – | – | 120,674 |
| Long-term debt [1] | 10,064 | 38,031 | 5,760 | 5,139 | 5,096 | 29,739 | 93,829 |
| Finance lease obligations | 463 | – | – | – | – | – | 463 |
| Equipment leases | 229 | 168 | 81 | 33 | 6 | 3 | 520 |
| Facility leases | 1,386 | 1,353 | 1,340 | 1,349 | 1,171 | 6,541 | 13,140 |
| Other long-term liabilities | 1,000 | 43 | 42 | 42 | 41 | 1,354 | 2,522 |
| Borrowings subject to specific conditions | 601 | 619 | 433 | 607 | 672 | 16,516 | 19,448 |
| Convertible debentures | 2,000 | – | – | – | – | – | 2,000 |
| | 15,743 | 160,888 | 7,656 | 7,170 | 6,986 | 54,153 | 252,596 |
| Interest payments | 4,186 | 2,783 | 1,313 | 1,140 | 997 | 5,061 | 15,480 |
| Total | 19,929 | 163,671 | 8,969 | 8,310 | 7,983 | 59,214 | 268,076 |

[1] The amount drawn on the Corporation's accounts receivable securitization program is included in long-term debt in the Year 1 category.

**Fair values**

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

*Cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities*

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

*Foreign exchange contracts*

The Corporation has entered into foreign exchange contracts to mitigate future cash flow exposures in US dollars and Euros. Under these contracts, the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in US dollars and Euros expiring in 2012. During 2011, the Corporation entered into foreign exchange contracts as follows:

| Foreign exchange collars | Amount | Floor | Ceiling |
|---|---|---|---|
| Maturity – less than 1 year – US dollar | 17,000 | 1.0000 | 1.1111 |

| Foreign exchange forward contracts | Amount | FX Rate |
|---|---|---|
| Maturity – less than 1 year – US dollar | 18,700 | 1.0400 |
| Maturity – less than 1 year – Euros | 1,292 | 1.3400 |

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

The mark-to-market on these financial instruments as at December 31, 2011 was an unrealized gain of $508, which has been recorded in other expense for the period.

*Long-term debt*

The fair value of the Corporation's long-term debt, calculated by discounting the expected future cash flows based on current rates for debt with similar terms and maturities, is $88,061 at December 31, 2011.

*Convertible debentures*

The fair market value of the Corporation's convertible debentures, calculated by discounting the expected future cash flows at prevailing interest rates, is estimated at $2,075.

*Collateral*

As at December 31, 2011, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $133,000.

**Fair value hierarchy**

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

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

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

| | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level II) | Significant unobservable inputs (Level III) | Total |
|---|---|---|---|---|
| Financial assets | | | | |
| Foreign exchange contracts | – | 508 | – | 508 |

## 19. EMPLOYEE FUTURE BENEFITS

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

*Defined contribution plans*

The Corporation's expenses for defined contribution plans for the year ended December 31, 2011 totalled $4,243 [2010 - $4,212].

*Defined benefit plans*

The Corporation obtains actuarial valuations for its accrued benefit obligations and the fair value of plan assets for accounting purposes under IFRS as at December 31 of each year. In addition, the Corporation estimates movements in its accrued benefit liabilities at the end of each interim reporting period, based upon movements in discount rates and the rates of return on plan assets, as well as any significant changes to the plans. Adjustments are also made for payments made and benefits earned.

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

**Pension plans**

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

Actuarial valuations for funding purposes are prepared and filed with the appropriate regulatory authorities at least tri-annually. The most recent actuarial valuations for the various pension plans were completed between December 31, 2008 and January 1, 2011.

**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.

**Changes in benefit plan assets of the Corporation's defined benefit plans**

| | | 2011 | | 2010 |
|---|---|---|---|---|
| | Pension benefit plans | Other benefit plans | Pension benefit plans | Other benefit plans |
| Defined benefit plan assets | | | | |
| Fair market value of plan assets | | | | |
| Beginning of year | 82,069 | – | 106,843 | – |
| Expected return on plan assets | 5,085 | – | 4,499 | – |
| Actuarial loss | (6,121) | – | (517) | – |
| Employer contributions | 6,599 | – | 8,335 | – |
| Employee contributions | 354 | – | 303 | – |
| Benefit payments | (5,483) | – | (4,812) | – |
| Benefit payments in relation to plan wind-up | – | – | (32,255) | – |
| Foreign exchange gain (loss) | 124 | – | (327) | – |
| End of year | 82,627 | – | 82,069 | – |

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

| | | 2011 | | 2010 |
|---|---|---|---|---|
| | Pension benefit plans | Other benefit plans | Pension benefit plans | Other benefit plans |
| **Defined benefit plan obligations** | | | | |
| Accured benefit obligation | | | | |
| Beginning of year | 91,392 | 734 | 110,616 | 872 |
| Current service cost | 2,788 | – | 2,293 | – |
| Interest cost | 4,709 | 628 | 5,828 | 314 |
| Past service cost | 208 | – | – | – |
| Employee contributions | 354 | – | 303 | – |
| Actuarial loss | 12,129 | 153 | 9,927 | – |
| Benefit payments | (5,483) | (584) | (4,812) | (408) |
| Benefit payments in relation to plan wind-up | – | – | (32,255) | – |
| Foreign exchange loss | 208 | 18 | (508) | (44) |
| End of year | 106,305 | 949 | 91,392 | 734 |

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

| | | 2011 | | 2010 |
|---|---|---|---|---|
| | Pension benefit plans | Other benefit plans | Pension benefit plans | Other benefit plans |
| Fair market value of plan assets | 82,627 | – | 82,069 | – |
| Accrued benefit obligation | (106,305) | (949) | (91,392) | (734) |
| Funded status of plans – deficit | (23,678) | (949) | (9,323) | (734) |
| Effect of limit on recognition of asset | – | – | (314) | – |
| Accrued benefit liability | (23,678) | (949) | (9,637) | (734) |

The accrued benefit liability related to pensions and other benefit plans is included in other long-term liabilities and provisions.

All defined benefit plans were in a deficit status as at December 31, 2011 and one of the five defined benefit plans were in a surplus status as at December 31, 2010. During 2010, the Corporation completed the wind-up of one of its defined benefit plans.

The Corporation expects to contribute approximately $5,752 in 2012 to all its defined benefit plans in accordance with normal funding policy. Because of market driven changes that the Corporation cannot predict, the Corporation could be required to make contributions in the future that differ significantly from its estimates.

**Components of pension costs**

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Pension benefit plans | Other benefit plans | Pension benefit plans | Other benefit plans |
| Recognized in net income | | | | |
| Current service cost | 2,788 | – | 2,293 | – |
| Interest cost | 4,709 | 628 | 5,828 | 314 |
| Expected return on plan assets[1] | (5,085) | – | (5,994) | – |
| Other | 208 | – | – | – |
| Total pension cost recognized in net income | 2,620 | 628 | 2,127 | 314 |

[1] The actual return on plan assets is a loss of $1,036 for the year ended December 31, 2011 [2010 – gain of $4,517].

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Pension benefit plans | Other benefit plans | Pension benefit plans | Other benefit plans |
| Recognized in other comprehensive income | | | | |
| Actuarial loss immediately recognized | (18,270) | (153) | (7,126) | – |
| Effect of limit on recognition of asset | 314 | – | 3,412 | – |
| Total pension cost recognized in other comprehensive income | (17,956) | (153) | (3,714) | – |

**Significant assumptions and sensitivity analysis**

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Pension benefit plans | Other benefit plans | Pension benefit plans | Other benefit plans |
| Accrued benefit obligation at December 31: | | | | |
| Discount rate | 4.6% | 4.25% | 5.25% | 7.0% |
| Expected long-term rate of return on plan assets | 6.0% | – | 6.0% | – |
| Rate of compensation increase | 2.9% | – | 2.9% | – |
| Benefit costs for the year ended December 31: | | | | |
| Discount rate | 4.6% | 4.25% | 5.25% | 7.0% |
| Expected long-term rate of return on plan assets | 6.0% | – | 6.0% | – |
| Rate of compensation increase | 2.9% | – | 2.9% | – |

The discount rate assumption used in determining the obligations for pension and other benefit plans was selected based on a review of current market interest rates of high-quality, fixed rate debt securities adjusted to reflect the duration of expected future cash outflows for pension benefit payments. At December 31, 2011, a 1% change in the discount rate used could result in a $15,699 increase or decrease in the pension benefit obligation with a corresponding benefit or change recognized in other comprehensive income in the year.

The expected rate of return on plan assets is reviewed annually by the Corporation. The Corporation must make assumptions about the expected long-term rate of return of plan assets, but there is no assurance that the plan will be able to earn the assumed rate of return.

The Corporation funds health care benefit costs, shown under other benefit plans, as a pay as you go basis. 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 2011. 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, 2011 was nominal.

**Assets**

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

| | 2011 | 2010 |
|---|---|---|
| Equity investments | **47.6%** | 46.7% |
| Fixed income investments | **45.7%** | 48.2% |
| Other investments | **6.7%** | 5.1% |
| | **100.0%** | 100.0% |

## 20. 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 the Republic of Ghana and the revenue is included in Canada export revenue.

The Corporation evaluated the performance of its operating segments primarily based on net income before interest and income tax expense.

The Corporation accounts for intersegment and related party sales and transfers, if any, at the exchange amount.

The Corporation's primary sources of revenue are as follows:

| For the year ended December 31 | 2011 | 2010 |
|---|---|---|
| Revenues | | |
| Sale of goods | **478,293** | 502,100 |
| Construction contracts | **115,095** | 142,934 |
| Services | **98,022** | 86,601 |
| | **691,410** | 731,635 |

The aggregate amount of revenues recognized for construction contracts in progress at December 31, 2011 was $227,895 [December 31, 2010 - $255,400]. Advance payments received for construction contracts in progress at December 31, 2011 were $4,240 [December 31, 2010 - $27,220]. Retentions in connection with construction contracts at December 31, 2011 were $1,017 [December 31, 2010 - $995]. Advance payments and retentions are included in accounts payable, accrued liabilities and provisions.

Segmented information consists of the following:

Activity segments:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Aerospace | Power Generation Project | Total | Aerospace | Power Generation Project | Total |
| Revenues | 609,942 | 81,468 | 691,410 | 627,113 | 104,522 | 731,635 |
| Income before interest and income taxes | 53,014 | 5,386 | 58,400 | 54,895 | 7,610 | 62,505 |
| Interest expense | | | 16,999 | | | 20,152 |
| Income before income taxes | | | 41,401 | | | 42,353 |
| Total assets | 638,583 | 23,155 | 661,738 | 595,370 | 43,129 | 638,499 |
| Total liabilities | 369,580 | 9,463 | 379,043 | 382,633 | 35,271 | 417,904 |
| Additions to property, plant and equipment | 59,260 | – | 59,260 | 16,571 | – | 16,571 |
| Depreciation and amortization | 30,407 | 2,428 | 32,835 | 31,669 | 2,930 | 34,599 |
| Impairment reversal | 1,847 | – | 1,847 | 7,395 | – | 7,395 |

Geographic segments:

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Canada | United States | United Kingdom | Total | Canada | United States | United Kingdom | Total |
| Revenues | 365,853 | 187,658 | 137,899 | 691,410 | 421,864 | 187,555 | 122,216 | 731,635 |
| Export revenues[1] | 267,089 | 33,420 | 12,064 | 312,523 | 329,948 | 29,214 | 9,237 | 368,399 |

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

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Canada | United States | United Kingdom | Total | Canada | United States | United Kingdom | Total |
| Property, plant and equipment and intangible assets | 201,586 | 121,030 | 33,262 | 355,878 | 165,825 | 114,267 | 30,976 | 311,068 |

The major customers for the Corporation for the years ended December 31 are as follows:

| | 2011 | 2010 |
|---|---|---|
| Canadian operations | | |
| Number of customers | 2 | 1 |
| Percentage of total Canadian revenues | 33% | 25% |
| US operations | | |
| Number of customers | 1 | 1 |
| Percentage of total US revenues | 40% | 38% |
| UK operations | | |
| Number of customers | 1 | 1 |
| Percentage of total UK revenues | 73% | 84% |

## 21. COST OF REVENUES

| | 2011 | 2010 |
|---|---|---|
| Operating expenses | 573,639 | 608,832 |
| Amortization | 30,806 | 32,004 |
| Investment tax credits | (9,173) | (4,427) |
| Impairment of inventories | 627 | (661) |
| Impairment reversal of intangibles | (1,899) | (7,395) |
| | 594,000 | 628,353 |

## 22. ADMINISTRATIVE AND GENERAL EXPENSES

| | 2011 | 2010 |
|---|---|---|
| Salaries, wages and benefits | 22,725 | 22,762 |
| Administration and office expenses | 10,714 | 11,756 |
| Professional services | 2,796 | 2,657 |
| Amortization | 2,029 | 2,595 |
| | 38,264 | 39,770 |

## 23. INTEREST EXPENSE

| | 2011 | 2010 |
|---|---|---|
| Interest on bank indebtedness and long-term debt [Notes 8 and 10] | 9,397 | 14,799 |
| Interest on convertible debenture [Note 11] | 4,000 | 4,006 |
| Accretion charge on convertible debenture, long-term debt and borrowings | 3,155 | 1,093 |
| Discount on sale of accounts receivables | 447 | 254 |
| | 16,999 | 20,152 |

## 24. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) includes unrealized foreign currency translation gains and losses, which arise on the translation to Canadian dollars of assets and liabilities of the Corporation's foreign operations and net actuarial losses on defined benefit pension plans, net of tax. The Corporation recorded unrealized currency translation gains for the year ended December 31, 2011 of $4,149 [2010 – loss of $10,392] and net actuarial losses on defined benefit plans of $17,530 [2010 $3,421]. These gains and losses are reflected in the consolidated statement of financial position and had no impact on net income for the year.

## 25. RELATED PARTY DISCLOSURE

**Transactions with related parties**

On April 28, 2011, the Original Loan was extended and restated [Note 10]. During 2011, the Corporation incurred interest of $3,748 [2010 - $5,524] in relation to the Original Loan and prepaid the Original Loan by $12,500 [2010 - $19,000]. At December 31, 2011, the Corporation owed Edco interest of $214 [2010 - $995].

On April 30, 2009, the Chairman of the Board of the Corporation subscribed to $40,000 of the Convertible Debentures. On December 31, 2011, the Chairman of the Board exercised his conversion rights under the debenture agreement and $38,000 principal amount of the Convertible Debentures, the entire amount of the Convertible Debentures then held by the Chairman, were converted into 38,000,000 common shares of the Corporation. Interest incurred during the year ended December 31, 2011 on the Convertible Debentures was $4,000 [2010 - $4,006]. As at December 31, 2011, Convertible Debentures in the principal amount of $2,000 were held by a director of the Corporation.

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 0.8% [2010 – 1.2%] of the guaranteed amount or $1,399 [2010 - $2,127] was paid in consideration for the guarantee.

During the year, the Corporation incurred consulting costs of $100 [2010 - $100] payable to a corporation controlled by the Chairman of the Board of the Corporation. As well, the Corporation paid legal fees of $69 [2010 - $57] to a law firm in which a director is a chairman emeritus.

**Key management personnel**

Key management includes members of the Board of the Corporation and executive officers, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Corporation. The compensation expense for key management for services is as follows:

| | 2011 | 2010 |
|---|---|---|
| Short-term benefits | 2,161 | 2,061 |
| Post-employment benefits | 103 | 101 |
| Share-based payments | 147 | – |
| | 2,411 | 2,162 |

Short-term benefits include cash payments for base salaries, bonuses and other short-term cash payments. Post-employment benefits include the Corporation's contribution pension plan and pension adjustment for defined benefit plan. Share-based payments include amounts paid to executives under the DSU Plan.

## 26. SUPPLEMENTARY CASH FLOW INFORMATION

| | 2011 | 2010 |
|---|---|---|
| Net change in non-cash working capital | | |
| Accounts receivable | (10,908) | 869 |
| Inventories | 24,704 | (8,221) |
| Prepaid expenses and other | 6,559 | 26,289 |
| Accounts payable, accrued liabilities and provisions | (32,881) | (1,396) |
| | (12,526) | 17,541 |
| Interest paid | 14,873 | 19,924 |
| Income taxes paid | 1,447 | 249 |

## 27. ADDITIONAL FINANCIAL INFORMATION

Included in other expenses is a foreign exchange loss of $238 [2010 - $680] on the conversion of foreign currency denominated working capital balances and debt.

## 28. MANAGEMENT OF CAPITAL

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

As at December 31, 2011, total managed capital was $497,650, comprised of shareholders' equity of $282,695 and interest-bearing debt of $214,955. Included in interest bearing debt is the debt component of the convertible debentures of $1,986, where a component of the associated interest expense is a non-cash charge.

The Corporation manages its capital structure and makes adjustments to it in light of economic conditions, the risk characteristics of the underlying assets and the Corporation's working capital requirements. In order to maintain or adjust its capital structure, the Corporation, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares through the normal course issuer bid, pay dividends or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets. Based on current funds available and expected cash flow from operating activities, management believes that the Corporation has sufficient funds available to meet its liquidity requirements at any point in

time. However, if cash from operating activities is lower than expected or capital costs for projects exceed current estimates, or if the Corporation incurs major unanticipated expenses, it may be required to seek additional capital in the form of debt or equity or a combination of both. There were no changes in the Corporation's approach to capital management during the year.

The Corporation must adhere to covenants in its operating credit facility. As at December 31, 2011 the Corporation was in compliance with these covenants.

### 29. CONTINGENT LIABILITES AND COMMITMENTS

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

At December 31, 2011, capital commitments in respect of purchase of property, plant and equipment totalled $16,569, all of which had been ordered. There were no other material capital commitments at the end of the year.

### 30. ADOPTION OF INTERNATION FINANCIAL REPORTING STANDARDS

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

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

**Reconciliation of equity at January 1, 2010**

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

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

**Reconciliation of equity at December 31, 2010**

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

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

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

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

**Explanations of the effects of the transition to IFRS**

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

**Mandatory exceptions from retrospective application**

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

(i) Estimates

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

**Optional IFRS 1 exemptions from retrospective application**

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

(ii) Business combinations

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

(iii) Employee benefits

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

### (iv) Cumulative translation difference

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

### (v) Share-based payment transactions

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

At January 1, 2010, this change in accounting policy reduced contributed surplus and increased opening retained earnings by $3,001. There is no impact on the assets of the Corporation as the charge to the income statement is matched by an equal credit through equity.

### (vi) Deemed cost

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

### (vii) Borrowing costs

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

## Explanation of reconciling items from Canadian GAAP to IFRS

### (viii) Impairment of assets

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

In accordance with IAS 36, the Corporation assessed whether there are events or circumstances indicating that an asset may be impaired both at the date of transition to IFRS and as at December 31, 2010. Recoverable amounts were calculated on value in use, using discounted cash flow models based on the Corporation's long-term planning model. The key assumptions used in those reviews are disclosed in Note 7. As a result of the review of recoverable amounts it was determined that certain of the Corporation's CGUs were impaired.

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

### (ix) Employee benefits

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

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

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

**(x) Property, plant and equipment**

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

**(xi) Leases**

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

**(xii) Provisions**

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

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

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

**(xiii) Government grants**

Under Canadian GAAP, government grants received are deducted from the related asset or expense and any repayments are recorded as an expense in cost of revenues. Under IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* ("IAS 20"), government grants are recognized when there is reasonable assurance that the entity will comply with the conditions attached to them and the grants will be received. In addition, a liability is recognized for future royalty payments when it is probable that all or part of the amounts received will be repaid based on future estimated sales. Repayments made are recorded as a reduction of the liability. A revision to the estimate of amounts to be repaid results in an increase or decrease in the liability and the related asset or expense, and a cumulative adjustment to amortization is recognized immediately in income. Upon transition to IFRS, the Corporation has recorded a liability based on management's best estimate of the expected amount of government grants that may become repayable.

This affects the statement of financial position at January 1, 2010 by increasing other assets by $679 [$5,007 at December 31, 2010], intangible assets by $2,276 [$2,492 at December 31, 2010], property, plant and equipment by $63 [$379 at December 31, 2010], borrowings by $9,096 [$13,372 at December 31, 2010] and a reduction in accounts payable and accrued liabilities by $719 [increased by $45 at December 31, 2010] and opening retained earnings of $5,359 [$5,178 at December 31, 2010].

### (xiv) Financial instruments

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

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

### (xv) Income taxes

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

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

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

### (xvi) Investment properties

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

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

### (xvii) Functional currency

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

### (xviii) Share-based payment transactions

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

The expense under IFRS is $314 lower for the year ended December 31, 2010 than under Canadian GAAP. There is no impact on the assets of the Corporation as the charge to the income statement is matched by an equal credit through equity.

### (xix) Cash flows

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

# BOARD OF DIRECTORS AND OFFICERS

## 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,*
*Business Development,*
*Marketing and Contracts*

**Larry A. Winegarden**
*Vice President,*
*Corporate Strategy*

**Konrad B. Hahnelt**
*Vice President,*
*Strategic Global Sourcing*

**Jo-Ann C. Ball**
*Vice President,*
*Human Resources*

## 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)
*Counsel*
Davis Webb LLP
Brampton, Ontario

**William A. Dimma** C.M., O. Ont. (1, 2)
*Chairman*
Decision Dynamics Technology
Calgary, Alberta

**Bruce W. Gowan** (1, 2, 3)
*Corporate Director*
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 Emeritus*
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
& Safety Committee
Chairman:
**Donald C. Lowe**

# OPERATING FACILITIES DIRECTORY AND SHAREHOLDER INFORMATION

## Canada

660 Berry Street,
Winnipeg, Manitoba R3H 0S5
Tel: 204 775 8331

3160 Derry Road East,
Mississauga, Ontario L4T 1A9
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634 Magnesium Road,
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Tel: 613 432 8841

975 Wilson Avenue,
Kitchener, Ontario N2C 1J1
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## United States

97–11 50th Avenue,
New York, New York 11368
Tel: 718 699 4000

25 Aero Road,
Bohemia, New York 11716
Tel: 631 589 2440

159 Grassy Plain Street, Route 53,
Bethel, Connecticut 06801
Tel: 203 798 9373

20 Computer Drive,
Haverhill, Massachusetts 01832
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Tel: 513 422 2751

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Glendale, Arizona 85301
Tel: 623 931 0010

5401 West Luke Avenue,
Glendale, Arizona 85311
Tel: 623 939 9441

## United Kingdom

Davy Way, Llay Industrial Estate,
Llay, Wrexham LL12 0PG
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Llay, Wrexham LL12 0PJ
Tel: 01978 856798

Rackery Lane,
Llay, Wrexham LL12 0PB
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510 Wallisdown Road,
Bournemouth, Dorset BH11 8QN
Tel: 01202 512405

7/8 Lyon Road, Wallisdown,
Poole, Dorset BH12 5HF
Tel: 01202 535536

1 West Point Row,
Great Park Road,
Bradely Stoke, Bristol BS32 4QG
Tel: 01454 453550

Chiltern Hill, Chalfont St Peter,
Buckinghamshire SL9 9YZ
Tel: 01753 890922

## India

Nandana, 108/7
1st Main Road
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Tel: 905 677 1889

## Corporate Office

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3160 Derry Road East
Mississauga, Ontario, Canada
L4T 1A9
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Fax: 905 677 5658
www.magellan.aero
For investor information:
ir@magellan.aero

## Auditors

Ernst & Young LLP
Toronto, Ontario

## Transfer Agent

Computershare Investor Services Inc.
Toronto, Ontario
Tel: 1 800 564 6253
e-mail: service@computershare.com
www.computershare.com

## Stock Listing

Toronto Stock Exchange—TSX
Common Shares—MAL

## Annual Meeting

The Annual Meeting of the Shareholders of Magellan Aerospace Corporation will be held on Wednesday, May 9th, 2012 at 2:00 p.m. at The Living Arts Centre, 4141 Living Arts Drive, Mississauga, Ontario L5B 4B8