MAGELLAN AEROSPACE CORPORATION

ANNUAL REPORT 2009

MAGELLAN
AEROSPACE

Letter to Shareholders

The Corporation was able, through a number of management actions to reduce costs and increase efficiencies, to maintain revenues, decrease debt, and increase profits and cash flow.

Magellan Aerospace Corporation ("Magellan" or the "Corporation") is pleased to report to you the results for 2009, a year of challenges in terms of the global economy, the level of air travel and air freight, the affordability of continuing defence programs, and the availability of financial support to growth programs within the aerospace industry. Despite these challenges, the Corporation was able, through a number of management actions to reduce costs and increase efficiencies, to maintain revenues, decrease debt, and increase profits and cash flow. It is management's view that these measures taken should continue to generate beneficial results in 2010 and beyond, supporting Magellan going forward.

The economic outlook has begun to show some stability and some reason for confidence. There remain weak spots in this global economy, but signs of recovery are seen in many areas, including growth in air freight, passenger load factors, business travel, steadiness in key defence budgets for aerospace, and progress to market for a number of new, large aircraft and engine programs. Largest amongst these new programs, and most important to western aerospace companies, are the Airbus A380 and Boeing B787 passenger airliners and the Lockheed Martin Joint Strike Fighter program, each of which is showing increased pace in its development and delivery.

In the space sector many in the world are excited about the prospects of exploring Mars, and about commercial service for space-based service, scientific activity, investigation, and even travel to earth orbit. Magellan has been involved is various space activities for over three decades, ranging from launch rockets to satellite payloads, and in 2009, received an order for the first of three satellite bus developments for the Canadian Space Agency's requirement, RADARSAT Constellation Mission of communications and maritime surveillance. Demand for other Magellan proprietary safety and defence products also continues to grow, as our capabilities become more knowledge-based.

As the global economy grows, new opportunities arise to satisfy related support functions such as industrial power generation and aftermarket repair and overhaul (R&O) services. Magellan has traditionally delivered R&O services domestically and internationally, capturing new opportunities each year in both civil and defence applications. In 2009, Magellan also captured its largest industrial power opportunity to date in the Republic of Ghana, a new power generation plant, and has identified a market for similar installations.

Increasing capability to produce complex products and assemblies in house, and placing commodity parts manufacturing in an emerging market were instrumental in winning important packages.

Recognizing the potential growth in the emerging demand for aerospace products in the global marketplace, and seeing the capabilities being generated in new regions of the globe, the Corporation implemented a strategy to refocus its in-house activities. Two key elements of the new strategy are the development of supply from a more global base, and the transition in its own plants to a knowledge-based business. The in-house activity being sought is of higher complexity, uses materials of exotic alloys and composites, and manufacturing methods requiring higher technology machine tools and innovative application.

Magellan has developed a supply base in India, and in 2009 completed a nearby co-owned parts finishing facility. The combination of developing increased capability to produce complex products and assemblies in house, and placing commodity parts manufacturing in an emerging market, was instrumental in winning an important package on the Boeing 787 Dreamliner aircraft program. This strategy, which is referred to in Magellan as 40-30-30, representing nominal targets for in-house, local supply and emerging market supply, continues to mature. It should serve a number of competitive requirements by ensuring the Corporation is focused on the most complex activity in-house, as well as assisting our customers to meet their offset requirements by placing work in emerging markets that increasingly are buying large numbers of aircraft.

Activity levels remained steady throughout 2009 and the Corporation was able to make modest improvements to its balance sheet.

Revenues in the current year were $686.6 million slightly higher than 2008. The Corporation reported net income in 2009 of $26.0 million, which translates into basic net income per share of $1.34 and diluted income per share of $0.61 for the year up from basic net income per share in 2008 of $0.62.

Magellan has established opportunities in anticipated growth sectors of the global aerospace market. It has achieved positioning on several key programs, spanning civil and defence aircraft, respective engines, new build and aftermarket, proprietary defence and space products, and industrial power generation.

In 2009, Magellan captured new participation in each of its areas of focus and has identified opportunities for the immediate future. Magellan has achieved this beneficial exposure through investment in the leading technologies and capabilities that meet our customers' needs, and has continued to modernize its vision and strategies.

As we reflect on what we have accomplished, we thank our investors and financial partners for your continued support over some challenging times. And we would like to congratulate our Magellan employees for their hard work and professionalism, but especially for their willingness to try new ways of succeeding.

James S. Butyniec
President and Chief Executive Officer

March 26, 2010

Management Discussion and Analysis

The Management Discussion and Analysis ("MD&A") of financial condition and results of operations should be read in conjunction with the 2009 consolidated financial statements and notes. Magellan Aerospace Corporation ("Magellan" or the "Corporation") reports its audited consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

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 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 2009 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 date of this MD&A is March 26, 2010.

COMPANY OVERVIEW

Magellan is a diversified supplier of components to the aerospace industry. 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.

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 a single business segment and is viewed as a single operating segment by the chief operating decision-makers, for the purpose of resource allocations, assessing performance, and strategic planning.

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

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

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

The Corporation serves both the commercial and defence markets. In 2009, 63.9% of sales were derived from the commercial markets (2008 — 68.2%, 2007 — 65.8%) while 36.1% of sales related to defence markets (2008 — 31.8%, 2007 — 34.2%).

OUTLOOK

There are a number of factors indicating that a modest recovery may occur in the global aerospace industry in 2010. Global air freight levels began to improve in the second half of 2009 and air travel is expected to grow in 2010 in step with most sectors of the global economy. Weaknesses in certain subsectors of the civil market appear to have stabilized, and are expected to show signs of recovery during 2010 and 2011. The defence sector remains stable, and is introducing large, technologically advanced aircraft programs that are expected to be deployed and supported over the next 20 years or more. The strength and sustainability of the global economic recovery will strongly influence demand for industrial power installations, especially in those emerging markets that may lack large power-distribution capabilities.

For the last number of years, the Corporation has maintained a focus in its activities to concentrate key core capabilities in its own plants, while off-loading non-core activity to its local and emerging market supply bases. The air transportation market has remained stable throughout the economic downturn and higher levels of output have been forecasted for key aircraft platforms in 2010 and 2011. Large civil aircraft design and production issues appear to have been addressed during 2009, and annual production volumes are expected to increase, and workhorse single-aisle aircraft are expected to increase output in 2010 and beyond. In defence, combat aircraft and helicopter fleets are being replaced in an effort that is expected to continue for the foreseeable future. The Corporation has strong positions in civil airline aircrafts, military aircrafts and helicopters, respective aircraft engines, and aero-derivative industrial power generation sets globally in demand.

Sales in 2010 will be affected by fluctuations due to temporary cash management measures at customer and supplier levels, and potential exchange rate fluctuations. For 2010, the Corporation has exposure to the anticipated growth sectors of the global aerospace industry. It has captured opportunities on new civil and defence programs, has continued to modernize its facilities and update its capabilities, and has taken measures to hopefully address further uncertainties that may arise during any residual economic volatility in 2010-2011.

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 monitor, manage, and mitigate these risks. Additional risks and uncertainties not presently known by the Corporation, or that the Corporation does not currently anticipate may be material and may impair the Corporation's performance.

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

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

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

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

Market events and conditions that occurred in 2008, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility in the credit and financial markets. These conditions worsened in 2008, continued into 2009, and though improved, have continued in 2010 resulting in an ongoing lack of confidence in the broader US and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. While global financial conditions and outlook have improved somewhat, these factors continue to negatively impact company valuations and impact the performance of the global economy going forward.

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.

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

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

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

The Corporation's debt is significant and needs to be refinanced and such refinancing may not be available.
The Corporation and its subsidiaries have significant debt obligations. The degree to which this indebtedness could have consequences on the Corporation's prospects include the effect of such debts on the ability to obtain additional financing for working capital, capital expenditures or acquisitions; the portion of available cash flow that will need to be dedicated to repayment of principal and interest on indebtedness, thereby reducing funds available for expansion and operations; and the Corporation's vulnerability to economic downturn and its ability to withstand competitive pressure. If the Corporation is unable to meet its debt obligations, it may need to consider refinancing or adopting alternative strategies to reduce or delay capital expenditures, selling assets or seeking additional equity capital.

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

The $65.0 million secured subordinated loan (the “Original Loan”) has been extended to July 1, 2011 on the same terms and conditions as the prior loan except that the interest rate will be reduced from 12% per annum to 11% per annum. In addition, on December 22, 2009, Edco Capital Corporation (“Edco”) also extended an option to the Corporation, exercisable on or before July 1, 2011, to renew the loan for a further one year period on payment of an extension fee of 1% of the principal amount of the loan and on the condition that the operating credit facility is renewed for an additional 364 day period beginning May 22, 2011on terms satisfactory to the Board and on the condition that there is no material change in the business, operations or capital of the Corporation.

The holders of the First Preference Shares Series A issued for $20 million have the right to retract the First Preference Shares Series A for the issue price plus accrued and unpaid dividends from July 1, 2010 in the event 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 upon the occurrence of a change of control of the Corporation involving the acquisition or voting control or direction over at least 66 2/3% of the Common Shares and instruments convertible into Common Shares. Subject to law, the Corporation will be required to retract the Preference Shares in whole or in part to the extent permitted by any instrument of indebtedness of the Corporation.

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

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

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

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

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

SELECTED ANNUAL FINANCIAL INFORMATION

Expressed in millions of dollars except per share information	2009	2008	2007
Revenues	686.6	686.4	597.8
Net income (loss) for the year	26.0	12.9	(11.3)
Net income (loss) per common share			
Basic	1.34	0.62	(0.71)
Diluted	0.61	0.62	(0.71)
Total assets	680.6	670.7	649.4
Total long term liabilities	132.0	51.7	108.0

The Corporation has not paid dividends on its common shares in the past four years. In 2005, the Corporation issued 2,000,000 8.0% Cumulative Redeemable First Preference Shares Series A. The Corporation declared dividends thereon of $0.80 per share during each of 2009 and 2008.

2009 UPDATES

- An agreement was made between Airbus and Magellan Aerospace (UK) Limited which secured its workload through 2012 in a contract with revenues estimated of £300 million as part of the Airbus Power 8 cost reduction initiative and includes increasing volumes of the wing components that the Corporation is currently producing for Airbus as well as substantial new packages of work.

- GKN Aerospace awarded a contract to Magellan Aerospace (UK) Limited to supply metal components for retrofit winglets on the Boeing 767, supporting GKN Aerospace's design and development contract for these winglets with Aviation Partners Boeing (ABP). The contract calls for up to 450 aircraft sets over the performance period of five to six years.

- Deliveries of front fan frames for the F136 engine continued through 2009 on the Corporation's long-term contract with GE/Rolls-Royce Fighter Engine team. The F136 engine is the most advanced fighter aircraft engine ever developed and will be available to power all variants of the F-35 Joint Strike Fighter ("JSF") aircraft for the US military and partnering nations.

- The Corporation announced the award to its Winnipeg-based division, Bristol Aerospace, of the RADARSAT Constellation Mission (RCM) satellite bus development contract with MacDonald, Dettwiler and Associates Ltd. of Vancouver. The RCM mission is being developed by the Canadian Space Agency to provide C-Band data continuity to existing RADARSAT-1 and RADARSAT-2 users. As well, the RCM mission will support maritime surveillance (ship detection, ice monitoring and oil spill detection), disaster management and ecosystem monitoring. The primary areas of coverage are Canada and its surrounding Arctic, Pacific and Atlantic maritime areas. The mission will be comprised of three spacecraft in low earth orbit, each carrying a C-band Synthetic Aperture Radar payload. The expected launch dates are 2014, 2015 and 2016.

- The Corporation has been awarded a contract to produce the JSF horizontal tail components in the third lot of low rate initial production. It is the initial contract awarded to Magellan by BAE Systems for JSF components and assemblies. A total of 1,038 ship sets of horizontal tails are planned to be produced by Magellan over the life of the JSF program. The horizontal tails produced at Magellan will be used on the Conventional Takeoff and Landing variant.

- The Corporation announced the award of multi-year buys of complex machined titanium components for all three variants of the JSF aircraft — the Conventional Take-Off and Landing, the Short Take-Off and Vertical Landing and the Carrier Variant. This US contract with estimated revenues of $60million will be carried out at Magellan Aerospace's Kitchener-based facility, Chicopee Manufacturing ("Chicopee"), over the period of 2009 to 2015, with annual authorizations each year. Chicopee has industry-leading expertise in titanium machining operations and world class machining capability, with an emphasis on high-speed machining of hard metals.

- The Corporation announced an agreement between the Ministry of Energy, Republic of Ghana, and Magellan for the provision of a turnkey electric power generation plant in Ghana, contracted through the Canadian Commercial Corporation. The contract has estimated revenues of US $185 million, and the project is scheduled to be delivered over a 24-month period by Magellan's Mississauga operating division, Orenda Aerospace.

- During the fourth quarter of 2008, the joint ownership processing facility in India was completed. This facility, at 17,500 square feet, will initially focus on processes for aluminum, titanium, and stainless steel components for aerostructure and aeroengine components. This new facility commenced operations in the fourth quarter of 2009.

LABOUR MATTERS

Labour agreements at two of the Corporation's facilities expired on December 31, 2009 and management is currently in negotiations. A labour agreement at one additional facility will expire on August 1, 2010.

FINANCING MATTERS

On April 30, 2009, the Corporation amended and restated the Bank Facility Agreement with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was reduced to $90.0 million Canadian and $85.0 million US ($179.3 million at December 31, 2009) with a maturity date of May 21, 2010. The facility is extendable for unlimited one-year renewal periods on the agreement of the lenders and the Corporation and continues to be fully guaranteed by the Chairman of the Board of the Corporation.

On April 30, 2009, the Corporation completed the following previously announced financing arrangements:

(a) the purchase by the Chairman of the board of directors of the Corporation, directly or indirectly, of $40.0 million principal amount of 10% Convertible Secured Subordinated Debentures (the "New Convertible Debentures") due on April 30, 2012. Interest is due semi-annually in arrears on April 30 and October 31 in each year, the first such payment to fall due on October 31, 2009. The New Convertible Debentures are convertible, at the option of the holder at any time prior to April 30, 2012, in whole or in multiples of $1,000, into fully paid and non-assessable Common Shares of the Corporation at the conversion price of $1.00 per Common Share which is equal to the issuance on conversion of approximately 40.0 million Common Shares in total. The New Convertible Debentures are secured obligations of the Corporation and are subordinated in right of payment to all of the Corporation's senior indebtedness. At December 31, 2009, $38.2 million of the New Convertible Debentures, net of transaction costs, has been attributed to the debt component and $1.9 million has been attributed to the equity component of the instrument. The discount, being the difference between the carrying value and the face value of the New Convertible Debentures is amortized using the effective interest rate method through periodic charges to income included in interest expense over the life of the New Convertible Debentures; and

(b) the extension and restatement of the $50.0 million loan from Edco to the Corporation [the "Original Loan"] to increase the principal amount from $50.0 million to $65.0 million and to extend the maturity date of the loan to July 1, 2010 in consideration for the payment of a one time fee to Edco equal to 1% of the principal amount of $50.0 million outstanding and an increase in the interest rate on the loan from 10% to 12% per annum payable monthly in arrears.

(together the "2009 Financing Arrangements")

As a result of a requirement under a change of control provision in the previously issued 8.5% convertible unsecured debentures due January 31, 2010 (the "2008 Debentures"), the Corporation was required to make an offer to purchase the $20.95 million of the 2008 Debentures at a price of 102.5% of the principal amount plus accrued and unpaid interest utilizing the proceeds of the 2009 Financing Arrangements. During the second quarter of 2009, the 2008 Debentures were fully repurchased.

Pursuant to a similar 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 Ontario Business Corporations Act. As at December 31, 2009, the Corporation was not in the position to retract the Preference Shares as it is prohibited from doing so by the terms of its operating credit facility. Accordingly, the Preference Shares continue to be classified as equity instruments.

On December 22, 2009, Edco provided a commitment letter that extends the due date of the Original Loan to July 1, 2011 on the same terms and conditions of the Original Loan except that the interest rate will be reduced from 12% to 11% per annum in consideration of the payment of a one time extension fee of 1% of the principal amount of $65.0 million to Edco as follows: (a) 0.20% on execution of the commitment letter for renewal and (b) 0.80% on the satisfaction of all conditions and closing of the renewal transaction. On March 26, 2010, the Original Loan was restated and extended in accordance with such terms. The Corporation was also granted the option to further extend the Original Loan on or before July 1, 2011, for a further period of one year maturing on July 1, 2012, on payment of an additional one time extension fee of 1% of the principal amount of the loan and on the condition the bank credit facility is renewed, for an additional 364 day period beginning May 22, 2011 on terms satisfactory to the Board and on the condition that there is no material change in the business, operations or capital of the Corporation. The Corporation has the right to prepay the Original Loan without penalty.

On March 26, 2010, the Corporation amended its Bank Facility Agreement with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was reallocated to a Canadian dollar limit of $105.0 million (up from $90.0 million) plus a US dollar limit of $70.0 million (down from US $85.0 million), with a maturity date of May 21, 2011. The facility is extendable for unlimited one-year renewal periods by the agreement of the Corporation and the lenders and continues to be guaranteed by the Chairman of the Board of the Corporation. The terms of the amended operating credit facility permit the Corporation to (i) repay the Original Loan in whole or in part and (ii) retract up to 20% ($4.0 million) of the Preference Shares on each of April 30 and October 31 (or the next business day if that day is not a business day) of each year starting with April 30, 2010, together with accrued and unpaid dividends on the shares to be retracted provided there is no current default or event of default under the operating credit facility and after the repayment of the Original Loan and the payment of the retraction amount the Corporation has at least $25.0 million in availability under the operating credit facility. Any permitted retraction amount not used on any prior date can be carried forward to future retraction dates. As a result, subject to such limitation under the operating credit facility and to applicable laws, the Corporation will retract on each of April 30 and October 31, beginning April 30, 2010, any Preference Shares tendered for retraction up to the permitted percentage of Preference Shares. The Preference Shares tendered for retraction will be classified as a current liability.

RESULTS FROM OPERATIONS

Revenues

Twelve-months ended December 31 Expressed in thousands of dollars	2009	2008	Change
Canada	337,765	304,124	11.1%
United States	200,525	245,455	(18.3)%
United Kingdom	148,324	136,857	8.4%
Total Revenues	686,614	686,436	0.0%

Consolidated revenues for the year ended December 31, 2009 were $686.6 million, an increase of $0.2 million or 0.0% over the previous year. During 2009, the Corporation's consolidated revenues were negatively impacted by the worldwide economic situation and were positively impacted by currency fluctuations as discussed below. Increased revenues in Canada resulted from higher volumes in the Corporation's proprietary and specialty products. Revenues were lower in 2009 when compared to 2008 in the United States partially as a result of a one-time price adjustment totalling $10.4 million recorded in 2008 as well as reduced requirements on the A380 and A340 programs during the year as customers deferred orders out of 2009 and a reduction in revenue on the Boeing legacy programs in anticipation of increased volumes on the B787 and 747-8 programs. Revenues in the United Kingdom increased over 2008 revenues despite the decline in the British Pound exchange rate versus the Canadian dollar. Revenues in the United Kingdom, in British Pounds, increased in 2009 as production volumes on the Airbus statement of work increased. Overall revenue was impacted positively by the movement of the US dollar in comparison to the Canadian dollar and was impacted negatively by the movement of the British Pound in comparison to the Canadian dollar. If average exchange rates for both the US dollar and British Pound experienced in 2008 remained constant in 2009, consolidated revenues for 2009 would have been approximately $676.3 million or approximately $10.3 million lower.

Gross Profit

Twelve-months ended December 31 Expressed in thousands of dollars	2009	2008	Change
Gross profit	82,312	77,459	6.3%
Percentage of revenue	12.0%	11.3%	

Gross profit in 2009 was $82.3 million, an increase of $4.9 million from 2008. As a percentage of revenue, gross profit was 12.0% of sales in 2009 compared to 11.3% of sales in 2008. Gross profit in 2009 includes a $4.7 million benefit resulting from the recognition of investment tax credits earned in the year. 2008 gross profit included a one-time retroactive price adjustment totalling $10.4 million as the Corporation concluded negotiations in respect of a long-term contract with a European customer. Gross profit, without the items listed above, was 11.2% of revenues for 2009 compared to 9.8% of revenues for 2008. Increased gross profit in 2009 when compared to 2008 can be attributed to product mix, continued operational performance improvements as well as favourable currency fluctuations. If average exchange rates for both the US dollar and British Pound experienced in 2008 remained constant in 2009, consolidated gross profits for 2009 would have been approximately $5.0 million lower.

Administrative and General Expenses

Twelve-months ended December 31 Expressed in thousands of dollars	2009	2008
Administrative and general expenses	44,489	44,691
Percentage of revenues	6.5%	6.5%

Total administrative and general expenses for 2009 were consistent with 2008 at $44.5 million and $44.7 million respectively.

Other

Twelve-months ended December 31 Expressed in thousands of dollars	2009	2008
Foreign exchange gain	(6,383)	(6,904)
Loss (gain) on sale of capital assets	272	(1,355)
Plant and program closure (recoveries) costs	(642)	4,558
Other	(6,753)	(3,701)

Included in other income is a foreign exchange gain, 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, of $6.4 million in 2009 versus $6.9 million in 2008. In 2009, the Corporation retired assets for a loss on disposal of $0.3 million compared to gains recorded on the sale of capital assets of $1.4 million in 2008.

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 for the pension obligation on a pension plan that is in the process of being wound-up. In 2009, as a result of the market performance of the pension plan assets, the Corporation reversed a portion of the prior year pension charge in the amount of $0.9 million on a pension plan that is in the process of being wound-up.

Interest Expense

Twelve-months ended December 31 Expressed in thousands of dollars	2009	2008
Interest on bank indebtedness and long-term debt	14,614	15,070
Convertible debenture interest	3,810	2,141
Accretion charge on convertible debt	678	437
Discount on sale of accounts receivable	1,652	4,301
Total interest expense	20,754	21,949

Interest costs for 2009 were $20.8 million, a decrease of $1.2 million from 2008. Interest on bank indebtedness was lower in 2009 when compared to 2008 as a result of lower levels of indebtedness offset by higher borrowing spreads incurred during 2009 versus 2008. Convertible debenture interest increased in 2009 over 2008 as the principal amount as well as the interest rate of convertible debentures increased in the second quarter of 2009. During the year, the Corporation sold $117.1 million of accounts receivable at a discount of $0.7 million, which represented an annualized interest rate of 2.83%. In 2008, $555.6 million of receivables were sold at a discount of $4.3 million, which represented an annualized interest rate of 6.77%.

(Recovery of) Provision for Income Taxes

Twelve-months ended December 31 Expressed in thousands of dollars	2009	2008
Recovery of current income taxes	(63)	(194)
Future income tax (recovery) expense	(2,100)	1,814
Total income tax (recovery) expense	(2,163)	1,620
Effective Tax Rate	(9.1)%	11.1%

The Corporation recorded an income tax recovery in 2009 of $2.2 million on pre-tax income of $23.8 million, representing an effective tax rate of (9.1)%, compared to an expense of $1.6 million on a pre-tax income of $14.5 million in 2008 for an effective tax rate of 11.1%. During 2009, the Corporation recognized additional deferred tax assets in Canada totalling $4.4 million as the Corporation has determined that it will be able to benefit from some of its previously unrecorded future tax assets. During 2008, the Corporation recorded a non-cash charge of $3.0 million to establish a valuation allowance against its net future tax assets in Canada where recovery of the carry forwards or assets were not "more likely than not". In 2009, the Corporation continues to maintain a valuation allowance against its net future assets in Canada where recovery of the loss carry forwards or other future tax assets were not "more likely than not".

Cash Flow from Operating Activities

Twelve-months ended December 31 Expressed in thousands of dollars	2009	2008
Increase in accounts receivable	(19,083)	(22,844)
Decrease (increase) in inventories	22,285	(16,628)
(Increase) decrease in prepaid expenses and other	(28,191)	2,176
Increase in accounts payable and accrued charges	11,857	4,475
Net change in non-cash working capital items	(13,132)	(32,821)
Cash provided by operating activities	36,156	23,155

Operating activities for 2009 generated cash flows of $36.2 million compared to $23.2 million in the prior year. Changes in non-cash working capital used cash of $13.1 million as a result of increases in prepaid expenses and other and accounts receivables offset by an increase in accounts payable and accrued charges and decreases in inventory. Prepaid expenses increased during the year as advance payments were made to suppliers to support the electric power generation plant in Ghana. 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 2008. One of the Corporation's current securitization facilities in the amount of $20 million expired on December 31, 2009. During 2009, inventory decreased as operational efficiencies were achieved through a number of process improvements. In 2008, changes in non-cash working capital of $32.8 million were principally a result of an increase in accounts receivables and inventory offset by an increase in accounts payable and accrued charges and a decrease in prepaid expenses and other.

Cash Flow from Investing Activities

Twelve-months ended December 31 Expressed in thousands of dollars	2009	2008
Acquisitions	—	(4,268)
Purchase of capital assets	(21,675)	(18,769)
Proceeds from disposals of capital assets	339	3,540
Increase in other assets	(1,274)	(3,768)
Cash used in investing activities	(22,610)	(23,265)

The Corporation invested $21.7 million in capital assets during the year, to upgrade its machinery and facilities, an increase of $2.9 million from 2008. In 2009 and 2008, proceeds from the sale of capital assets, totalling $0.3 million and $3.5 million, respectively, were used to fund a portion of the investment in capital assets. 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				2009				2008
	March 31	June 30	Sept 30	Dec 31	March 31	June 30	Sept 30	Dec 31
Revenues	179.3	177.3	164.2	165.8	161.1	172.1	173.0	180.2
Net income	7.9	5.4	10.8	1.5	2.0	0.8	2.7	7.4
Net income per common share								
Basic	0.41	0.27	0.57	0.09	0.09	0.02	0.12	0.39
Diluted	0.41	0.12	0.20	0.05	0.09	0.02	0.12	0.39

The US$/C$ exchange rate was very volatile during 2009 as the US dollar relative to the Canadian dollar moved from an exchange rate of 1.2180 at the start of the year to 1.0510 by year's end. Although the rate declined quarter over quarter in 2009, the average rate in 2009 of 1.1415 was greater than the 2008 average rate of 1.0671. During 2009 the British Pound relative to the Canadian dollar moved from an exchange rate of 1.7896 at the start of the year to 1.6918 by year's end. Had exchange rates remained at levels experienced in each quarter of 2008, reported revenues in 2009 would have been lower by approximately $15.9 million in the first quarter, lower by approximately $10.5 million in the second quarter, lower by approximately $1.6 million in the third quarter and higher in the fourth quarter by $17.7 million.

EBITDA

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

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

Twelve-months ended December 31 Expressed in thousands of dollars	2009	2008
Net income	25,985	12,900
Interest	20,754	21,949
Taxes	(2,163)	1,620
Stock based compensation	717	742
Depreciation and amortization	35,093	40,218
EBITDA	80,386	77,429

LIQUIDITY

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

Contractual Obligations As at December 31, 2009 Expressed in thousands of dollars	Total	Less than 1 year	1-3 Years	4-5 Years	After 5 Years
Bank indebtedness	140,590	140,590	—	—	—
Long-term debt	73,833	1,381	69,137	946	2,369
Capital lease obligations	2,204	940	1,264	—	—
Equipment leases	2,599	1,185	1,348	66	—
Facility leases	7,206	1,337	2,890	1,948	1,031
Other long-term liabilities	11,681	1,878	7,050	103	2,650
Convertible debentures	40,000	—	40,000	—	—
Total Contractual Obligations	278,113	147,311	121,689	3,063	6,050

Major cash flow requirements for 2010 include the renewal of the operating credit facility, payments of equipment and facility leases of $2.5 million, and the retraction of the Preference Shares to a maximum of $8.0 million if permitted by the operating credit facility. On March 26, 2010, the operating credit facility was extended for an additional year with the new expiry date of May 21, 2011. On March 26, 2010 the Original Loan was extended to July 1, 2011 and as a result has been classified as a long-term payable as at December 31, 2009.

The Corporation has made contractual commitments to purchase $13.7 million of capital assets. The Corporation also has purchase commitments, largely for materials, in 2010 and 2011, made through the normal course of operations, of $157.8 million. The Corporation plans to finance these capital commitments with operating cash flow and existing credit facility.

OFF BALANCE SHEET ARRANGEMENTS

The Corporation has entered into arrangements in which it sold certain accounts receivable to third parties at a discount. This discount typically represents approximately 1.0% to 3.0% over 60 day BA or LIBOR rates. At December 31, 2009, the amount of receivables sold to third parties that remained outstanding was $22.5 million.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

The Corporation has entered into foreign exchange contracts to hedge future cash flow exposure in US dollars. Under these contracts, the Corporation is obliged to purchase or sell specific amounts of US dollars at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in US dollars. During 2009, the Corporation entered into a foreign exchange collar which sets a floor of $1.2350 Canadian per $1.00 US and a ceiling of $1.3333 Canadian per $1.00 US of which $7.0 million US will expire in 2010.

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

RELATED PARTY TRANSACTIONS

During the year, the Corporation sold receivables to a corporation, which is controlled by a common director, in the amount of $65.4 million [2008 — $405.2 million], for a discount of $0.8 million [2008 — $2.8 million] representing an annualized interest rate of 7.5% [2008 — 7.5%]. As at December 31, 2008 the Corporation recorded a reserve of $4.4 million. This securitization facility expired on December 31, 2009.

On January 31, 2008, the Corporation entered into the Original Loan in the principal amount of $50.0 million due July 1, 2009 and the Bridge Loan due July 31, 2008 with a corporation, which is controlled by the Chairman of the Board of the Corporation. Both loans bear interest at a rate of 10%. In 2009, $1.7 million of interest was paid in relation to the $50.0 million Original Loan and $nil [2008 — $0.6 million] of interest was paid in relation to the Bridge Loan. The Bridge Loan was repaid in June 2008.

On April 30, 2009 the Original Loan in principal amount of $50.0 million was amended and increased to $65.0 million. In 2009, $5.3 million of interest was paid in relation to the $65.0 million Original Loan.

The Chairman of the Board, who is a director, and another director of the Corporation held $18.2 million of the 2008 Debentures that were refinanced on April 30, 2009. The related cash interest paid in the year was $0.8 million [2008 — $1.4 million].

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

The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the Corporation's operating credit facility. An annual fee of 1.35% [2008 — 1.35%] of the guaranteed amount or $2.8 million [2008 — $2.1 million] was paid in consideration for the guarantee.

During the year, the Corporation incurred consulting costs of $0.1 million [2008 — $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 $0.2 million [2008 — $0.1 million] to a law firm in which a director is a partner.

CRITICAL ACCOUNTING ESTIMATES

Inventories

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

Asset Impairment

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

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

Income Taxes

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

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

Foreign Currency Translation

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

CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

On January 1, 2009, the Corporation adopted CICA Handbook 3064, "Goodwill and Intangible Assets". This new section replaces the existing standards for "Goodwill and Other Intangible Assets" (CICA Handbook Section 3062) and "Research and Development Costs" (CICA Handbook Section 3450). The new standard (i) states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria; (ii) provides guidance on the recognition of internally generated intangible assets including research and development costs; and (iii) carries forward the current requirements of Section 3062 for subsequent measurement and disclosure of intangible assets and goodwill. The adoption of this new section did not have a material impact on the Corporation's consolidated financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee ["EIC"] of the AcSB issued EIC Abstract 173, which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. The Corporation adopted this EIC on January 20, 2009 and applied the EIC retrospectively, without restatement of prior years to all financial assets and financial liabilities measured at fair value. The adoption of this new EIC did not have a material impact on the Corporation's consolidated financial statements.

Financial Instruments — Disclosures

In June 2009, the CICA amended section 3862, "Financial Instruments — Disclosures". The amendments include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. 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 amendment to this standard did not have any impact on the classification and measurement of our financial instruments. The new disclosures pursuant to the new Handbook Section are included in note 18 of the 2009 audited consolidated financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

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

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

Section 1582 applies to acquisitions made from January 1, 2011 in which the acquirer obtains control of one or more businesses. The term "business" is more broadly defined than in the existing standard. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be "improbable," will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. A bargain purchase will result in recognition of a gain. Acquisition costs must be expensed.

Under Section 1602, any non-controlling interest will be recognized as a separate component of shareholders' equity. Net income will be calculated without deduction for the non-controlling interest. Rather, net income will be allocated between the controlling and non-controlling interests.

The new standards will become effective in 2011. The Corporation is currently evaluating the impact of the adoption of these new standards on its consolidated financial statements.

Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC-175, Multiple Deliverable Revenue Arrangements ("EIC-175"). EIC-175, which replaces EIC-142, Revenue Arrangements with Multiple Deliverables, addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. These new standards are effective for the Corporation's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Corporation is assessing the impact of the new standards on its consolidated financial statements.

International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be converged with International Financial Reporting Standards ("IFRS") effective January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable to the Corporation for the first quarter of 2011 where current and comparative financial information will be prepared in accordance with IFRS.

IFRS Transition Plan

The Corporation commenced its IFRS conversion efforts during 2008. The transition project consists of four elements: planning and awareness raising; assessment; design; and implementation. Resources have been deployed and project management and governance practices are being implemented to ensure a timely transition to IFRS. The progresses made to date are as follows:

Planning and awareness raising — As part of planning, the Corporation completed a high level assessment of the major differences between Canadian GAAP and IFRS. Differences were identified which assisted in the development of the project plan as well as prioritization of issues that would have significant impact to the Corporation. With the assistance of external consultants, the Corporation has conducted sessions to raise awareness in its efforts to transition to IFRS. Throughout 2009, several training sessions were conducted at the business unit level in order to increase awareness and knowledge of the transition to IFRS. Training sessions will continue to be conducted throughout 2010.

Assessment and design — Detailed evaluation of the differences on recognition, measurement and disclosures between Canadian GAAP and IFRS was initiated in 2009 and continues in 2010. The impact to systems, processes, controls (internal control over financial reporting and disclosure controls), and other business activities have been incorporated into the detailed analysis. The design of solutions for the transition to IFRS is ongoing and the requirements are being developed. No significant changes to systems processes and controls have been identified to date.

Implementation — During the implementation phase leading up to the transition date, new IFRS updates will be monitored and any changes that are relevant to the Corporation will be identified and addressed. Activities with respect to selecting and finalizing IFRS 1 and accounting policy choices, restating comparative information, testing, review and sign off will occur throughout 2010 and continue to the early part of 2011.

Results of the Detailed GAAP Assessment

While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of the transition to IFRS at the changeover date. The International Accounting Standard Board will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Corporation's financial results will only be measured once all the IFRS applicable at the conversion date are known. Preliminary analysis to date of the impacts of transition to IFRS on specific areas is detailed below. The areas outlined below should not be considered as a complete analysis. Any remaining potential accounting differences not discussed below are being analyzed and will be discussed further in 2010.

IFRS 1 — IFRS 1 First-Time Adoption of International Financial Reporting Standards ("IFRS 1") provides entities adopting IFRSs for the first time with a number of mandatory exceptions and optional exemptions, in certain areas, to the general requirement for full retrospective application of IFRSs. The following are the significant optional exemptions available under IFRS 1 that the Corporation expects to apply in preparing the first financial statements under IFRS.

- *Business Combinations* — The Corporation expects to elect to not restate any Business Combinations that have occurred prior to January 1, 2010
- *Employee Benefits* — The Corporation expects to elect to recognize any actuarial gains/losses as at January 1, 2010 in retained earnings
- *Foreign Exchange* — The Corporation expects to elect to reclassify cumulative translation gains or losses in accumulated other comprehensive income to retained earnings

Property, plant and equipment — International Accounting Standards ("IAS") 16 Property, Plant and Equipment ("IAS 16") provides a choice, for each class of property, plant and equipment, in accounting for each class using either the cost model or the revaluation model. The cost model is generally consistent with Canadian GAAP where an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses. Under the revaluation model, an item of property, plant and equipment is carried at its revalued amount, being its fair value at the date of the revaluation less any accumulated depreciation and accumulated impairment losses. In addition, under IAS 16, where part of an item of property, plant and equipment has a cost that is significant in relation to the cost of the item as a whole, it must be depreciated separately from the remainder of the item. The Corporation expects to use the cost model to account for all classes of property, plant and equipment. Review of the impact in depreciating an item of property, plant and equipment separately from the remainder of the item is currently underway.

Borrowing costs — IAS 23 Borrowing Costs ("IAS 23") requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of qualifying assets as part of the cost of that asset. Under Canadian GAAP, the Corporation's accounting policy is to expense these costs as incurred. IFRS 1 provides an election permitting the application of IAS 23 prospectively from the date of transition, January 1, 2010. The Corporation intends to apply this election and consequently, the Corporation does not expect to have an adjustment on its opening IFRS balance sheet.

Provisions — IAS 37 Provisions, Contingent Liabilities and Contingent Asset ("IAS 37") requires a provision to be recognized when: there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. "Probable" under IFRS means more likely than not. Under Canadian GAAP, the criterion for recognition in the financial statements is "likely," which is a higher threshold than "probable". Therefore, it is possible that there may be some contingent liabilities not recognized under Canadian GAAP which would require a provision under IAS 37. The Corporation is in the process of evaluating potential transactions to determine whether there is an impact of this difference on the opening balance sheet.

Impairments — IAS 36 Impairment of Assets ("IAS 36") uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). Under Canadian GAAP, assets other than financial assets, are generally tested using a two-step approach: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. This may potentially result in more write-downs where carrying values of the assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. In addition, the extent of any writedowns may be partially offset by the requirement under IAS 36 to reverse any previous impairment losses where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibits reversal of impairment losses. The Corporation has not yet finalized the impairment testing for the opening balance sheet under IFRS, as such the impact, if any, is unknown at this time.

Government grants — IAS 20 Accounting for Government Grants and Disclosure of Government Assistance ("IAS 20") requires the benefit of a government loan at a below-market rate of interest be treated as a government grant. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined and the proceeds received. Under Canadian GAAP, these forms of government assistance have not been disclosed in the financial statements. However, where the benefits are significant to the operations of the enterprise, it is desirable to disclosure the relevant terms and conditions of the programs. The Corporation is reviewing the government grants and expects some minor impacts.

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, 2009 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, 2009, an evaluation was carried out, under the supervision of President and Chief Executive Officer and 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, 2009.

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 26, 2010, 18,209,001 common shares were outstanding and 2,000,000 Preference Shares were outstanding. Subject to law, the Corporation will be required to retract the Preference Shares in whole or in part to the extent permitted by an instrument of indebtedness of the Corporation.

At December 31, 2009, the Corporation had outstanding approximately $40.0 million of 10.0% convertible secured subordinated debentures, due April 30, 2012. The convertible debentures are convertible, at the option of the holder at any time prior to April 30, 2012, in whole or in multiples of $1,000, into fully paid and non-assessable common shares of the Corporation at the conversion price of $1.00 per common share which is equal to the issuance on conversion of approximately 40,000,000 common shares in total.

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

Management's Report

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

John B. Dekker
Vice President Finance and Corporate Secretary

March 26, 2010

Auditors' Report

To the Shareholders of Magellan Aerospace Corporation

We have audited the consolidated balance sheets of Magellan Aerospace Corporation as at December 31, 2009 and 2008 and the consolidated statements of operations and retained earnings, cash flows and comprehensive income for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Canada, March 26, 2010

Consolidated Balance Sheets

As at December 31
[Expressed in thousands of dollars]

	2009	2008
Assets		
Current		
Cash	$ 22,641	$ 5,362
Accounts receivable [NOTES 18 AND 20[f]]	82,850	67,435
Inventories [NOTES 2 AND 4]	147,248	178,474
Prepaid expenses and other [NOTE 20[h]]	38,458	10,717
Future income tax assets [NOTE 16]	3,958	5,097
Total current assets	295,155	267,085
Capital assets, net [NOTE 5]	254,700	277,207
Technology rights [NOTE 6]	29,158	32,567
Deferred development costs [NOTE 7]	59,510	69,225
Other assets [NOTE 17]	24,909	15,970
Future income tax assets [NOTE 16]	17,186	8,643
Total long-term assets	385,463	403,612
	680,618	670,697
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness [NOTE 8]	140,590	177,766
Accounts payable and accrued charges [NOTE 20[i]]	135,373	125,116
Current portion of long-term debt [NOTE 9]	2,321	52,321
Total current liabilities	278,284	355,203
Long-term debt [NOTE 9]	73,716	11,803
Convertible debentures [NOTE 10]	38,182	20,544
Future income tax liabilities [NOTE 16]	10,281	11,392
Other long-term liabilities [NOTE 11]	9,803	7,947
Total long-term liabilities	131,982	51,686
Shareholders' equity		
Capital stock [NOTES 12 AND 13]	234,389	234,381
Contributed surplus [NOTE 20 [g]]	4,708	3,991
Other paid in capital [NOTE 10]	13,565	11,645
Retained earnings	84,137	59,752
Accumulated other comprehensive loss [NOTE 14]	(66,447)	(45,961)
Total shareholders' equity	270,352	263,808
	680,618	670,697

Commitments and contingencies [NOTE 22]
Subsequent events [NOTE 23]
See accompanying notes

On behalf of the Board:

N. Murray Edwards
Director

William A. Dimma
Director

Consolidated Statements of Operations and Retained Earnings

Years ended December 31
[Expresses in thousands of dollars except per share information]

	2009	2008
Revenues	$ 686,614	$ 686,436
Cost of revenues	604,302	608,977
Gross profit	82,312	77,459
Expenses		
Administrative and general expenses [NOTE 19]	44,489	44,691
Other	(6,753)	(3,701)
Interest [NOTES 8 AND 20[a]]	20,754	21,949
	58,490	62,939
Income before taxes	23,822	14,520
(Recovery of) provision for income taxes [NOTE 16]		
Current	(63)	(194)
Future	(2,100)	1,814
	(2,163)	1,620
Net income for the year	25,985	12,900
Retained earnings, beginning of year	59,752	82,747
Effect of change in accounting policy [NOTE 2]	—	(34,295)
Adjusted retained earnings, beginning of year	59,752	48,452
Dividends on Preference Shares	(1,600)	(1,600)
Net income for the year	25,985	12,900
Retained earnings, end of year	84,137	59,752
Net income per common share [NOTE 12]		
Basic	1.34	0.62
Diluted	0.61	0.62

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31
[Expresses in thousands of dollars]

	2009	2008
Operating Activities		
Net income	$ 25,985	$ 12,900
Add (deduct) items not affecting cash		
Depreciation and amortization	35,093	40,218
Net loss (gain) on sale of capital assets	272	(1,355)
Write-down of assets	—	2,184
Employee future benefits	(5,799)	(1,277)
Deferred revenue	466	313
Stock based compensation [NOTE 13]	717	742
Accretion of convertible debentures	678	437
Future income tax (recovery) expense	(8,124)	1,814
	49,288	55,976
Net change in non-cash working capital items related to operating activities [NOTE 20[c]]	(13,132)	(32,821)
Cash provided by operating activities	36,156	23,155
Investing Activities		
Acquisition of Verdict [NOTE 3]	—	(4,268)
Purchase of capital assets	(21,675)	(18,769)
Proceeds from disposal of capital assets	339	3,540
Increase in other assets	(1,274)	(3,768)
Cash used in investing activities	(22,610)	(23,265)
Financing Activities		
(Decrease) increase in bank indebtedness	(27,454)	19,064
Decrease in loan payable	—	(15,000)
Increase in loan payable	—	15,000
Decrease in long-term debt	(2,824)	(16,841)
Increase in long-term debt	15,000	50,000
Decrease in convertible debentures	(20,950)	(69,985)
Increase in convertible debentures	39,667	20,778
Increase (decrease) in other long-term liabilities	2,211	(392)
Issuance of common shares	8	71
Dividends on preference shares	(1,600)	(1,600)
Cash provided by financing activities	4,058	1,096
Effect of exchange rate changes on cash	(325)	(508)
Net increase in cash during the year	17,279	478
Cash, beginning of the year	5,362	4,884
Cash, end of the year	22,641	5,362

See accompanying notes

Consolidated Statements of Comprehensive Income

Years ended December 31
[Expressed in thousands of dollars]

	2009	2008
Net income for the year	$ 25,985	$ 12,900
Other comprehensive (loss) income:		
Net unrealized (loss) gain on translation of net investment in foreign operations [NOTE 14]	(20,486)	19,518
Comprehensive income	5,499	32,418

See accompanying notes

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

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

Use of estimates

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

Revenue recognition

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

The most significant revenue recognition policies are outlined below:

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

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

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

Inventory

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

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

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

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

Capital assets

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

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

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

Impairment of long-lived assets

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

Technology rights

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

Research and development

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

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

Government investment

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

Convertible debentures

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

Foreign currency translation

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

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

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

Employee benefit plans

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

Stock based compensation plan

Stock options granted after January 1, 2003 are accounted for under the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period with a corresponding credit to contributed surplus. On the exercise of stock options, consideration received and the accumulated contributed surplus amount is credited to capital stock. Stock options which have a cash settlement feature, as noted in note 13 are accounted for as liability instruments and are carried at their intrinsic value, measured as the difference between the current stock price and the option exercise price. The intrinsic value of the liability is marked to market each period.

Income taxes

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

Income per common share

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

Under the "if converted" method:

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

Under the "treasury stock" method:

- the exercise of options is assumed to be at the beginning of the year or at the time of issuance, if later;
- the proceeds from the exercise, plus future period compensation expense on options granted are assumed to be used to purchase common shares at the average price during the year; and

- the incremental number of common shares, which is the difference between the number of shares assumed issued and the number of shares assumed purchased, is included in the denominator of the diluted income per common share computation.

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

Derivative financial instruments
The Corporation manages its foreign currency and interest rate exposures through the use of derivative financial instruments. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes. For the year ended December 31, 2009, the Corporation's derivative contracts were not designated as hedges and as a result are recorded on the consolidated balance sheets at their fair value. Any changes in fair value during the year are reported in foreign exchange in the consolidated statement of operations. Transaction costs incurred to acquire financial instruments are included in the underlying balance.

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

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

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

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

Section 1582 applies to acquisitions made from January 1, 2011 in which the acquirer obtains control of one or more businesses. The term "business" is more broadly defined than in the existing standard. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be "improbable," will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. A bargain purchase will result in recognition of a gain. Acquisition costs must be expensed.

Under Section 1602, any non-controlling interest will be recognized as a separate component of shareholders' equity. Net income will be calculated without deduction for the non-controlling interest. Rather, net income will be allocated between the controlling and non-controlling interests.

The new standards will become effective in 2011. The Corporation is assessing the impact of the new standards on its consolidated financial statements.

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

Also, in October 2009, the AcSB issued the exposure draft "Improvements to IFRSs" to incorporate into Canadian GAAP the amendments to IFRSs that result from an exposure draft issued by the International Accounting Standards Board ("IASB"). The IASB's exposure draft deals with minor amendments and focuses on areas of inconsistency in standards or where clarification of wording is required. It is expected that the amendments will be effective January 1, 2011.

In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of the transition to IFRS at the changeover date. The IASB will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Corporation's financial results will only be measured once all the IFRSs applicable at the conversion date are known.

[c] Multiple Deliverable Revenue Arrangements
In December 2009, the CICA issued EIC-175, Multiple Deliverable Revenue Arrangements ("EIC-175"). EIC-175, which replaces EIC-142, Revenue Arrangements with Multiple Deliverables, addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. These new standards are effective for the Corporation's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Corporation is assessing the impact of the new standards on its consolidated financial statements.

2. CHANGES IN ACCOUNTING POLICIES

On January 1, 2009, the Corporation adopted CICA Handbook 3064, "Goodwill and Intangible Assets." This new section replaces the existing standards for "Goodwill and Other Intangible Assets" (CICA Handbook Section 3062) and "Research and Development Costs" (CICA Handbook Section 3450). The new standard (i) states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria; (ii) provides guidance on the recognition of internally generated intangible assets including research and development costs; and (iii) carries forward the current requirements of Section 3062 for subsequent measurement and disclosure of intangible assets and goodwill. The adoption of this new section did not have a material impact on the Corporation's consolidated financial statements.

On January 20, 2009, the Emerging Issues Committee ["EIC"] of the AcSB issued EIC Abstract 173, which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. The Corporation adopted this EIC on January 20, 2009 and applied the EIC retrospectively, without restatement of prior years to all financial assets and financial liabilities measured at fair value. The adoption of this new EIC did not have a material impact on the Corporation's consolidated financial statements.

In June 2009, the CICA amended section 3862, "Financial Instruments — Disclosures." The amendments to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. 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 amendment to this standard did not have any impact on the classification and measurement of our financial instruments. The new disclosures pursuant to the new Handbook Section are included in Note 18 of the 2009 audited consolidated financial statements.

Effective January 1, 2008, the Corporation was required to adopt Canadian Institute of Chartered Accounts ("CICA"): Handbook Section 3031 "Inventories," which replaces Section 3030 "Inventories." The Corporation adopted this new section retrospectively, without restatement of prior periods. This new section provides revised guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides revised guidance on the cost methodologies that are to be used to assign costs to inventories and expands the disclosure requirements to increase transparency. As a result of these required changes in accounting policies, the Corporation was required to adopt the unit cost method for inventory related to its long-term contracts in replacement of the long-term average cost method. 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. The Corporation previously accounted for the cost of production inventory using the long-term average cost which reflected higher unit costs at the early phase of a program and lower unit costs at the end of the program (the learning curve concept). As at January 1, 2008, the effect of the accounting changes resulted in a decrease in inventories of $121,462, an increase in capital assets of $10,852, an increase in deferred development costs of $67,471, a decrease in future income tax liabilities of $8,844 and a decrease in opening retained earnings in the amount of $34,295.

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

3. BUSINESS ACQUISITION

On February 13, 2008, the Corporation acquired all the outstanding shares of Verdict Aerospace Components Ltd. ("Verdict") for consideration of $4,268, including acquisition costs of $175. Verdict is based in the United Kingdom and is a high precision manufacturer of make-to-print components and assemblies for the global aerospace industry. The acquisition has been accounted for by the purchase method of accounting with the results of operations of Verdict included in the consolidated financial statements from January 1, 2008, the effective date of purchase.

The purchase price has been allocated to the assets acquired and liabilities assumed based on the estimated fair values on the acquisition date. The value attributed to customer contracts is being amortized on a straight-line basis over life of the contracts.

The fair value of the net assets acquired and consideration paid are summarized as follows:

Net assets acquired	
Current assets	$ 2,600
Long-term assets	6,222
Liabilities	(3,245)
Future income tax liabilities	(1,309)
Consideration paid	
Cash	4,268

4. INVENTORIES

	2009	2008
Production costs of contract currently in process	$ 156,460	$ 187,685
Advances and progress billings	(9,212)	(9,211)
	147,248	178,474

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

Cost of sales for the year ended December 31, 2009 was $604,302 [2008 — $608,977] which included $593,396 [2008 — $598,015] of costs associated with inventory. The remaining costs of $10,906 [2008 — $10,962] related principally to freight, commissions and other direct costs of sales.

During the year ended December 31, 2009, the Company recognized a provision of $2,337 [2008 — $1,133] related to slow moving and obsolete inventory.

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

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

5. CAPITAL ASSETS

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

			2008
	Cost	Accumulated depreciation	Net book value
Land	$ 14,871	$ —	$ 14,871
Buildings	101,006	33,847	67,159
Machinery, equipment and tooling	366,891	171,714	195,177
	482,768	205,561	277,207

Included in machinery and equipment are construction in progress expenditures of $738 [2008—$3,389].

The above amounts include $6,580 [2008—$8,032] of capital assets under capital leases and accumulated depreciation of $2,308 [2008 — $2,703] related thereto. Depreciation recorded in the year related to capital assets under capital leases totaled $352 [2008 — $440].

6. TECHNOLOGY RIGHTS

As at December 31, 2009 the Corporation's technology rights amounted to $29,158 [2008 — $32,567] net of accumulative amortization of $9,832 [2008 — $6,673]. 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.

7. DEFERRED DEVELOPMENT COSTS

As at December 31, 2009, the Corporation's deferred development costs amounted to $59,510 [2008 — $69,225] net of accumulative amortization of $23,175 [2008 — $17,143]. The Corporation has certain programs that meet the criteria for deferral and amortization of development costs. Development costs are capitalized for clearly defined, technically feasible technologies which management intends to produce and promote to an identified future market, and for which resources exist or are expected to be available to complete the project. The Corporation records amortization in arriving at the carrying value of deferred development costs once the development activities have been completed and sales of the related product have commenced. During the year ended December 31, 2009, $7,360 [2008 — $14,474] was expensed as amortization of deferred development costs.

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

8. BANK INDEBTEDNESS

The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian limit of $90,000 plus a US limit of US $85,000 ($179,335 at December 31, 2009). Bank indebtedness of $140,590 [2008 — $177,766] is payable on demand and bears interest at the bankers' acceptance or LIBOR rates, plus 3.25% (3.51% at December 31, 2009 [2008 —bankers' acceptance or LIBOR rates, plus 1.0% or 2.35%]). Included in the amount outstanding at December 31, 2009 is US $43,630 [2008 — US $75,480]. At December 31, 2009, the Corporation had drawn $142,824 under the operating credit facility, including issued letters of credit totaling $2,234 such that $36,511 was unused and available. A fixed and floating charge debenture on accounts receivable, inventories and capital assets is pledged as collateral for the operating credit facility. The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the operating credit facility.

Subsequent to the year end the operating credit facility was amended and renewed with an expiry date of May 21, 2011. [Subsequent Events Note—23]

9. LONG-TERM DEBT

	2009	2008
Property mortgage [a]	$ 3,314	$ 3,783
Other non-bank loans [b]	5,941	7,133
Related party loans [c]	64,578	50,000
Obligations under capital leases [d]	2,204	3,208
	76,037	64,124
Less current portion	2,321	52,321
	73,716	11,803

[a] The property mortgage of $3,314 (£1,959) is comprised of financing of certain land in the United Kingdom acquired in 2006. This same land is collateral for this mortgage and the mortgage bears interest at bank rate plus 0.90%, which at December 31, 2009 was 1.4% [2008 — 2.9%]. The fair value of this property mortgage was not significantly different from its recorded amount.

[b] Other non-bank loans include loans of $5,050 [2008 — $6,373] provided by governmental authorities that bear interest of approximately 2.0% [2008 — 2.0% to 3.9%].

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

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

On December 22, 2009, Edco provided a commitment letter that extends the due date of the Original Loan to July 1, 2011 on the same terms and conditions of the Original Loan except that the interest rate will be reduced from 12% to 11% per annum in consideration of the payment of a one time extension fee of 1% of the principal amount of $65,000 to Edco as follows: (a) 0.20% on execution of the commitment letter for renewal and (b) 0.80% on the satisfaction of all conditions and closing of the renewal transaction. The Corporation was also granted the option, exercisable on or before July 1, 2011, to renew the Original Loan for a further one year period on a payment of an additional one time extension fee of 1% of the principal amount of the loan and on the condition the bank credit facility is renewed, for an additional 364 day period beginning May 22, 2011 on terms satisfactory to the Board and on the condition that there is no material change in the business, operations or capital of the Corporation. The Corporation has the right to prepay the Original Loan at any time without penalty.

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

Subsequent to year end the Original Loan was restated and extended to July 1, 2011. Accordingly, the Original Loan has been classified as non-current. [Subsequent Events — Note 23]

[d] Obligations under capital lease bear interest at a rate of 7.9% to 14.3%. Future minimum lease payments under the capital leases in effect at December 31, 2009 are as follows:

2010	$ 1,094
2011	876
2012	476
Total minimum capital lease payments	2,446
Less capital lease payments representing interest	242
Principal amount of capital lease payments	2,204

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

2010	$ 2,321
2011	66,849
2012	1,989
2013	1,563
2014	946
Thereafter	2,369
	76,037

10. CONVERTIBLE DEBENTURES

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

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

At December 31, 2009, $38,182 of the New Convertible Debentures, net of transaction costs, has been attributed to the debt component and $1,920 has been attributed to the equity component of the instrument. The difference between the carrying value and the face value of the New Convertible Debentures will be accredited using the effective interest rate method.

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

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

11. OTHER LONG-TERM LIABILITIES

	2009	2008
Accrued costs related to plant and program closures [a]	$ 766	$ 788
Other [b]	10,915	7,159
	11,681	7,947
Less current portion included in accounts payable and accrued charges	1,878	—
	9,803	7,947

Amounts are due as follows:

2010	$ 1,878
2011	4,721
2012	2,218
2013	111
2014	103
Thereafter	2,650
	11,681

[a] During 2003, the Corporation announced its decision to cease operations at its Fleet Industries plant in Fort Erie, Ontario. Management estimated the potential costs and losses resulting from this decision and recorded total cumulative charges of $42,606. At December 31, 2009, a balance of $766 [2008 — $788] remains as a liability and a provision of $3,118 [2008 — $6,200] for the liability associated with a defined benefit pension plan that is in the process of being wound up has been recorded in accounts payable and accured charges.

[b] Other long-term liabilities include $5,576 [2008 — $4,711] of deferred revenue in relation to a long-term production contract.

12. CAPITAL STOCK

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

Preference Shares

Series A	Number of Shares	Stated Capital
Outstanding at December 31, 2009 and 2008	2,000,000	$ 19,949

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.

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

The acquisition of the New Convertible Debentures on April 30, 2009 resulted in Mr. Edwards holding in excess of 66-2/3% of the common shares of the Corporation on a fully diluted basis, which holdings constituted a change of control as defined in the Preference Shares' terms. Pursuant to the change of control definition in the Corporation's outstanding Preference Shares' terms, the Corporation is required to retract its outstanding Preference Shares at a price of $10.00 per share plus accrued and unpaid dividends, unless such retraction contravenes any instrument of indebtedness of the Corporation or the terms of the OBCA. As at December 31, 2009, the Corporation was not in the position to retract the Preference Shares as it was prohibited from doing so by the terms of its operating credit facility. Accordingly, the Preference Shares continue to be classified as equity instruments. On March 26, 2010, the Corporation's operating credit facility was amended to provide the Corporation with the ability to retract on each of April 30 and October 31, beginning April 30, 2010, any Preference Shares tendered for retraction up to the permitted percentage of Preference Shares. [Subsequent Events — Note 23]

As at December 31, 2009, the Corporation accrued the cumulative $1,600 dividends declared on December 22, 2009.

Common shares

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

	Number of Shares	Stated Capital
Outstanding at December 31, 2007, as previously reported	18,176,943	$ 214,361
Issuance of additional shares as a result of the share consolidation	494	—
Issued to employees	21,320	71
Outstanding at December 31, 2008	18,198,757	214,432
Issued to employees	10,244	8
Outstanding at December 31, 2009	18,209,001	214,440

Under the terms of the Corporation's Employee Share Purchase Plan (the "ESPP"), eligible employees are able to purchase common shares at 100% of the average market price for the period preceding the purchase. The Corporation matches purchased shares on a 50% basis after a vesting period of approximately one year. During the year, the Corporation issued common shares of 10,244 [2008 — 21,320] under the ESPP for $8 [2008 — $71]. The Board of Directors of the Corporation discontinued the ESPP effective January 31, 2009.

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

	2009	2008
Net income	$ 25,985	$ 12,900
Dividends on Preference Shares	(1,600)	(1,600)
Net income attributable to common shareholders	24,385	11,300
		7,947
Weighted average shares outstanding	18,207,853	18,184,588
Net effect of dilutive instruments [NOTES 10 and 13]	26,849,000	—
Diluted weighted average shares outstanding	45,056,853	18,184,588
Net income per common share		
Basic	1.34	0.62
Diluted	0.61	0.62

For the year ended December 31, 2008, the inclusion of the Corporation's stock options, convertible debentures and preference shares in the computation of diluted net income per common share would have an anti-dilutive effect on the net income per common share and are, therefore, excluded from the computation.

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

13. STOCK-BASED COMPENSATION PLAN

The Corporation has an incentive stock option plan, which provides for the granting of options for the benefit of employees and directors. The maximum number of options for common shares that remain to be granted under this plan is 1,035,141. Options are granted at an exercise price equal to the market price of the Corporation's common shares at the time of granting. Options normally have a life of five years with vesting at 20% 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.

On May 13, 2008, the incentive stock option plan was amended and restated effective immediately, to adjust the number of common shares available for grant there under to reflect the five-for-one consolidation of the Corporation's issued and outstanding common shares. The following tables and number of options have been retroactively restated to reflect the change.

A summary of the plan and changes during each of 2009 and 2008 are as follows:

	2009		2008	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	755,210	$ 15.02	873,570	$ 14.99
Forfeited/expired	(117,010)	15.01	(118,360)	14.85
Outstanding, end of year	638,200	15.02	755,210	15.02

The following table summarizes information about options outstanding and exercisable at December 31, 2009:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at December 31, 2009	Weighted average remaining contractual life [in years]	Weighted average exercise price	Number exercisable at December 31, 2009	Weighted average exercise price
$ 13.25	182,050	1.00	$ 13.25	135,510	$ 13.25
15.00 – 16.00	456,150	2.54	15.72	209,010	15.68
	638,200	2.10	15.02	344,520	14.72

Compensation expense recorded during the year was $717 [2008 — $742].

On November 7, 2008, the Corporation amended the Incentive Stock Option Plan by adding a cash option feature to all new and previously granted options outstanding. The cash option feature allows option holders to elect to receive an amount in cash equal to the intrinsic value, being the excess market price of the common share over the exercise price of the option, instead of exercising the option and acquiring the common shares. The result of such an amendment is that the outstanding share options awards largely take on the characteristics of liability instruments rather than equity instruments. All outstanding stock options are now classified as liabilities and are carried at their intrinsic value, measured as the difference between the current stock price and the option exercise price. The intrinsic value of the liability is marked to market each period for new awards to be granted subsequent to the amendment date. The intrinsic value is amortized to expense over the period in which the related services are rendered, which is usually the graded vesting period or, as applicable, over the period to the date an employee is eligible to retire, whichever is shorter. No such awards were granted in 2008 and 2009. 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.

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

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

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	2009	2008
Balance, beginning of year	$ (45,961)	$ (65,479)
Net unrealized (loss) gain on translation of net investment in foreign operations	(20,486)	19,518
Total accumulated other comprehensive loss	(66,447)	(45,961)

15. MANAGEMENT OF CAPITAL

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

As at December 31, 2009, total managed capital was $525,161, comprised of shareholders' equity of $270,352 and interest-bearing debt of $254,809. Included in interest-bearing debt is the debt component of the convertible debentures of $38,182, where a component of the associated interest expense includes a non-cash charge.

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

The Corporation must adhere to covenants in its operating credit facility. As at December 31, 2009, the Corporation was in compliance with these covenants.

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

16. INCOME TAXES

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

	2009	2008
Corporate tax rate for manufacturing companies	28.3%	31.1%
Expected tax expense	$ 6,746	$ 4,519
Non deductible accretion and stock option charges	460	407
Losses not previously benefited	(5,194)	(3,354)
Change in valuation allowances	(4,395)	3,052
Permanent differences	365	185
Changes in income tax rates	(145)	(3,189)
	(2,163)	1,620

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

	2009	2008
Canada		
Future income tax asset — current		
Accounting provisions not currently deductible for tax purposes	$ 2,675	$ 3,180
Future income tax assets — long-term		
Operating loss carryforwards	2,994	10,402
Investment tax credits	26,596	20,341
Accounting provisions not currently deductible for tax purposes	24,322	20,367
	53,912	51,110
Valuation allowance	(12,280)	(16,675)
	41,632	34,435
Future income tax liabilities — long-term		
Tax depreciation in excess of book depreciation	19,479	21,057
Deferred employee future benefits	4,967	4,735
	24,446	25,792
Net future income tax asset—long-term	17,186	8,643
United Kingdom		
Future income tax asset—long-term		
Operating loss carry forwards and investment tax credits	965	—
Future income tax liabilities — long-term		
Tax depreciation in excess of book depreciation	2,067	767
Net future income tax liabilities—long-term	1,102	767

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

	2009	2008
United States		
Future income tax asset — current		
Accounting provisions not currently deductible for tax purposes	$ 1,283	$ 1,917
Future income tax assets — long-term		
Operating loss carry forwards and investment tax credits	14,580	20,895
Accrued employee benefits	232	400
	14,812	21,295
Future income tax liabilities — long-term		
Tax depreciation in excess of book depreciation	23,991	31,920
Net future income tax liabilities—long-term	9,179	10,625

The valuation allowance primarily relates to loss carry forward benefits in Canada where realization is not likely due to a history of losses and the uncertainty of sufficient taxable earnings in the future. In 2009, $4,395 [2008 – a charge of $3,052] of the valuation allowance balance was reversed on the assessment of the Corporation that it is more likely than not that the future income tax benefits will be realized.

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

17. EMPLOYEE FUTURE BENEFITS

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

Cash payments contributed by the Corporation for employee future benefits related to its defined benefit and defined contribution pension plans and payments directly to beneficiaries for its unfunded other benefits plan totaled $12,828 [2008—$12,625].

[a] Defined contribution plans

The Corporation's expenses for defined contribution plans for the year ended December 31, 2009 totaled $4,663 [2008 — $4,340].

[b] Defined benefit plans

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

Pensions 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.

The Corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 for each year. Actuarial valuations for funding purposes are prepared and filed with the appropriate regulatory authorities at least tri-annually. The last actuarial valuation was completed as at December 31, 2007 for two of the plans and as at December 31, 2008 for two other plans. The last actuarial valuation was completed as at July 25, 2005 for one of the plans as this particular plan is in the process of being wound up.

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

Other benefit plan

The Corporation has another benefit plan to provide post-employment coverage for health care benefits including prescribed drugs, hospital and other medical, dental and vision benefits for eligible retired employees, their spouses and eligible dependants. Other benefit plans provide for post-employment life insurance and compensated absences for eligible current employees, including vacation to be taken before retirement, if certain age and service requirements are met.

The following table summarizes the changes in benefit obligation and plan assets of the Corporation's defined benefit plans, in aggregate:

	Pension		Other benefit plan	
	2009	2008	2009	2008
Change in benefit obligation				
Benefit obligation, beginning of year	$ 97,564	$ 103,966	$ 980	$ 762
Additional pension plan included	—	2,437	—	—
Current service cost (employer)	1,635	2,019	—	—
Member contributions during the year	297	304	—	—
Interest cost	6,524	6,307	337	350
Plan amendments	—	276	—	—
Benefits paid	(7,586)	(8,241)	(308)	(312)
Actuarial loss (gain)	13,757	(11,583)	—	—
Foreign exchange (gain) loss	(1,575)	2,079	(137)	180
Benefit obligation, end of year	110,616	97,564	872	980
Change in plan assets				
Market value of plan assets, beginning of year	95,241	103,048	—	—
Additional pension plan included	—	2,663	—	—
Actual return on plan assets	11,611	(11,789)	—	—
Member contributions during the year	297	304	—	—
Employer contributions	8,165	7,973	—	—
Benefits paid	(7,586)	(8,241)	—	—
Foreign exchange gain (loss)	(885)	1,283	—	—
Market value of plan assets, end of year	106,843	95,241	—	—
Reconciliation of funded status				
Funded status—deficit	(3,773)	(2,323)	(872)	(980)
Unamortized past service costs	768	1,053	—	—
Unamortized net actuarial loss	19,446	12,301	—	—
Accrued benefit asset (liability)	16,441	11,031	(872)	(980)

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

Two of the six defined benefit plans were in a surplus status as at December 31, 2009 and four of the six defined benefit plans were in a surplus status as at December 31, 2008.

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

Net benefit plan costs

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

	Pension		Other benefit plans	
	2009	2008	2009	2008
Change in benefit obligation				
Current service cost	$ 1,635	$ 2,019	$ —	$ —
Interest cost	6,524	6,307	357	350
Actual return on plan assets	(11,611)	11,789	—	—
Actuarial loss (gain)	13,757	(11,583)	—	—
Plan amendments	—	276	—	—
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefits	10,305	8,808	357	350
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between expected return and actual return on plan assets for the year	(12,371)	(19,213)	—	—
Differences between actuarial loss recognized for the year and actual actuarial losses on accrued benefit obligation for the year	5,345	14,078	—	—
Difference between amortization of past service costs for the year and actual plan amendments for the year	242	67	—	—
Net benefit cost recognized	3,521	3,740	357	350

Significant assumptions and sensitivity analysis

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

	Pension		Other benefit plans	
	2009	2008	2009	2008
Accrued Benefit Obligation at December 31				
Discount rate	5.75%	7.0%	7.0%	7.0%
Expected long-term rate of return on plan assets	6.5%	6.5%	—	—
Rate of compensation increase	2.9%	3.0%	—	—
Benefit costs for the years ended December 31				
Discount rate	5.75%	7.0%	7.0%	7.0%
Expected long-term rate of return on plan assets	6.5%	6.5%	—	—
Rate of compensation increase	2.9%	3.0%	—	—

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 2009. 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, 2009 was nominal.

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

Plan assets

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

	Percentage of plan assets	
	2009	2008
Equities	43.2%	44.3%
Fixed income	47.2%	45.4%
Cash and short-term investments	9.6%	10.3%
Total	100.0%	100.0%

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

	2009	2008
Defined benefit plans	$ 37	$ 14

18. FINANCIAL INSTRUMENTS

The Corporation's policy is not to utilize derivative financials instruments for trading or speculative purposes. The Corporation may utilize derivative instruments in the management of its foreign currency and interest rate exposures.

[a] Categories of financial assets and liabilities

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

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

	2009	2008
Held for trading[1]	$ 22,641	$ 5,418
Loans and receivables[2]	83,282	68,652
Financial liabilities[3]	390,182	385,697
Derivatives not accounted for as hedges[4]	1,286	1,853

[1] Includes cash and investments, which are classified as other assets
[2] Includes accounts receivables
[3] Includes bank indebtedness, accounts payable and accrued charges, long-term debt, and the debt component of the convertible debentures
[4] Included in other assets in 2009 and in accounts payable and accrued charges in 2008

[b] Fair values

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

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

Cash, accounts receivable, bank indebtedness and accounts payable and accrued charges
Due to the short period to maturity of these instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of their fair values.

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

During 2009, the Corporation entered into a foreign exchange collar which sets a floor of $1.2350 Canadian per $1.00 US and a ceiling of $1.3333 Canadian per $1.00 US of which $7,000 US are outstanding at year end and will expire in 2010.

The fair values of the Corporation's forward foreign exchange contracts are based on the current market values of similar contracts with the same remaining duration as if the contracts had been entered into on December 31, 2009.

The mark-to-market on these financial instruments as at December 31, 2009 was an unrealized gain of $1,286 [2008 — unrealized loss of $1,853] which has been recorded in administrative and general expenses in the year.

Long-term debt
The fair value of the Corporation's long-term debt, which includes the current portion, calculated by discounting the expected future cash flows based on current rates for debt with similar terms and maturities, is $74,622 at December 31, 2009.

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

As at December 31, 2009, the carrying amount of the financial assets (consisting of cash and accounts receivable) that the Corporation has pledged as collateral for its long-term debt facilities was $76,037.

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

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

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

	Quoted Prices in Active Markets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total
Financial Assets				
Forward foreign exchange contracts	$ —	$ 1,286	$ —	$ 1,286
Total	—	1,286	—	1,286

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

[d] Risks arising from financial instruments and risk management

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

Credit Risk

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

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

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

The following table sets forth details of the age of the trade accounts receivable as at December 31, 2009:

Total trade accounts receivable	$ 80,123
Less: Allowance for doubtful accounts	(1,782)
Total trade accounts receivable, net	78,341
Of which:	
Not overdue	74,412
Past due for more than one day but not more than three months	4,803
Past due for more than three months but not more than six months	266
Past due for more than six months but not more than one year	278
Past due for more than one year	364
Less: Allowance for doubtful accounts	(1,782)
Total trade accounts receivable, net	78,341

Liquidity risk

The Corporation's objective in managing liquidity risk is to ensure that there are sufficient committed loan facilities in order to meet its liquidity requirements at any point in time. The Corporation has in place a planning and budgeting process to help determine the funds required to support the Corporation's normal operating requirements on an ongoing basis, taking into account its anticipated cash flows from operations and its operating credit facility capacity. The primary sources of liquidity are the operating credit facility and the indebtedness provided by a corporation controlled by the Chairman of the Board of the Corporation.

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

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

	Due less than 1 year	Due between 1 and 3 years	Due between 4 and 5 years	Due after 5 years	Total
Bank indebtedness	$ 140,590	$ —	$ —	$ —	$ 140,590
Long-term debt	8,919	72,333	986	2,429	84,667
Capital lease obligations	1,095	1,351	—	—	2,446
Equipment leases	1,185	1,348	66	—	2,599
Facility leases	1,337	2,890	1,948	1,031	7,206
Other long-term liabilities	1,878	7,050	103	2,650	11,681
Convertible debentures	4,000	46,000	—	—	50,000
Total	159,004	130,972	3,103	6,110	299,189

As at December 31, 2009, the Corporation had undrawn lines of credit available to it of $36,511. The Corporation's operating credit facility is due within a one-year period. On March 26, 2010, the Corporation extended its operating credit facility [Note 23 — Subsequent Events].

On March 26, 2010, Edco extended the due date of the Original Loan to July 1, 2011. In addition, the Corporation has an option, exercisable on or before July 1, 2011, to renew the loan for a further one year period on the condition the operating credit facility is renewed, for an additional 364 day period beginning May 22, 2011. [Long-Term Debt — Note 9 and Subsequent Events — Note 23].

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

The most significant transaction exposures arise in the Canadian operations where significant portions of the revenues are transacted in 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, 2009, fluctuations of +/- 1% would, everything else being equal, have an effect on net income and on other comprehensive income for year ended December 31, 2009 of approximately +/- $80 and $1,300 respectively.

Interest rate risk
The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. At December 31, 2009, $148,253 of the Corporation's total debt portfolio is subject to movements in floating interest rates. In addition, a portion of the Corporation's accounts receivable securitization programs are exposed to interest rate fluctuations. The objective of the Corporation's interest rate management activities is to minimize the volatility of the Corporation's earnings. The Corporation monitors its exposure to interest rates and has not entered into any derivative contracts to manage this risk. A fluctuation in interest rates of 100 basis points (1 percent) would have impacted the amount of interest charged to net earnings during the year by approximately +/- $1,400.

19. RELATED PARTY TRANSACTIONS

During the year, the Corporation sold receivables to a corporation, which is controlled by a common director, in the amount of $65,448 [2008 — $405,178], for a discount of $832 [2008 — $2,803] representing an annualized interest rate of 7.5% [2008 — 7.5%]. As at December 31, 2008 the Corporation recorded a reserve of $4,429. This securitization facility expired on December 31, 2009.

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

On January 31, 2008, the Corporation entered into the Original Loan in principal amount of $50,000 due July 1, 2009 and the Bridge Loan due July 31, 2008 with a corporation, which is controlled by the Chairman of the Board of the Corporation. Both loans bear interest at a rate of 10%. In 2009, $1,665 of interest was paid in relation to the $50,000 Original Loan and $nil [2008 — $594] of interest was paid in relation to the Bridge Loan. The Bridge Loan was repaid in June 2008.

On April 30, 2009 the Original Loan in principal amount of $50,000 was amended and increased to $65,000 [Note 9]. In 2009, $5,280 of interest was paid in relation to the $65,000 Original Loan.

The Chairman of the Board, who is a director, and another director of the Corporation held $18,150 of the $20,950 2008 Debentures that were refinanced on April 30, 2009. The related cash interest paid in the year was $832 [2008 — $1,432].

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

The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the Corporation's operating credit facility. An annual fee of 1.35% [2008 — 1.35%] of the guaranteed amount or $2,801 [2008 — $2,055] was paid in consideration for the guarantee.

During the year, the Corporation incurred consulting costs of $100 [2008 — $100] payable to a corporation controlled by the Chairman of the Board of the Corporation. As well, the Corporation paid legal fees of $215 [2008 — $80] to a law firm in which a director is a partner.

20. SUPPLEMENTARY INFORMATION

[a] Interest expense on long-term debt in 2009 was $11,622 [2008 — $8,401]. Interest on capital leases in 2009 was $237 [2008 — $324].

[b] During 2009, the Corporation received $2,183 [2008 — $2,181] of government assistance, which has been credited to the related assets. The Corporation is eligible for an additional $40,991 for the period from January 1, 2010 to December 31, 2014 based on approved expenditures. The assistance is repayable as royalties ranging from 0.1% to 4.0% of certain future revenue.

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

	2009	2008
Accounts receivable	$ (19,083)	$ (22,844)
Inventories	22,285	(16,628)
Prepaid expenses and other	(28,191)	2,176
Accounts payable and accrued charges	11,857	4,475
	(13,132)	(32,821)

[d] Interest paid during 2009 amounted to $19,698 [2008 — $22,638] and income taxes paid during 2009 amounted to $678 [2008 — $30].

[e] During the year, the Corporation realized a foreign exchange gain on the translation of foreign currency denominated working capital balances and debt of $6,383 [2008 — $6,904].

[f] During 2009, the Corporation sold receivables to various financial institutions in the amount of $117,105 [2008 — $150,434], for a discount of $672 [2008 — $1,359] representing an annualized interest rate of 2.83% [2008 — 5.19%].

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

[h] Prepaid expenses and other include advance payments to suppliers and subcontractors in the amount of $31,321 [2008 — $2,045].

[i] Accounts payable and accrued charges include advance payments received from customers in the amount of $50,197 [2008—$6,907].

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

21. SEGMENTED INFORMATION

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

Domestic and foreign operations consist of the following:

				2009
	Canada	United States	United Kingdom	Total
Revenues				
Domestic	$ 113,586	$ 169,720	$ 130,894	$ 414,200
Export	224,179	30,805	17,430	272,414
Total revenues	337,765	200,525	148,324	686,614

				2008
	Canada	United States	United Kingdom	Total
Revenues				
Domestic	$ 115,281	$ 189,060	$ 122,302	$ 426,643
Export	188,842	56,395	14,556	259,793
Total revenues	304,123	245,455	136,858	686,436

				Capital assets
	Canada	United States	United Kingdom	Total
2009	$ 115,116	$ 110,054	$ 29,530	$ 254,700
2008	118,917	135,691	22,599	277,207

Revenue is attributed to countries based on the location of the customers and the capital assets are based on the country in which they are located.

	2009	2008
Major Customer		
Canadian operations		
Number of customers	2	3
Percentage of total Canadian revenue	25%	36%
United States operations		
Number of customers	1	2
Percentage of total United States revenue	35%	50%
United Kingdom operations		
Number of customers	2	1
Percentage of total United Kingdom revenue	80%	75%

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

22. COMMITMENTS AND CONTINGENCIES

[a] Operating lease commitments

The Corporation has lease commitments related to properties, equipment and other items. At December 31, 2009, future minimum annual lease payments are as follows:

2010	$ 2,522
2011	1,866
2012	1,290
2013	1,082
2014	1,035
Thereafter	2,010
	9,805

[b] Contingencies

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

23. SUBSEQUENT EVENTS

On March 26, 2010, the Corporation amended its operating credit facility with its existing lenders. Under the terms of the amended agreement, the maximum amount ava ilable under the operating credit facility was reallocated to a Canadian dollar limit of $105,000 plus a U.S. dollar limit of $70,000, with a maturity date of May 21, 2011. The facility is extendable for unlimited one-year renewal periods by the agreement of the Corporation and the lenders and continues to be guaranteed by the Chairman of the Board of the Corporation. The terms of the amended operating credit facility permit the Corporation to (i) repay the Original Loan in whole or in part and (ii) retract up to 20% ($4,000) of the Preference Shares on each of April 30 and October 31 (or the next business day if that day is not a business day) of each year starting with April 30, 2010, together with accrued and unpaid dividends on the shares to be retracted provided there is no current default or event of default under the operating credit facility and after the repayment of the Original Loan and the payment of the retraction amount the Corporation has at least $25,000 in availability under the operating credit facility. Any permitted retraction amount not used on any prior date can be carried forward to future retraction dates. As a result, subject to such limitation under the operating credit facility and to applicable laws, the Corporation will retract on each of April 30 and October 31, beginning April 30, 2010, any Preference Shares tendered for retraction up to the permitted percentage of Preference Shares. The Preference Shares tendered for retraction will be classified as a current liability.

In addition, on March 26, 2010, the extension and restatement of the Original Loan from Edco to the Corporation was completed. 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 payments of an aggregate fee to Edco equal to 1% of the principal amount.

24. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2009 consolidated financial statements.

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

William A. Matthews
Vice President, Marketing

Jo-Ann C. Ball
Vice President, Human Resources

Larry A. Winegarden
Vice President, Corporate Strategy

Konrad B. Hahnelt
Vice President,
Strategic Global Sourcing

Board Of Directors

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

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

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

Hon. William G. Davis P.C., C.C., Q.C. (3)
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,
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) *Health, Environmental and Safety Committee*
Chairman:
Donald C. Lowe

Operating Facilities Directory and Shareholder Information

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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 Friday, May 14th, 2010 at 2:00 p.m. at The Living Arts Centre, 4141 Living Arts Drive, Mississauga, Ontario L5B 4B8

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