MAGELLAN AEROSPACE
ANNUAL REPORT
2012

MAGELLAN
AEROSPACE

The progress and accomplishments achieved in 2012 and reflected in Magellan Aerospace Corporation's ("Magellan" or the "Corporation") 2012 results could not have been realized without the support of our shareholders, stakeholders, employees and customers. The results largely reflect Magellan's commitment to improving operational efficiencies, generating revenue from its areas of core expertise, and developing integrated solutions for its customers. Moving forward into 2013 and beyond, the Corporation remains committed to maintaining shareholder confidence by continuing to manage our enterprises in an efficient, responsible and profitable manner.

Since the mid 1990's Magellan has been acquiring capabilities in the aerospace and power generation sectors. This evolution has not developed without a focused effort on overcoming numerous industry and economic challenges. As previously reported in our corporate communications we believe these results are primarily attributable to our absolute commitment to standardizing our best practices by aggressively designing, implementing and embracing the Magellan Operating System™ ("MOS™").

Moving forward into 2013 and beyond, the Corporation remains committed to maintaining shareholder confidence by continuing to manage our enterprises in an efficient, responsible and profitable manner.

Magellan has remained disciplined in the development and adoption of MOS™ throughout the organization and has seen measurable improvements in profitability from improved inventory management, customer delivery management, and other key operational processes. In 2012, the Corporation implemented the next stage of MOS™, encompassing the support functions; of finance, business development, contracts, quality and engineering. By adopting the MOS™ principles as the methodology for structured change, Magellan expects to continue to improve its financial performance in support of customers' requirements.

The Industry

The Corporation expects that its position on new commercial aerospace programs such as the A350 and B787 will result in continuing sales growth in this sector of our business. As these programs mature and with global demand expected to continue at its current levels our present mix of commercial 70% and defence 30% has the Corporation well positioned to manage and absorb anticipated reductions due to sequestration in the United States and a general downturn in global defence spending. The Corporation remains committed and invested in the Joint Strike Fighter program and continues to realize and experience year over year growth in revenue on this project.

Integrated Customer Solutions

Going forward, Magellan will target to continue to generate revenue growth organically through operating efficiencies, and by maximizing business opportunities with established customers. Where there is a sound business case to improve the alignment with the needs of a customer, Magellan will invest in capital projects and acquisition opportunities that complement its businesses. An example is our acquisition of Magellan Aerospace (Greyabbey) Limited, Magellan Aerospace (Blackpool) Limited, and Magellan Aerospace Polska Sp z.o.o (all formerly John Huddleston Engineering Limited ("JHE") holdings) in the third quarter of 2012 which strengthened and enhanced Magellan's core manufacturing capabilities and further expanded its UK operations, primarily in the commercial aerostructures market.

Corporate Identity and Positioning

In 2012 Magellan undertook a comprehensive rebranding strategy that better reflected the integrated strengths of Magellan's global operations and the future vision of the Corporation.

Magellan's alignment with the strategic direction of its customers, integrated with the ability to provide global supply chain solutions from core Centres of Excellence, describes where the Corporation is going. "Magellan has an integrated Vision of Aerospace."

With a refined and clear positioning statement, Magellan developed a new visual identity, and concurrently began rolling this out both internally and externally.

Commencing with a decision in the third quarter of 2012 to fully support the Magellan brand, it was determined that all of the North American business units would be renamed, incorporating “Magellan” in the new name. Notwithstanding the branding acceptance that had been achieved to date, Magellan’s customers indicated that adopting a common identity throughout the organization would be viewed favourably. Magellan’s operations outside of North America in the United Kingdom, India, and Poland were already named consistent with the Magellan Aerospace naming practice, and therefore remained unchanged.

The re-naming of Magellan’s North American divisions and subsidiaries marked an important milestone in establishing the Corporation as an integrator in the aerospace industry, with the business practices and expertise to deliver products and services in today’s global aerospace market. Further, it has defined the development and alliance of the global business units and the position that Magellan wants to fill in the international aerospace market.

Throughout the Magellan organization, the MOS™ principles of standardization have been universally adopted to optimize efficiencies in support of future profitable growth and development. The rebranding has facilitated the external alignment to these internal principles.

A common identity and consistency of practices will improve Magellan’s ability to provide fully integrated products and services to the customer base, while insuring our contracting practices and decisions are in the best interests of our stakeholders.

Magellan looks forward to the coming year with enthusiasm and a readiness to face the challenges of this dynamic and global industry. Let me extend a sincere thank you to the entire Magellan team, at every location around the world, for their contributions to the success of the Corporation, and for their willingness to support our customers at every level in the organization.

James S. Butyniec
President and Chief Executive Officer

March 22, 2013

Management's Discussion and Analysis

December 31, 2012

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Magellan Aerospace Corporation ("Magellan" or the "Corporation") has been prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2012 (available on SEDAR at www.sedar.com). This MD&A provides a review of the significant developments that have impacted the Corporation's performance during the year ended December 31, 2012 relative to the year ended December 31, 2011. The information contained in this report is as at March 22, 2013. All financial references are in Canadian dollars unless otherwise noted.

The MD&A contains forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance. All statements other than statements of historical facts may be forward-looking statements. In particular and without limitation there are forward looking statements under the heading "Company Overview," "Outlook," "Consolidated Revenues," "2012 Updates," "Liquidity and Capital Resources" and "Future Changes in Accounting Policies". In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "expects," "projects," "plans," "anticipates," and similar expressions. The projections, estimates and beliefs contained in such forward-looking statements are based on management's assumptions relating to the production performance of Magellan's assets and competition throughout the aerospace industry in 2012 and continuation of the current regulatory and tax regimes in the jurisdictions in which the Corporation operates, and necessarily involve known and unknown risks and uncertainties, including the business risks discussed in this MD&A, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Except as required by law, the Corporation does not undertake to update any forward-looking information in this document whether as to new information, future events or otherwise.

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

1. OVERVIEW

A summary of Magellan's business and significant 2012 events

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

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

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

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

	2012	2011
Aerospace	**94%**	88%
Power Generation Project	**6%**	12%
	100%	100%

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

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

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

The Power Generation Project segment is a specialty product complementary to the Corporation's principal business. The Corporation's sole product in the Power Generation Project segment is an electric power generation project in the Republic of Ghana that is expected to be completed in 2013. While a number of power generation project opportunities are being considered, at this time the Corporation does not have any other committed projects.

The Corporation serves both the commercial and defence markets. In 2012, for the Aerospace segment, 70% of revenues were derived from commercial markets (2011 – 67.0%, 2010 – 64.4%) while 30% of revenues related to defence markets (2011 – 33.0%, 2010 – 35.6%).

2012 Updates

- On May 10, 2012 Magellan announced that it has been awarded a contract with The Boeing Company for the continuation of the production of complex, hard metal structural assemblies for the Next-Generation 737, 747– 8, 767, 777, and the production of such assemblies for the new 787 Dreamliner airplanes. These integrated assemblies are being manufactured and delivered from Magellan's New York, NY and Kitchener, Ontario operating facilities beginning in 2013. This long term contract will continue Magellan's revenues from work for Boeing beginning in the first quarter 2013 and into the next decade and provides a fundamental pillar of support to Magellan's core commercial platform.

- An agreement between Magellan Aerospace (UK) Limited and Airbus was announced on July 10, 2012 for a contract extension to deliver aluminum and titanium structural wing components from Magellan UK operating facilities located in Wrexham and Bournemouth. This contract is comprised of components for use on the A320, A330 and A380 aircraft programs and is projected to generate revenues in excess of £370 million through to December 2019. The scope of work of this contract complements the new A350 work packages that Magellan had previously been awarded and is currently developing, thereby, securing Magellan as a supplier on every Airbus commercial program. To maintain Magellan's competitive position and support this long-term commitment to Airbus, Magellan expects to invest up to £15 million in capital equipment over the term of contract extension.

- Magellan completed the acquisition of John Huddleston Engineering Limited ("JHE") on August 31, 2012. JHE is a leading European supplier of precision machined aerospace components with facilities in Great Britain, Northern Ireland and Poland. With the acquisition of JHE, Magellan is strengthening and enhancing its core manufacturing capabilities and further expanding its European operations. Over the last five years, JHE has made significant investments in the latest high speed 5-axis machining equipment. In addition, JHE has been a supplier to Magellan of precision machined structural components. JHE's revenues for the financial year ending March 31, 2012 were approximately $25 million, which includes approximately $3.6 million revenue from deliveries to Magellan. The acquisition was funded out of Magellan's working capital. JHE operations will be integrated and managed through Magellan's UK operations.

- On December 13, 2012 Magellan announced it has completed the first F-35A Lightening II horizontal tail assembly at its Winnipeg manufacturing facility. This achievement is a product of, and reflects investments made by the Corporation over a five year period, to develop state of the art facilities and processes necessary to perform the work. Magellan is under contract with BAE Systems to produce horizontal tail assemblies for the Conventional Take Off and Landing variant of F-35 and is expected to produce more than 1,000 sets of the components for the program over a 20-year period.

Labour Matters

Labour agreements at two of the Corporation's facilities were successfully negotiated during 2012. In addition, labour agreements for one of the Corporation's facilities were successfully negotiated after a six week labour disruption. Three labour agreements at three of the Corporation's facilities expire in 2013. The Corporation will begin negotiations on these three labour agreements in the second quarter of 2013.

Financing Matters

On December 21, 2012, the Corporation amended its operating credit agreement with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was decreased to a Canadian dollar limit of $115.0 million (down from $125.0 million) plus a US dollar limit of $35.0 million (down from US

$50.0 million), with a maturity date of December 21, 2014. The credit agreement also includes a $50 million uncommitted accordion provision which will provide Magellan with the option to increase the size of the operating credit facility to $200 million. The facility is extendible for unlimited one year renewal periods, subject to mutual consent of the syndicate of lenders and the Corporation. The operating credit facility continues to be fully guaranteed until December 21, 2014 by Mr. Edwards in consideration of the continued payment by the Corporation of an annual fee, payable monthly, equal to 0.50% (down from 0.63%) of the loan amount.

On December 21, 2012, the Corporation also extended the 7.5% loan payable (“Original Loan”) to Edco Capital Corporation (“Edco”), a corporation controlled by the Chairman of the Board of the Corporation to January 1, 2015 in consideration of the payment of a fee to Edco equal to 0.75% of the principal amount outstanding at the time of extension. The Corporation has the right to repay the Original Loan at any time without penalty.

The terms of the amended operating credit facility continue to permit the Corporation to repay, in whole or in part, the Original Loan from Edco provided there is no current default or event of default under the operating credit facility and after the repayment of the Original Loan the Corporation has at least $25.0 million in availability under the operating credit facility.

As at December 31, 2011, the Corporation had retracted all outstanding 8% Cumulative Redeemable First Preference Shares Series A (“Preference Shares Series A”) and reduced the outstanding principal amount of the Original Loan to $33.5 million. During 2012, the Corporation repaid an additional $3.5 million resulting in an outstanding principal amount on the Original Loan of $30.0 million.

On December 31, 2011, the Chairman of the Board exercised his conversion rights under the debenture agreement and $38.0 million principal amount of the 10% convertible secured subordinated debentures (“Convertible Debentures”) were converted into 38,000,000 common shares of the Corporation. On April 30, 2012, an additional $2 million of the Convertible Debentures were converted into 2,000,000 Common Shares of the Corporation.

2. OUTLOOK

The outlook for Magellan’s business in 2013

Over the next number of years the global commercial aerospace market is expected to reach record levels of production based on the need to replace older aircraft with new more fuel efficient models and on passenger travel growth in Asia and the Middle East. In contrast, the global defence market is in decline as the pressure to realize budget cuts is at the forefront of most government agendas.

The global defence market is expected to see a decline due to decreased spending in the US and European markets. With the US representing 50% of global defence procurement any growth in other countries is unable to effectively offset the potential reductions. Uncertainty in the US defence market is perpetuated by the unknowns of sequestration. In the absence of absolute directives, the US Department of Defense recently issued a memo suggesting that budgets focus primarily on readiness and urgent operational needs. It also suggested the cutting of future units, freezing civilian hiring and canceling certain maintenance activities. All procurement programs are expected to see reduced buys in the magnitude of 10 to 15%. European markets are similarly facing the challenge of reallocating expenditures as a consequence of the current financial and budgetary crisis. As the Western defence industry reacts to the shrinking market new competitive pressures will emerge as the focus shifts towards South American, Middle East and Asian markets.

In contrast to defence, the global commercial aerospace market is in a strong up cycle. Backlogs are expected to continue growing, as airlines update their fleets with new fuel-efficient aircraft in order to stay competitive. Boeing and Airbus delivered 601 and 588 aircraft respectively in 2012, as compared with 477 and 534 aircraft delivered in 2011. Production rates for 2013 are forecasted to increase again to 665 and 641 respectively. The 737 program is scheduled to

increase to 38 per month in the second quarter of 2013 and the A320 is running at 42 per month. The B787 program will no doubt experience some delay due to the recent battery issues, however, firm orders of just under 800 aircraft should see Boeing ramp from 5 per month to 7 per month in 2013 and then to 10 per month in 2014. Airbus has the A330 rate planned to ramp up from 9 per month to 11 per month by the fourth quarter of 2014 and the A380 to increase from 3 per month to 3.5 per month.

Prospects exist for regional aircraft market growth with the greatest opportunity to come from Asia/Pacific, Latin America and the Middle East regions. In the near term, two regional segments are expected to be particularly dynamic, the first being the 70 seat turboprop segment and the second the 90 to 120 seat jet market. The first segment has continued to grow due to persistently high fuel prices and the need for larger aircraft to accommodate increasing passenger traffic. Although the Bombardier Q400 is currently suffering a lower order backlog of less than one year, ATR is increasing 72 Series annual production to 80 aircraft in 2013 to satisfy an almost three year backlog. This market is better positioned to grow considering new scope clause agreements between regional airlines and pilots unions. Regional airlines will be replacing their older 35 to 50 seat, in-service fleet with larger turboprop or regional jet aircraft.

The 90 to 120 seat regional jet segment is somewhat limited by pilot scope clause agreements, however some predict that the market is poised for growth as Asia/Pacific regions could overtake Europe as the second largest market for regional aircraft. With the 50 seat segment disappearing, this will force airlines to replace this older in-service fleet (52% of the total) with larger turboprops and regional jets. As well, an American/US Air merger is expected to result in additional new orders as the airline adds seats to its regional fleet. It is expected that new fuel-efficient platforms entering this segment such as the Bombardier C-Series, the Mitsubishi MRJ, the Irkuit MS-21 will increase market competition.

Forecast International describes the current business jet market as "sluggish" and "struggling to recover from the wake of the global and financial collapse." The industry is frustrated that recovery has not yet happened despite that all key indicators continue to point in the right direction. Current forecasts suggest that the market is expected to pick up somewhat in the second half of 2013 as equity markets stabilize and corporate profits continue to grow. A positive sign in the market is that Bombardier reported net orders of 343 business jets in 2012 versus 191 in 2011. The medium to large cabin jets continue to be more resilient than light jets during this cycle as buyers of the latter are much more sensitive to the economic environment. China is in the process of liberalizing its air space which could lead the growth in business jet aircraft due to the increasing number of wealthy individuals in that country. The Middle East is expected to follow the same pattern. Overall, recovery in this market is expected to be gradual in its year-to-year growth.

Finally, the global helicopter market has experienced some contraction because its largest segment, that of defence at 72% of the total, is being trimmed. The combination of the Iraq/Afghanistan withdrawal and US sequestration budget cuts will cause further contraction before recovery can be expected. Prior to this reversal, the industry was experiencing good growth and was anticipating a strong five year period to follow. Where North America dominated the industry to date, rise in defence spending and economic growth amongst BRIC (Brazil, Russia, India & China) nations is expected to drive future industry growth.

3. SELECTED ANNUAL INFORMATION

A summary of selected annual financial information for 2012, 2011 and 2010

Expressed in millions of dollars except per share information[1]	2012	2011	2010
Revenues	**704.6**	691.4	731.6
Net income for the year	**58.3**	37.4	34.3
Net income per common share – Diluted	**1.00**	0.73	0.66
Total assets	**755.8**	661.7	638.5
Total long-term liabilities	**267.2**	260.5	98.4

[1]All amounts presented have been prepared in accordance with IFRS

Revenues for the year ended December 31, 2012 increased from 2011 levels and decreased over 2010. The increase in revenues from 2011 is attributable to increased volume in the global commercial aerospace market. Net income increased in 2012 from 2011 due to an after tax gain on bargain purchase of $7.4 million recognized on the purchase of JHE as the consideration paid was lower than the fair value of the identifiable tangible assets acquired at the time of purchase and the recognition of previously unrecognized investment tax credits (see "Results of Operations – Gross Profit") and deferred tax assets (see "Results of Operations – Income Taxes"). The Corporation has not paid dividends on its common shares in the past four years. During 2011, the Corporation redeemed all of the outstanding Preference Shares Series A. The Corporation declared dividends thereon at an annual rate of $0.80 per share during each of 2011 and 2010.

4. RESULTS OF OPERATIONS

A discussion of Magellan's operating results for 2012 and 2011

Consolidated Revenues

The Corporation's revenues by segment were as follows:

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011	Change
Aerospace	**659,301**	609,942	8.1%
Power Generation Project	**45,278**	81,468	(44.4)%
Total revenues	**704,579**	691,410	1.9%

Consolidated revenues for the year ended December 31, 2012 increased 1.9% to $704.6 million from $691.4 million last year, due mainly to increased revenues earned in the Corporation's Aerospace segment offset, in part, by reduced revenues in the Corporation's Power Generation Project segment. Revenues in the Aerospace segment were primarily impacted by increased volumes experienced in the global commercial aerospace market.

Aerospace Segment

Revenues for the Aerospace segment were as follows:

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011	Change
Canada	**292,754**	284,385	2.9%
United States	**199,917**	187,658	6.5%
Europe	**166,630**	137,899	20.8%
Total revenues	**659,301**	609,942	8.1%

Aerospace revenues for the year ended December 31, 2012 were $659.3 million, an increase of $49.4 million or 8.1% over the previous year. Revenues in Canada in 2012 increased 2.9% in comparison to revenues earned in 2011 resulting from higher volumes experienced in the year for proprietary products as well as increased demand from aircraft manufacturers as their production rates continued to increase over 2011 levels. The strengthening of the US dollar against the Canadian dollar on average also contributed to the increased sales. Revenues in the United States were also impacted

positively by the movement of the Canadian dollar in comparison to the US dollar. In native currency, revenues in the United States were higher in 2012 when compared to 2011 as the Corporation's volumes continued to increase on several single aisle aircraft programs as well as on certain business jet programs. Revenues in Europe increased in 2012 in comparison to 2011 revenues mainly as a result of higher customer demand in 2012 on both single aisle and wide body aircraft when compared to 2011. If average exchange rates for both the US dollar and British Pound experienced in 2011 remained constant in 2012, consolidated revenues for 2012 would have been approximately $655.7 million or approximately $3.6 million lower than actually realized in 2012.

Power Generation Project Segment

Revenues for the Power Generation Project segment were as follows:

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011	Change
Power Generation Project	**45,278**	81,468	(44.4)%
Total revenues	**45,278**	81,468	

Revenues earned in 2012 and 2011 are from the Corporation's Ghana electric power generation project. The Corporation recognizes revenue on this project on a percentage of completion basis, hence the decrease in revenue over the prior year represents the Corporation's progress made towards completion of the project during the year. Unless the Corporation receives further contracts in this area the Corporation's revenues from the power generation project in 2013 will decrease significantly as the current project is nearing completion.

Gross Profit

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011	Change
Gross Profit	**100,692**	97,410	3.4%
Percentage of revenue	**14.3%**	14.1%	

Gross profit increased by $3.3 million from 2011 levels of $97.4 million to $100.7 million in 2012. As a percentage of revenues, gross profit was slightly higher in 2012 at 14.3% than 14.1% in 2011. Increased gross profit in 2012 was partially attributed to the non-recurring recognition of unrecognized investment tax credits from previous fiscal years of $10.4 million in 2012 versus $5.2 million in 2011 offset somewhat by additional costs incurred in the period as a result of the work stoppage at one location and higher start-up costs associated with new programs.

Administrative and General Expenses

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011	Change
Administrative and general expenses	**39,203**	38,264	2.5%
Percentage of revenue	**5.6%**	5.5%	

Administrative and general expenses increased to $39.2 million in 2012 from $38.3 million in 2011. Increased administrative and general expenses were mainly attributed to acquisition costs incurred in 2012.

Other

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011
Foreign exchange (gain) loss	**(623)**	238
Loss on disposal of property, plant and equipment	**363**	198
Other	**(260)**	436

Included in other income is a foreign exchange gain of $0.6 million in 2012 versus a loss of $0.2 million in 2011, resulting from the change in foreign exchange rates on the Corporation's US dollar denominated working capital balances and debt in Canada and foreign exchange contracts. In 2012 and 2011, the Corporation retired assets for a loss on disposal of approximately $0.4 million and $0.2 million, respectively.

Gain on Bargain Purchase

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011
Gain on bargain purchase	**(9,597)**	–
Gain on bargain purchase	**(9,597)**	–

On August 31, 2012, the Corporation purchased all of the issued and outstanding shares of the capital stock of JHE. As a result of such purchase, the Corporation recognized a gain on bargain purchase in 2012 of $9.6 million on such acquisition of JHE as the consideration paid for the identifiable tangible assets acquired was lower than the fair value, as determined by an independent valuation specialist.

Interest Expense

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011
Interest on bank indebtedness and long-term debt	**7,982**	9,397
Convertible debenture interest	**66**	4,000
Accretion charge on convertible debenture, long-term debt and borrowings	**541**	3,155
Discount on sale of accounts receivable	**648**	447
Interest expense	**9,237**	16,999

Interest costs for 2012 were $9.2 million, a decrease of $7.8 million from 2011 levels. Interest on bank indebtedness and long-term debt in 2012 decreased as principal amounts outstanding during 2012 were lower than 2011 levels. A reduced interest rate on long-term debt and lower interest rate spreads on bank indebtedness also contributed to the reduction in interest expense in 2012 when compared to 2011. Accretion costs related to the Convertible Debentures, long-term debt and borrowings under specific conditions were $0.5 million in 2012 a decrease from $3.2 million in 2011 as the majority of the Convertible Debentures were converted into common shares at the end of 2011. During 2012, the Corporation sold $227.7 million of accounts receivable at an annualized interest rate of 1.83% compared to the sale of $167.1 million of receivables in 2011 at an annualized interest rate of 1.73%.

Income Taxes

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011
Current income tax expense	**2,925**	280
Deferred income tax expense	**889**	3,708
Income tax expense	**3,814**	3,988
Effective tax rate	**6.1%**	9.6%

The Corporation recorded an income tax expense in 2012 of $3.8 million on pre-tax income of $62.1 million, representing an effective tax rate of 6.1%, compared to an income tax expense of $4.0 million on a pre-tax income of $41.4 million in 2011 for an effective tax rate of 9.6%.

During each of 2012 and 2011, the Corporation recognized investment tax credits in Canada totalling $16.4 million and $9.2 million respectively, as a reduction of cost of revenues, as the Corporation has determined that it will be able to benefit from these investment tax credits. In addition, the Corporation recognized in each of 2012 and 2011, $13.0 million and $10.5 million, respectively, of deferred tax assets in Canada as a reduction of deferred income tax expense as the benefit from previously unrecorded loss carry forwards and other deferred tax assets were assessed as recoverable.

5. RECONCILIATION OF NET INCOME TO EBITDA

A description and reconciliation of certain non-IFRS measures used by management

Twelve-months ended December 31, expressed in thousands of dollars	2012	2011
Net income	**58,295**	37,413
Interest	**9,237**	16,999
Dividends on preference shares	**–**	310
Taxes	**3,814**	3,988
Stock-based compensation	**3**	68
Depreciation and amortization	**31,029**	32,835
EBITDA	**102,378**	91,613

EBITDA for the year ended 2012 was $102.4 million, compared to $91.6 million in 2011. Increased revenue levels in 2012 over 2011, the gain on bargain purchase of JHE of $9.6 million and the recognition of approximately $10.4 million (approximately $5.2 million in 2011) of additional non-recurring unrecognized investment tax credits from previous fiscal years resulted in increased EBITDA for 2012 over 2011 levels.

6. SELECTED QUARTERLY FINANCIAL INFORMATION

A summary view of Magellan's quarterly financial performance

Expressed in millions of dollars, except per share information				2012				2011
	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31
Revenues	**187.0**	**169.5**	**161.6**	**186.5**	170.5	186.0	161.6	173.3
Income before taxes	**14.0**	**11.3**	**18.4**	**18.4**	10.1	7.0	10.4	13.8
Net income	**11.8**	**9.2**	**15.2**	**22.1**	7.2	4.9	8.6	16.6
Net income per common share								
Basic	**0.21**	**0.16**	**0.26**	**0.38**	0.40	0.27	0.47	0.9
Diluted	**0.20**	**0.16**	**0.26**	**0.38**	0.14	0.10	0.17	0.31
EBITDA	**23.5**	**21.7**	**28.1**	**29.1**	22.7	18.5	20.8	29.6

Revenues and net income reported in the quarterly information was impacted by the fluctuations in the Canadian dollar exchange rate in comparison to the US dollar and British Pound. The US dollar/Canadian dollar exchange rate in 2012 fluctuated reaching a low of 0.9675 and a high of 1.0413. During 2012, the US dollar relative to the Canadian dollar moved from an exchange rate of 1.0170 at the start of the 2012 calendar year to an exchange rate of 0.9949 by December 31, 2012. The British Pound/Canadian dollar exchange rate in 2012 fluctuated reaching a low of 1.5515 and a high of 1.6162. During 2012, the British Pound relative to the Canadian dollar moved from an exchange rate of 1.5799 at the start of the 2012 calendar year to an exchange rate of 1.6178 by December 31, 2012. Had exchange rates remained at levels experienced in 2011, reported revenues in 2012 would have been lower by $1.2 million in the first quarter, $5.6 million in the second quarter and $3.3 million in the third quarter and $1.7 million higher in the fourth quarter.

Net income in the third quarter of 2012 was higher than each of the first two quarters of 2012 as the Corporation recognized an after tax gain on bargain purchase of $7.4 million on the acquisition of JHE as the consideration paid was lower than the fair value of the identifiable tangible assets acquired at the time of purchase. Net income for the fourth quarter of 2011 and 2012 of $16.6 million and $22.1 million respectively were higher than most other quarterly net income disclosed in the table above. In the fourth quarter of 2011 the Corporation recognized a reversal of previous impairment losses against intangible assets relating to various commercial aircraft programs and in both the fourth quarter of 2011 and 2012 the Corporation recognized previously unrecognized investment tax credits as discussed above in "Results of Operations–Gross Profit," and recognized

other deferred tax assets as discussed above in "Results of Operations – Income Taxes" as the Corporation determined that it will be able to benefit from these assets.

7. LIQUIDITY AND CAPITAL RESOURCES

A discussion of Magellan's cash flow, liquidity, credit facilities and other disclosures

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

In 2012, $35.9 million of cash was generated by operations, $53.9 million was used in investing activities and $14.0 million was generated in financing activities. Cash decreased by $4.1 million in the year from $26.5 million to $22.4 million.

Cash Flow from Operating Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2012**	**2011**
Increase in accounts receivable	**(20,114)**	(10,908)
(Increase) decrease in inventories	**(17,310)**	24,704
(Increase) decrease in prepaid expenses and other	**(1,792)**	6,559
Increase (decrease) in accounts payable, accrued liabilities and provisions	**13,861**	(32,881)
Net change in non-cash working capital items	**(25,355)**	(12,526)
Cash provided by operating activities	**35,890**	51,444

Operating activities for 2012 generated cash flows of $35.9 million compared to $51.4 million in the prior year. Changes in non-cash working capital items used cash of $25.5 million as a result of increases in accounts receivable and inventories offset in part by an increase in accounts payable, accrued liabilities and provisions. The increase in accounts receivable during the year resulted primarily from the purchase of JHE and the movement in accrued receivables. During 2012, inventory levels increased to support volume increases on a number of programs. In 2011, changes in non-cash working capital of $12.5 million were principally a result of a decrease in accounts payable, accrued liabilities and provisions offset by a decrease in inventory.

Cash Flow from Investing Activities

Twelve-months ended December 31, expressed in thousands of dollars	**2012**	**2011**
Acquisition of JHE	**(13,641)**	–
Purchase of property, plant and equipment	**(33,829)**	(59,260)
Proceeds from disposals of property, plant and equipment	**187**	514
(Increase) decrease in other assets	**(6,654)**	10,381
Cash used in investing activities	**(53,937)**	(48,365)

On August 31, 2012, the Corporation purchased all of the issued and outstanding shares of the capital stock of JHE for $13.6 million, net of cash of $2.0 million. The Corporation invested $33.8 million in capital assets during the year in comparison to $59.3 million in 2011. Capital additions were for advanced technology production equipment and information technology systems, both designed to increase productivity, reduce cycle time and improve technology capability.

Contractual Obligations

As at December 31, 2012, expressed in thousands of dollars	1 year	Less than 1-3 Years	4-5 Years	After 5 Years	Total
Bank indebtedness	–	112,666	–	–	112,666
Long-term debt[1]	32,425	42,167	10,891	29,030	114,513
Equipment leases	348	422	197	21	988
Facility leases	1,592	3,136	2,618	5,531	12,877
Other long-term liabilities	1,489	1,275	1,234	3,580	7,578
Borrowings subject to specific conditions	672	1,671	1,390	17,707	21,440
Total Contractual Obligations	**36,526**	**161,337**	**16,330**	**55,869**	**270,062**

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

Major cash flow requirements for 2013 include the repayment of long-term debt of $32.4 million of which $26.5 million is expected to be refinanced, payments of equipment and facility leases of $1.9 million and other long-term liabilities of $1.5 million. On December 21, 2012, the operating credit facility was extended for an additional two year period with the new expiry date of December 21, 2014. On December 21, 2012 the Original Loan was extended to January 1, 2015.

The Corporation has made contractual commitments to purchase $11.8 million of capital assets. The Corporation also has purchase commitments, largely for materials required for the normal course of operations, of $202.7 million. The Corporation plans to finance all of these capital commitments with operating cash flow and the existing credit facility.

Outstanding Share 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 22, 2013, 58,209,001 common shares were outstanding. More information on the Corporation's share capital is provided in Note 17 of the consolidated financial statements.

8. FINANCIAL INSTRUMENTS

A summary of Magellan's financial instruments

Derivative Contracts

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

The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. The Corporation had no foreign exchange contracts outstanding as at December 31, 2012.

Off Balance Sheet Arrangements

The Corporation does not have any off-balance sheet arrangements that have or reasonably are likely to have a material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. As a result, the Corporation is not exposed materially to any financing, liquidity, market or credit risk that could arise if it had engaged in these arrangements.

9. RELATED PARTY TRANSACTIONS

A summary of Magellan's transactions with related parties

On December 21, 2012, the Original Loan was extended to January 1, 2015. During 2012, the Corporation incurred interest of $2.3 million [2011 – $3.7 million] in relation to the Original Loan and prepaid the Original Loan by $3.5 million [2011 – $12.5 million]. At December 31, 2012, the Corporation owed Edco interest of $0.2 million [2011 – $0.2 million].

On April 30, 2009, the Chairman of the Board of the Corporation subscribed to $40.0 million of the Convertible Debentures. On December 31, 2011, the Chairman of the Board exercised his conversion rights under the debenture agreement and $38.0 million principal amount of the Convertible Debentures, the entire amount of the Convertible Debentures then held by the Chairman, were converted into 38,000,000 common shares of the Corporation. On April 30, 2012, Convertible Debentures in the principal amount of $2.0 million held by a director of the Corporation were converted into 2,000,000 common shares of the Corporation. Interest incurred during the year ended December 31, 2012 on the Convertible Debentures was $0.1 million [2011 – $4.0 million].

The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the Corporation's operating credit facility. An annual fee averaging 0.63% [2011 – 0.8%] of the guaranteed amount or $1.1 million [2011 – $1.4 million] was paid in consideration for the guarantee.

During the year, the Corporation incurred consulting costs of $0.1 million [2011– $0.1 million] payable to a corporation controlled by the Chairman of the Board of the Corporation.

10. RISK FACTORS

A summary of risks and uncertainties facing Magellan

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

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

A reduction in defence spending by the United States or other countries could result in a decrease in revenue.
Heightened sovereign debt issues in the European Union have created instability and volatility in the international credit and financial markets and have caused a number of countries in the European Union to focus on their respective recurring yearly deficit budgeting practices, resultant aggregate debt levels and to implement austerity measures. Likewise concerns about the national debt issue in the United States and actions taken by the government of the United States could lead to reductions in spending, including defence spending. Sequestration, which refers to United States federal budget cuts to certain categories of federal spending that began on March 1, 2013, is expected to cut defence spending in the 2014–2023 period by approximately US$500 billion. In addition, the governments in Canada and other countries have recognized the need to reduce budget deficits.

The United States is the principal purchaser under the Joint Strike Fighter ("JSF") program which represents a significant item in their budget. Canada is also a participant in the JSF program and has invested in an Advanced Composite Manufacturing Facility at Magellan's Winnipeg facility, primarily in support of the JSF program. The Canadian government has also announced plans to consider other options for replacing its aging CF-18 fighter jets. In addition, other countries who are part of the JSF program have announced plans to delay orders for the JSF aircraft.

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

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

Potential loss due to unfavourable economic conditions, such as a macroeconomic downturn in key markets, could result in potential buyers postponing the purchase of the Corporation's products or services, lower order intake, order cancellations or deferral of deliveries, lower availability of customer financing, an increase in the Corporation's involvement in customer financing, downward pressure on selling prices, increased inventory levels, decreased level of customer advances, slower collection of receivables, reduction in production activities, discontinued production of certain products, termination of employees and adverse impacts on the Corporation's suppliers.

Market events and conditions, including disruptions in the international credit markets and other financial systems and the American and European sovereign debt levels have caused volatility in credit and financial markets. These events and conditions have caused a decrease in confidence in the broader United States, European and global credit and financial markets and have created a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. While there are signs of economic recovery, these factors have negatively impacted company valuations and are likely to continue to 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.

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 is derived from the aerospace industry. The Corporation's aerospace operations are focused on engineering and manufacturing aircraft components on new aircraft, selling spare parts and performing repair and overhaul services on existing aircraft and aircraft components. Therefore, the Corporation's business is directly affected by economic factors and other trends that affect the Corporation's customers in the aerospace industry, including a possible decrease in outsourcing by aircraft operators and original equipment manufacturers ("OEMs"), decreased demand for air travel or projected market growth that may not materialize or be sustainable. The price of fuel has increased the pressure on the operating margins of aircraft companies which will reduce their ability to finance capital expenditures. Constraints in the credit market may reduce the ability of airlines and others to purchase new aircraft, negatively affecting the demand for the Corporation's products. 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 and external to the aerospace industry might affect the aerospace industry and may have an adverse impact on the Corporation's results of operations. More specifically, a number of additional external risk factors may include the financial condition of the airline industry, commercial aerospace customers and government aerospace customers; government policies related to import and export restrictions and business acquisition; changing priorities and possible spending cuts by government agencies; government support for export sales; world trade policies; increased competition from other businesses, including new entrants in market segments in which we compete. In

addition, acts of terrorism, natural disasters, global health risks, political instability or the outbreak of war or continued hostilities in certain regions of the world could result in lower orders or the rescheduling or cancellation of part of the existing order backlog for some of the Corporation's products.

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

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

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

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

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

11. CRITICAL ACCOUNTING ESTIMATES

A description of accounting estimates that are critical to determining Magellan's financial results

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

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

Financial instruments

The valuation of the Corporation's derivative instruments and certain other financial instruments requires estimation of the fair value of each instrument at the reporting date. Details of the basis on which fair value estimated are provided in note 19 of the audited consolidated financial statements.

Impairments

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

Deferred taxes

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

Government assistance

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

Capitalization of development costs

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

Income (loss) on completion of contracts accounted for under the percentage-of-completion method

To estimate income (loss) on completion, the Corporation takes into account factors inherent to the contract by using historical and/or forecast data. When total contract costs are likely to exceed total contract revenue, the expected loss is recognized within cost of revenues.

Repayable government grants

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

Employee benefits

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

12. CHANGES IN ACCOUNTING POLICIES

A description of accounting standards adopted in the current year

IAS 12 – Income Taxes, Amendments Regarding Deferred Tax: Recovery of Underlying Assets
On January 1, 2012, the Corporation adopted revised IAS 12, *Income Taxes*. The revised standard was amended in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax asset relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The adoption of the standard did not have a material impact on the consolidated financial statements.

13. FUTURE CHANGES IN ACCOUNTING POLICIES

A description of new accounting standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2012, and have not been applied in preparing these consolidated financial statements. The following standards and interpretations have been issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

Financial Instruments – Recognition and Measurement
In October 2010, the IASB published amendments to IFRS 9, *Financial Instruments* ("IFRS 9") which provides added guidance on the classification and measurement of financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Corporation intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

Financial Assets and Liabilities
In December 2011, the IASB published amendments to IAS 32, *Financial Instruments: Presentation* ("IAS 32") and issued new disclosure requirements in IFRS 7. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.

The amendments to IAS 32 clarify when an entity has a legally enforceable right to off-set as well as clarify, when a settlement mechanism provides for net settlement, or gross settlement that is equivalent to net settlement. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar arrangements. The Corporation intends to adopt the amendments to IFRS 7 in its consolidated financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its consolidated financial statements for the annual period beginning January 1, 2014. The Corporation will include the additional disclosures required by the amendments to IFRS 7 in its 2013 consolidated financial statements. The extent of the impact of adoption of the amendments to IAS 32 has not yet been determined.

Consolidated Financial Statements
In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements* ("IFRS 10"). IFRS 10 replaces portions of IAS 27, Consolidated and Separate Financial Statements, that addresses consolidation, and supersedes SIC-12, *Consolidation – Special Purpose Entities* ("SPE"), in its entirety. IFRS 10 provides a single model to be applied in the analysis of control of all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures specified in IFRS 10 are carried forward substantially unmodified from IAS 27.

Joint Arrangements

In May 2011, the IASB issued IFRS 11, *Joint Arrangements* ("IFRS 11"). IFRS 11 supersedes IAS 31, Interest in Joint Ventures and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions.* Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement, which are classified as either joint operations or joint ventures, and provides guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly. Investments in joint ventures are required to be accounted for using the equity method. As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, Investments in Associates and Joint Ventures, has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), which contains disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adoption of IFRS 10, IFRS 11, amendments to IAS 27 and IAS 28. The Corporation intends to adopt IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 in its consolidated financial statements for the annual period beginning on January 1, 2013. The impact of the adoption of IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 is not expected to be material to the financial statements.

Fair Value Measurement

In May 2011, the IASB published IFRS 13, *Fair Value Measurement* ("IFRS 13"), which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The Corporation intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Corporation will provide required additional disclosures on fair valued items beginning with its first quarter 2013 consolidated financial statements.

Presentation of Financial Statements

In June 2011, the IASB published amendments to IAS 1, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*, which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. Early adoption is permitted. These amendments require that a Corporation present separately the items of other comprehensive income ("OCI") that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2013.

Employee Benefits

In June 2011, the IASB published an amended version of IAS 19, *Employee Benefits* ("IAS 19"). Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted. The amendment is generally applied retrospectively with certain exceptions. A number of amendments have been made to IAS 19, which included eliminating the use of the "corridor" approach and requiring remeasurements to be presented in OCI and the requirement for the calculation of expected return on plan assets to be based on the rate used to discount the defined benefit obligation. The amendment also requires other changes and additional disclosures. As part of its transition to

IFRS, the Corporation elected to present remeasurements in OCI. The Corporation intends to adopt the other amendments in its financial statements for the annual period beginning on January 1, 2013.

14. CONTROLS AND PROCEDURES

A description of Magellan's disclosure controls and internal controls over financial reporting

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 are required to certify as at December 31, 2012 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, 2012, an evaluation was carried out, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer 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, 2012.

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.

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

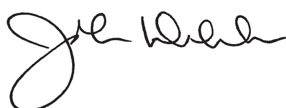
MANAGEMENT'S REPORT

To the shareholders of Magellan Aerospace Corporation

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

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

James S. Butyniec
President and Chief Executive Officer
March 22, 2013



John B. Dekker
Chief Financial Officer and
Corporate Secretary

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Magellan Aerospace Corporation

We have audited the accompanying consolidated financial statements of Magellan Aerospace Corporation, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Magellan Aerospace Corporation as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Licensed Public Accountants
Toronto, Canada
March 22, 2013

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in thousands of Canadian dollars	Notes	December 31 2012	December 31 2011
Current assets			
Cash		**22,431**	26,520
Trade and other receivables	4	**134,361**	106,480
Inventories	5	**147,382**	127,473
Prepaid expenses and other		**7,879**	5,326
		312,053	265,799
Non-current assets			
Property, plant and equipment	6	**316,441**	289,744
Investment properties	7	**2,875**	3,041
Intangible assets	8	**60,701**	66,134
Other assets		**12,697**	8,660
Deferred tax assets	16	**51,040**	28,360
		443,754	395,939
Total assets		**755,807**	661,738
Current liabilities			
Accounts payable, accrued liabilities and provisions	10	**121,644**	106,022
Debt due within one year	11,19	**32,425**	12,513
		154,069	118,535
Non-current liabilities			
Bank indebtedness	9	**112,666**	120,674
Long-term debt	11	**80,024**	81,768
Borrowings subject to specific conditions	14	**20,768**	18,847
Other long-term liabilities and provisions	15	**39,003**	29,131
Deferred tax liabilities	16	**14,761**	10,088
		267,222	260,508
Equity			
Share capital	17	**254,440**	252,440
Contributed surplus		**2,044**	2,041
Other paid in capital	12	**13,565**	13,565
Retained earnings		**71,826**	20,892
Accumulated other comprehensive loss	25	**(7,359)**	(6,243)
		334,516	282,695
Total liabilities and equity		**755,807**	661,738

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Expressed in thousands of Canadian dollars, except per share amounts	Notes	Years ended December 31 2012	2011
Revenues	21	**704,579**	691,410
Cost of revenues	22	**603,887**	594,000
Gross profit		**100,692**	97,410
Administrative and general expenses	23	**39,203**	38,264
Other	28	**(260)**	436
Gain on bargain purchase	3	**(9,597)**	–
Dividends on preference shares	13	–	310
		71,346	58,400
Interest	24	**9,237**	16,999
Income before income taxes		**62,109**	41,401
Income taxes			
Current	16	**2,925**	280
Deferred	16	**889**	3,708
		3,814	3,988
Net income		**58,295**	37,413
Other comprehensive (loss) income			
Foreign currency translation	25	**(1,116)**	4,149
Actuarial losses on defined benefit pension plans, net of tax	16,20	**(7,361)**	(17,530)
Comprehensive income		**49,818**	24,032
Net income per share			
Basic	17	**1.01**	2.04
Diluted	17	**1.00**	0.73

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Expressed in thousands of Canadian dollars	Share capital	Contributed surplus	Other paid in capital	Retained earnings	Foreign currency translation	Total equity
January 1, 2011	214,440	1,973	13,565	1,009	(10,392)	220,595
Net income	–	–	–	37,413	–	37,413
Other comprehensive (loss) Income	–	–	–	(17,530)	4,149	(13,381)
Stock-based compensation	–	68	–	–	–	68
Convertible debentures	38,000	–	–	–	–	38,000
December 31, 2011	252,440	2,041	13,565	20,892	(6,243)	282,695
Net income	–	–	–	58,295	–	58,295
Other comprehensive loss	–	–	–	(7,361)	(1,116)	(8,477)
Stock-based compensation	–	3	–	–	–	3
Convertible debentures	2,000	–	–	–	–	2,000
December 31, 2012	**254,440**	**2,044**	**13,565**	**71,826**	**(7,359)**	**334,516**

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOW

Expressed in thousands of Canadian dollars	Notes	Years ended December 31 2012	2011
Cash flow from operating activities			
Net income		**58,295**	37,413
Amortization/depreciation of intangible assets and property, plant and equipment	6,8	**31,029**	32,835
Net loss on disposal of assets		**430**	198
Decrease in defined benefit plans	20	**(4,767)**	(3,979)
Impairment reversal, net	8	**(270)**	(1,847)
Gain on bargain purchase	3	**(9,597)**	–
Stock-based compensation	18	**3**	68
Accretion		**541**	3,155
Deferred taxes	16	**(14,419)**	(3,873)
Increase in non-cash working capital	27	**(25,355)**	(12,526)
Net cash from operating activities		**35,890**	51,444
Cash flow from investing activities			
Acquisition of JHE	3	**(13,641)**	–
Purchase of property, plant and equipment	6	**(33,829)**	(59,260)
Proceeds from disposal of property, plant and equipment		**187**	514
(Increase) decrease in other assets		**(6,654)**	10,381
Net cash used in investing activities		**(53,937)**	(48,365)
Cash flow from financing activities			
(Decrease) increase in bank indebtedness	9	**(7,812)**	2,704
Increase (decrease) in debt due within one year		**20,604**	(3,617)
Decrease in long-term debt	11	**(8,849)**	(17,221)
Increase in long-term debt	11	**6,334**	21,011
Increase in long-term liabilities and provisions		**497**	824
Increase in borrowings		**3,223**	6,353
Redemption of preference shares	13	**–**	(12,000)
Net cash generated (used) in financing activities		**13,997**	(1,946)
(Decrease) increase in cash during the year		**(4,050)**	1,133
Cash at beginning of the year		**26,520**	24,952
Effect of exchange rate differences		**(39)**	435
Cash at end of the year		**22,431**	26,520

See accompanying notes to the consolidated financial statements

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements are prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on March 22, 2013.

(b) Basis of presentation

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

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

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

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

(c) Foreign currency translation

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

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

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

(d) Segment reporting

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

(e) Revenue recognition

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

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

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

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

The Corporation enters into transactions that represent multiple-element arrangements. These multiple-element arrangements are assessed to determine whether they can be separated into more than one unit of accounting or element for the purpose of revenue recognition. When the appropriate criteria for separating revenue into more than one unit of accounting is met and there is vendor specific objective evidence of fair value for all units of accounting or elements in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements based on each unit's relative fair value. This vendor specific evidence of fair value is established through prices charged for each revenue element when that element is sold separately. The revenue recognition policies described above are then applied to each unit of accounting.

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

(f) Cost of revenues

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

(g) Government grants

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

(h) Government assistance

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

(i) Employee benefits

Defined benefit plans

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

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

Defined contribution plans

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

Share-based compensation

The fair value of awards made under share-based compensation plans is measured at the grant date and allocated over the vesting period, based on the best available estimate of the number of share options expected to vest, in the income

statement with a corresponding increase in equity. The fair value is measured using an appropriate valuation model taking into account the terms and conditions of the individual plans. The amount recognized as an expense is adjusted to reflect the actual awards vesting except where any change in the awards vesting relates only to market-based criteria not being achieved.

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

(j) Taxation

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

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

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

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

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

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

(k) Net income per share

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

(l) Inventories

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

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

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost

of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed.

(m) Property, plant and equipment

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

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

Scheduled depreciation is based on the following useful lives:

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

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

(n) Investment properties

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

(o) Intangible assets

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

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

(p) Impairment of non-financial assets

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

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

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

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

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

(q) Leases

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

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

(r) Financial instruments

Financial assets

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

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

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

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

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

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

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

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

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

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

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

being converted, the remaining conversion option balance will remain in contributed surplus. The discount is amortized using the effective interest rate method over the term of the related debt. The unamortized discount is included in long-term debt and the amortization of the discount is included in interest expense.

Derivative financial instruments
The Corporation manages its foreign currency and interest rate exposures through the use of derivative financial instruments. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes. For the year ended December 31, 2012, the Corporation's derivative contracts were not designated as hedges and as a result are recorded on the consolidated statement of financial position at their fair value. Any changes in fair value during the year are reported in other expenses in the consolidated statement of income. Transaction costs incurred to acquire financial instruments are included in the underlying balance.

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

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

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

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

Financial instruments
The valuation of the Corporation's derivative instruments and certain other financial instruments requires estimation of the fair value of each instrument at the reporting date. Details of the basis on which fair value estimated are provided in Note 19.

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

Deferred taxes

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

Government assistance

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

Capitalization of development costs

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

Income (loss) on completion of contracts accounted for under the percentage-of-completion method

To estimate income (loss) on completion, the Corporation takes into account factors inherent to the contract by using historical and/or forecast data. When total contract costs are likely to exceed total contract revenue, the expected loss is recognized within cost of revenues.

Repayable government grants

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

Employee benefits

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

(v) Accounting standards adopted in the current year

IAS 12 - Income Taxes, Amendments Regarding Deferred Tax: Recovery of Underlying Assets

On January 1, 2012, the Corporation adopted revised IAS 12, *Income Taxes*. The revised standard was amended in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax asset relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The adoption of the standard did not have a material impact on the consolidated financial statements.

(w) New standards and interpretations not yet adopted

Financial Instruments – Recognition and Measurement

In October 2010, the IASB published amendments to IFRS 9, *Financial Instruments* ("IFRS 9") which provides added guidance on the classification and measurement of financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Corporation intends to adopt IFRS 9 in its financial statements

for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

Financial Assets and Liabilities

In December 2011, the IASB published amendments to IAS 32, *Financial Instruments: Presentation* ("IAS 32") and issued new disclosure requirements in IFRS 7. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.

The amendments to IAS 32 clarify when an entity has a legally enforceable right to off-set as well as clarify, when a settlement mechanism provides for net settlement, or gross settlement that is equivalent to net settlement. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar arrangements. The Corporation intends to adopt the amendments to IFRS 7 in its consolidated financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its consolidated financial statements for the annual period beginning January 1, 2014. The Corporation will include the additional disclosures required by the amendments to IFRS 7 in its 2013 consolidated financial statements. The extent of the impact of adoption of the amendments to IAS 32 has not yet been determined.

Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements* ("IFRS 10"). IFRS 10 replaces portions of IAS 27, Consolidated and Separate Financial Statements, that addresses consolidation, and supersedes SIC-12, *Consolidation – Special Purpose Entities* ("SPE"), in its entirety. IFRS 10 provides a single model to be applied in the analysis of control of all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures specified in IFRS 10 are carried forward substantially unmodified from IAS 27.

Joint Arrangements

In May 2011, the IASB issued IFRS 11, *Joint Arrangements* ("IFRS 11"). IFRS 11 supersedes IAS 31, *Interest in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions.* Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement, which are classified as either joint operations or joint ventures, and provides guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly. Investments in joint ventures are required to be accounted for using the equity method. As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, Investments in Associates and Joint Ventures, has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), which contains disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adoption of IFRS 10, IFRS 11, amendments to IAS 27 and IAS 28. The Corporation intends to adopt IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 in its consolidated financial statements for the annual period beginning on January 1, 2013. The impact of the adoption of IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 is not expected to be material to the financial statements.

Fair Value Measurement

In May 2011, the IASB published IFRS 13, *Fair Value Measurement* ("IFRS 13"), which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The Corporation intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Corporation will provide required additional disclosures on fair valued items beginning with its first quarter 2013 consolidated financial statements.

Presentation of Financial Statements

In June 2011, the IASB published amendments to IAS 1, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*, which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. Early adoption is permitted. These amendments require that a Corporation present separately the items of other comprehensive income ("OCI") that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The Corporation intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2013.

Employee Benefits

In June 2011, the IASB published an amended version of IAS 19, *Employee Benefits* ("IAS 19"). Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted. The amendment is generally applied retrospectively with certain exceptions. A number of amendments have been made to IAS 19, which included eliminating the use of the "corridor" approach and requiring remeasurements to be presented in OCI and the requirement for the calculation of expected return on plan assets to be based on the rate used to discount the defined benefit obligation. The amendment also requires other changes and additional disclosures. As part of its transition to IFRS, the Corporation elected to present remeasurements in OCI. The Corporation intends to adopt the other amendments in its financial statements for the annual period beginning on January 1, 2013.

3. BUSINESS COMBINATION

On August 31, 2012, the Corporation purchased all of the issued and outstanding shares of the capital stock of John Huddleston Engineering Limited ("JHE"), a European supplier of precision machined aerospace components with facilities in Great Britain, Northern Ireland and Poland. The acquisition allows the Corporation to strengthen and enhance its core manufacturing capabilities and further expand its European operations.

The total consideration paid to the seller at closing was $15,671 in cash, or $13,641 net of cash acquired of $2,030.

Accounting guidance requires that identifiable assets acquired and liabilities assumed be reported at fair value as of the acquisition date of a business combination. During the fourth quarter of 2012, final valuations of the identifiable assets acquired and liabilities assumed were completed. The adjustments to the preliminary purchase price allocation resulted in a gain on bargain purchase of $7,410 (net of deferred income tax of $2,187) from the amount previously reported as the consideration paid for the identifiable tangible assets acquired was lower than their fair value, as determined by an independent valuation specialist. The gain on bargain purchase was due to the fact that the Corporation was one of a limited number of purchasers well positioned to rapidly utilize the excess capacity and employ the specialized equipment so as to preserve its significant value.

The following table presents the final allocation of purchase price related to the business as of the date of the acquisition:

	Final
Current assets	10,757
Non-current assets	19,412
Current liabilities	(5,732)
Non-current liabilities	(1,120)
Deferred tax liabilities	(2,266)
Fair value of the net assets acquired, excluding cash position at acquisition	21,051
Gain on bargain purchase, net of deferred tax	(7,410)
Cash in subsidiary acquired	2,030
Total purchase consideration, settled in cash[1]	15,671

[1] Total purchase consideration of $15,671 includes an amount of $9,212 to repay debt to a former shareholder of JHE

The Corporation incurred acquisition-related costs of $428 relating to external legal fees, consulting fees and due diligence costs that are included in administration and general expenses.

The fair value of trade receivables and other receivables is $7,039 and includes trade receivables with a fair value of $6,906 which represents the gross contractual amount for trade receivables due.

The amounts of JHE's revenue and net income included in the Corporation's consolidated statements of income for the year ended December 31, 2012 was $5,597 and $297, respectively. If the acquisition had occurred on January 1, 2012, management estimates that the Corporation's consolidated revenue would have been approximately $722,039 and consolidated net income would have been approximately $59,113 for the year ended December 31, 2012. In determining these amounts, management has assumed the fair value adjustments which arose on the date of acquisition, would have been the same as if the acquisition would have occurred on January 1, 2012. This pro forma information is for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated at that time, nor is it intended to be a projection of future results.

4. TRADE AND OTHER RECEIVABLES

	December 31 2012	**December 31 2011**
Total trade accounts receivable	**97,310**	80,592
Less allowance for doubtful accounts	**1,924**	2,076
Net trade receivables	**95,386**	78,516
Other receivables	**38,975**	27,964
	134,361	106,480

Included in the above amounts are accrued receivables for construction contracts in progress at December 31, 2012 of $12,560 [December 31, 2011–$11,391].

The following table presents the aging of gross trade accounts receivable:

	Current	Less than 90 days	91–181 days	182–365 days	More than 365 days	Total
December 31, 2011	74,119	4,780	360	67	1,266	80,592
December 31, 2012	**86,961**	**7,185**	**2,194**	**166**	**804**	**97,310**

5. INVENTORIES

	Raw materials	Work in progress	Finished goods	Total
At December 31, 2011	33,631	80,198	13,644	127,473
At December 31, 2012	**37,685**	**94,429**	**15,268**	**147,382**

The cost of inventories recognized as expense and included in cost of sales for the year ended December 31, 2012 amounted to $610,378 [2011 – $590,128].

During the year ended December 31, 2012, the Corporation recorded an impairment expense related to the write-down of inventory in the amount of $473 [December 31, 2011 – $2,044]. The Corporation also recorded reversals of previous write-down of inventory in the amount of $624 [December 31, 2011 – $1,417] due to the sale of inventory previously provided for. The carrying amount of inventory recorded at net realizable value was $21,165 as at December 31, 2012 [December 31, 2011 – $21,530], with the remaining inventory recorded at cost.

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

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Tooling	Total
Cost					
At December 31, 2010	12,675	84,632	313,903	40,377	451,587
Additions	–	26,331	40,977	1,348	68,656
Disposals and other	–	(235)	(2,536)	–	(2,771)
Foreign currency translation	156	679	3,854	790	5,479
At December 31, 2011	12,831	111,407	356,198	42,515	522,951
Additions	–	1,280	27,861	1,881	31,022
Acquisition of JHE [Note 3]	–	3,264	16,148	–	19,412
Disposals and other	–	(42)	(2,227)	–	(2,269)
Foreign currency translation	(66)	(394)	(1,698)	(780)	(2,938)
At December 31, 2012	**12,765**	**115,515**	**396,282**	**43,616**	**568,178**
Accumulated depreciation and impairment					
At December 31, 2010	–	(27,626)	(156,094)	(28,748)	(212,468)
Depreciation	–	(2,221)	(15,000)	(2,868)	(20,089)
Disposal and other	–	127	1,858	–	1,985
Foreign currency translation	–	(138)	(1,870)	(627)	(2,635)
At December 31, 2011	–	(29,858)	(171,106)	(32,243)	(233,207)
Depreciation	–	(3,266)	(16,332)	(2,610)	(22,208)
Disposal and other	–	7	1,492	–	1,499
Foreign currency translation	–	133	1,430	616	2,179
At December 31, 2012	**–**	**(32,984)**	**(184,516)**	**(34,237)**	**(251,737)**
Net book value					
At December 31, 2011	12,831	81,549	185,092	10,272	289,744
At December 31, 2012	**12,765**	**82,531**	**211,766**	**9,379**	**316,441**

As at December 31, 2011, total assets under finance leases included in property, plant and equipment have a cost of $5,710 and a net book value of $3,362. As at December 31, 2012, the Corporation did not have any assets under finance lease.

Included in the above are assets under construction in the amount of $6,364 [December 31, 2011 – $46,550], which as at December 31, 2012 are not amortized.

7. INVESTMENT PROPERTIES

	Cost	Accumulated depreciation and impairment	Net book value
At December 31, 2011	9,288	(6,247)	3,041
At December 31, 2012	**9,277**	**(6,402)**	**2,875**

The Corporation's investment properties consist of land and building. In 2011 and 2012, depreciation expense of $158 was recognized in relation to the building.

The fair value was determined based on valuations performed by independent professional valuators. At December 31, 2012, the fair value of the investment properties was $6,945.

8. INTANGIBLE ASSETS

	Technology rights	Development costs	Total
Cost			
At December 31, 2010	38,905	87,360	126,265
Additions	–	3,266	3,266
Foreign currency translation	34	652	686
At December 31, 2011	38,939	91,278	130,217
Additions	–	2,220	2,220
Disposals	–	(1,324)	(1,324)
Foreign currency translation	(34)	(503)	(537)
At December 31, 2012	**38,905**	**91,671**	**130,576**
Depreciation and impairment			
At December 31, 2010	(13,251)	(41,065)	(54,316)
Depreciation	(2,595)	(8,651)	(11,246)
Impairment reversal	–	1,899	1,899
Foreign currency translation	(9)	(411)	(420)
At December 31, 2011	(15,855)	(48,228)	(64,083)
Depreciation	(3,153)	(4,645)	(7,798)
Disposals	–	1,393	1,393
Impairment reversal	–	270	270
Foreign currency translation	10	333	343
At December 31, 2012	**(18,998)**	**(50,877)**	**(69,875)**
Net book value			
At December 31, 2011	23,084	43,050	66,134
At December 31, 2012	**19,907**	**40,794**	**60,701**

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

The Corporation has certain programs that meet the criteria for deferral and amortization of development costs. Development costs are capitalized for clearly defined, technically feasible technologies which management intends to produce and promote to an identified future market, and for which resources exist or are expected to be available to complete the project. The Corporation records amortization in arriving at the carrying value of deferred development costs once the development activities have been completed and sales of the related product have commenced. The Corporation estimated the intangible assets to be amortized over a period of 5 to 13 years based on units of production.

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

Impairments

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

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

- The discounted cash flow approach used to estimate the value in use of the CGU's incorporated market participant assumptions. Expected future cash flows are calculated based on the medium-term plans established for the next five years and estimated cash flows for years 5 to 23 [2011 – years 5 to 24].
- Growth rates of nil [2011 – nil] were used to extrapolate cash flow projections beyond the five year period covered by the long-term plan and did not exceed the long-term average growth rate of the industry.
- The average US exchange rate adopted is 0.98 [2011 – 1.00].
- The pre-tax discount rates used reflect the current market assessment of the risks specific to each CGU. The discount rate was estimated based on the average percentage of weighted average cost of capital for the industry. A discount rate of 12.5% was applied to the cash flow projections determined in the year end testing of recoverable amounts [2011 – 12.5%].

In 2012, the Corporation recognized a reversal of previous impairment losses of $2,138 against development costs relating to a commercial aircraft program as the Corporation was able to obtain an offer with more favourable contract terms. In addition, the Corporation recognized impairment losses of $1,868 against development costs relating to a separate commercial aircraft program as the Corporation has revised its estimated number of units due to changes in the market outlook for the program. The impairment reversal and charge were recorded against recurring costs of revenues.

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

9. BANK INDEBTEDNESS

On December 21, 2012, the Corporation amended its credit agreement with its existing lenders. The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian dollar limit of $115,000 plus a US dollar limit of US$35,000 [$149,822 at December 31, 2012]. Under the terms of the amended credit agreement, the operating credit facility expires on December 21, 2014 and is extendable for unlimited one-year periods subject to mutual consent of the syndicate of lenders and the Corporation. The credit agreement also includes a $50,000 uncommitted accordion provision which will provide the Corporation with the option to increase the size of the operating credit facility

to $200,000. Bank indebtedness as at December 31, 2012 of $112,666 [December 31, 2011 – $120,674] bears interest at the bankers' acceptance or LIBOR rates, plus 1.20% [2.35% at December 31, 2012 (2011 – bankers' acceptance or LIBOR rates plus 1.50% or 2.44%)]. Included in the amount outstanding at December 31, 2012 is US$18,358 [December 31, 2011 – US$11,908]. At December 31, 2012, the Corporation had drawn $115,425 under the operating credit facility, including letters of credit totalling $2,759 such that $34,397 was unused and available. A fixed and floating charge debenture on accounts receivable, inventories and property, plant and equipment is pledged as collateral for the operating credit facility. The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the operating credit facility.

10. ACCOUNTS PAYABLE, ACCRUED LIABILITIES AND PROVISIONS

	December 31 2012	December 31 2011
Accounts payables	**58,422**	52,685
Accrued liabilities	**60,663**	47,567
Provisions [Note 15]	**2,559**	5,770
	121,644	106,022

11. LONG-TERM DEBT

	December 31 2012	December 31 2011
Property mortgages [a]	**18,036**	18,689
Other loans [b]	**38,222**	33,927
Related party loans [c]	**29,670**	33,197
Obligations under capital leases [d]	**–**	463
	85,928	86,276
Less current portion	**5,904**	4,508
	80,024	81,768

[a] Property mortgages include $2,387 (£1,475) [2011 – $2,589 (£1,639)] of financing of certain land acquired in 2006. This same land is collateral for this mortgage and the mortgage bears interest at bank rate plus 0.90%, which at December 31, 2012 was 1.4% [2011 – 1.4%]. The property mortgage requires scheduled monthly repayments of accrued interest and principal and matures in June 2021.

The Corporation has a five year variable rate term mortgage, under which interest is charged at a margin of 1.75% over the lender's prime lending rate of 3.0% as at December 31, 2012. The mortgage is due in July 2016, with accrued interest and principal paid monthly. The mortgage is secured by certain land and building. The principal amount outstanding at December 31, 2012 was $15,649 [2011 – $16,100].

[b] Other loans include loans of $19,191 [2011 – $19,886] provided by governmental authorities ("Government Loans") that bear interest of approximately 1.75% to 3.82% [2011 – 2.0% to 3.82%] of which a loan in the amount of $1,650 provides for a five year interest free period if certain job criteria has been met. The Government Loans mature during the period of March 2014 and January 2022 with accrued interest and principal repayable monthly.

During 2012 and 2011, the Corporation entered into bank loans aggregating $17,081 (US$17,169) [2011 – $13,479 (US$13,253)] ("Commercial Loans") to finance equipment over a ten year period maturing between December 2020 and December 2022 and leasehold improvements over a three year period maturing December 2014. The Commercial

Loans require scheduled monthly repayments of accrued interest and principal. The same equipment is collateral for the Commercial Loans which bears interest at LIBOR plus 2.75%, which at December 31, 2012 was 2.96% [2011 – 3.01%].

As at December 31, 2012, the Corporation has the availability to draw an additional $8,444 against the Government Loans.

[c] On January 31, 2008, Edco Capital Corporation ("Edco"), a corporation controlled by the Chairman of the Board of the Corporation, provided a $50,000 loan due July 1, 2009 (the "Original Loan") to the Corporation. The Original Loan originally had an interest rate of 10% per annum calculated and payable monthly, collateralized and subordinated to the Corporation's existing operating credit facility. The Original Loan is secured by subordinated mortgages on two of the Corporation's real properties. On April 30, 2009, the Original Loan from Edco in the principal amount of $50,000 was increased to $65,000; was extended to July 1, 2010 in consideration of the payment of a one-time fee to Edco equal to 1% of the principal amount outstanding of $50,000 and the interest rate on the loan was increased from 10% to 12% per annum. On March 26, 2010, the Original Loan was further extended and restated. The interest rate was decreased from 12% per annum to 11% per annum commencing July 1, 2010 and the loan extended to July 1, 2011 in consideration of the payment of an aggregate fee to Edco equal to 1% of the principal amount outstanding. The Corporation was also granted the option, exercisable on or before July 1, 2011, to renew the Original Loan under certain conditions. The Corporation has the right to prepay the Original Loan at any time without penalty. On April 28, 2011, the Original Loan was restated and extended to July 1, 2013 on the same terms and conditions except that the interest rate was reduced from 11% to 7.5% per annum in consideration of the payment of a one-time extension fee of 1% of the principal amount outstanding as of July 1, 2011 of $39,600. On December 21, 2012, the Original Loan was extended to January 1, 2015 on the same terms and conditions in consideration of the payment of a one time extension fee of 0.75% of the principal amount outstanding as of December 21, 2012 of $30,000.

During the twelve month period ended December 31, 2012, the Corporation prepaid the Original Loan by $3,500 [2011 – $12,500]. As at December 31, 2012, the $30,000 principal amount outstanding was classified as a long-term liability [2011 – $33,500].

[d] As at December 31, 2011, the Corporation had obligations under capital leases that bear interest at a rate of 7.9%.

12. CONVERTIBLE DEBENTURES

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

On December 31, 2011, the Chairman of the Board of the Corporation exercised his conversion rights under the debenture agreement and $38,000 principal amount of the Convertible Debentures, the entire amount of the Convertible Debentures then held by the Chairman, were converted into 38,000,000 common shares of the Corporation. As at December 31, 2011, $1,986 of the Convertible Debentures, net of transaction costs, has been attributed to the debt component and is included in the consolidated statements of financial position under debt due within one year. The difference between the carrying value and the face value will be accredited using the effective interest rate method. On April 30, 2012, the remaining $2,000 Convertible Debentures were converted into 2,000,000 common shares of the Corporation.

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

13. PREFERENCE SHARES

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

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

The acquisition of the Convertible Debentures [Note 12] on April 30, 2009 resulted in the Chairman of the Board of the Corporation holding in excess of 66–2/3% of the common shares of the Corporation on a fully diluted basis, which holdings constituted a change of control as defined in the Preference Shares' terms. Pursuant to the change of control definition in the Corporation's outstanding Preference Shares' terms, the Corporation is required to retract its outstanding Preference Shares at a price of $10.00 per share plus accrued and unpaid dividends, unless such retraction contravenes any instrument of indebtedness of the Corporation or the terms of the OBCA. The Corporation's operating credit facility restricted the Corporation to the retraction of up to 20% ($4,000) of the Corporation's Preference Shares on each of April 30 and October 31 (or the next business day if that day is not a business day) of each year starting with April 30, 2010, together with accrued and unpaid dividends on the shares to be retracted provided there is no current default or event of default under the operating credit facility and after the repayment of the Original Loan and the payment of the retraction amount the Corporation has at least $25,000 in availability under the operating credit facility.

In 2011 the Corporation's operating credit facility was amended to permit the Corporation to retract the 1,200,013 remaining Preference Shares on or after April 30, 2011, together with accrued and unpaid dividends on the shares to be retracted provided there is no current default or event of default under the operating credit facility and after the repayment of the Original Loan and the payment of the retraction amount the Corporation has at least $25,000 in availability under the operating credit facility.

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

14. BORROWINGS SUBJECT TO SPECIFIC CONDITIONS

The Corporation has received contributions related to the development of its technologies and processes from Canadian government agencies. The contributions have been deducted in calculating the Corporation's investment in intangible assets, property plant and equipment or from the expense to which they relate. These amounts, plus, in certain cases, an implied

return on the investment, are repayable as a percentage of the Corporation's revenues. The Corporation has included in borrowings subject to specific conditions the estimated amount of repayments in relation to the contributions received.

The Corporation received contributions from the Canadian Government's Strategic Aerospace and Defence Initiative Program ("SADI") and Technology Partnerships Canada Program ("TPC") for technology and process development. The SADI participation supports the development of new manufacturing and process technology for composite and metallic materials for the multi-national Joint Strike Fighter F-35 Lightning II aircraft and under SADI, the Corporation is to receive repayable cash flow support of up to $43,400. During 2012, the Corporation received $3,688 [2011 – $7,867] of government contributions under SADI, of which $795 [2011– $2,801] has been credited to the related assets, $562 [2011– $333] has been credited to the related expense and $2,331 [2011– $4,733] has been recorded in borrowings subject to specific conditions. The contributions are repayable as future royalty payments when it is probable that all or part of the amounts received will be repaid based on future estimated sales. During 2012, the Corporation repaid $1,049 [2011– $934] in government contributions.

As at December 31, 2012, the Corporation has recognized $20,768 as the estimated amount repayable to SADI and TPC. The Corporation is eligible for additional government contributions of $22,596 for the period from January 1, 2013 to December 31, 2014 based on approved expenditures.

15. OTHER LONG-TERM LIABILITIES AND PROVISIONS

	December 31 2012	December 31 2011
Net defined benefit plan deficits [Note 20]	**28,739**	23,678
Provisions	**5,219**	8,196
Other	**7,604**	3,027
	41,562	34,901
Less current portion included in accounts payable, accrued liabilities and provisions	**2,559**	5,770
	39,003	29,131

The following table presents the movement in provisions:

	Warranty	Environmental	Other provisions	Total
At December 31, 2010	1,839	2,625	2,939	7,403
Additional provisions	846	346	1,117	2,309
Amount used	(344)	(110)	(535)	(989)
Unused amounts reversed	(491)	–	(100)	(591)
Foreign currency	34	4	26	64
At December 31, 2011	1,884	2,865	3,447	8,196
Additional provisions	260	276	590	1,126
Amount used	(311)	(15)	(1,573)	(1,899)
Unused amounts reversed	(125)	–	(2,054)	(2,179)
Unwind of discount	–	14	–	14
Foreign currency	(44)	(1)	6	(39)
At December 31, 2012	**1,664**	**3,139**	**416**	**5,219**

Warranty

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

Environmental

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

Other

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

16. INCOME TAXES

The following are the major components of income tax expense:

	2012	2011
Current income tax expense		
Current tax expense for the year	**2,925**	202
Adjustments of previous year's tax expense	**–**	78
	2,925	280
Deferred income tax expense		
Origination and reversal of temporary differences	**1,113**	3,975
Impact of tax law changes	**(224)**	(267)
	889	3,708
Total income tax expense	**3,814**	3,988

Income taxes recognized in other comprehensive income (loss) are as follows:

	2012	2011
Actuarial losses on defined benefit pension plans	**2,560**	579

The Corporation's consolidated effective tax rate for the year ended December 31, 2012 was 6.1% [2011 – 9.6%]. The difference in the effective tax rates compared to the Corporations' statutory income tax rates were mainly caused by the following:

	2012	2011
Income before income taxes	**62,109**	41,401
Income taxes based on the applicable tax rate of 25.8% in 2012 and 27.2% in 2011	**16,036**	11,261
Adjustment to income taxes resulting from:		
Benefit of previously unrecognized tax assets	**(12,956)**	(10,483)
Adjustments in respect of prior years	**149**	979
Permanent differences and other	**86**	1,629
Higher income tax rates on income of foreign operations	**723**	869
Changes in income tax rates	**(224)**	(267)
Income tax expense	**3,814**	3,988

The Canadian statutory tax rate decreased to 25.8% in 2012 from 27.2% in 2011 as a result of government enacted changes in tax legislation.

Changes in the deferred tax components are adjusted through deferred income tax expense except for $16,395 [2011 – $9,173] of investment tax credits which is adjusted through cost of revenues and $2,560 [2011 – $579] for employee future benefits which is adjusted through other comprehensive income.

Deferred tax movement in the income statement is as follows:

	2012	**2011**
Operating loss carry forwards	**(1,296)**	(1,422)
Employee future benefits	**255**	991
Property, plant and equipment and intangibles	**(901)**	4,171
Other	**2,831**	(32)
Deferred income tax expense	**889**	3,708

The following are the major components of deferred tax assets and liabilities:

	December 31 2012	**December 31 2011**
Operating loss carry forwards	**12,712**	11,999
Investment tax credits	**42,093**	29,075
Employee future benefits	**5,967**	2,801
Property, plant and equipment and intangibles	**(43,383)**	(43,573)
Other	**18,890**	17,970
Deferred tax assets	**36,279**	18,272

For the purposes of the above table, deferred tax assets are shown net of offsetting deferred tax liabilities where these occur in the same entity and jurisdiction as follows:

	December 31 2012	**December 31 2011**
Deferred tax assets	**51,040**	28,360
Deferred tax liabilities	**(14,761)**	(10,088)

The temporary difference associated with investments in subsidiaries and joint ventures, for which a deferred tax liability has not been recognized aggregates to $180,825 [2011 – $131,070].

17. SHARE CAPITAL

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

Common shares

	Number	**Amount**
Issued and fully paid:		
Outstanding at December 31, 2010	18,209,001	214,440
Issued upon conversion of convertible debentures [Note 12]	38,000,000	38,000
Outstanding at December 31, 2011	56,209,001	252,440
Issued upon conversion of convertible debentures [Note 12]	2,000,000	2,000
Outstanding at December 31, 2012	**58,209,001**	**254,440**

Net income per share

			2012			2011
	Amount	Weighted average no. of shares	Per share amount ($)	Amount	Weighted average no. of shares	Per share amount ($)
Net income	**58,295**			37,413		
Dividends declared on preference shares	**–**			–		
Basic	**58,295**	**57,553,263**	**1.01**	37,413	18,313,001	2.04
Effect of dilutive securities:						
Convertible debentures	**80**	**655,738**	**(0.01)**	5,082	39,896,000	(1.31)
Diluted, net	**58,375**	**58,209,001**	**1.00**	42,495	58,209,001	0.73

18. STOCK-BASED COMPENSATION PLAN

The Corporation has an incentive stock option plan, which provides for the granting of options for the benefit of employees and directors. No such awards were granted during the years ended December 31, 2012 and December 31, 2011. The maximum number of options for common shares that remain to be granted under this plan is 1,673,341. Options are granted at an exercise price equal to the market price of the Corporation's common shares at the time of granting. Options normally have a life of five years with vesting at 20.0% at the end of the first, second, third, fourth and fifth years from the date of the grant. In addition, certain business unit income tests must be met in order for the option holder's entitlement to fully vest.

A summary of the plan and changes during each of 2012 and 2011 are as follows:

		2012		2011
	Shares	Weighted average exercise price($)	Shares	Weighted average exercise price ($)
Outstanding, beginning of year	**224,200**	**16.00**	427,950	15.72
Forfeited/expired	**(224,200)**	**16.00**	(203,750)	13.38
Outstanding, end of year	**–**	**–**	224,200	16.00

On November 7, 2008, the Corporation amended the incentive stock option plan by adding a cash option feature to all new and previously granted options outstanding. The cash option feature allows option holders to elect to receive an amount in cash equal to the intrinsic value, being the excess market price of the common share over the exercise price of the option, instead of exercising the option and acquiring the common shares. The result of such an amendment is that the outstanding share options awards largely take on the characteristics of liability instruments rather than equity instruments. All outstanding stock options are now classified as liabilities and are carried at their fair value. The fair value of the liability is marked to market each period for new awards to be granted subsequent to the amendment date. The fair value is amortized to expense over the period in which the related services are rendered, which is usually the graded vesting period or, as applicable, over the period to the date an employee is eligible to retire, whichever is shorter. No such awards were granted in 2011 and 2012. For the outstanding share option awards that were amended, the minimum expense recognized for them will be their grant-date fair values. Previously, all stock options were classified as equity and were measured at the estimated fair value established by the Black-Scholes model on the date of grant. Under this method, the estimated fair value was and will continue to be amortized to compensation expense and contributed surplus over the period in which the related services were rendered, which is usually the vesting period or, as applicable, over the period to the date an employee was eligible to retire, whichever was shorter.

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

The Corporation has a deferred share unit plan ("DSU Plan") for certain executive officers ("Officers") which provides a structure for Officers to accumulate equity-like holdings in the Corporation. The DSU Plan allows certain Officers to participate in the growth of the Corporation by providing a deferred payment based on the value of a common share at the time of redemption. Each Officer receives deferred share units ("Units") based on their annual management incentive compensation. The Units are issued based on the Corporation's common share price at the time of issue. A third of the Units are paid upon issuance and the remaining Units are paid out equally on the anniversary date of issuance in the following two year period or upon retiring. The cash value is equal to the common share price at the date of redemption, adjusted by any dividends paid on the common shares. As at December 31, 2012, 116,067 Units were outstanding at a value of $250 [December 31, 2011 – $78].

The Corporation recorded compensation expense in relation to the plans during the year of $171 [2011– $298].

19. FINANCIAL INSTRUMENTS

Categories of financial instruments

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

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

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

	Fair value through profit or loss: Held for trading[1]	Loans and receivables[2]	Total financial assets	Other financial liabilities (at amortized cost)[3]	Total financial liabilities
December 31, 2011	27,028	106,480	133,508	334,055	334,055
December 31, 2012	**22,431**	**134,361**	**156,792**	**364,968**	**364,968**

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

The Corporation has exposure to the following risks from its use of financial instruments:
– Market risk
– Credit risk
– Liquidity risk

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

Market risk

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

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

Currency risk

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

The most significant transaction exposures arise in the Canadian operations where significant portions of the revenues are transacted in U.S. dollars. As a result, the Corporation may experience transaction exposures because of the volatility in the exchange rate between the Canadian and U.S. dollar. Based on the Corporation's current U.S. denominated net inflows, as of December 31, 2012, fluctuations of +/- 1% would, everything else being equal, have an effect on net income and on other comprehensive income for the year ended December 31, 2012 of approximately +/- $20 and $1,242 respectively.

Interest rate risk

The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. At December 31, 2012, $165,660 of the Corporation's total debt portfolio is subject to movements in floating interest rates. In addition, a portion of the Corporation's accounts receivable securitization programs are exposed to interest rate fluctuations. The objective of the Corporation's interest rate management activities is to minimize the volatility of the Corporation's income. The Corporation monitors its exposure to interest rates and has not entered into any derivative contracts to manage this risk. A fluctuation in interest rates of 100 basis points (1 percent) would have impacted the amount of interest charged to net income during the year ended December 31, 2012 by approximately +/- $1,416.

Credit risk

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

The Corporation, in the normal course of business, is exposed to credit risk from its customers, substantially all of which are in the aerospace industry. The Corporation sells the majority of its products to large international organizations with

strong credit ratings. Therefore, the Corporation is not exposed to significant credit risk and overall the Corporation's credit risk has not changed significantly from the prior year.

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

Derecognition of financial assets

The Corporation sells a portion of its accounts receivables through securitization programs or factoring transactions. During 2012, the Corporation sold receivables to various financial institutions in the amount of $227,699 [2011 – $167,100] for a discount of $648 [2011– $447] representing an annualized interest rate of 1.83% [2011 – 1.73%].

As at December 31, 2012, accounts receivables include receivables sold and financed through securitization transactions of $26,521 [2011– $6,019] which do not meet the IAS 39 derecognition requirements. These receivables are recognized as such in the financial statements even though they have been legally sold; a corresponding financial liability is recorded in the consolidated statement of financial position under debt due within one year.

Liquidity risk

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

Contractual maturity analysis

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

	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total
Bank indebtedness	–	112,666	–	–	–	–	112,666
Long-term debt[1]	32,425	6,531	35,636	5,509	5,382	29,030	114,513
Equipment leases	348	234	188	129	68	21	988
Facility leases	1,592	1,586	1,550	1,385	1,233	5,531	12,877
Other long-term liabilities	1,489	627	648	647	587	3,580	7,578
Borrowings subject to specific conditions	672	939	732	653	737	17,707	21,440
	36,526	122,583	38,754	8,323	8,007	55,869	270,062
Interest payments	3,904	3,690	1,263	1,123	994	5,625	16,599
Total	40,430	126,273	40,017	9,446	9,001	61,494	286,661

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

Fair values

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

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

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

Foreign exchange contracts

The Corporation enters into forward foreign exchange contracts to mitigate future cash flow exposures in US dollars and Euros. Under these contracts the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in US dollars and Euros. The Corporation does not have any forward foreign exchange contracts outstanding as at December 31, 2012.

Long-term debt

The fair value of the Corporation's long-term debt, calculated by discounting the expected future cash flows based on current rates for debt with similar terms and maturities, is $85,826 at December 31, 2012.

Collateral

As at December 31, 2012, the carrying amount of all of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $156,792.

Fair value hierarchy

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The Corporation does not have any financial assets carried at fair value as at December 31, 2012.

20. EMPLOYEE FUTURE BENEFITS

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

Defined contribution plans

The Corporation's expenses for defined contribution plans for the year ended December 31, 2012 totalled $3,887 [2011 – $4,243].

Defined benefit plans

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

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

Pension plans

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

Actuarial valuations for funding purposes are prepared and filed with the appropriate regulatory authorities at least tri-annually. The most recent actuarial valuations for the various pension plans were completed between December 31, 2009 and January 1, 2012.

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. The other benefit plan provides for post-employment life insurance and compensated absences for eligible current employees, including vacation to be taken before retirement, if certain age and service requirements are met.

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

		2012		**2011**
	Pension benefit plan	**Other benefit plan**	**Pension benefit plan**	**Other benefit plan**
Defined benefit plan assets				
Fair market value of plan assets				
Beginning of year	**82,627**	**–**	82,069	–
Expected return on plan assets	**5,064**	**–**	5,085	–
Actuarial loss	**(556)**	**–**	(6,121)	–
Employer contributions	**6,797**	**–**	6,599	–
Employee contributions	**342**	**–**	354	–
Benefit payments	**(6,668)**	**–**	(5,483)	–
Foreign exchange gain (loss)	**(126)**	**–**	124	–
End of year	**87,480**	**–**	82,627	–

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

		2012		2011
	Pension benefit plan	**Other benefit plan**	**Pension benefit plan**	**Other benefit plan**
Defined benefit plan obligations				
Accrued benefit obligation				
Beginning of year	**106,305**	**949**	91,392	734
Current service cost	**2,816**	**–**	2,788	–
Interest cost	**4,639**	**483**	4,709	628
Past service cost	**–**	**–**	208	–
Employee contributions	**342**	**–**	354	–
Actuarial loss	**9,426**	**–**	12,129	153
Benefit payments	**(6,668)**	**(532)**	(5,483)	(584)
Plan amendments and curtailments	**(422)**	**–**	–	–
Foreign exchange loss	**(219)**	**(20)**	208	18
End of year	**116,219**	**880**	106,305	949

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

		2012		2011
	Pension benefit plan	**Other benefit plan**	**Pension benefit plan**	**Other benefit plan**
Fair market value of plan assets	**87,480**	**–**	82,627	–
Accrued benefit obligation	**(116,219)**	**(880)**	(106,305)	(949)
Accrued benefit liability	**(28,739)**	**(880)**	(23,678)	(949)

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

All defined benefit plans were in a deficit status as at December 31, 2012 and December 31, 2011.

The Corporation expects to contribute approximately $4,816 in 2013 to all its defined benefit plans in accordance with normal funding policy. Because of market driven changes that the Corporation cannot predict, the Corporation could be required to make contributions in the future that differ significantly from its estimates.

Components of pension costs

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

		2012		2011
	Pension benefit plans	**Other benefit plan**	**Pension benefit plans**	**Other benefit plan**
Recognized in net income				
Current service cost	**2,816**	**–**	2,788	–
Interest cost	**4,639**	**483**	4,709	628
Expected return on plan assets[1]	**(5,003)**	**–**	(5,085)	–
Other	**(422)**	**–**	208	–
Total pension cost recognized in net income	**2,030**	**483**	2,620	628

1The actual return on plan assets is a gain of $4,508 for the year ended December 31, 2012 [2011 – loss of $1,036]

		2012		2011
	Pension benefit plans	Other benefit plan	Pension benefit plans	Other benefit plan
Recognized in other comprehensive income				
Actuarial loss immediately recognized	**(9,922)**	**–**	(18,270)	(153)
Effect of limit on recognition of asset	**–**	**–**	314	–
Total pension cost recognized in other comprehensive income	**(9,922)**	**–**	(17,956)	(153)

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]:

		2012		2011
	Pension benefit plans	Other benefit plan	Pension benefit plans	Other benefit plan
Accrued benefit obligation at December 31				
Discount rate	**4.0%**	**3.5%**	4.6%	4.25%
Expected long-term rate of return on plan assets	**6.0%**	**–**	6.0%	–
Rate of compensation increase	**2.9%**	**–**	2.9%	–
Benefit costs for the year ended December 31				
Discount rate	**4.0%**	**3.5%**	4.6%	4.25%
Expected long-term rate of return on plan assets	**6.0%**	**–**	6.0%	–
Rate of compensation increase	**2.9%**	**–**	2.9%	–

The discount rate assumption used in determining the obligations for pension and other benefit plans was selected based on a review of current market interest rates of high-quality, fixed rate debt securities adjusted to reflect the duration of expected future cash outflows for pension benefit payments. At December 31, 2012, a 1.0% change in the discount rate used could result in a $18,326 increase or decrease in the pension benefit obligation with a corresponding benefit or charge recognized in other comprehensive income in the year.

The expected rate of return on plan assets is reviewed annually by the Corporation. The Corporation must make assumptions about the expected long-term rate of return of plan assets, but there is no assurance that the plan will be able to earn the assumed rate of return. In determining the long-term rate of return assumption, the Corporation considers historical returns and input from its actuary's simulation model of expected long-term rates of return assuming the Corporation's targeted investment portfolio mix.

The Corporation funds health care benefit costs, shown under other benefit plan, as a pay as you go basis. For measurement purposes, a 5.0% to 10.0% annual rate of increase in the per capita cost of covered health care and dental benefits was assumed for 2012. 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, 2012 was nominal.

Assets

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

	2012	2011
Equity investments	**62.5%**	47.6%
Fixed income investments	**30.0%**	45.7%
Other investments	**7.5%**	6.7%
	100.0%	100.0%

21. SEGMENTED INFORMATION

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

The Corporation evaluated the performance of its operating segments primarily based on net income before interest and income tax expense. The Corporation accounts for intersegment and related party sales and transfers, if any, at the exchange amount.

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

	2012	2011
Revenues		
Sale of goods	**541,136**	478,293
Construction contracts	**59,449**	115,095
Services	**103,994**	98,022
	704,579	691,410

The aggregate amount of revenues recognized for construction contracts in progress at December 31, 2012 was $269,800 [December 31, 2011–$227,895]. Advance payments received for construction contracts in progress at December 31, 2012 were $11,663 [December 31, 2011–$4,240]. Retentions in connection with construction contracts at December 31, 2012 were $995 [December 31, 2011–$1,017]. Advance payments and retentions are included in accounts payable, accrued liabilities and provisions.

Segmented information consists of the following:

Activity segments:

	2012			2011		
	Aerospace	Power Generation Project	Total	Aerospace	Power Generation Project	Total
Revenues	**659,301**	**45,278**	**704,579**	609,942	81,468	691,410
Income before interest and income taxes	**71,426**	**(80)**	**71,346**	53,014	5,386	58,400
Interest expense			**9,237**			16,999
Income before income taxes			**62,109**			41,401
Total assets	**725,348**	**30,459**	**755,807**	638,583	23,155	661,738
Total liabilities	**404,226**	**17,065**	**421,291**	369,580	9,463	379,043
Additions to property, plant and equipment	**33,829**	**–**	**33,829**	59,260	–	59,260
Depreciation and amortization	**31,029**	**–**	**31,029**	30,407	2,428	32,835
Impairment reversal, net	**270**	**–**	**270**	1,847	–	1,847

Geographic segments:

	2012				2011			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Revenues	**338,032**	**199,917**	**166,630**	**704,579**	365,853	187,658	137,899	691,410
Export revenues[1]	**246,518**	**46,921**	**13,806**	**307,245**	267,089	33,420	12,064	312,573

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

	2012				2011			
	Canada	United States	Europe	Total	Canada	United States	Europe	Total
Property, plant and equipment and intangible assets	**196,336**	**118,945**	**61,861**	**377,142**	201,586	121,030	33,262	355,878

The major customers for the Corporation are as follows:

	2012	2011
Canadian operations		
Number of customers	**3**	2
Percentage of total Canadian revenues	**38%**	33%
US operations		
Number of customers	**1**	1
Percentage of total US revenues	**39%**	40%
European operations		
Number of customers	**2**	1
Percentage of total European revenues	**88%**	73%

22. COST OF REVENUES

	2012	2011
Operating expenses	**591,184**	573,587
Amortization	**29,519**	30,806
Investment tax credits	**(16,395)**	(9,173)
Impairment (reversal) of inventories	**(151)**	627
Impairment reversal, net [Note 8]	**(270)**	(1,847)
	603,887	594,000

23. ADMINISTRATIVE AND GENERAL EXPENSES

	2012	2011
Salaries, wages and benefits	**25,680**	22,725
Administration and office expenses	**9,941**	10,714
Professional services	**2,072**	2,796
Amortization	**1,510**	2,029
	39,203	38,264

24. INTEREST EXPENSE

	2012	2011
Interest on bank indebtedness and long-term debt [Notes 9 and 11]	**7,982**	9,397
Interest on convertible debenture [Note 12]	**66**	4,000
Accretion charge on convertible debenture, long-term debt and borrowings	**541**	3,155
Discount on sale of accounts receivables	**648**	447
	9,237	16,999

25. OTHER COMPREHENSIVE (LOSS) INCOME

Other comprehensive income (loss) includes unrealized foreign currency translation gains and losses, which arise on the translation to Canadian dollars of assets and liabilities of the Corporation's foreign operations and net actuarial losses on defined benefit pension plans, net of tax. The Corporation recorded unrealized currency translation losses for the year ended December 31, 2012 of $1,116 [2011 – gains of $4,149] and net actuarial losses on defined benefit plans of $7,361 [2011 – $17,530]. These gains and losses are reflected in the consolidated statement of financial position and had no impact on net income for the year.

26. RELATED PARTY DISCLOSURE

Transactions with related parties

On December 21, 2012, the Original Loan was extended [Note 11]. During 2012, the Corporation incurred interest of $2,325 [2011–$3,748] in relation to the Original Loan and prepaid the Original Loan by $3,500 [2011–$12,500]. At December 31, 2012, the Corporation owed Edco interest of $191 [2011–$214].

On April 30, 2009, the Chairman of the Board of the Corporation subscribed to $40,000 of the Convertible Debentures. On December 31, 2011, the Chairman of the Board exercised his conversion rights under the debenture agreement and $38,000 principal amount of the Convertible Debentures, the entire amount of the Convertible Debentures then held by the Chairman, were converted into 38,000,000 common shares of the Corporation. On April 30, 2012, Convertible Debentures in the principal amount of $2,000 held by a director of the Corporation were converted into common shares of the Corporation. Interest incurred during the year ended December 31, 2012 on the Convertible Debentures was $66 [2011–$4,000].

The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the Corporation's operating credit facility. An annual fee averaging 0.63% [2011 – 0.8%] of the guaranteed amount or $1,102 [2011–$1,399] was paid in consideration for the guarantee.

During the year, the Corporation incurred consulting costs of $100 [2011–$100] payable to a corporation controlled by the Chairman of the Board of the Corporation.

Key management personnel

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

	2012	2011
Short-term benefits	**2,294**	2,161
Post-employment benefits	**122**	103
Share-based payments	**138**	147
	2,554	2,411

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

27. SUPPLEMENTARY CASH FLOW INFORMATION

	2012	2011
Net change in non-cash working capital		
Accounts receivable	**(20,114)**	(10,908)
Inventories	**(17,310)**	24,704
Prepaid expenses and other	**(1,792)**	6,559
Accounts payable, accrued liabilities and provisions	**13,861**	(32,881)
	(25,355)	(12,526)
Interest paid	**9,605**	14,873
Income taxes (refund) paid	**(1,069)**	1,447

28. ADDITIONAL FINANCIAL INFORMATION

Included in other expenses is a foreign exchange gain of $623 [2011 – loss of $238] on the conversion of foreign currency denominated working capital balances and debt.

29. 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.

As at December 31, 2012, total managed capital was $559,631, comprised of shareholders' equity of $334,516 and interest-bearing debt of $225,115.

The Corporation manages its capital structure and makes adjustments to it in light of economic conditions, the risk characteristics of the underlying assets and the Corporation's working capital requirements. In order to maintain or adjust its capital structure, the Corporation, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares through the normal course issuer bid, pay dividends or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets. Based on current funds available and expected cash flow from operating activities, management believes that the Corporation has sufficient funds available to meet its liquidity requirements at any point in time. However, if cash from operating activities is lower than expected or capital costs for projects exceed current estimates, or if the Corporation incurs major unanticipated expenses, it may be required to seek additional capital in the form of debt. 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, 2012 the Corporation was in compliance with these covenants.

30. CONTINGENT LIABILITIES AND COMMITMENTS

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

At December 31, 2012, capital commitments in respect of purchase of property, plant and equipment totalled $11,822, all of which had been ordered. There were no other material capital commitments at the end of the year.

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

Executive Officers

N. Murray Edwards
Chairman

Richard A. Neill
Vice Chairman

James S. Butyniec
President and
Chief Executive Officer

John B. Dekker
Chief Financial Officer and
Corporate Secretary

Daniel R. Zanatta
Vice President,
Business Development,
Marketing and Contracts

Larry A. Winegarden
Vice President,
Corporate Strategy

Konrad B. Hahnelt
Vice President,
North American Operations

Jo-Ann C. Ball
Vice President,
Human Resources

Board Of Directors

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

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

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

Hon. William G. Davis P.C., C.C., Q.C. (3)
Counsel
Davis Webb LLP
Brampton, Ontario

William A. Dimma C.M., O. Ont. (1, 2)
Chairman Emeritus
Home Capital Group Inc.
Toronto, Ontario

Bruce W. Gowan (1, 2, 3)
Corporate Director
Huntsville, Ontario

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

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

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

Committees Of The Board

(1) Audit Committee
Chairman:
William A. Dimma

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

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

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

OPERATING FACILITIES DIRECTORY AND SHAREHOLDER INFORMATION

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660 Berry Street,
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Toronto, Ontario

Transfer Agent

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e-mail: service@computershare.com
www.computershare.com

Stock Listing

Toronto Stock Exchange—TSX
Common Shares—MAL

Annual Meeting

The Annual Meeting of the Shareholders of Magellan Aerospace Corporation will be held on Wednesday, May 8th, 2013 at 2:00 p.m. at The Living Arts Centre, 4141 Living Arts Drive, Mississauga, Ontario L5B 4B8

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