MAGELLAN AEROSPACE CORPORATION

ANNUAL REPORT

2008

LETTER TO SHAREHOLDERS

The aerospace industry experienced a year of highs and lows in 2008. Defence procurement of equipment and aftermarket services continued its strong performance across much of the western world.

The year 2008 was one of growth for Magellan Aerospace Corporation ("Magellan" or "the Corporation"). Revenues increased by more than $88 million to $686 million, and earnings grew by $24 million resulting in $0.62 net income per share for year-ended December 31, 2008 as compared to $0.71 net loss per share for year-ended December 31, 2007. Although 2008 showed improvements, the current economic outlook, with announced cuts to production rates by aircraft manufacturers, will negatively impact Magellan in 2009.

World Economy and Industry Status

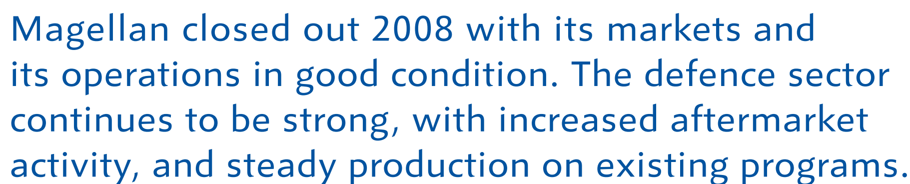
The aerospace industry experienced a year of highs and lows in 2008. Defence procurement of equipment and aftermarket services continued its strong performance across much of the western world. In contrast, civil aerospace experienced a number of successes through the first half of 2008, but a greater number of setbacks in the remainder of the year. Setbacks occurred globally in the civil airliner and business aircraft segments, driven largely by external influences. The lack of availability of credit for leasing, capital investment and operating costs, the uncertainty surrounding effectiveness of government's stimulus packages, and the growth in unemployment characterized the impacts on the civil aviation section.

Record high fuel prices, labour strikes, delayed deliveries of new programs, and the precipitous crash of the global financial section battered the aerospace industry in the second half of 2008. The price of fuel became the largest cost for aircraft operators before falling abruptly in the fourth quarter, trapping costs in the airlines. The breadth and speed of the economic decline caused contraction in travel, reducing load factors of civil airlines, and the use and purchase of business aircraft to unexpected lows in 2008. All of these factors portend weaker sales through 2009 and 2010. Stability in the areas of oil prices, availability of credit, and travel patterns will add greater certainty to the civil aerospace market.

The manufacturing sector of the aerospace industry made a number of timely adjustments to the changes in the economic landscape and finished 2008 in orderly fashion, with the exception of the business aircraft segment. While airliner production decreased moderately from record high levels, demand remained stable through to the year end, and for the early months of 2009. Defence and space spending levels are under review in many nations, but rapid change is not probable as most defence and space development and procurement budgets are in place for 2009 and 2010.

Magellan in 2008 and Going Forward

As Magellan closed out 2008, it is well placed on both Airbus and Boeing single-aisle aircraft, the highly successful A320 family and the B737 family. Most of the new civil production programs, which Magellan is positioned on, are advancing toward full-scale production in spite of the delays experienced in earlier development. The Corporation has a contained exposure to the business aircraft section. It has no ongoing airframe participation, but supplies medium-sized aeroengines for new build opportunities as well as in the aftermarket, thus retaining revenues when new sales are reduced.



The defence sector remains stable, with increased aftermarket activity and steady production on existing programs. The Joint Strike Fighter (JSF) Program is gaining speed, while the Corporation and its customers are moving into higher production rates. Helicopter demand in both civil and defence sectors continues to be strong, and in the defence sector, new helicopter programs and updates appear to be solid through the end of the next decade. Defence also provides significant aftermarket opportunity, and Magellan participates on repair and overhaul of mid-size engines for helicopters and fighter aircraft.

In the proprietary product areas of the business, Magellan has market share in industrial power generation, space hardware, software and launch services, and defence and helicopter safety roles. The Corporation continued to experience high interest and positive demand in 2008. Key programs will extend into 2009 and beyond, with revenues and returns on investment from world-leading technologies being developed and supplied by Magellan.

There are currently many uncertainties in the global economy, and some in local areas where access to credit needs to improve to allow investment. Many governments are in the process of rolling out economic stimulus packages, including Canada, the United States, and the United Kingdom. The defence sector of the aerospace industry continues to show strength of purpose, while the civil section has shown some strengths and weaknesses. Magellan has taken specific actions to manage cash, reduce costs, and invest in new programs and capabilities across its facilities. The Corporation has also completed its jointly owned product treatment facility in India, which is now in operation.

Overall, Magellan has exposure to the anticipated growth sectors of the global aerospace industry. The Corporation has captured opportunities on new civil and defence programs with key customers such as Airbus, Boeing, Lockheed, BAE Systems, Pratt & Whitney, GE Aviation, and Rolls-Royce.

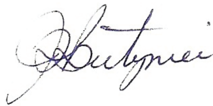
Financial Matters

Despite successes being achieved in 2008 by Magellan operationally, due to the Corporation's current financial position, the high level of indebtedness on its balance sheet, and well publicized challenges in the financial markets, Magellan faces significant financial challenges in 2009 and beyond. Magellan's operating credit facility is due for its annual renewal in May 2009. As part of the financing initiatives negotiated in February 2009, the Corporation will attempt to renew its operating credit facility by April 30, 2009. In this regard, the Corporation has commenced discussions, but not yet engaged in any negotiations, with its lenders of the operating credit facility regarding the renewal. If the Corporation is unable to renew this facility, its ability to continue as going concern is uncertain. To address the uncertainty in 2009, efforts are being made to conserve cash through management of inventory levels, productivity improvements through cycle time reduction, cost reduction through offload of non-core products, and restriction of capital investments.

Magellan has taken specific actions to manage cash, reduce costs, and invest in new programs and capabilities across its key facilities.

Dramatic fluctuations in foreign exchange rates remain a major factor for Magellan as the Corporation operates in several countries including Canada, the United States, and the United Kingdom. Operations in Canada and the United Kingdom incur costs in their native currencies while some of the revenues generated are in US dollars, which are translated into Canadian dollars for financial reporting. The US dollar strengthened significantly relative to the Canadian dollar from the end of 2007 to the end of 2008, however, the average US to Canadian dollar exchange rate experienced in 2008 was slightly weaker as compared to 2007. As a result, Magellan's financial results in 2008 versus 2007 were not significantly impacted by foreign exchange rates .

As uncertainty continues over the recovery of the global economy, we thank you, our investors and financial partners, for your continued support during these challenging economic times. We would also like to extend our appreciation to Magellan's employees for their dedication and hard work in delivering quality products to customers.



James S. Butyniec
President and Chief Executive Officer
March 26, 2009

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis ("MD&A") of financial condition and results of operations should be read in conjunction with the 2008 consolidated financial statements and notes. Magellan Aerospace Corporation ("Magellan" or the "Corporation") reports its audited consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

The MD&A contains forward looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance. All statements other than statements of historical facts may be forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "expects," "projects," "plans," "anticipates," and similar expressions. The projections, estimates and beliefs contained in such forward-looking statements are based on management's assumptions relating to the production performance of Magellan's assets and competition throughout the aerospace industry in 2009 and continuation of the current regulatory and tax regimes in the jurisdiction in which the Corporation operates, and necessarily involve known and unknown risks and uncertainties, including the business risks discussed in this MD&A, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Except as required by law, the Corporation does not undertake to update any forward-looking information in this document whether as to new information, future events or otherwise.

The date of this MD&A is March 24, 2009.

COMPANY OVERVIEW

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

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

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

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

The Corporation supplies aerostructures products to an international customer base in the civil and defence markets. Components are produced to aerospace tolerances using conventional and high-speed automated machining centers. 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 Magellan to capture targeted complex assembly programs.

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

The Corporation serves both the commercial and defence markets. In 2008, 68.2% of sales were derived from the commercial markets (2007—65.8%, 2006—64%) while 31.8% of sales related to defence markets (2007—34.2%, 2006—36%).

OUTLOOK

The positive sales trend in 2008 will be tempered in the aerospace industry in 2009. It is anticipated that business aircraft may experience continued declines in use and orders through 2009, bringing its extended growth period to an end. Air transportation deliveries are forecasted to be stable in 2009, with potential downward pressure in the second half of 2009 if credit availability is not maintained, or if oil prices rise sharply again.

Defence spending is forecasted to be stable in both new aerospace equipment and in the aftermarket. While historically independent of the overall economy, defence spending could be pressured by high government stimulous spending in 2009 and 2010. However, most defence development and procurement budgets are in place for 2009-2010, and defence sales growth should continue through 2010 as legacy programs are replaced with new programs reaching production.

Magellan has exposure to the anticipated growth sectors of the global aerospace industry. It has captured opportunities on new civil and defence programs, has continued to modernize its facilities and update its capabilities, and has taken opportunities to address contingencies that may arise during the economic uncertainty of 2009.

RISK FACTORS

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

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

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

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and

other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will 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 impair the value of its common shares.

Weak capital markets reduce our financial flexibility and may result in less than optimal financing results.

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

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

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

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

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

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

The Corporation amended and restated its bank credit agreement with its existing lender on June 24, 2008 (the "Bank Facility Agreement"). Under the terms of the Bank Facility Agreement, the Corporation has an operating credit facility, expiring on May 23, 2009, and extendable for unlimited one year periods by agreement of the Corporation and the lenders. The Corporation's Bank Facility Agreement also requires the Corporation to maintain specified financial ratios. The Corporation's ability to meet the financial ratios can be affected by events beyond the Corporation's control, and there can be no assurance that the Corporation will be able to meet the ratios. There is no assurance that the Bank Facility Agreement will be renewed every year or that the terms of renewal will not be materially adverse to the Corporation. This credit facility is fully guaranteed by Mr. Edwards, a director and Chairman of the Board of the Corporation. There is also no assurance that Mr. Edward's guarantee, if required, will be available beyond the term of the current commitment which ends on May 23, 2009. There is no assurance that Magellan will be in compliance with its bank covenant at all times during the upcoming twelve months due to unforeseen events or circumstances, some of which are outlined in this "Risks Factors" section.

The $20.95 million principal amount of the 8.5% convertible unsecured subordinated debentures (the "New Debentures") are due January 31, 2010 and the Corporation will need to finance repayment of such amount. The Corporation has borrowed $50.0 million pursuant to a loan (the "Original Loan") which is due July 1, 2009 unless extended to July 1, 2010 pursuant to the 2009 Financing Arrangements (as defined in "Financing Matters"). In addition, the completion of the 2009 Financing Arrangements will result in the Corporation being required to offer to purchase the New Debentures at 102.5% of the principal amount plus unpaid and accured interest. There is no assurance that alternative debt or equity financing will be available, or will be available on satisfactory terms, to the Corporation to refinance the repayment of, or to fund the offer to purchase, the New Debentures or the Original Loan. Credit ratings and access to the capital markets may be impacted by a number of matters and a number of external factors beyond the Corporation's control, and there can be no assurance that access to the capital markets will be available to refinance, or to fund the offer to purchase, the New Debentures or the Original Loan.

Pursuant to the 2009 Financing Arrangements, if completed, the Original Loan and the new $15.0 million secured subordinated loan will be due on July 1, 2010. Subject to the terms of the Ontario Business Corporations Act (the "OBCA"), the holders of the First Preference Shares Series A (the "Preference Shares") issued in 2005 for $20.0 million have the right to retract the Preference Shares for the issue price plus accrued and unpaid dividends from July 1, 2010 in the event the volume weighted average trading price of the common shares on the TSX for at least 20 trading days in any consecutive 30 day period ending on the fifth trading day prior to such date is less than $12.00 per common share, or upon the occurrence of a change of control of the Corporation involving the acquisition or voting control or direction over at least 66 2/3% of the common shares and instruments convertible into common shares. If the 2009 Financing Arrangements are completed, subject to the terms of the OBCA, the Corporation would be required to retract the Preference Shares in whole or in part. The Corporation does not currently believe it will be able to retract the Preference Shares as it does not expect to have the funds to do so, and in any event, it is prohibited from doing so by the terms of its Bank Facility Agreement, and any default in the operating credit facility would result in the Corporation being unable to pay its liabilities as they become due and constitute a contravention of the OBCA. There can be no assurance that the Corporation will determine to or be able to pay future dividends on the Preference Shares.

The Corporation's Bank Facility Agreement, the New Debentures, and the Original Loan are due within a one-year period. If the Corporation is unable to renew or re-finance these facilities, its ability to continue as a going concern is uncertain.

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

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

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

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

SELECTED ANNUAL FINANCIAL INFORMATION

Expressed in millions of dollars except per share information

	2008	2007
Revenues	**686.4**	597.8
Net income (loss) for the year	**12.9**	(11.3)
Income (loss) per common share		
Basic and diluted	**0.62**	(0.71)
Total assets	**670.7**	649.4
Total long-term liabilities	**51.7**	108.0

The Corporation has not paid dividends on its common shares in the past four years. In 2005, the Corporation issued 2,000,000 8.0% Cumulative Redeemable First Preference Shares Series A. The Corporation paid dividends thereon of $0.80 per share during 2008 and 2007. On March 20,2009, the Board of Directors of the Corporation determined not to declare or pay dividends due on April 30, 2009 on the Preference

Shares as it was unable to obtain reasonable assurances that such declaration and payment would not contravene the OBCA.

Effective January 1, 2008, the Corporation was required to adopt Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031 "Inventories", which replaces Section 3030 "Inventories". The Corporation adopted this new section retrospectively, without restatement of prior periods. Learning curve balances previously classified as inventory of $43.1 million, net of a future income tax recovery of $8.8 million were charged to retained earnings on adoption of Section 3031, effective January 1, 2008. This new section also prescribed that certain development costs and program tooling costs may no longer be classified as inventory. As a result, $67.5 million of deferred development costs related to long-term contracts have been reclassified to other assets and $10.9 million of program tooling costs have been reclassified to capital assets, effective January 1, 2008. Cost of revenues for the year ended December 31, 2008 increased by $1.9 million, on the adoption of this new section. The reader is referred to "Changes in Accounting Policies" for further details regarding the adoption of this standard.

On February 13, 2008, the Corporation acquired all the outstanding shares of Verdict Aerospace Components Ltd. ("Verdict"), a company based in the United Kingdom. The acquisition has been accounted for by the purchase method of accounting with the results of operations of Verdict included in the consolidated financial statements from January 1, 2008, the effective date of purchase.

2008 UPDATES

- On May 21, 2008, as approved at the Annual General and Special Meeting of the Corporation's shareholders held on May 13, 2008, the Corporation completed a five-for-one consolidation of its common shares.
- An agreement was made between Airbus and Magellan Aerospace (UK) Limited, an operating division, which secured its workload through 2012 in a contract worth £300 million as part of the Airbus Power 8 cost reduction initiative and includes increasing volumes of the wing components that the Corporation is currently producing for Airbus as well as substantial new packages of work.
- GKN Aerospace awarded a contract to Magellan Aerospace (UK) Limited, an operating division, to supply metal components for retrofit winglets on the Boeing 767, supporting GKN Aerospace's design and development contract for these winglets with Aviation Partners Boeing (ABP). The contract calls for up to 450 aircraft sets over the performance period of three to four years.
- First deliveries of front fan frames for the F136 engine commenced in 2008 on the Corporation's long-term contract with GE Rolls-Royce Fighter Engine team. The F136 engine is the most advanced fighter aircraft engine ever developed and will be available to power all variants of the Joint Strike Fighter ("JSF") F-35 Lightning II for the US military and with partner nations.
- The Corporation was awarded a U.S. $12 million contract to build the development heat shields for the Orion Space Shuttle replacement program by Lockheed Martin Space Systems Division. The Corporation will develop the lightweight titanium honeycomb heat shield panels that help protect the space capsule from the temperature extremes experienced during re-entry.

- The Corporation reached an agreement with the Canadian Government's Strategic Aerospace and Defense Initiative (SADI) program that will provide provide up to $43.3 million of repayable cash flow to support the development of new manufacturing and process technology for composite and metallic materials for the multi-national JSF F-35 Lightning II aircraft.
- During the fourth quarter of 2008 the joint ownership processing facility in India was completed. This facility, at 17,500 square feet, will initially focus on processes for aluminum, titanium, and stainless steel components for aerostructure and aeroengine components. The new facility commenced operations in January of 2009.

MAJOR PLANT RATIONALIZATIONS

Four plant rationalization and modernization projects were completed over the past three years. The Corporation's operation in the United Kingdom completed a major re-allocation of work within its facilities, and to its supply base, to improve efficiencies and provide capacity for increased workloads. The Corporation's casting operations also completed upgrades to equipment and facilities, and re-allocated product families between sites which achieved efficiency gains that increased throughput by approximately 30%. The Corporation's aeroengine machining operations in Massachusetts re-started operations in 2007 in a new facility that offers room to expand production to accommodate increasing demand. Finally, the Corporation's operations in New York completed Phase I of its upgrade program, upgrading and augmenting its production equipment, and consolidating operations to achieve greater flow and efficiency. This project is expected to complete its final phase of upgrade in 2009 – 2010. A fifth plant upgrade and capitalization is expected to commence in 2009 to support the JSF program.

LABOUR MATTERS

A labour agreement at one of the Corporation's facilities expired on December 31, 2008 and two additional labour agreements expired on March 15, 2009 and management is currently in negotiations. Labour agreements at two additional facilities will expire in 2009.

FINANCING MATTERS

On January 30, 2008, the Corporation closed a private placement of an aggregate of $21.0 million New Debentures, due January 31, 2010 the proceeds of which were used to fund, in part, the repayment of the $70.0 million principal amount of outstanding 8.5% unsecured subordinated debentures (the "Existing Debentures") which matured on January 31, 2008.

The New Debentures were redeemable by Magellan for the first six months of the term at 102.5% of principal value and the holders had no conversion rights. After the first six months of the term, the New Debentures are convertible, at the option of the holder, at any time prior to maturity into common shares of the Corporation at a conversion price of $10.00 per share, which is equal to a conversion rate of 100 common shares per $1,000 principal amount of debentures or the issuance on conversion of approximately 2,095,000 common shares in total.

On January 31, 2008, in order to fund the remaining balance of approximately $50.0 million on the maturity of the Existing Debentures, Edco Capital Corporation ("Edco"), a corporation controlled by the Chairman of the Board of the Corporation, provided the Original Loan and a $15.0 million bridge loan (the "Bridge Loan") to the Corporation. All of the funds from the Bridge Loan and approximately $35.0 million of the

funds from the Original Loan were used to repay the balance of the Existing Debentures and the $15.0 million of additional funds from the Original Loan was provided to the Corporation to retire $15.0 million of subordinated debt due to a corporation controlled by a common director. Both the Original Loan and the Bridge Loan bear interest at a rate of 10% per annum calculated and payable monthly, are collateralized and subordinated to the Corporation's existing operating credit facility. The Original Loan is repayable on July 1, 2009 and the Bridge Loan was repayable on July 31, 2008. On June 24, 2008, the Bridge Loan was repaid through an increase in the operating credit facility. In addition, in January 2008 in consideration for the provision of additional security for the Corporation's obligations under its existing secured operating credit facility, the Corporation has increased the standby guarantee payable to the Chairman of the Board from 0.1% per annum to 1.35% per annum of the principal amount guaranteed.

On June 24, 2008, the Corporation renewed the Bank Facility Agreement with its existing lenders. Under the terms of the renewed agreement, the maximum amount available under the operating credit facility was increased by $20.0 million to $95.0 million Canadian and $90.0 million U.S. ($204.6 million at December 31, 2008) with a maturity date of May 23, 2009. The facility is extendable for unlimited one-year renewal periods on the agreement of the lenders and the Corporation and continues to be fully guaranteed by the Chairman of the Board of the Corporation.

In December 2008, the Corporation's Board of Directors established a committee consisting of three independent directors. This committee was formed to consider the financial condition of the Corporation and to consider proposals to restructure the capital structure of the Corporation through the issuance of debt or equity, or through the sale of assets or other alternative transaction should such transactions be required.

The independent committee and the independent members of the Board of Directors concluded that the Corporation is in serious financial difficulty because, even though management believes that the Corporation will generate sufficient cash through operations in order to meet its obligations as they come due, if the Corporation is unable to renew or re-finance its operating bank facility and extend the Original Loan, its ability to continue as a going concern is uncertain. The Corporation's operating credit facility is due on May 23, 2009 and the Original Loan is due on July 1, 2009.

The Corporation announced on February 4, 2009 that the independent members of its Board of Directors approved additional financing initiatives which are designed to improve the Corporation's financial position and are reasonable for the Corporation in the circumstances. These financial initiatives consist of a new secured subordinated loan in the amount of $15.0 million, the extension of the maturity of the Original Loan from Edco of $50.0 million to July 1, 2010, the issuance of up to $40.0 million principal amount of 10% convertible secured subordinated debentures (the "Convertible Secured Subordinated Debentures") and the continuation of one of the Corporation's existing securitization programs of up to $35.0 million of Canadian based accounts receivables, declining to $20.0 million by April 30, 2009 and to nil by December 31, 2009.

Edco and Mr. Edwards, the Chairman of the Board of the Corporation, and the Corporation agreed to the following financing transactions:

(a) the subscription by Mr. Edwards, directly or indirectly, for the purchase of a minimum of $25.0 million principal amount of a new issue of Convertible Secured Subordinated Debentures;

(b) the extension of the Original Loan from Edco to the Corporation in the principal amount of $50.0 million to July 1, 2010 in consideration of the payment of a one time fee to Edco equal to 1% of the principal amount outstanding and increasing the interest rate on the loan from 10% to 12% per annum (the "Amended Original Loan"); and

(c) an additional secured subordinated loan from Edco of $15.0 million maturing on July 1, 2010 with an interest rate of 12% per annum, payable monthly in arrears with similar terms as the Amended Original Loan.

(together the "2009 Financing Arrangements")

The agreement of the Corporation, Edco and Mr. Edwards is subject to the extension of the operating credit facility for a period of at least one year on or before April 30, 2009 on terms satisfactory to the Board of Directors of the Corporation. In addition, the agreement of Mr. Edwards and Edco is subject to there being no material adverse change in the business, operations or capital of the Corporation.

The acquisition of $25.0 million of Convertible Secured Subordinated Debentures would result, in the event of conversion of the Convertible Secured Subordinated Debentures, in Mr. Edwards holding in excess of 66 2/3% of the common shares of the Corporation on a fully diluted basis. As a result, such holdings would constitute a change of control (as defined in the New Debentures) and the Corporation will have an obligation to make an offer to purchase the New Debentures due January 31, 2010 and outstanding in the principal amount of $20.95 million at a price of 102.5% of the principal amount plus accrued and unpaid interest. In addition, subject to the terms of the OBCA, pursuant to a similar change of control definition in the Preference Share terms, the Corporation will be required to retract its outstanding Preference Shares at a price of $10.00 per share plus accrued and unpaid dividends. Dividends on the Preference Shares have been fully paid to December 31, 2008.

On March 20, 2009, the Board of Directors of the Corporation determined to commence with the negotiations with the Corporation's lenders on the extension of its operating credit facility and instructed management to formulate plans for the offer to purchase the outstanding New Debentures if and when required. The Board of Directors also determined not to declare or pay dividends due on April 30, 2009 on the Preference Shares as it was unable to obtain reasonable assurances that such declaration and payment would not contravene the OBCA. The Corporation does not currently believe it will be able to retract the Preference Shares as it does not expect to have the funds to do so, and in any event it is prohibited from doing so by the terms of its operating credit facility and any default in the operating credit facility would result in the Corporation being unable to pay its liabilities as they become due and constitute a contravention of the OBCA.

There can be no assurance that the additional financing initiatives will be completed on the terms set forth or at all. The Corporation has commenced in initial discussions, but has not yet engaged in any negotiations, with its lenders to renew the operating credit facility. At this early stage, no assurance can be given that the operating credit facility will be renewed on terms satisfactory to the Board of Directors of the Corporation. As part of the refinancing, the holder of the Original Loan has already agreed to extend the terms of the Original Loan to July 1, 2010 subject to the extension of the operating credit facility for a period of at least one year.

RESULTS FROM OPERATIONS

Revenues

Twelve-months ended December 31
Expressed in thousands of dollars

	2008	2007	Change
Canada	**304,124**	289,904	4.9%
United States	**245,455**	188,330	30.3%
United Kingdom	**136,857**	119,574	14.5%
Total Revenues	**686,436**	597,808	14.8%

Consolidated revenues for the year ended December 31, 2008 were $686.4 million, an increase of $88.6 million or 14.8% over the previous year. During 2008, the Corporation's sales volumes increased by 7.3% over the previous year. This increase in sales volume, over all geographical regions, was mainly due to increases in production rates at original equipment manufacturers ("OEMs") for aircraft and engines. The increase in Canada is a result of increased sales in proprietary products in 2008 over 2007. Increases in the United States sales resulted from a one-time retroactive price settlement recorded in the third quarter of 2008 totalling $4.9 million and a price increase in the current year totalling $5.5 million which had a direct increase to both of the Corporation's revenue and gross profit for the year. Increased sales in the United States and the United Kingdom can be attributed to the Corporation's increased participation on the Boeing and Airbus family of parts. Increase in the United Kingdom also resulted from the purchase of Verdict Aerospace Components, Inc. in the first quarter of 2008.

Gross Profit

Twelve-months ended December 31
Expressed in thousands of dollars

	2008	2007	Change
Gross profit	**77,459**	58,914	32.4%
Percentage of revenue	**11.3%**	9.9%	

Gross profit in 2008 was $77.5 million, an increase of $18.5 million from 2007. As a percentage of revenue, gross profit was 11.3% of sales in 2008 compared to 9.9% of sales in 2007. Gross profit increased over 2007 due to the Corporation concluding a one-time retroactive price adjustment totalling $4.9 million and a price increase relating to 2008 sales totalling $5.5 million. Gross profit for 2008, excluding the impact of these price adjustments of $10.4 million and a write-down taken in the year due to the impact of the uncertainties of the current economic climate, would have been $70.4 million (10.3% of revenues).

During 2008, the Corporation began to realize the anticipated operational efficiencies at several of its manufacturing facilities that were rationalized and modernized during the last few years. The impact on gross profit from these improvements in efficiencies have yet to be fully realized and as a result the Corporation continues to take steps to improve manufacturing techniques, and implement other cost reduction initiatives. The Corporation will continue to increase its low-cost sourcing activities in 2009 to improve the gross profit.

Administrative and General Expenses

Twelve-months ended December 31
Expressed in thousands of dollars

	2008	2007
Administrative and general expenses	**44,691**	42,446
Plant and program closure costs	**4,558**	—
Gain on sale of capital assets	**(1,355)**	(1,257)
Foreign exchange (gain) loss	**(6,904)**	5,576
Total administrative and general expenses	**40,990**	46,765
Percentage of revenues	**5.8%**	7.8%

Total administrative and general expenses for 2008 were $41.0 million, compared to $46.8 million in 2007. Included in administrative and general expenses is a foreign exchange gain, resulting from the change in foreign exchange rates on the Corporation's US denominated working capital balances and debt in Canada, of $6.9 million in 2008 versus a loss of $5.6 million in 2007. In 2008 and 2007 the Corporation disposed of capital assets and recorded gains on the sale of capital assets of $1.4 million and $1.3 million, respectively.

The Corporation increased a previously recorded provision by $0.8 million in relation to the 2006 closure of its Fleet Industries plant and also, due to the decline in the financial market, the Corporation recorded a charge to administrative and general expenses in 2008 of $3.8 million in respect of a pension obligation for the Fleet Industries pension plan that is in the process of being wound-up. In addition, the Corporation recorded a provision of $1.0 million against a receivable related to the customer due to the current economic environment. Administrative and general expenses also increased by $1 million as a result of the acquisition of Verdict in the first quarter of 2008. Administrative and general expenses in 2007 were offset by currency collar gains of $2.5 million that did not recur in 2008.

Write-down of Assets

In 2007, as a result of the accounting irregularities that occurred from 2003 to 2007, the Corporation suffered a loss of $4.9 million ($5.7 million pre-tax), net of anticipated insurance proceeds, as the overstated carrying values of the assets were written down to their appropriate values. A loss of $2.2 million was recorded in 2007 ($1.6 million in cost of revenues and $0.6 million in administrative and general expenses) and $2.7 million was recorded against 2007 opening retained earnings. The Corporation has since recovered $1.5 million of the loss through its all risk insurance policy, as anticipated.

Interest Expense

Twelve-months ended December 31
Expressed in thousands of dollars

	2008	2007
Interest on bank indebtedness and long-term debt	**15,070**	12,068
Convertible debenture interest	**2,141**	5,950
Accretion charge on convertible debt	**437**	2,354
Discount on sale of accounts receivable	**4,301**	4,211
Total interest expense	**21,949**	24,583

Interest costs for 2008 were $21.9 million, a decrease of $2.6 million from 2007. Although the amount of debt increased in 2008 when compared to 2007, the interest costs were lower in 2008 compared to 2007 as a result of lower interest rates incurred during the year. During the year, the Corporation sold $555.6 million of accounts receivable at a discount of $4.3 million, which represented an annualized interest rate of 6.77%. In 2007, $399.6 million of receivables were sold at a discount of $4.2 million, which represented an annualized interest rate of 6.82%.

Provision for (Recovery of) Income Taxes

Twelve-months ended December 31
Expressed in thousands of dollars

	2008	2007
(Recovery of) provision for current income taxes	**(194)**	207
Future income tax provision (recovery)	**1,814**	(1,300)
Total income tax provision (recovery)	**1,620**	(1,093)
Effective Tax Rate	**11.1%**	8.8%

The Corporation recorded an income tax provision in 2008 of $1.6 million on pre-tax income of $14.5 million, representing an effective tax rate of 11.1%, compared to a recovery of $1.1 million on a pre-tax loss of $12.4 million in 2007 for an effective tax rate of 8.8%. During 2008, the Corporation recorded a non-cash charge of $3.0 million to establish a valuation allowance against its net future tax assets in Canada where recovery of the carry forwards or assets were not "more likely than not". The valuation allowance charge is offset by an adjustment of $3.5 million to the future tax liability as a result of rate adjustments recorded in the United States.

Cash Flow from Operating Activities

Twelve-months ended December 31
Expressed in thousands of dollars

	2008	2007
(Increase) decrease in accounts receivable	**(22,844)**	16,148
Increase in inventories	**(16,628)**	(16,112)
Decrease (increase) in prepaid expenses and other	**2,176**	(5,064)
Increase (decrease) in accounts payable and accrued charges	**4,475**	(1,463)
Net change in non-cash working capital items	**(32,821)**	(6,491)
Cash provided by operating activities	**23,155**	3,050

Operating activities for 2008 generated cash flows of $23.2 million compared to $3.0 million in the prior year. In 2008, income from operations before changes in non-cash working capital items generated cash of $56.0 million, a $46.5 million increase compared to $9.5 million provided in 2007 due principally to higher revenue and profitability in 2008 as a result of increased sales volumes and a significant retroactive price adjustment. Changes in non-cash working capital used cash of $32.8 million as a result of increases in inventories and accounts receivables offset by an increase in accounts payable and accrued charges. Inventories increased during the year to support key programs and a result of the delay in the shipment of some programs in the last few months of the year. Accounts receivable increased during the year as the Corporation has decreased

the amount drawn on its accounts receivable securitization facility. In 2007, changes in non-cash working capital of $6.5 million were principally a result of an increase in inventory and prepaid expenses, decrease in accounts payable and accrued charges offset by a decrease in accounts receivable.

Cash Flow from Investing Activities

Twelve-months ended December 31
Expressed in thousands of dollars

	2008	2007
Acquisitions	**(4,268)**	—
Purchase of capital assets	**(18,769)**	(22,968)
Proceeds from disposals of capital assets	**3,540**	2,240
(Decrease) increase in other assets	**(3,768)**	1,279
Cash used in investing activities	**(23,265)**	(19,449)

The Corporation invested $18.8 million in capital assets during the year, to upgrade its machinery and facilities, a decrease of $4.2 million from 2007. In 2008 and 2007, proceeds from the sale of capital assets, totalling $3.5 million and $2.2 million, respectively, were used to fund a portion of the investment in capital assets. Capital additions were for advanced technology production equipment and information technology systems, both designed to increase productivity, reduce cycle time and improve technology capability.

SELECTED QUARTERLY FINANCIAL INFORMATION

Twelve-months ended December 31
Expressed in thousands of dollars

				2008				2007
	March 31	**June 30**	**Sept 30**	**Dec 31**	March 31	June 30	Sept 30	Dec 31
Revenues	**161.1**	**172.1**	**173.0**	**180.2**	144.1	150.3	147.9	155.5
Net income (loss)	**2.0**	**0.8**	**2.7**	**7.4**	(1.7)	(1.7)	(2.9)	(5.0)
Income (loss) per common share								
Basic and diluted	**0.09**	**0.02**	**0.12**	**0.39**	(0.02)	(0.02)	(0.04)	(0.06)

The US$/C$ exchange rate was very volatile during 2008 as the US dollar appreciated from an US$/C$ exchange rate of 0.9913 at the start of the year to 1.2180 by year's end. Although the US$/C$ rate appreciated quarter over quarter in 2008, the average rate in 2008 of 1.0670 remained relatively consistent with the 2007 average rate of 1.0740. Had exchange rates remained at levels experienced in each quarter of 2007, reported revenues in 2008 would have been higher by approximately $15.4 million in the first quarter, approximately $8.7 in the second quarter, consistent in the third quarter and lower in the fourth quarter by $23.9 million.

EBITDA

In addition to the primary measures of earnings and earnings per share in accordance with GAAP, the Corporation includes certain measures in this MD&A, including EBITDA (earnings before interest expense, income taxes, depreciation, amortization and certain non-cash charges). The Corporation has provided

these measures because it believes this information is used by certain investors to assess financial performance and EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Corporation's principal business activities prior to consideration of how these activities are financed and how the results are taxed in the various jurisdictions. Each of the components of this measure are calculated in accordance with GAAP, but EBITDA is not a recognized measure under GAAP, and our method of calculation may not be comparable with that of other companies. Accordingly, EBITDA should not be used as an alternative to net earnings as determined in accordance with GAAP or as an alternative to cash provided by (used in) operations.

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

Twelve-months ended December 31
Expressed in thousands of dollars

	2008	2007
Net income (loss)	**12,900**	(11,341)
Interest	**21,949**	24,583
Taxes	**1,620**	(1,093)
Stock based compensation	**742**	1,450
Depreciation and amortization	**25,744**	22,799
Amortization of deferred development costs	**14,474**	—
EBITDA	**77,429**	36,398

Prior to the adoption of the CICA Handbook Section 3031, "Inventories", the Corporation included in inventory deferred development costs and the amortization of these costs were not a component within the EBITDA calculation.

LIQUIDITY

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

Contractual Obligations As at December 31, 2008 Expressed in thousands of dollars	Total	Less than 1 year	1-3 Years	4-5 Years	After 5 Years
Bank indebtedness	177,766	177,766	—	—	—
Long-term debt	60,916	51,318	4,368	2,583	2,647
Capital lease obligations	3,208	1,003	2,205	—	—
Operating leases	10,795	4,989	3,694	1,152	960
Other long-term liabilities	7,947	—	4,862	100	2,985
Convertible debentures	20,950	—	20,950	—	—
Total	281,582	235,076	36,079	3,835	6,592

Major cash flow requirements for 2009 include the renewal of the operating credit facility, a non-bank loan repayment of $50.0 million and payments of operating leases of $4.9 million.

The Corporation's operating credit facility and the Original Loan are both due within a one-year period. The Corporation has commenced discussions but has not yet engaged in any negotiations with the lenders of the operating credit facility regarding the renewal of this facility. As part of the refinancing discussed in "Financing Matters", the holder of the Original Loan has already agreed to extend the terms of the Original Loan to July 1, 2010 subject to the extension of the operating credit facility for a period of one year. While these consolidated financial statements are prepared on the assumption that these credit facilities will be renewed, as it has done in previous years, there is no certainty that this will be the case in light of the current credit conditions. If the Corporation is unable to renew or re-finance these facilities, its ability to continue as a going concern is uncertain. See "Risks Factors" section.

The Corporation has made contractual commitments to purchase $11.8 million of capital assets. The Corporation also has purchase commitments, largely for materials, in 2009, made through the normal course of operations, of $172.0 million. The Corporation plans to finance these capital commitments with operating cash flow and existing credit facility.

OFF BALANCE SHEET ARRANGEMENTS

The Corporation has entered into arrangements in which it sold certain accounts receivable to third parties at a discount. This discount typically represents approximately 1.0% to 3.0% over 60 day BA or LIBOR rates. At December 31, 2008, the amount of receivables sold to third parties that remained outstanding was $62.2 million.

A reserve of $4.4 million is included within accounts receivable that represents the maximum credit recourse to the related party.

The Corporation occasionally uses derivative financial instruments to manage foreign exchange risk. The Corporation does not trade in derivatives for speculative purposes.

The Corporation has entered into foreign exchange contracts to hedge future cash flow exposure in US dollars. Under these contracts the Corporation is obliged to purchase or sell specific amounts of US dollars at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in US dollars. During 2008, the Corporation entered into a foreign exchange collar which sets a floor of $1.0309 Canadian per $1.00 U.S. and a ceiling of $1.0970 Canadian per $1.00 U.S. of which $12.0 million U.S. will expire in 2009.

The Corporation had foreign exchange contracts outstanding at December 31, as follows:

		2008
Expressed in thousands of dollars	Amount	Exchange rate
Maturity—less than 1 year—U.S. Dollar	26,100	1.23014
Maturity—less than 1 year—U.S. Dollar	12,000	1.0309—1.0970

These foreign exchange contracts are recorded at their fair value of $1.9 million in accrued liabilities.

RELATED PARTY TRANSACTIONS

As at December 31, 2008, the Chairman of the Board, who is also a director, and a director of the Corporation held $18.15 million of the $20.95 million of the New Debentures issued in 2008. The Chairman of the Board of the Corporation also held $15.0 million of the Existing Debentures that were repaid on January 31, 2008. The related cash interest for the year was $1.4 million [2007—$1.3 million].

On March 30, 2007, the Corporation entered into a secured promissory note with a corporation, which is controlled by a common director, in the amount of $15.0 million, due July 1, 2008 bearing interest at a rate of 9.0%. In 2008, $0.1 million of interest was paid in relation to the loan. The note was repaid on January 31, 2008.

On January 31, 2008, the Corporation entered into a $50.0 million Original Loan due July 1, 2009 and a $15.0 million Bridge Loan due July 31, 2008 with a corporation, which is controlled by a common director. Both loans bear interest at a rate of 10%. In 2008, $4.6 million of interest was paid in relation to the Original Loan and $0.6 million of interest was paid in relation to the Bridge Loan. The Bridge Loan was repaid in June 2008.

The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the Corporation's operating credit facility and in 2008 was paid an annual fee of $2.1 million [2007—$0.2 million], 1.35% [2007—0.1%] of the guaranteed amount as compensation for this guarantee.

During the year, the Corporation sold accounts receivable totaling $405.2 million to a corporation with a common director, for a discount of $2.8 million.

The Corporation incurred consulting costs of $0.1 million payable to the Chairman of the Board of the Corporation. As well, the Corporation paid legal fees of $0.08 million to a law firm in which a director is a partner.

CRITICAL ACCOUNTING ESTIMATES

Inventories

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

Asset Impairment

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

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

Income Taxes

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

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

Foreign Currency Translation

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

Financial Instruments and Other Instruments

The Corporation has not utilized any financial instruments to hedge its exposure to foreign currency flows in 2008 and 2007.

CHANGES IN ACCOUNTING POLICIES

Inventories

Effective January 1, 2008, the Corporation was required to adopt Canadian Institute of Chartered Accounts ("CICA") Handbook Section 3031 "Inventories", which replaces Section 3030 "Inventories". The Corporation adopted this new section retrospectively, without restatement of prior periods. This new section provides revised guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides revised guidance on the cost methodologies that are to be used to assign costs to inventories and expands the disclosure requirements to increase transparency.

As a result of these required changes in accounting policies, the Corporation was required to adopt the unit cost method for inventory related to its long-term contracts in replacement of the long-term average cost method. The unit cost method is the prescribed cost method under which the actual production costs are charged to each unit produced and recognized to income as the unit is sold. The Corporation previously accounted for the cost of production inventory using the long-term average cost which reflected higher unit costs at the early phase of a program and lower unit costs at the end of the program (the learning curve concept).

As at January 1, 2008, the effect of these accounting changes, required under Section 3031, on the Corporation's consolidated balance sheet is as follows:

Expressed in thousands of dollars	Reported, as at December 31, 2007	Impact of accounting changes	Restated, as at January 1, 2008
Assets			
Inventories	274,011	(121,462)	152,549
Capital assets	245,727	10,852	256,579
Deferred Development Costs	8,143	67,471	75,614
	527,881	(43,139)	484,742
Liabilities			
Future income tax liabilities	16,799	(8,844)	7,955
Shareholders' equity	265,927	(34,295)	231,632

Learning curve balances of $43.1 million, net of a future income tax recovery of $8.8 million were charged to retained earnings on adoption of Section 3031, effective January 1, 2008. This new section also prescribed that certain development costs and program tooling costs may no longer be classified as inventory. As a result, $67.5 million of deferred development costs related to long-term contracts have been reclassified to other assets and $10.9 million of program tooling costs have been reclassified to capital assets, effective January 1, 2008.

Cost of revenue for the year ended December 31, 2008 increased by $1.9 million, on the adoption of this new section.

Section 3031 requires inventory to be valued at the lower of cost or net realizable value ("NRV"). The new section also allows for the reversal of previous write-downs of inventory items when the NRV of those items subsequently recovers.

Financial Instruments — Disclosures and Financial Instruments — Presentation

Effective January 1, 2008, the Corporation also adopted two new presentation and disclosure standards that were issued by the CICA: Handbook Section 1535, Capital Disclosures ("Section 1535"), Handbook Section 3862, Financial Instruments — Disclosures ("Section 3862") and Handbook Section 3863, Financial Instruments — Presentation ("Section 3863").

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments — Disclosure and Presentation, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements for financial instruments. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

General standards of financial statement presentation

CICA Handbook Section 1400 was amended to include the requirement to assess and disclose uncertainties about the Corporation's ability to continue as a going concern. The new requirements came into effect for the Corporation's fiscal year beginning January 1, 2008. The new standard did not have an impact on the valuation or classification of amounts in the Corporation's consolidated financial statements.

Capital disclosures

On January 1, 2008, the Corporation adopted Section 1535, "Capital Disclosures". This Section establishes standards for disclosing information about an entity's capital and how it is managed. Disclosures should include the entity's objectives, policies and procedures for managing capital as well as any externally imposed capital requirements and the consequences of non-compliance.

FUTURE CHANGES IN ACCOUNTING POLICIES

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

Section 3064, *Goodwill and Intangible Assets*

In February 2008, the CICA issued new recommendations for accounting for "Goodwill and Intangible Assets." This new section will replace the existing standards for "Goodwill and Other Intangible Assets" (CICA Handbook Section 3062) and "Research and Development Costs" (CICA Handbook Section 3450) and will apply to Corporation's 2009 annual and interim financial statements. The new standard (i) states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria; (ii) provides guidance on the recognition of internally generated intangible assets including research and development costs; and (iii) carries forward the current requirements of Section 3062 for subsequent measurement and disclosure of intangible assets and goodwill. Adoption of this new section is not expected to have a material impact on the Corporation's consolidated financial statements.

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

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

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

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

Under Section 1602, any non-controlling interest will be recognized as a separate component of share-

holders' equity. Net income will be calculated without deduction for the non-controlling interest. Rather, net income will be allocated between the controlling and non-controlling interests.

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

International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be converged with International Financial Reporting Standards ("IFRS") effective January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures. The transition from Canadian GAAP to IFRS will be applicable to the Corporation for the first quarter of 2011 where the current and comparative financial information will be prepared in accordance with IFRS. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of the transition to IFRS at the changeover date. The International Accounting Standard Board will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Corporation's financial results will only be measured once all the IFRS applicable at the conversation date are known.

The Corporation commenced its IFRS conversion efforts during 2008. The transition project consists of four elements: planning and awareness raising; assessment; design; and implementation. With the assistance of external consultants, the Corporation has conducted sessions to raise awareness in its efforts to transition to IFRS. As part of planning, the Corporation completed a high level assessment of the major differences between Canadian GAAP and IFRS. During 2009, work will be initiated relating to assessment and design. This will involve detailed evaluation of the differences on recognition, measurement and disclosures between Canadian GAAP and IFRS, and design of solutions for the conversion to IFRS. The assessment and design will also entail establishment of issue-specific work teams to focus on generating alternatives and making recommendations in identified areas related to IFRS recognition, measurement and disclosures. The Corporation will establish a communications plan, develop staff training programs, and evaluate the impacts of the IFRS transition on other business activities.

CONTROLS AND PROCEDURES

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at December 31, 2008 that they are responsible for establishing and maintaining, and have assessed the 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 as-

surance 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 effectiveness of disclosure controls and procedures and internal control over financial reporting. As of December 31, 2008, an evaluation was carried out, under the supervision of President and Chief Executive Officer and Vice-President, Finance and Corporate Secretary, of the effectiveness of the Corporation's disclosure controls and internal controls over financial reporting, as those terms are defined in National Instrument 52-109. Based on that evaluation, the Corporation's management concluded that the Corporation's disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2008.

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

OTHER INFORMATION

The authorized capital of the Corporation consists of an unlimited number of Preference Shares, issuable in series, and an unlimited number of common shares. As at March 24, 2009, 18,209,001 common shares were outstanding and 2,000,000 Preference Shares were outstanding.

At December 31, 2008, the Corporation had outstanding approximately $20.95 million of 8.5% convertible unsecured subordinated debentures, due January 31, 2010. After the first six months of the term, the debentures are convertible, at the option of the holder, at any time prior to maturity into common shares of Magellan at a conversion price of $10.00 per share, which is equal to a conversion rate of 100 common shares per $1,000 principal amount of debentures or the issuance on conversion of approximately 2,095,000 common shares in total.

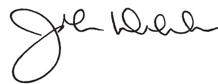
Additional information relating to Magellan Aerospace Corporation, including the Corporation's Annual Information Form is on SEDAR at www.sedar.com.

MANAGEMENT'S REPORT

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

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

James S. Butyniec
President and Chief Executive Officer
March 26, 2009



John B. Dekker
Vice President Finance and Corporate Secretary

AUDITORS' REPORT

TO THE SHAREHOLDERS OF MAGELLAN AEROSPACE CORPORATION

We have audited the consolidated balance sheets of **Magellan Aerospace Corporation** as at December 31, 2008 and 2007 and the consolidated statements of operations and retained earnings, cash flows and comprehensive income (loss) for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Canada, March 24, 2009

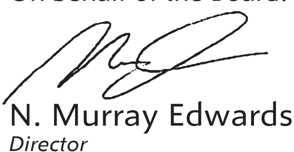
CONSOLIDATED BALANCE SHEETS

As at December 31
[Expressed in thousands of dollars]

	2008	2007
Assets		
Current		
Cash	$ 5,362	$ 4,884
Accounts receivable [NOTES 18 AND 20[f]]	67,435	35,659
Inventories [NOTES 2 AND 4]	178,474	274,011
Prepaid expenses and other	10,717	13,127
Future income tax assets [NOTE 16]	5,097	6,264
Total current assets	267,085	333,945
Capital assets, net [NOTE 5]	277,207	245,727
Technology rights [NOTE 6]	32,567	34,491
Deferred development costs [NOTE 7]	69,225	8,143
Other assets [NOTE 17]	15,970	13,073
Future income tax assets [NOTE 16]	8,643	14,064
Total long-term assets	403,612	315,498
	670,697	649,443
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness [NOTE 8]	177,766	139,748
Accounts payable and accrued charges	125,116	119,881
Convertible debentures [NOTE 10]	—	13,834
Current portion of long-term debt [NOTE 9]	52,321	2,099
Total current liabilities	355,203	275,562
Long-term debt [NOTE 9]	11,803	27,839
Convertible debentures [NOTE 10]	20,544	55,950
Future income tax liabilities [NOTE 16]	11,392	16,799
Other long-term liabilities [NOTE 11]	7,947	7,366
Total long-term liabilities	51,686	107,954
Shareholders' equity		
Capital stock [NOTES 12 AND 13]	234,381	234,310
Contributed surplus [NOTE 20 [g]]	3,991	3,249
Other paid in capital [NOTE 10]	11,645	11,100
Retained earnings	59,752	82,747
Accumulated other comprehensive loss [NOTE 14]	(45,961)	(65,479)
Total shareholders' equity	263,808	265,927
	670,697	649,443

Basis of presentation [NOTE 1]
Commitments and contingencies [NOTE 22]
Subsequent events [NOTE 23]
See accompanying notes

On behalf of the Board:



N. Murray Edwards
Director

William A. Dimma
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended December 31
[Expressed in thousands of dollars]

	2008	2007
Revenues	**$ 686,436**	$ 597,808
Cost of revenues	**608,977**	538,894
Gross profit	**77,459**	58,914
Expenses		
Administrative and general expenses [NOTE 19]	**40,990**	46,765
Interest [NOTES 8 AND 20[a]]	**21,949**	24,583
	62,939	71,348
Income (loss) before income taxes	**14,520**	(12,434)
Provision for (recovery of) income taxes [NOTE 16]		
Current	**(194)**	207
Future	**1,814**	(1,300)
	1,620	(1,093)
Net income (loss)	**12,900**	(11,341)
Retained earnings, beginning of year	**82,747**	95,688
Effect of change in accounting policy [NOTE 2]	**(34,295)**	—
Adjusted retained earnings, beginning of year	**48,452**	95,688
Dividends on preference shares	**(1,600)**	(1,600)
Net income (loss)	**12,900**	(11,341)
Retained earnings, end of year	**59,752**	82,747
Net income (loss) per common share [NOTE 12]		
Basic and diluted	**0.62**	(0.71)

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

As at December 31
[Expressed in thousands of dollars]

	2008	2007
Operating Activities		
Net income (loss)	$ 12,900	$ (11,341)
Add (deduct) items not affecting cash		
Depreciation and amortization	40,218	22,799
Net gain on sale of capital assets	(1,355)	(1,257)
Write-down of assets	2,184	206
Employee future benefits	(1,277)	(6,977)
Deferred revenue	313	3,544
Stock based compensation [NOTE 13]	742	1,450
Issuance of common shares to the directors	—	63
Accretion of convertible debentures	437	2,354
Future income tax expense (recovery)	1,814	(1,300)
	55,976	9,541
Net change in non-cash working capital items related to operating activities [NOTE 20[c]]	(32,821)	(6,491)
Cash provided by operating activities	23,155	3,050
Investing Activities		
Acquisition of Verdict [NOTE 3]	(4,268)	—
Purchase of capital assets	(18,769)	(22,968)
Proceeds from disposal of capital assets	3,540	2,240
(Increase) decrease in other assets	(3,768)	1,279
Cash used in investing activities	(23,265)	(19,449)
Financing Activities		
Increase in bank indebtedness	19,065	11,695
Decrease in loan payable	(15,000)	—
Increase in loan payable	15,000	13,190
Decrease in long-term debt	(16,841)	—
Increase in long-term debt	50,000	—
Decrease in convertible debentures	(69,985)	—
Increase in convertible debentures	20,778	—
Decrease in other long-term liabilities	(392)	(9,780)
Issuance of common shares	71	76
Dividends on preference shares	(1,600)	(1,600)
Cash provided by financing activities	1,096	13,581
Effect of exchange rate changes on cash	(508)	(2,194)
Net increase (decrease) in cash during the year	478	(5,012)
Cash, beginning of year	4,884	9,896
Cash, end of year	5,362	4,884

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31
[Expressed in thousands of dollars]

	2008	2007
Net income (loss)	**$ 12,900**	$ (11,341)
Other comprehensive income (loss):		
Net unrealized gain (loss) on translation of net investment in foreign operations [NOTE 14]	**19,518**	(25,264)
Comprehensive income (loss)	**32,418**	(36,605)

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

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

The Corporation has a working capital deficiency of $88,118 as at December 31, 2008. As described in note 8, the Corporation currently does not have a confirmed source of funds available to repay the operating facility maturing on May 23, 2009 and the $50,000 loan due on July 1, 2009 [the "Original Loan"]. The Corporation's management has undertaken discussions with their lenders regarding the renewal of these facilities [Note 23—Subsequent Events].

The Corporation's ability to continue as a going concern is dependent upon its ability to renew or re-finance its operating credit facility and the Original Loan. The outcome of these matters cannot be predicted at this time. However, as part of the refinancing referred to in Note 23—Subsequent Events, the holder of the Original Loan has already agreed to extend the terms of the Original Loan to July 1, 2010 subject to the extension of the operating credit facility for a period of at least one year. These consolidated financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities that might be necessary should the Corporation be unable to renew or refinance its credit facilities.

Use of estimates

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

Revenue recognition

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

The most significant revenue recognition policies are outlined below:

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

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

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

the period's revenue. A provision for the estimated loss is made when contract costs are expected to exceed estimated contract revenue.

Inventory [NOTE 2]

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

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

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

Capital assets

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

Buildings	40 years
Machinery and equipment	20 years
Tooling	3 – 7 years

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

Impairment of long-lived assets

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

Technology rights

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

Research and development

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

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

Government investment

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

Convertible debentures

The amount recorded as convertible debentures includes the present value of the future interest and principal amounts of the debentures. The amount will be accreted to the face value of the convertible debentures over the term to maturity through periodic charges to the Consolidated Statement of Operations.

The value of the holder's option to convert the convertible debentures into common shares of the Corporation is recorded as other paid in capital. The holder's conversion option is valued using the residual value approach.

Foreign currency translation

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

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

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

Employee benefit plans

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

Stock based compensation plan

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

Income taxes

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

Income (loss) per common share

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

Under the “if converted” method:

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

Under the “treasury stock” method:

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

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 2008, the Corporation’s derivative contracts were not designated as hedges and as a result are recorded on the Consolidated Balance Sheets at their fair value. Any changes in fair value during the period are reported in foreign exchange in the Consolidated Statement of Operations. Transaction costs incurred to acquire financial instruments are included in the underlying balance.

Sale of receivables

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

Future changes in accounting policies

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

Section 3064, Goodwill and Intangible Assets

In February 2008, the CICA issued new recommendations for accounting for “Goodwill and Intangible Assets”.

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

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

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

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

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

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

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

International Financial Reporting Standards ("IFRS")

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed that Canadian GAAP, as used by publicly accountable companies, will be converged with International Financial Reporting Standards ("IFRS") effective January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures. The transition from Canadian GAAP to IFRS will be applicable to the Corporation for the first quarter of 2011 when the current and comparative financial information will be prepared in accordance with IFRS.

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

EIC - 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee ["EIC"] of the AcSB issued EIC Abstract 173, which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. The new standard is effective for the Corporation beginning January 1, 2009 and is required to be applied retrospectively, without restatement of prior years to all financial assets and financial liabilities measured at fair value. The Corporation is currently assessing the impact of EIC Abstract 173 on its consolidated financial statements.

2. CHANGES IN ACCOUNTING STANDARDS

Inventories

Effective January 1, 2008, the Corporation was required to adopt CICA: Handbook Section 3031 "Inventories", which replaces Section 3030 "Inventories". The Corporation adopted this new section retrospectively, without restatement of prior periods. This new section provides revised guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides revised guidance on the cost methodologies that are to be used to assign costs to inventories and expands the disclosure requirements to increase transparency.

As a result of these required changes in accounting policies, the Corporation was required to adopt the unit cost method for inventory related to its long-term contracts in replacement of the long-term average cost method. Under the unit cost method the actual production costs are charged to each unit produced and recognized to income as the unit is sold. The Corporation previously accounted for the cost of production inventory using the long-term average cost which reflected higher unit costs at the early phase of a program and lower unit costs at the end of the program (the learning curve concept).

As at January 1, 2008, the effect of these accounting changes, required under Section 3031, on the Corporation's consolidated balance sheet is as follows:

	Reported, as at December 31, 2007	Impact of accounting changes	Restated, as at January 1, 2008
Assets			
Inventories	$ 274,011	$ (121,462)	$ 152,549
Capital assets	245,727	10,852	256,579
Deferred development costs	8,143	67,471	75,614
	527,881	(43,139)	484,742
Liabilities			
Future income tax liabilities	16,799	(8,844)	7,955
Shareholders' equity	265,927	(34,295)	231,632

Learning curve balances of $43,139 net of future income tax recovery of $8,844 were charged to retained earnings on adoption of Section 3031, effective January 1, 2008. This new section also prescribed that certain development costs and program tooling costs may no longer be classified as inventory. As a result, $67,471 of deferred development costs related to long-term contracts have been reclassified to other assets and $10,852 of program tooling costs have been reclassified to capital assets, both effective January 1, 2008.

Cost of revenues for the year ended December 31, 2008 increased by $1,941, on the adoption of this new section.

Section 3031 requires inventory to be valued at the lower of cost or net realizable value. The new section also requires the reversal of previous write-downs of inventory items when the net realizable value of those items subsequently recovers.

Financial Instruments — Disclosures and Financial Instruments — Presentation

Effective January 1, 2008, the Corporation also adopted two new presentation and disclosure standards that were issued by the CICA, Handbook Section 3862, Financial Instruments — Disclosures ("Section 3862") and Handbook Section 3863, Financial Instruments — Presentation ("Section 3863").

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments — Disclosure and Presentation, revising and enhancing its disclosure requirements and carries forward its presentation requirements for financial instruments. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

General standards of financial statement presentation

CICA Handbook Section 1400 was amended to include the requirement to assess and disclose uncertainties about the Corporation's ability to continue as a going concern. The new requirements came into effect for the Corporation's fiscal year beginning January 1, 2008. The new standard did not have an impact on the valuation or classification of amounts in the Corporation's consolidated financial statements.

Capital disclosures

On January 1, 2008, the Corporation adopted CICA Handbook Section 1535, "Capital Disclosures". This Section establishes standards for disclosing information about an entity's capital and how it is managed. Disclosures should include the entity's objectives, policies and procedures for managing capital as well as any externally imposed capital requirements and the consequences of non-compliance. This information is included in Note 15 — Management of Capital.

3. BUSINESS ACQUISITION

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

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

The allocation of the purchase price is preliminary and may change upon completion of an appraisal currently being performed on the acquired assets and liabilities of Verdict. The effect of any such change is not expected to be material.

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

Net Assets Acquired	
Current assets	$ 2,600
Long-term assets	5,312
Liabilities	(3,245)
Future income tax liabilities	(399)
Consideration Paid	
Cash	4,268

4. INVENTORIES

	2008	2007
Production costs of contracts currently in process	**$ 187,685**	$ 197,713
Excess of production cost of delivered units over the estimated average of all units expected to be produced [learning curve costs]	**—**	29,598
Engineering and other costs	**—**	62,376
Advances and progress billings	**(9,211)**	(15,676)
	178,474	274,011

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

Cost of sales for the twelve months ended December 31, 2008 was $608,977, which included $598,015 of costs associated with inventory. The remaining costs of $10,962 related principally to freight, commissions and other direct costs of sales.

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

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

5. CAPITAL ASSETS

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

			2007
	Cost	Accumulated depreciation	Net book value
Land	$ 14,074	$ —	$ 14,074
Buildings	93,333	29,456	63,877
Machinery, equipment and tooling	299,890	132,114	167,776
	407,297	161,570	245,727

Included in machinery and equipment are construction in progress expenditures of $3,389 [2007—$2,195].

The above amounts include $8,032 [2007—$8,024] of capital assets under capital leases and accumulated depreciation of $2,703 [2007—$1,870] related thereto. Depreciation recorded in the year related to capital assets under capital leases totaled $440 [2007—$397].

6. TECHNOLOGY RIGHTS

As at December 31, 2008 the Corporation's technology rights amounted to $32,567 [2007—$34,491], net of accumulative amortization of $6,811 [2007—$4,522]. Technology rights relate to an agreement signed during 2003, which permits the Corporation to manufacture aerospace engine components and share in the revenue generated by the final sale of the engine. A follow-on contract was signed in 2005.

7. DEFERRED DEVELOPMENT COSTS

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. During the year ended December 31, 2008, development costs of $1,438 were deferred. The costs deferred are related to development of new programs for identified future markets. The Corporation records amortization in arriving at the carrying value of deferred development costs once the development activities have been completed and sales of the related product have commenced. During the year ended December 31, 2008, $14,474 was expensed as amortization of deferred development costs. In 2007, these costs were included in inventories as engineering and other costs [NOTES 2 AND 4].

8. BANK INDEBTEDNESS

The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian limit of $95,000 plus a U.S. limit of U.S.$90,000 ($204,620 at December 31, 2008). Bank indebtedness of $177,766 [2007—$139,748] is payable on demand and bears interest at the bankers' acceptance or LIBOR rates, plus 1.0% (2.35% at December 31, 2008 [2007—5.7%]). Included in the amount outstanding at December 31, 2008 is U.S.$75,480 [2007—U.S.$84,171]. At December 31, 2008, the Corporation had drawn $177,766 under the operating credit facility and had issued letters of credit totaling $1,274 such that $25,580 was un-

used and available. A fixed and floating charge debenture on accounts receivable, inventories and capital assets is pledged as collateral for the operating credit facility. The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the operating credit facility.

The Corporation's operating credit facility and the Original Loan are both due within a one-year period. The Corporation has commenced discussions but has not yet engaged in any negotiations with the lenders of the operating credit facility regarding the renewal of this facility. As part of the refinancing referred to in Note 23—Subsequent Events, the holder of the Original Loan has already agreed to extend the terms of the Original Loan to July 1, 2010 subject to the extension of the operating credit facility for a period of at least one year. While these consolidated financial statements are prepared on the assumption that these credit facilities will be renewed, as it has done in previous years, there is no certainty that this will be the case in light of the current credit conditions. If the Corporation is unable to renew or re-finance these facilities, its ability to continue as a going concern is uncertain.

9. LONG-TERM DEBT

	2008	2007
Property mortgage [a]	**$ 3,783**	$ 4,361
Other non-bank loans [b]	**57,133**	21,834
Obligations under capital leases (bearing interest at 5.6% to 7.9%)[c]	**3,208**	3,743
	64,124	29,938
Less current portion	**52,321**	2,099
	11,803	27,839

[a] The property mortgage of $3,783 (£2,114) is comprised of financing of certain land in the United Kingdom acquired in 2006. This same land is collateral for this mortgage and bears interest at bank rate plus 0.90%, which at December 31, 2008 was 2.9% [2007—6.4%]. The fair value of this property mortgage was not significantly different from its recorded amount.

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

In March 2007, the Corporation entered into a secured promissory note with a corporation, which is controlled by a common director, in the amount of $15,000, due July 1, 2008 bearing interest at a rate of 9.0% (the "Promissory Note"). The Promissory Note was refinanced with long-term debt on January 31, 2008, as described below.

On January 31, 2008, in order to fund approximately $50,000 on the maturity of the $69,985 8.5% convertible unsecured subordinated debentures (the "Existing Debentures"), Edco Capital Corporation ("Edco"), a corporation controlled by the Chairman of the Board of the Corporation, provided a $50,000 Original Loan and a $15,000 bridge loan (the "Bridge Loan") to the Corporation. All of the funds from the Bridge Loan and approximately $35,000 of the funds from the Original Loan were used to repay the balance of the Existing Debentures and the $15,000 additional funds from the Original Loan was provided to the Corporation to retire the Promissory Note. Both the Original Loan and the Bridge Loan bear interest at a rate of 10% per annum calculated and payable monthly. Both of these loans are collateralized and subordinated to the Corporation's existing operating credit facility. The Bridge Loan was repayable on July 31, 2008 and was repaid on June 24, 2008 through an increase in the operating credit facility. The Original Loan is repayable on July 1, 2009 (Note 23—Subesquent Events).

[c] Future minimum lease payments under the capital leases in effect at December 31, 2008 are as follows:

2009	$ 1,182
2010	1,024
2011	914
2012	476
Total minimum capital lease payments	3,596
Less capital lease payments representing interest	388
Principal amount of capital lease payments	3,208

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

2009	$ 52,321
2010	2,276
2011	2,302
2012	1,994
2013	1,576
Thereafter	3,655
	64,124

10. CONVERTIBLE DEBENTURES

On January 30, 2008, the Corporation closed a private placement of an aggregate of $20,950 8.5% convertible unsecured subordinated debentures (the "New Debentures"), due January 31, 2010. The New Debentures were redeemable by the Corporation for the first six months of the term at 102.5% of principal value and the holders had no conversion rights. After the first six months of the term, the New Debentures are convertible, at the option of the holder, at any time prior to maturity into common shares of the Corporation at a conversion price of $10.00 per share, which is equal to a conversion rate of 100 common shares per $1,000 principal amount of debentures or the issuance on conversion of approximately 2,095,000 common shares in total. The New Debentures are unsecured obligations of the Corporation and are subordinated in right of payment to all of the Corporation's existing and future senior indebtedness.

At December 31, 2008, $20,544 of the New Debentures has been attributed to the debt component. The difference between the carrying value and the face value of the New Debentures will be accreted through periodic charges to income included in interest expense over the life of the New Debenture.

On January 31, 2008, the Corporation repaid the Existing Debentures completed on January 7, 2003 with proceeds from the issuance of the New Debentures and the Original Loan. Based on the terms of the refinancing completed in January 2008, $55,950 of the Existing Debentures continued to be classified as long-term debt at December 31, 2007, with the remaining $13,834 classified as a current liability.

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

11. OTHER LONG-TERM LIABILITIES

	2008	2007
Accrued costs related to plant and program closures [a]	$ 788	$ 516
Other [b]	7,159	7,126
	7,947	7,642
Less current portion included in accounts payable and accrued charges	—	276
	7,947	7,366

Amounts are due as follows:

2009	$ —
2010	50
2011	2,825
2012	1,987
2013	50
Thereafter	3,035
	7,947

[a] During 2003, the Corporation announced its decision to cease operations at its Fleet Industries plant in Fort Erie, Ontario. Management estimated the potential costs and losses resulting from this decision and recorded total cumulative charges of $43,248. At December 31, 2008, a balance of $788 [2007—$516] remains as a liability and a provision of $6,200 [2007—$3,569] for the liability associated with a defined benefit pension plan that is in the process of being wound up has been recorded in the accounts.

[b] Other long-term liabilities include $4,711 [2007—$3,575] of deferred revenue in relation to a long-term contract.

12. CAPITAL STOCK

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

Preference Shares:

Series A	Number of shares	Stated capital
Outstanding at December 31, 2008 and 2007	2,000,000	$ 19,949

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

tion of voting control or direction over at least 66-2/3% of the common shares and instruments convertible into common shares. Directors and officers of the Corporation purchased directly or indirectly 1,135,000 of the Preference Shares issued.

Common shares:

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

	Number of shares	Stated capital
Outstanding at December 31, 2006	18,166,711	$ 214,222
Issued upon conversion of convertible debentures	666	15
Stock options exercised	800	10
Issued to employees and directors	8,766	114
Outstanding at December 31, 2007, as previously reported	18,176,943	214,361
Issuance of additional shares as a result of the share consolidation	**494**	**—**
Issued to employees and directors	**21,320**	**71**
Outstanding at December 31, 2008	**18,198,757**	**214,432**

Under the terms of the Corporation's Employee Share Purchase Plan (the "ESPP"), eligible employees are able to purchase common shares at 100% of the average market price for the period preceding the purchase. The Corporation matches purchased shares on a 50% basis after a vesting period of approximately one year. During the year, the Corporation issued common shares of 21,320 [2007—20,582] under the ESPP for $71 [2007—$50] and at December 31, 2008, 20,762 common shares are reserved for issue. Subsequent to the year-end, the Board of Directors of the Corporation discontinued the ESPP effective January 31, 2009. During 2008, the Corporation issued nil [2007—23,248] common shares valued at $nil [2007—$63] to the directors of the Corporation as partial payment for their role as directors of the Corporation.

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

	2008	2007
Net income (loss)	**$ 12,900**	$ (11,341)
Dividends on Preference Shares	**(1,600)**	(1,600)
Net income (loss) attributable to common shareholders	**11,300**	(12,941)
Weighted average shares outstanding	**18,184,588**	18,169,851
Net effect of dilutive instruments [NOTES 10 AND 13]	**—**	—
Diluted weighted average shares outstanding	**18,184,588**	18,169,851
Income (loss) per common share		
Basic and diluted	**0.62**	(0.71)

For the years ended December 31, 2008 and 2007, the inclusion of the Corporation's stock options, convertible debentures and preference shares in the computation of diluted income (loss) per common share would have an anti-dilutive effect on the income (loss) per common share and are, therefore, excluded from the computation.

13. STOCK-BASED COMPENSATION PLAN

The Corporation has an incentive stock option plan, which provides for the granting of options for the benefit of employees and directors. The maximum number of options for common shares that remain to be granted under this plan is 918,131. Options are granted at an exercise price equal to the market price of the Corporation's common shares at the time of granting. Options normally have a life of five years with vesting at 20% at the end of the first, second, third, fourth and fifth years from the date of the grant. In addition, certain business unit income tests must be met in order for the optionholder's entitlement to fully vest.

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

A summary of the plan and changes during each of 2008 and 2007 are as follows:

		2008		2007
	Shares	**Average weighted excercise price**	Shares	Average weighted excercise price
Outstanding, beginning of year	**873,570**	**$ 14.99**	783,920	$ 15.60
Granted	**—**	**—**	286,050	16.00
Exercised	**—**	**—**	(800)	13.25
Forfeited/expired	**(118,360)**	**14.85**	(195,600)	18.85
Outstanding, end of year	**755,210**	**15.02**	873,570	14.99

The following table summarizes information about options outstanding and exercisable at December 31, 2008:

		Options outstanding			**Options exercisable**
Range of exercise prices	**Number outstanding at December 31, 2008**	**Weighted average remaining contractual life [in years]**	**Weighted average exercise price**	**Number exercisable at December 31, 2008**	**Weighted average exercise price**
$ 13.25	**184,650**	**2.00**	**$ 13.25**	**90,930**	**$ 13.25**
15.00 – 16.00	**570,560**	**3.06**	**15.40**	**189,400**	**15.40**
	755,210	**2.80**	**15.02**	**280,330**	**14.70**

Compensation expense recorded during the year was $742 [2007—$1,450].

On November 7, 2008, the Corporation amended the Incentive Stock Option Plan by adding a cash option feature to all new and previously granted options outstanding. The cash option feature allows option holders to elect to receive an amount in cash equal to the intrinsic value, being the excess market price of the common share over the exercise price of the option, instead of exercising the option and acquiring the common shares. The result of such an amendment is that the outstanding share options awards largely take on the characteristics of liability instruments rather than equity instruments. All outstanding stock options are now classified as liabilities and are carried at their intrinsic value, measured as the difference between the current stock price and the option exercise price. The intrinsic value of the liability is marked to market each period for new awards granted subsequent to amendment date. The intrinsic value is amortized to expense over the period in which the related services are rendered, which is usually

the graded vesting period or, as applicable, over the period to the date an employee is eligible to retire, whichever is shorter. No such awards were granted in 2008. 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 fair value of stock options granted in 2007 was estimated at the date of grant using the Black-Scholes' option pricing model with the following weighted average assumptions:

	2007
Risk-free interest rate	4.08%
Expected volatility	46%
Expected life of the options	5 years
Expected dividend yield	0%

The weighted average fair value of stock options granted in 2007 was $7.87.

The Black-Scholes option pricing model used by the Corporation to determine fair values was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. The Corporation's employee stock options are not transferable, cannot be traded and are subject to vesting restrictions and exercise restrictions under the Corporation's black-out policy which would tend to reduce the fair value of the Corporation's stock options. Changes to the subjective input assumptions used in the model can cause a significant variation in the estimate of the fair value of the options.

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	2008	2007
Balance, beginning of year	**$ (65,479)**	$ (40,215)
Net unrealized gain (loss) on translation of net investment in foreign operations	**19,518**	(25,264)
Total accumulated other comprehensive loss	**(45,961)**	(65,479)

15. MANAGEMENT OF CAPITAL

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

As at December 31, 2008, total managed capital was $526,242, comprised of shareholders' equity of $263,808 and interest-bearing debt of $262,434. Included in interest-bearing debt is the debt component of the convertible debentures of $20,544, where a component of the associated interest expense is a non-cash charge.

The Corporation manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Corporation's working capital require-

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

The Corporation must adhere to covenants in its operating credit facility. As at December 31, 2008, the Corporation was in compliance with these covenants.

16. INCOME TAXES

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

	2008	2007
Corporate tax rate for manufacturing companies	**31.1%**	34.8%
Expected tax expense (recovery)	**$ 4,519**	$ (4,327)
Non deductible accretion and stock option charges	**407**	1,447
Losses not previously benefited	**(3,354)**	—
Change in valuation allowances	**3,052**	1,158
Permanent differences	**185**	229
Changes in income tax rates	**(3,189)**	400
	1,620	(1,093)

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

	2008	2007
Canada		
Future income tax asset—current		
Accounting provisions not currently deductible for tax purposes	**$ 3,180**	$ 5,116
Future income tax assets—long-term		
Operating loss carryforwards	**10,045**	9,512
Investment tax credits	**17,367**	17,617
Valuation allowance	**(5,800)**	(2,748)
Accounting provisions not currently deductible for tax purposes	**15,340**	15,827
	36,952	40,208
Future income tax liabilities—long-term		
Tax depreciation in excess of book depreciation	**24,703**	23,959
Deferred employee future benefits	**3,606**	3,724
	28,309	27,683

	2008	2007
United States		
Future income tax asset—current		
Accounting provisions not currently deductible for tax purposes	**$ 1,917**	$ 1,148
Future income tax assets—long-term		
Operating loss carryforwards and investment tax credits	**20,895**	9,119
Accrued employee future benefits	**400**	494
	21,295	9,613
Future income tax liability—long-term		
Tax depreciation in excess of book depreciation	**31,920**	26,412
United Kingdom		
Future income tax asset—long-term		
Operating loss carryforwards and investment tax credits	**—**	1,539
Future income tax liabilities—long-term		
Tax depreciation in excess of book depreciation	**767**	—

During the fourth quarter of 2008, the Corporation recorded a non-cash charge of $3,052 [2007—$2,748] to establish a valuation allowance against its net future tax assets in Canada where recovery of the loss carryforwards or other future tax assets were not "more likely than not."

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

17. EMPLOYEE FUTURE BENEFITS

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

Cash payments contributed by the Corporation for employee future benefits related to its defined benefit and defined contribution pension plans and payments directly to beneficiaries for its unfunded other benefits plan was $12,625 [2007—$15,188].

Defined contribution plans

The Corporation's expenses for defined contribution plans for the year ended December 31, 2008 was $4,340 [2007—$4,240].

Defined benefit plans

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

Pensions plans

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

The Corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 for each year. Actuarial valuations for funding purposes are prepared and filed with the appropriate regulatory authorities at least tri-annually. The last actuarial valuation was completed as at December 31, 2005 for one of the plans and as at December 31, 2006 for the other two plans.

Other benefit plans

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

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

	Pension		Other benefit plans	
	2008	2007	**2008**	2007
Change in benefit obligation				
Benefit obligation, beginning of year	**$ 103,966**	$ 105,203	**$ 762**	$ 999
Additional pension plan included	**2,437**	—	**—**	—
Member contributions during the year	**304**	303	**—**	—
Current service cost (employer)	**2,019**	1,868	**—**	—
Interest cost	**6,307**	6,280	**350**	306
Plan amendments	**276**	1,147	**—**	—
Benefits paid	**(8,241)**	(7,652)	**(312)**	(401)
Actuarial gain	**(11,583)**	(1,792)	**—**	—
Foreign exchange gain (loss)	**2,079**	(1,391)	**180**	(142)
Benefit obligation, end of year	**97,564**	103,966	**980**	762
Change in plan assets				
Market value of plan assets, beginning of year	**103,048**	99,214	**—**	—
Additional pension plan included	**2,663**	—	**—**	—
Actual return on plan assets	**(11,789)**	1,850	**—**	—
Member contributions during the year	**304**	303	**—**	—
Employer contributions	**7,973**	10,547	**—**	—
Benefits paid	**(8,241)**	(7,652)	**—**	—
Foreign exchange gain (loss)	**1,283**	(1,214)	**—**	—
Market value of plan assets, end of year	**95,241**	103,048	**—**	—
Reconciliation of funded status				
Funded status—deficit	**(2,323)**	(918)	**(980)**	(762)
Unamortized past service costs	**1,053**	1,120	**—**	—
Unamortized net actuarial loss	**12,301**	9,166	**—**	—
Accrued benefit asset (liability)	**11,031**	9,368	**(980)**	(762)

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

Four of the seven defined benefit plans were in a surplus status as at December 31, 2008 and all defined benefit plans were in a deficit status as at December 31, 2007.

Net benefit plan costs

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

	Pension		Other benefit plans	
	2008	2007	**2008**	2007
Current service cost	**$ 2,019**	$ 1,868	**$ —**	$ —
Interest cost	**6,307**	6,280	**350**	306
Actual return on plan assets	**11,789**	(1,850)	**—**	—
Actuarial gain	**(11,583)**	(1,792)	**—**	—
Plan Amendments	**276**	1,147	**—**	—
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefits	**8,808**	5,653	**350**	306
Adjustments to recognize the long-term nature of the employee future benefits:				
Difference between expected return and actual return on plan assets for the year	**(19,213)**	(5,224)	**—**	—
Differences between actuarial loss recognized for the year and actual actuarial losses on accrued benefit obligation for the year	**14,078**	2,493	**—**	—
Difference between amortization of past service costs for the year and actual plan amendments for the year	**67**	(781)	**—**	—
Net benefit cost recognized	**3,740**	2,141	**350**	306

Significant assumptions and sensitivity analysis

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

	Pension		Other benefit plans	
	2008	2007	**2008**	2007
Accrued Benefit Obligation at December 31				
Discount rate	**7.0%**	6.0%	**7.0%**	7.0%
Expected long-term rate of return on plan assets	**6.5%**	7.0%	**—**	—
Rate of compensation increase	**3.0%**	3.0%	**—**	—
Benefit costs for the years ended December 31				
Discount rate	**6.0%**	6.0%	**7.0%**	7.0%
Expected long-term rate of return on plan assets	**7.0%**	7.0%	**—**	—
Rate of compensation increase	**3.0%**	3.0%	**—**	—

For measurement purposes, a 5.0% to 10.0% annual rate of increase in the per capita cost of covered health care and dental benefits was assumed for 2008. 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 and decrease in the assumed health care and dental benefit trend rates as at December 31, 2008 was nominal.

Plan assets

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

Asset Category	Percentage of plan assets	
	2008	2007
Equities	**44.3%**	48.7%
Fixed income	**45.4%**	41.7%
Cash and short-term investments	**10.3%**	9.6%
Total	**100.0%**	100.0%

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

	2008	2007
Defined benefit plans	**$ 14**	$ 121

18. FINANCIAL INSTRUMENTS

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

Categories of financial assets and liabilities

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

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

	December 31, 2008	December 31, 2007
Held for trading[1]	**$ 5,418**	$ 5,246
Loans and receivables[2]	**68,652**	35,659
Financial liabilities[3]	**385,697**	358,534
Derivatives not accounted for as hedges[4]	**1,853**	817

[1] Includes cash and investments, which are classified as other assets

[2] Includes accounts receivables

[3] Includes bank indebtedness, accounts payable and accrued charges, long-term debt, and the debt component of the convertible debentures

[4] Included in accounts payable and accured charges

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

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

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

Long-term debt

The fair value of the Corporation's long-term debt, which includes the current portion, calculated by discounting the expected future cash flows based on current rates for debt with similar terms and maturities, is $62,979 at December 31, 2008.

Convertible Debentures

The fair market value of the Corporation's Convertible Debentures, calculated by discounting the expected future cash flows at prevailing interest rates, is estimated at $19,669.

As at December 31, 2008, the carrying amount of the financial assets (consisting of cash and accounts receivable) that the Corporation has pledged as collateral for its long-term debt facilities was $64,124.

Forward foreign exchange contracts

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

During 2008, the Corporation entered into a foreign exchange collar which sets a floor of $1.0309 Canadian per $1.00 U.S. and a ceiling of $1.0970 Canadian per $1.00 U.S. of which $12,000 U.S. will expire in 2009.

The Corporation has foreign exchange contracts outstanding at December 31, 2008 as follows:

	Amount	Exchange rate
Maturity—less than 1 year—U.S. Dollar	$ 26,050	1.23014
Maturity—less than 1 year—U.S. Dollar	12,000	1.0309—1.0970

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

Risks arising from financial instruments and risk management

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

Credit Risk

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

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

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

The following table sets forth details of the age of the trade accounts receivable as at December 31, 2008:

Total trade accounts receivable	$ 51,782
Less: Allowance for doubtful accounts	(577)
Total trade accounts receivable, net	51,205
Of which:	
Not overdue	40,571
Past due for more than one day but not more than three months	8,968
Past due for more than three months but not more than six months	1,581
Past due for more than six months but not more than one year	121
Past due for more than one year	541
Less: Allowance for doubtful accounts	(577)
Total trade accounts receivable, net	51,205

Liquidity risk

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

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

	Due less than 1 year	Due between 1 and 3 years	Due between 4 and 5 years	Due after 5 years	Total
Bank indebtedness	$ 177,766	$ —	$ —	$ —	$ 177,766
Long-term debt	51,318	4,368	2,583	2,647	60,916
Capital lease obligations	1,182	2,414	—	—	3,596
Operating leases	4,989	3,694	1,152	960	10,795
Other long-term liabilities	—	4,862	100	2,985	7,947
Convertible debentures	—	22,882	—	—	22,882
Total	235,255	38,220	3,835	6,592	283,902

As at December 31, 2008, the Corporation had undrawn lines of credit available to it of $25,580. The Corporation's operating credit facility and the Original Loan, are both due within a one-year period. The Corporation has commenced discussions but has not yet engaged in any negotiations with the lenders of the operating credit facility regarding the renewal of this facility. As part of the refinancing referred to in Note 23—Subsequent Events, the holder of the Original Loan has already agreed to extend the terms of the Original Loan to July 1, 2010 subject to the extension of the operating credit facility for a period of at least one year. While these consolidated financial statements are prepared on the assumption that these credit facilities will be renewed, as it has done in previous years, there is no certainty that this will be the case in light of the current credit conditions. If the Corporation is unable to renew or re-finance these facilities, its ability to continue as a going concern is uncertain.

Currency risk

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

The most significant transaction exposures arise in the Canadian operations where significant portions of the revenues are transacted in U.S. dollars. As a result, the Corporation may experience transaction exposures because of the volatility in the exchange rate between the Canadian and U.S. dollar. Based on the Corporation's current U.S. denominated net inflows, as of December 31, 2008, fluctuations of +/- 1% would, everything else being equal, have an effect on net earnings and on other comprehensive income for the year ended December 31, 2008 of approximately +/- $55 and $1,300 respectively.

Interest rate risk

The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. At December 31, 2008, $186,578 of the Corporation's total debt portfolio is subject to movements in floating interest rates. In addition, a portion of the Corporation's accounts receivable securitization programs are exposed to interest rate fluctuations. The objective of the Corporation's interest rate management activities is to minimize the volatility of the Corporation's earnings. The Corporation monitors its exposure to interest rates and has not entered into any derivative contracts to manage this risk. A fluctuation in interest rates of 100 basis points (1 percent) would have impacted the amount of interest charged to net earnings during the year by approximately +/- $1,700.

19. RELATED PARTY TRANSACTIONS

During the year, the Corporation sold receivables to a corporation, which is controlled by a common director, in the amount of $405,178 [2007—$228,143], for a discount of $2,803 [2007—$2,484] representing an annualized interest rate of 7.5% [2007—7.5%]. Included in this balance, as at December 31, 2008, is a reserve of $4,429 [2007—$5,924].

On March 30, 2007, the Corporation entered into a Promissory Note with a corporation, which is controlled by a common director, in the amount of $15,000, due July 1, 2008 bearing interest at a rate of 9.0%. In 2008, $112 [2007—$1,025] of interest was paid in relation to this loan. This loan was repaid on January 31, 2008.

On January 31, 2008, the Corporation entered into the Original Loan due July 1, 2009 and the Bridge Loan due July 31, 2008 with a corporation, which is controlled by the Chairman of the Board of the Corporation. Both loans bear interest at a rate of 10%. In 2008, $4,645 of interest was paid in relation to the Original Loan and $594 of interest was paid in relation to the Bridge Loan. The Bridge Loan was repaid in June 2008.

The Chairman of the Board of the Corporation held $15,000 of the Existing Debentures that were repaid on January 31, 2008. On January 30, 2008 the Chairman of the Board, who is also a director, and a director of the Corporation subscribed to $18,150 of the $20,950 New Debentures that were issued and outstanding as at December 31, 2008. The related cash interest paid in the year was $1,432 [2007—$1,275].

The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the Corporation's operating credit facility. An annual fee of 1.35% [2007—0.1%] of the guaranteed amount or $2,055 [2007—$168] was paid in consideration for the guarantee.

During the year, the Corporation incurred consulting costs of $100 [2007—$100] payable to a corporation controlled by the Chairman of the Board of the Corporation. As well, the Corporation paid legal fees of $80 [2007—$52] to a law firm in which a director is a partner.

20. SUPPLEMENTARY INFORMATION

[a] Interest expense on long-term debt in 2008 was $8,401 [2007—$10,066]. Interest on capital leases in 2008 was $324 [2007—$300].

[b] During 2008, the Corporation received $218 [2007—$nil] of government assistance, which has been credited to the related assets. The Corporation is eligible for an additional $43,174 for the period from January 1, 2009 to December 31, 2014 based on approved expenditures. The assistance is repayable as royalties ranging from 0.1% to 4.0% of certain future revenue.

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

	2008	2007
Accounts receivable	**$ (22,844)**	$ 16,148
Inventories	**(16,628)**	(16,112)
Prepaid expenses and other	**2,176**	(5,064)
Accounts payable and accrued charges	**4,475**	(1,463)
	(32,821)	(6,491)

[d] Interest paid during 2008 amounted to $22,638 [2007—$21,231] and income taxes paid during 2008 amounted to $30 [2007—refund of $817].

[e] During the year, the Corporation realized a foreign exchange gain on the translation of foreign currency denominated working capital balances and debt of $6,904 [2007—loss of $5,576].

[f] In the 2004 fiscal year, the Corporation entered into a five-year accounts receivable securitization program permitting it to sell on an on-going basis, certain of its trade accounts receivable to a securitization trust (the "Trust") to a maximum of $46,000. On February 23, 2007, this program was suspended by the counter-party. The total amount transferred to the Trust in 2007 amounted to $24,063 for a discount of $248 representing an annualized interest rate of 6.26%. During 2007 the reserve earned investment income of $125, which is included in interest income. The Trust and its investors have no recourse on the Corporation's other assets for failure of the debtors to pay when due, other than the retained interest in the Trust.

During the year, the Corporation sold receivables to various financial institutions in the amount of $150,434 [2007—$147,389], for a discount of $1,359 [2007—$1,479] representing an annualized interest rate of 5.19% [2007—5.87%].

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

21. SEGMENTED INFORMATION

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

Domestic and foreign operations consist of the following:

				2008				2007
	Canada	**U.S.**	**U.K.**	**Total**	Canada	U.S.	U.K.	Total
Revenues								
Domestic	**$ 115,281**	**$ 189,060**	**$ 122,302**	**$ 426,643**	$ 94,269	$ 160,191	$ 113,829	$ 368,289
Export	**188,842**	**56,395**	**14,556**	**259,793**	195,635	28,139	5,745	229,519
Total revenues	**304,123**	**245,455**	**136,858**	**686,436**	289,904	188,330	119,574	597,808
Capital assets, net	**118,917**	**135,691**	**22,599**	**277,207**	117,945	107,254	20,528	245,727

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

	2008	2007
Major customers		
Canadian operations		
Number of customers	**3**	3
Percentage of total Canadian revenue	**36%**	37%
U.S. operations		
Number of customers	**2**	1
Percentage of total U.S. revenue	**50%**	39%
U.K. operations		
Number of customers	**1**	1
Percentage of total U.K. revenue	**75%**	81%

22. COMMITMENTS AND CONTINGENCIES

[a] Operating lease commitments

The Corporation has lease commitments related to properties, equipment and other items. At December 31, 2008, future minimum annual lease payments are as follows:

2009	$ 4,989
2010	1,530
2011	1,390
2012	774
2013	576
Thereafter	1,536
	10,795

[b] Contingencies

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

23. SUBSEQUENT EVENTS

[a] Preference Shares

On March 20, 2009, the Board of Directors of the Corporation determined not to declare or pay dividends due on April 30, 2009 on the Preference Shares as it was unable to obtain reasonable assurances that such declaration and payment would not contravene the OBCA.

[b] Refinancing

In December 2008, the Corporation's Board of Directors established a committee consisting of three independent directors. This committee was formed to consider the financial condition of the Corporation and to consider proposals to restructure the capital structure of the Corporation through the issuance of debt or equity, or through the sale of assets or other alternative transactions should such transactions be required.

The independent committee and the independent members of the Board of Directors concluded that the Corporation is in serious financial difficulty because, even though management believes that the Corporation will generate sufficient cash through operations in order to meet its obligations as they come due, if the Corporation is unable to renew or re-finance its operating credit facility and extend or re-finance the Original Loan, its ability to continue as a going concern is uncertain. The Corporation's operating credit facility is due on May 23, 2009 and the Original Loan is on due on July 1, 2009.

The Corporation announced on February 4, 2009 that the independent members of its Board of Directors have approved additional financing initiatives for the Corporation consisting of a new secured subordinated loan in the amount of $15,000, the extension of the maturity of the Original Loan from Edco of $50,000 to July 1, 2010, the issuance of up to $40,000 principal amount of 10% convertible secured subordinated debentures (the "Convertible Secured Subordinated Debentures") and the continuation of one of the Corporation's existing securitization programs of up to $35,000 of Canadian based accounts receivables, declining to $20,000 by April 30, 2009 and to nil by December 31, 2009.

Edco and Mr. Edwards and the Corporation agreed to the following financing transactions:

(a) the subscription by Mr. Edwards, directly or indirectly, for the purchase of a minimum of $25,000 principal amount of a new issue of Convertible Secured Subordinated Debentures;

(b) the extension of the Original Loan from Edco to the Corporation in the principal amount of $50,000 to July 1, 2010 in consideration of the payment of a one time fee to Edco equal to 1% of the principal amount outstanding and increasing the interest rate on the loan from 10% to 12% per annum (the "Amended Original Loan"); and

(c) an additional secured subordinated loan from Edco of $15,000 maturing on July 1, 2010 with an interest rate of 12% per annum, payable monthly in arrears with similar terms as the Amended Original Loan.

(together the "2009 Financing Arrangements")

The agreement of the Corporation, Edco and Mr. Edwards is subject to the extension of the operating credit facility for a period of at least one year on or before April 30, 2009 on terms satisfactory to the Board of Directors of the Corporation. In addition, the agreement of Mr. Edwards and Edco is subject to there being no material adverse change in the business, operations or capital of the Corporation.

The acquisition of a minimum of $25,000 of the Convertible Secured Subordinated Debentures would result, in the event of conversion of the Convertible Secured Subordinated Debentures, in Mr. Edwards holding in excess of 66 2/3% of the common shares of the Corporation on a fully diluted basis. As a result, such holdings would constitute a change of control (as defined in the New Debentures) and the Corporation will have an obligation to make an offer to purchase the New Debentures due January 31, 2010 and outstanding in the principal amount of $20,950 at a price of 102.5% of the principal amount plus accrued and unpaid interest. In addition, subject to the terms of the OBCA, pursuant to a similar change of control definition in the Preference Shares' terms, the Corporation will be required to retract its outstanding Preference Shares at a price of $10.00 per share plus accrued and unpaid dividends. Dividends declared on the Preference Shares have been fully paid to December 31, 2008.

On March 20, 2009, the Board of Directors of the Corporation determined to commence negotiations with the Corporation's lenders on the extension of the Corporation's operating credit facility and instructed management to formulate plans for the offer to purchase the outstanding New Debentures if and when required. The Corporation does not currently believe it will be able to retract the Preference Shares as it does not expect to have the funds to do so, and in any event it is prohibited from doing so by the terms of its operating credit facility and any default in the operating credit facility would result in the Corporation being unable to pay its liabilities as they become due and constitute a contravention of the OBCA.

There can be no assurance that the additional financing initiatives will be completed on the terms set forth or at all. The Corporation has commenced in initial discussions, but has not yet engaged in any negotiations, with its lenders to renew the operating credit facility. At this early stage, no assurance can be given that the operating credit facility will be renewed on terms satisfactory to the Board of Directors of the Corporation. As part of the refinancing, the holder of the Original Loan has already agreed to extend the terms of the Original Loan to July 1, 2010 subject to the extension of the operating credit facility for a period of at least one year.

24. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 consolidated financial statements.

BOARD OF DIRECTORS AND OFFICERS

Corporate Officers

N. Murray Edwards
Chairman

Richard A. Neill
Vice Chairman

James S. Butyniec
President and Chief Executive Officer

John B. Dekker
Vice President,
Finance and Corporate Secretary

William A. Matthews
Vice President, Marketing

Jo-Ann C. Ball
Vice President, Human Resources

Larry A. Winegarden
Vice President, Corporate Strategy

Konrad B. Hahnelt
Vice President,
Strategic Global Sourcing

Board Of Directors [4]

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 [A]
President and Chief Executive Officer
Magellan Aerospace Corporation
Mississauga, Ontario

Hon. William G. Davis P.C., C.C., Q.C. [3]
Counsel,
TORYS LLP
Toronto, Ontario

William A. Dimma C.M., O. Ont. [1, 2]
Chairman
Decision Dynamics Technology
Calgary, Alberta

Bruce W. Gowan [1, 2, 3]
Corporate Director,
Huntsville, Ontario

Donald C. Lowe [1, 4]
Corporate Director,
Toronto, Ontario

Larry G. Moeller [4]
President,
Kimball Capital Corporation
Calgary, Alberta

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

Committees Of The Board

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

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

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

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

Note

(A) *Nominated as a director at the Annual and Special Meeting of the Shareholders on May 13th, 2008*

OPERATING FACILITIES DIRECTORY AND SHAREHOLDER INFORMATION

Canada

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

3160 Derry Road East,
Mississauga, Ontario L4T 1A9
Tel: 905 673 3250

634 Magnesium Road,
Haley, Ontario K0J 1Y0
Tel: 613 432 8841

21330 56th Avenue, Bldg #46
Langley, British Columbia V2Y 0E5
Tel: 604 539 2440

975 Wilson Avenue,
Kitchener, Ontario N2C 1J1
Tel: 519 893 7575

United States

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

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

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

20 Computer Drive,
Haverhill, Massachusetts 01832
Tel: 978 774 6000

2320 Wedekind Drive,
Middletown, Ohio 45042
Tel: 513 422 2751

5170 West Bethany Road,
Glendale, Arizona 85301
Tel: 623 931 0010

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

United Kingdom

Davy Way, Llay Industrial Estate,
Llay, Wrexham LL12 0PG
Tel: 01978 856600

27/29 High Street,
Biggleswade, Bedfordshire SG18 0JE
Tel: 01767 601280

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

Miners Road, Llay Industrial Estate,
Llay, Wrexham LL12 0PJ
Tel: 01978 856798

Rackery Lane,
Llay Wrexham LL12 0PB
Tel: 01978 852101

510 Wallisdown Road,
Bournemouth, Dorset BH11 8QN
Tel: 01202 512405

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

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

Corporate Office

Magellan Aerospace Corporation
3160 Derry Road East
Mississauga, Ontario, Canada L4T 1A9
Tel: 905 677 1889
Fax: 905 677 5658

www.magellan.aero

For investor information:
ir@magellan.aero

Auditors

Ernst & Young LLP
Toronto, Ontario

Transfer Agent

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

Stock Listing

Toronto Stock Exchange—TSX
Common Shares—MAL

Annual Meeting

The Annual Meeting of the Shareholders of Magellan Aerospace Corporation will be held on Tuesday, May 12th, 2009 at 2:00 p.m. at The Living Arts Centre, 4141 Living Arts Drive, Mississauga, Ontario L5B 4B8

MAGELLAN AEROSPACE CORPORATION 3160 DERRY ROAD EAST, MISSISSAUGA, ONTARIO, CANADA L4T 1A9 WWW.MAGELLAN.AERO