PricewaterhouseCoopers ("PwC") Report -

- **Document Differences between - Draft Final Report to Final Report**
- **(subject to electronic "match" confirmation)**

Magellan Aerospace Corporation

Final Investigation Report into Areas of Concern Raised by Mr Brian Little

August 2007

Final Draft Report - 9 May 2007 --- 117 A4 pages
(MAC Audit Committee /MAC Board/ MAC AGM – 10 May 2007
(ET CMD4 on 6 June Ordered disclosure on or before 20 June)

Final Report -- 24 August 2007 --- 113 A4 pages

Additional EXHIBITS (Final draft -- 106 Exhibits) in Final Report (+ 2)

5.10a A document prepared by Shawn Smith entitled "Absorption of Direct Costs into Inventory September 2005) { undated }

9.31 Letter from Mike Rootjes (Boeing) to Dan Zanatta dated 1 June 2007

Additional Appendices in Final Report

H PwC covenant recalculation for Q1 through to Q3 assuming reversal of revenue accrual and 2006 stock option expense.

Final Draft Report - Executive Summary (circulated only to MAC Audit committee) - not circulated to MAC management for comment – until after 20 June 2007 – Tribunal order for disclosure)

(Bold is additional wording in Final investigative report)

Para 1.4 deleted

As is described more fully in this report, we have identified other adjustments at quarter ends and year ends within MAC that were considered and, in some instances, implemented by MAC or its subsidiaries. We discussed the existence of these adjustments with the Audit Committee of MAC and Ernst and Young ("EY") , who determined that investigation of the adjustments was not required.

2.5 (f) The circumstances surrounding an adjustment made within MAC but not MALUK, effective 30 September 2005 remain unclear. **Magellan has calculated the adjustment that would have been made at Q3 05, had that approach suggested later by Ernst & Young ("EY") been applied. The Q3. 2005 adjustment would have been £101,000 or CAD202,000, which would have resulted in a positive adjustment to Q3.2005 income of CAD 95,000, PwC has not reviewed this calculation in detail**.

2.33 MAC's quarterly financial statements included revenue accruals for each of Q1, Q2 and Q3 2005 totalling CAD 904K (at Q3 2006) with respect to an anticipated waiver of the selling price discount on the Integrator kits. The accruals were recorded since MAC senior management had been confident that the discount waiver would be agreed with Boeing and believed that recording the accrual on the basis of this confidence was consistent with customary business and industry practice. In March 2007, following consultations with EY regarding the appropriate accounting treatment for the revenue accruals as part of the year end audit process, MAC determined that since it did not have an agreement in writing from Boeing with respect to the waiver, the revenue accruals were reversed in the 2006 financial statements since no agreement in writing from Boeing had been obtained. **On June 1 , 2007 , subsequent to the finalisation of MAC's 2006 financial statements , an agreement in writing from Boeing was obtained that included USD 961K or approximately CAD 1,038K in compensation with respect to Integrator kits shipped during 2006.**

Removed the following paragraphs from the Final Investigative PwC Report
Para 2.39 deleted

The adjustments that we have investigated at the request of the Audit Committee arose in the context of the preparation of quarter end or year end financial statements. There were a number of other adjustments made at quarter and year end that we have not considered including those in exhibits 5.9, 6.25 and 9.16. The Audit Committee may wish to consider what, if any, further investigative work it requires in relation to accounting adjustments made at quarter and year end or whether MAC should now focus on addressing the financial control issues identified during our review.

Para 2.40 deleted

Financial control within MAC and MALUK in relation to the areas we have examined is poor and needs to be improved; this need is particularly acute given that MAC is a public company. Examples of poor financial control that we identified during our work include:

(a) Accounting adjustments made with insufficient supporting analysis or documentation ,

(b) Inadequate understanding or documentation of balance sheet provisions and insufficient documentation of the decision to release certain provisions:

(c) A lack of awareness of the program accounting requirements under either Canadian GAAP or UK GAAP. The accounting rules and guidelines are complex, and our impression is that the principles are not well understood throughout all of the finance community within the MAC Group;

(d) Poor control over individual projects from an accounting perspective. Project sales volumes, revenues and costs are not reviewed with sufficient frequency or rigour

Para 2.41 deleted

We understand that there has been some discussion as to how financial control might be improved. We would be happy to help the Audit Committee review any plan developed by management of MAC to address these issues.

3.12 We have provided oral updates of our progress to the Audit Committee and a draft of this report for consideration. A copy of the draft report (excluding the Executive Summary) was provided to MAC for comment on its factual accuracy . While we have taken into account comments made by Audit Committee and MAC, the final content of this report has been a matter for PwC alone .

Para 4.11 deleted

EY confirmed at a meeting of the MAC Audit Committee that the outcome of our investigation into the zone of insolvency and the whistleblowing process would not affect their audit of the consolidated audited financial statements of MAC for the year ended 31 December 2006 and the financial statements of MALUK for the financial years 31 December 2005 and 2006. At the request of the audit committee we have deferred the investigation of these matters.

Detailed sections in PwC investigative Final Report

A copy of the draft report (excluding the Executive Summary) was provided to MAC for comment on its factual accuracy. Email dated 25 June 2007 from Brian Little to Bill Dimma

"*While I acknowledge this appears to be the Final draft report, there appears to be no intent to provide the report to E & Y (UK) / E&Y (Canada) or myself to provide any comments on it in a similar way to MAC's apparent review of earlier drafts. This is inconsistent with our expectation and requests since early February to the Audit Committee. Please advise whether it is the MAC audit committee/PwC "independent investigation" plan to invite me to submit my comments before the report is finalised. If it is then I will make myself available to support same . I look forward to hearing from you directly or via your UK lawyers to mine as soon as possible and as we are back before the Employment tribunal next Monday 2nd July a report back on this status will be appropriate.*" .

Mr Little received no invitation to comment on the factual accuracy of any draft of the PwC reports and had no contact/interviews since late March 2007. This fact has been put on the record with the Bristol Employment Tribunal position as it is clearly of relevance and impact at the hearing/trial.

Bold - additions Red - deletions

Section 5 MALUK: Accounting treatment of design engineering overheads

Para 5.51 Brian Little's assertion that the policy was not applied in the management accounts of MALUK until August 2006 is correct. We were told by Paul Precious that he did not update the MALUK management accounts to reflect the new approach, **as he did not agree that the accounting policy of Magellan should apply.**

Para 5.63 we have also outlined above our findings regarding the adjustment for engineering overheads being recorded within MAC without any apparent input from MALUK (see paragraphs 5.25 to 5.26**). As noted earlier, Magellan has calculated the adjustment that would have been made at Q3 ,2005, had the approach suggested later by EY been applied. The Q3 2005 adjustment would have been £101,000 or CAD 202,000 , which would have resulted in a positive adjustment to Q3 2005 income of CAD 95,000. PwC have not reviewed this calculation in detail**.

Para 5.67 (a) - deleted :Three of the four members of the UK Board (John Dekker, Brian Little and Phil Underwood) were aware of the change in the valuation of WIP within the engineering division , as was EY. The change was not however discussed during a formal MALUK board meeting (of which there were few during 2005). We do not consider that there was a change of accounting policy ; the stated accounting policy for MALUK is that stock "comprises the cost of raw materials and an appropriate proportion of labour and overheads". In our view , MALUK applied more rigorously an existing accounting policy;

Para 5.67 (f) the circumstances surrounding an adjustment made within MAC but not MALUK, effective 30 September 2005 remain unclear. **Magellan has calculated**

the adjustment that would have been made at Q3 05 , had the approach suggested later by EY been applied. The Q3 2005 adjustment would have been £101,000 or CAD 202,000, which would have resulted in a positive adjustment to Q3 2005 income of CAD 95,000. PwC has not reviewed this calculation in detail.

Section 6 : MALUK : Engineering Bonuses - No Change
Section 7 : MALUK : Release of a provision on the A380 contract - No Change
(Not in Claimant Grounds of Complaint)

Section 8 MAC : Aeronca - Airbus A340 non-recurring costs

Para 8.50 Deleted in Final Investigative Report (though still stated at para 8.38)
The EAC calculation therefore requires many estimates by management. PwC's experience with accounting practices and governance within the aerospace industry is that these estimates and key assumptions should be reviewed on at least a quarterly basis

Para 8.61 Deleted in Final Investigative Report *Brian Little stated in the EY presentation that his concerns regarding the treatment of the A340 NRC were raised following Q2 FY2006.*

NEW in Final investigative Report Para 8.60 **Brian Little stated in the EY presentation that he raised his concerns regarding A340 volume expectations and a potential impact on A340 NRC amortisation following Q2 FY2006**.

NEW in Final investigative Report Para 8.61 **Management indicated to us that while it produces multiple EACs on an ongoing basis for reviewing estimates and performing sensitivity analysis , it undertakes a more rigorous preparation and review process at year end. In this respect, an EAC dated from any given quarter may not have been prepared or reviewed to the same degree of rigor, as is performed as part of the year end process. Thus while we compare the Q2 FY2006 and Q4 FY 2006 EAC's at a high level in paragraph 8.62 below, the analysis of the EAC which follows is on the Q4 FY2006 EAC, as this EAC incorporates management's latest assumptions and best estimates based on the most recently available information. The Q4 FY2006 EAC was also used by EY for year-end audit testing purposes.**

Para 8.62 While the total number of units to be delivered under the A340 programme was consistent between the Q2.2006 and Q4.2006 EAC's , the Q2 FY2006 (exhibit 8.3) EAC presented a forecast net loss for the programme of USD 5,219,875 and the Q4 FY2006 EAC forecast a net profit for the programme of USD 137,132. …………………..

Section 9 MAC : Ellanef - Boeing 737 revenue recognition

Para 9.8 Deleted …………… We understand that as of 13 April 2007, Boeing had not indicated agreement in writing to retroactive price adjustments on the integrator kit

NEW in Final Investigative Report Para 9.9 : As of the date the 2006 financial statements were issued, 2 April 2007, Boeing had not indicated agreement in writing to retroactive price adjustments on the Integrator kit. Subsequently , on 1 June 2007 MAC and Boeing reached an agreement in writing with respect to price adjustments and an extension of the contract from 2009 to 2012.   This agreement included payment of compensation to Ellanef with respect to integrator kits shipped from 1 January 2006 to 31 May 2007, through higher integrator pricing for 1 June to 31 December 2007. The agreement indicated the amount of compensation to be paid regarding Integrator kits shipped during 2006 was USD 961,467 or approximately CAD 1,038,000.

Final Draft report - para 9.37 Deleted   John Dekker provided PwC on 16 March 2007 with details of three adjustments that were not made at the Q1,Q2 and Q3 quarter ends (exhibit 9.21) . John Dekker indicated that these adjustments have been made at the 2006 year end . John Dekker provided an analysis that allocates the adjustments to the 2006 quarter end and the analysis indicates that at each quarter end, had they been made , the three adjustments would have increased profits by an amount greater than the Boeing revenue accruals i.e. would have provided an offset to the Boeing revenue accruals if they had been reversed. John Dekker indicated that the two of these adjustments (totalling $888k at Q3.2006) were determined through year end procedures whereas information to support the third adjustment ($84K at Q3 2006) was available at the quarter ends. We note that the largest of the three adjustments ($514K described as “ECC adjustment”) was included in Summary of Audit Differences EY’s 16 March 2007 Audit Result and Communications Report to the Audit Committee as an understatements of profits. This error was adjusted by MAC prior to finalisation of the 2006 year end financial statements. PwC did not perform procedures on the other adjustments identified by John Dekker.

NEW in Final Investigative report : Para 9.38   **We understand that the covenant calculations for Q1 through Q3 2006 also included an error in that MAC omitted to add back stock option expense in its calculation of EBITDA. John Dekker advised that this error came to light subsequent to the Q3 2006 covenant calculation and has been corrected in the Q4 2006 calculation. Had MAC included the stock option expense add back in its Q2.2006 covenant calculations, we are advised that the impact would have been to increase the rolling 4 quarter EBITDA by CAD 805K, which would have decreased the senior debt:EBITDA ratio. Adjusting the senior debt : EBITDA ratio for Q2 2006 for both the Boeing revenue accrual and the stock option expense add back results in a ratio of 3.43 which is within the maximum permitted level of 3.50 (Appendix H)**

Para 9.47   John Dekker indicated that he believed that his position was supported by a discussion with his audit partner on this item which was held in **February 2007** (was December 2006 in Final draft report) , although the actual mechanics of how the accrual was reported were flawed**……………**

NEW   Para 9.49   Rich Neill confirmed that he participated in the internal discussions regarding the status of the Integrator Kit negotiations on an ongoing basis , including the Tuesday management meetings, and discussions with Steve Groot and John Dekker with respect to the revenue accruals as part of the quarter end close process. Rich Neill indicated that he listened to the status

updates provided by Mr Zannatta and Henry David but made his own assessment. He indicated that he believed the accruals were reasonable based on the senior management's confidence that the retroactive adjustment would be achieved and his belief that the accounting was consistent with normal practice in the aerospace industry.

NEW Para 9.51 MAC's 2006 year end financial statements were issued on 2 April 2007. Subsequently , on 1 June 2007 MAC and Boeing reached an agreement in writing with respect to price adjustments and an extension of the contract from 2009 to 2012 (exhibit 9.31) . This agreement included payment of compensation to Ellanef with respect to Integrator kits shipped from 1 January 2006 to 31 May 2007, through higher Integrator pricing for 1 June to 31 December 2007. The agreement indicated the amount of compensation to be paid regarding Integrator kits shipped during 2006 was USD 961, 467 or approximately CAD 1,038,000

PwC findings -

NEW Para 9.52 **MAC's quarterly financial statements included revenue accruals of Q1, Q2 and Q3 2006 totalling CAD 904K (at Q3 206) with respect to an anticipated waiver of the selling price discount on the Integrator kits. The accruals were recorded since MAC senior management had been confident that the discount waiver would be agreed with Boeing and believed that recording the accruals on the basis of this confidence was consistent with customary business and industry practice. In March 2007, following consultations with EY regarding the appropriate accounting treatment for the revenue accruals as part of the year end audit process, MAC determined that since it did not have an agreement in writing from Boeing with respect to the waiver, the revenue accruals should not have been taken at the quarter ends. We understand that the revenue accruals were reversed in the 2006 financial statements since no agreement in writing from Boeing had been obtained. On 1 June 2007 , subsequent to the finalisation of MAC's 2006 financial statements , an agreement in writing from Boeing was obtained that included USD 961K or approximately CAD 1,038k in compensation with respect to Integrator kits shipped during 2006.**

Exhibits

5.10a A document prepared by Shawn Smith entitled "*Absorption of Direct Costs into Inventory 2005*" - single A4 page

9.31 Letter from Mike Rootjes (Boeing) to Dan Zanatta dated 1 June 2007 = five A4 pages which includes statement extract

"*Boeing has agreed to structure the payments of the price increases in accordance with Magellan and Ellanef's request (ref. the attached term sheet) with higher integrator Kit pricing being paid from June 1,2007 to December 31, 2007 to provide additional compensation to Ellanef of $961,467 from January 1, 2006 through December 31, 2006 and $921,200 from January 1, 2007 to May 31, 2007 for Integrator kits shipped during these periods.*"

Appendix

H **PwC covenant recalculation for Q1 through to Q3 assuming reversal of revenue accrual and 2006 stock options . Single A4 page**