

From: Brian Little [mailto:brian@fortfield.com]
Sent: 05 May 2011 09:35
To: 'trent.henry@ca.ey.com'; 't.henry@ca.ey.com'
Cc: 'scott.halliday@uk.ey.com'; 'lcameron@uk.ey.com'; 'JIM SHANNON'
Subject: OPEN PUBLIC LETTER

[ON THE RECORD - OPEN LETTER / EMAILS](#)

Mr Trent Henry

Further to my email below please find attached an OPEN LETTER to ERNST & YOUNG dated 5 May 2011 which builds on the email trail below from 10 August 2009 – 8 August 2010 and the separate email trail which is located on my website www.fortfield.com at

UPDATED 7 April 2011: I wrote an [email on 18 March 2011 to Mr Trent Henry, the new leader of E&Y Canada, and Mr Linsdell](#) in advance of the completion of the FY2010 audit of Magellan's Financial statements and their public release. As you can read this was copied to Mr Dimma.

A few days earlier, [on 16 March 2011, I requested that Mr Henry also provide support to E&Y](#) in their response to Mr Shannon's questions regarding "independent forensic investigations".

The content and request should be clear in this OPEN LETTER. It would appear t many of us that it would be good sense that another auditor (other than E&Y and PwC) should now have the opportunity to independently audit this Public Company from FY2011. As MAC Ordinary Shareholders my wife and I intend to vote for such a change.

If there are any further questions or clarification required, which cannot be provided from your staff or within my website, please do not hesitate to make contact with me .

Regards

Brian Little

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PS Mr Shannon MP . As per our your telcon last night - thanks for ringing us, despite obvious " election fever" etc.

The Audit Committee
Magellan Aerospace Corporation
3160 Derry Road East
Mississauga, Ontario
L4T 1A9
Canada

For the attention of: Mr William A Dimma

20 June 2007

Our ref: JT/Magellan/amjt100v.doc

Dear Sirs

Investigation into matters raised by Mr Brian Little

Further to our engagement letter of 2 February 2007 we enclose our final report into certain areas of concern raised by Mr Brian Little. Certain matters arose in the conduct of our work that we wish to draw to your attention.

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. In particular, EAC calculations require many estimates by management. Our experience with accounting practices and governance in the aerospace industry is that these estimates and key assumptions should be reviewed on at least a quarterly basis.

The Audit Committee

Our ref: JT/Magellan/amjt100v.doc

20 June 2007

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.

Yours faithfully

John Tracey
Partner
Forensic Services

Enclosure



Pinsent Masons

BY EMAIL

PRIVATE AND CONFIDENTIAL

Our Ref 20\23784609.1\CR\626157.07030

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4 May 2011

Dear Brian

YOURSELF V MAGELLAN

In the context of an article in The Daily Telegraph of today's date we have been provided with a copy of a letter dated 20th June 2007 which Mr Tracey of PWC sent to Magellan's Audit Committee. That letter relates to the draft and final PWC Reports. The final Report, of course, focuses on examining and evaluating the allegations you raise against Magellan.

You were provided with the PWC draft Report and then, when completed, the final Report on 29th August 2007. The Order of the ET for disclosure dated 7th June 2007 also referred to disclosure of the letter of instruction to PWC which, of course, was also disclosed to you.

As we have said above, we only had sight of Mr Tracey's letter dated 20th June 2007 in the context of The Daily Telegraph article. The letter does not relate to your "whistleblowing complaints" but, notwithstanding that, we enclose a copy of that letter for you.

Yours sincerely

Charles Rae
Senior Associate
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Enclosure

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Date : 5 May 2011

Website [Welcome to Fortfield.com](http://www.fortfield.com)

OPEN LETTER TO MR TRENT HENRY - Chairman and CEO -

Ernst & Young Canada LLP Public Accountants / Auditors for Magellan Aerospace Corporation

On 11 May 2011 at 2 pm the Magellan Aerospace Corporation (MAC) Annual General Meeting will be held at The Living Arts Centre, 4141 Living Arts Drive, Mississauga , Ontario, Canada.

At Item 3 on the agenda it will consider the appointment of auditors , with remuneration to be fixed by the directors;

In advance of that AGM meeting I would request that E&Y consider carefully whether it is appropriate to continue as the auditors for Magellan Aerospace Corporation. I set out below extracts from my website which you should consider.

I also bring to your attention an article which appeared on the front page of the Business Telegraph in the UK yesterday. There have been, and will be further ramifications for this for E&Y in the UK and Canada. My MP and I will also now provide our comments directly to the Daily Telegraph next week.

<http://www.telegraph.co.uk/finance/newsbysector/supportservices/8490501/PwC-reported-to-accounting-regulator-after-taking-out-criticism-of-client-from-report.html>

In that regard I also attach a copy of the letter from PwC to Mr Dimma , the Chair of the Audit Committee , dated 20 June 2007 with the Final Report from PwC into the investigations in to my whistleblowing. This was disclosed yesterday evening for the first time and further demonstrates vividly the ethical and regulatory/legal conduct and behaviour towards the UK Court and my family / public interest.

You now have several days in advance of the MAC AGM to consider in light of all the facts and evidence the position of E&Y UK and E&Y Canada.

I have copied Mr Scott Halliday and Ms Lisa Cameron in the UK on this OPEN LETTER email as E&Y UK are also included in the referral to the FRC regulators by Mr Shannon MP in his letter dated 18 March 2011 and earlier in correspondence with the Companies Investigation Branch.

Extracts from website

May 2009 AGM *(BL to ME – not present > Question to Mr Neill)*

Transmission of that 2009 AGM Q&A over the internet by CNW was NOT made – for the first time.

Deliberate Concealment

The next question Mr Neill is for you in the absence of Mr Edwards---

Can you prove to investors that when you went to the money markets in search of funds for the business in 2007 that you were not deliberately concealing up to a C\$40m hole in the FY2006 accounts due to the A340?

Mr Neill – the answer to that is most definitely Yes. We were absolutely convinced that the numbers we published were correct. The \$40m hole you referred to is an issue you raised as part of the Employment Tribunal proceedings in Bristol and the views of the Company are quite different to your views on this and time will tell whether the Tribunal agrees with you or agrees with us. We were convinced, and are still convinced, that it is a very viable programme and that it will be very profitable in that kind of technology and that programme going forward.

As you know, both Ernst & Young and PricewaterhouseCoopers were comfortable with the manner in which the Respondent justified the quantity of units expected to be delivered. For the sake of clarity, we also attach (at page 2) a document that our client has recently prepared, which shows at a glance the assessment that would be carried out by the Auditors in order to satisfy themselves that the accounting on this matter was appropriate. We trust it is of assistance.

**Aeronca, Inc.
A340 Summary of Best Information Available
at December 31, 2006**

year	# of units justification			initial cost to complete basis		
	production	spares/repairs	total	units	unit price	total revenue
2008	69	7	76	156	201,396	31,417,776
2009	53	7	60	162	210,828	34,154,136
2010	127	8	135	162	221,170	35,829,540
2011	117	9	126	162	232,501	37,665,162
2012	103	11	114	151	244,970	36,990,470
2013	85	12	97			
2014	63	14	77			
2015	37	14	51			
2016	7	14	21			
2017		14	14			
2018		14	14			
2019		14	14			
2020		14	14			
2021		14	14			
	661	166	827	793		176,057,084

Final Investigation Report into Areas of Concern Raised by
Mr Brian Little
August 2007
MAC: Aeronca - Airbus A340 non-recurring costs

8.61 Management indicated to us that while it produces multiple EACs on an on-going 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 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.

ADDED IN FINAL REPORT re EoY

By the end of the commercial contract in place with Aircelle in December 2006 Magellan represented that a total of 833 units would be delivered by FY2012.

BL Q4 (BL to ME – to Mr Neill) A340 Documents disclosure and transparency

BL Can I just make a point now that there are effectively eight documents that prove your sole reliance upon E&Y and PwC has been invalid and unjustified. Why don't you publish the following documents on your website so that all the ordinary shareholders can see what happened in FY2006- what has been said in evidence , what has been said by PwC, what has been said by Mr Mark Bobbi and everyone can see what has been said.

I have said nothing for 29 months in the hope that we would publicly not be trying to address this and I am now left that within a month I will provide any evidence/documents over here to the authorities in Canada. I again ask the question why can Magellan not have those eight document /types available to the public, on the website and allow the ordinary shareholders to look at the evidence themselves.

Mr Neill - Mr Dimma or John?

Dimma - I think a partial response is that as you know this matter is before the Employment tribunal in the UK . That Tribunal is continuing its work and has not yet come to its conclusion and made its report and I think it would be entirely inappropriate for us to publish anything during this period when they are considering the evidence.

BL Mr Dimma I think you need to discuss this with your UK solicitors, if you wish as the Tribunal in the UK, is making an assessment as to the reasons why I was dismissed, it will only deal with what, why and how etc I was dismissed. It is not responsible for deciding whether my accounting concerns were right or wrong, as I only have to demonstrate that, as you have been told by counsel in the UK, that I had "reasonable belief" that they were correct. I am now talking to those people who made the representations to the auditors for A340 in FY 2006. Mr Neill, Mr Dekker - what they provided as that data to the auditors? **Provide the ordinary shareholders with the information / documents so they have the opportunity to see what has been said, put it on your website and let everyone see. If you are not going to do it... I will in a month' time.**

RAN - Obviously on the website we provide all the documentation we are required to meet the OSC and the TSX. To go beyond that in the context of this ---- is over and above what we have to do , especially since we disagree with you on so many of the issues.

BL Why won't you?

RAN Because there is a Tribunal hearing

BL It has nothing to do with this subject. They are dealing with the dismissal – it is not the purpose of the Tribunal to deal with the proper accounting and its accuracy.

RAN You have made your point

BL This also affects the Net Book Value – if Mr Edwards said that when he takes the business private will he pay the ordinary shareholders the full value for FY2006 – effectively \$14 a share ?? and he works , and I 'll **work with you to get PwC \$1m (or £1m) professional indemnity back for a really sloppy piece of work -- and return it to the shareholders.**

RAN You have made your point and you've asked your questions? Now Are there any other questions - such as what year do you see a single aisle replacement??

No further questions - meeting terminates

Due to further evidence from Mr Neill and Mr Dekker, combined with a long bout of ill health from which I am still recovering, whilst completing the website information by December 2009, I was unable to bring it to the attention of the various authorities.

In the meantime my Member of Parliament, Mr James Shannon MP, has been in correspondence with UK regulators and other Cabinet ministers.

E xtract from my website www.fortfield.com Part G on Ernst & Young

From a TSE shareholder/financial markets analyst perspective, please LISTEN to an important question asked by Richard Stoneman of Dundee Securities and then by a Mr Claude Proulx of BMO Capital Markets (a respected aerospace analyst in Canada) [on the subject of Magellan Inventory and third party verification during 5 minutes of the Q3.2006 earnings webcast call](#) in mid-November 2006 and answered by Mr Neill (*President and CEO: shortly to retire and be promoted to Vice Chairman*) and Mr Dekker, the current Magellan CFO and Corporate Secretary. The complete [transcript of the Q3.2006 MAC Earnings call on 14 November 2006 can be read here](#). At p15

“Claude Proulx - BMO Capital Markets - Analyst

And the second question is, I mean, I look at your stock today and it's trading at roughly 80% of book value. And I always believe that the market to some extent is efficient. **And I'm wondering, to what extent can we trust your book?** I mean, the book is really – that's its real. I mean, understand that there is some real estate probably – maybe understate the book. But at the same time, there's a lot of things in your inventories – engineering, average excess over costs – where it's going to be more questionable, especially in light of the performance that you are generating these days. Can you talk about this or – *interrupts*

John Dekker - Magellan Aerospace Corporation - VP-Finance and Corporate Secretary
- Sure, sure. Sorry .. *R Neill now interrupts then John Dekker Continues*

Claude, let me try to address the valuations of the inventory. Clearly, if you look at our balance sheet, the inventory is one of the most significant assets we have. That alongside capital assets. And we've spoken about capital assets and some of the valuations on the property. So let's focus on inventory, which is really I think the crux of your question. We go through extensive reviews of our inventory at any point in time. **And I would estimate 80% of the external audit focus at the year end is on inventories.** So there is an extensive amount of work done to confirm that those values are appropriate. **So we have third party verification of those amounts.**

Claude Proulx - BMO Capital Markets - Analyst

I'm just concerned because a lot of it is program-related. And you need to generate some earnings in order to justify the value that is there. And the earnings are not there at this point. So....*R Neill interrupts*

Richard Neill - Magellan Aerospace – President & CEO

Well, we may want to differ with you in opinion on that Claude. Because I would argue that book value is likely higher than what you're stating right now. – see [remainder of transcript](#)

Importantly this followed a [Q2.2006 Audit Committee meeting on 10 August 2006 in which Mr Dekker and Mr Neill had taken a management override decision](#) on the Ellanef-submitted accounts for Q2.2006 for the Boeing 737 systems integrator discounts (adding C\$700K to the H1.2006 profits) and even more crucially the Airbus A340 Q2.2006 EAC which now calculated some \$5.2 m gross losses in which they had both determined solely by management over-ride to report a A340 breakeven position in Q2.2006.

As you can read in the [10 August 2006 minutes at Point 5 on the Private Session with Ernst & Young](#) “ Mr Linsdell of Ernst & Young (“E&Y”) reported that he had several discussions and had met with management prior to this meeting to discuss the second quarter’s results and presentation of certain items, primarily related to the accounting treatment of the Ellanef rejuvenation initiative. He reported that while he had received schedules from management prior to this meeting he only received the financial statements and the MD&A at the meeting.” Whilst at [Point 7 the Private Session with management minutes](#) that “Mr Neill expressed his concern that it had taken E&Y too long to make a final recommendation o the accounting treatment of the Ellanef initiative. Mr Edwards reiterated his concern that the 2005 audit fee was too high and that management and E&Y must work together to find a way to reduce the 2006 audit fee.”

Turning now to that third party, E&Y, at the FY2006 year end

Mr Don Linsdell, in his first financial year as **MAC’s lead E&Y Canada partner/auditor for Magellan Aerospace** (*responsible for automotive sector*), concluding comment, to Mrs Clare Pettifer (*one of the former MALUK Head Office Accountant/Treasurer people*) and me on 14 December 2006 at our meeting in London, that “**It doesn’t pay to be a whistleblower**” has seldom left my mind since and certainly will never leave my living memory. As an experienced friend recently told Jackie and I , after reading our website, “*When money speaks the truth keeps silent*”.

When I followed up with Mr Linsdell of E&Y on 11 January 2007 he left the [attached 2 minute voicemail message on my mobile phone](#) . I also note that although Mr Dimma was Chair of the MAC Audit Committee it was Mr Edwards, the Chairman of the Corporation, who had spoken to the Ernst and Young Canada Chairman (Mr Lou Pagnutti?) about the issues arising in the last FY2005 Magellan audit ([as recorded in the 11 May 2006 Audit Committee minutes](#)); which was managed by Mr David DeWolf (*the previous E&Y Canada partner who had led the external public audits since Magellan’s formation in 1996*) and who had now been replaced by Mr Linsdell. Our family accountant/auditor Mr James McCreery (*who accompanied me to my meeting with PwC on 29 January 2007*) also met Mr DeWolf in an unplanned meeting in the Square 1 shopping mall in Mississauga in mid May 2007 during which he expressed to both of us his opinion that in his experience he viewed “Murray Edwards as a bully”.

Mr DeWolf was not isolated in that opinion, as I had heard other senior management colleagues in Magellan Head Office use words to this effect in my year located in Toronto. I put this question in cross-examination to Mr Edwards on 5 June 2008 - “Do you accept that some staff thought that you were a bully?” and “Do you realise you are perceived by some staff members as cranky or grumpy?” – *based on Mr Dekker’s oral evidence 2 April 2008 (p.48.57)*. The Judge then intervened and because of my recollections of these multiple comments from others and the short subsequent exchange he triggered the final input/driver that caused my first seizure and unconsciousness in court for several minutes. Mr Butyniec had earlier - *24 January 2008 (p160)* - given his evidence that “Murray was a very emotional guy. Certain things he says can be understood” whilst Mr Dekker subsequently confirmed in his cross-examination on 2 April 2008 to this question “Was Mr Edwards emotional...” *interrupts* “..... He can get expressive when he needs to make a point.”

16 March 2007: [Mr Linsdell briefed the MAC Audit Committee on E&Y view](#) – the minutes record “*Mr Linsdell reported that although some audit procedures are not complete, he does not anticipate the results will change the financial statements as presented to the Committee and that he expected to provide an unqualified opinion on the financial statements, subject to any adverse findings by PricewaterhouseCoopers that might affect the numbers or disclosure in the Corporation’s financial statements.*”

30 March 2007: [MAC Board approved the MD& A and financial statements for FY2006](#) – minutes record “*Mr Linsdell provided the Audit Committee with a status update in respect of the audit since the last Audit Committee meeting on 16 March 2007. Mr Linsdell reported that Ernst & Young were comfortable with the PWC report and that although there were some outstanding audit issues with management , he was prepared to provide an unqualified opinion on the financial statements.*”

Oral evidence from Mr Dekker on 10 June 2009 in UK Employment Tribunal .

Judge **If the Q4 2006 EAC had continued with the underlying gross loss of 5.22 million <[as per the Q2.2006 EAC](#)> and the further £2.734 million costs increase by Q4 2006 had been recorded at circa \$10 million loss, would MAC senior officers have recorded from that EAC a circa \$10 million plus loss in Q4 2006 earnings and then stated that in the FY 2006 published accounts?**

Mr Dekker **Yes.**

Mr Little Right

Mr Dekker But --

Judge But --

Mr Lynch Yes, please.

Mr Dekker But it's based on a lot of presumptions.

Judge Right.

Mr Dekker The final question is, would we post the accounts correctly, of course we would, if that was truly a loss we would post the accounts correctly and record a loss.

Mr Little [Can I just clarify something now, if we just look at document 1831 in the bundle, what you're saying, John, then, is, and this is for everybody else, if the number do you know here, \\$137172, which is the very bottom of the sheet, marked D, I think, sir.](#)

Judge [Yes..... we have it](#)

Mr Little So, Mr Dekker, if D was minus \$10 million, I think you've just told the tribunal that you would then be posting 10 million loss to the accounts?

Mr Dekker If you're asking me if this schedule generated the number of minus 10 million in the bottom of the programme total, would we record it that way, no. Not solely on the basis of this schedule. This [schedule is an estimate at complete](#), and each quarter we do various scenarios of this schedule, there are three major variables that affect the outcome of this schedule, **sorry to bring it to such basic levels, but it's number of units, times revenue per unit, and the cost.** If our **best view**, our -- let me identify best, **our most reasoned view and most likely outcomes** showed a **10 million loss**, yes, we would post that loss. Each of those three variables has a habit of changing on us. And as such, this schedule will change each time we do it. We also have uncertainty about the future, so our view as to what's going to happen into the future will also affect how this schedule

is completed.

Mr Little **But the core question is, if as a result of doing all of that, that number became minus 10 million, would you be posting minus 10 million to the accounts?** *(BL : Note also the relevance to the Q2.2006 A340-500/600 EAC of (\$5.2m) etc etc)*

Mr Dekker If our best view, our -- let me identify best, **our most reasoned view and most likely outcome showed a 10 million loss, yes, we would post that loss.**

Mr Little And it is correct, Mr Dekker, that this document is the primary document which Ernst & Young would use in their audit process?

Mr Dekker We would give them this document in the audit process, plus the supporting detail, I can't say that this is the primary document but I have to believe it's one of the key ones.

Mr Little Right, and in the audit testing processes, which we're both familiar with, in terms of the primary part of their job, for want of a better word, that's what this Excel work sheet will become, and its backing paper, what they use to do their calculations of mathematics on.

Mr Dekker I believe so, I'm not present at each of the business units when the auditors are in but certainly that would be a logical assumption, I would expect nothing different.

Mr Little Right, and sir, just for factual record, in the final report at paragraph 8.61, PwC, it confirms that this was the document used for year end audit testing purposes.

[I would ask you to note, while reading these, that the Board resolution approved Magellan Aerospace Corporation Annual Report for FY2006 at page 14 \(MD&A/AIF.p12\) states](#)

"The Corporation relies on customers' delivery projections as well as external market forecasts to determine the number of units over which to amortize non-recurring costs. Should deliveries not reach the number projected, any unamortized balance that remains would then need to be charged to cost of revenues which could have a material adverse impact on the Corporation."

There was an addition to the PwC Final Report in August 2007 at para 8.61 {691} which stated that E&Y \$137K gross profit assessment / representation reliance – **The Q4 FY2006 EAC was also used by EY for year-end audit testing purposes.** The Estimate at Completion (EAC) process/documents are the MAC management *"most reasoned view and likely outcome – oral evidence :Dekker"* and showed in this Q4.2006 EAC submission to the auditors E&Y and PwC an improvement over Q2.2006 to a miniscule **\$0.1m gross profit on \$250m program revenues** which was unsupported by the pricing assumptions and quantities mathematical calculations. Pricing / Quantity calculations and management assertions which appear to never have been mathematically checked, never mind verified, by E&Y as well as PwC.

Some two years after Mr Linsdell left that 2 minute voicemail you can read **also Mr Linsdell's email reply to me (dated 12 January 2009) in response to my email asking for confirmation of the actual A340 documents disclosed to E&Y for their audit and EAC testing in FY2006 and other documents relating to their audits in FY2005 and FY2006.** This included a further A340 document (doc3605A) – in May 2009 – with a comment from the Magellan UK solicitors in which they state.....

"As you know both Ernst and Young and PricewaterhouseCoopers were comfortable with the manner in which the Respondent justified the quantity of units expected to be delivered. For the sake of clarity, we also attach (at page 2 – 3605A) a document that our client has recently prepared which At a glance the assessment that would have been carried out by the auditors in order to satisfy themselves that the accounting on this matter was appropriate"

With the assistance of Deloitte I [Extended the At a Glance](#) to include the other relevant MAC representations and other PwC / Brian Little information.

*Point A: Magellan Aerospace Corporation used only a fixed amortization amount of \$30,000 per exhaust unit in FY2006 – which if continued at \$30,000 per exhaust unit would lead to **only 65% recovery of the circa C\$40m+ (USD 38.25M) inventory on the December 2006 MAC Balance Sheet.** PwC set this out further in their [para 8.117](#) : Current production costs per unit are such that at present the pre-amortisation margin generated per unit is not sufficient to absorb an amortization of USD 30,000 per unit and still break-even. In order for MAC to report an overall breakeven position, while at the same time amortising NRC inventory, it has been capitalizing that amount of production costs that is necessary to achieve the break-even position each year. For this reason, “production inventory” for the A340 programme has been increasing”. BL - **If MAC were to maintain the amortization at \$30,000 per exhaust system, as in FY2006, only \$3.30 million would have been reduced from the total A340 programme asset for the 110 units delivered by MAC in the three years between January 2007 and the end of December 2009/FY2009. (Updated 18 January 2011: With aircraft production exhaust units now all delivered a total of 110 production – to 131 A340-500/600 - production aircraft and 11 spares were delivered by MAC in the four years between January 2007 and the end of December 2010/FY2010, or equivalent to \$3.63m).** PwC continues at [para 8.118](#) “PwC believes that MAC’s NRC and production inventories should be considered collectively (for a total inventory of USD 38.2 million) and then amortised from this basis onward. Aeronca should also review the NRC amortization factor. We believe that this factor should vary with the profitability of each unit. As increasing labour and material cost efficiencies are realized in the production process, furthermore, the amortization rate should increase.”*

Mr Dekker also disclosed in May, June and August 2009 doc [1830A,1831A](#) and the 3605 document series ([3605A, 3605B-G](#) – 1 March 2007 , [3605H](#) - 14 March 2007 in Part C - - - NONE of which appear or were mentioned in the PwC report) - as key Representation documents in which he asserted and you should examine –

“As you know, both Ernst & Young and PricewaterhouseCoopers were comfortable with the manner in which the Respondent justified the quantity of units expected to be delivered. For the sake of clarity, we also attach a document which [“At a glance the assessment that would have been carried out by the auditors in order to satisfy themselves that the accounting on this matter was appropriate”](#)

Separately Deloitte and I have produced working schedules which reproduced and then [extended this “At a Glance” for the A340 Program Q2.2006 and Q4.2006 EAC](#) together with the [underpinning numeric Quantity/Number of Units and prices analyses & stated cost assumptions](#) which enabled an [overall A340 financial summary/outcomes](#).

As above the reader will have noted from the PwC report that MAC and E&Y continued to add Labour learning costs – **after 400+ A340 nacelle sets/5 years of production** to production inventory (*and E&Y as their auditors accepted the further US \$1.5m to US \$8.63 million added in the FY2006 Balance sheet to sustain the “break-even”*) whilst the *Inventories Exposure Draft (3031) which would end this capitalisation was issued by the CICA in August 2006.* The subsequent introduction of that Canadian Accounting Inventories Standard 3031 in MAC from 1 January 2008 permitted some C\$40m of inventory assets to be **written off against retained earnings (approx C\$10m of which was for these A340 - 500/600 program labour learning costs)**. The value of that as a cash deficiency for shareholders will of course remain unchanged and would also have had a enormous impact if properly reflected in the MAC five year strategic plan.

As at today from the documents/information available I believe the MAC Balance Sheet continues to be over-stated by in excess of C\$10m on an equivalent basis, a “material” value in every sense of the accounting standards and reality.

Point B: The MAC Audit Committee minutes on 10 August 2006 (*which I did not attend*) for that Q2.2006 meeting also record at [Point 5 in the Private Session with Ernst & Young](#) “ .. that Mr Linsdell of E&Y had ...” **only received the financial statements and the MD&A at the meeting”.**

Prices per unit : [Mr Edwards \(12 Aug\) and Mr Dekker \(11 Aug\)](#) had just approved [Mr Butyniec’s BAFO for settlement with Aircelle on 11/14 August 2006](#) which had LOWER pricing (*e.g. \$179,623 in FY2006*) than [in our Q2.2006 EAC \(\\$181,170 in FY2006\)](#) and which would lead to a [reduction in revenues of \\$5.2m - \\$8.9m](#) and further increase the \$5.2m gross losses. If internally Magellan were satisfied with this documented BAFO pricing settlement for A340 - and Aircelle had indeed accepted this Magellan final offer - how could Mr Dekker and Mr Neill rationally and reasonably believe that this lower pricing would have more than set off the A340-500/600 \$5.2m gross losses in our Q2.2006 EAC document and was in the best interests of non-management MAC ordinary shareholders.

PwC correctly recorded in the Final Draft report at para 8.61 that “Brian Little stated in the E&Y presentation that his concerns regarding the treatment of the A340 NRC were raised following Q2.2006.” and as you can hear on the audio tapes ([Tape recording - Part 1 \(16 minutes\) and then Part 2 \(7 minutes\)](#)) I stated **“And the fundamental issue here, which we have to come to terms with, is that this product is a product that has not only got a cost/price problem but it’s now also got a programme volume one!”**

There was an addition to the PwC Final Report in August 2007 at para 8.61 {691} which stated that E&Y \$137K gross profit assessment / representation reliance – [The Q4 FY2006 EAC was also used by EY for year-end audit testing purposes.”](#) [The Estimate at Completion \(EAC\) process/documents are the MAC management “most reasoned view and likely outcome – oral evidence :Dekker” and showed in this Q4.2006 EAC submission to the auditors E&Y and PwC an improvement over Q2.2006 to a miniscule \\$0.1m gross profit on \\$250m program revenues](#) which was unsupported by the pricing assumptions and quantities mathematical calculations. Pricing / Quantity calculations and management assertions which appear to never have been mathematically checked, never mind verified, by E&Y as well as PwC.

[Although consciously not part of the UK court case I also documented with Mr Linsdell at 37/4 and 37/5 following our February 2007 discussion -](#)

a) the MAC Fixed Assets Machinery and Equipment Depreciation accounting policy – MALUK management and statutory financial reporting policy in the UK is 10 years (straight-line) not the MAC 20 years. The three UK resident MALUK directors and [auditors \(Mrs Barbara Hadfield-E&Y UK audit partner\)](#) [determined in FY2004](#) that we could not present a “true and fair view” by using a plant and equipment depreciation rate of 20 years as our representation in our UK statutory public reporting. Both the former MALUK CFO’s and myself considered that if we were to use the MAC 20 years for the Magellan UK Plant and equipment we would understate the real costs in future contract bids, reflect higher short-term profitability and overstate the realizable value of those assets. For MAC Canada reporting this 20 year depreciation policy obviously has the effect of [reducing the depreciation costs below those used by other Global and Canadian aerospace companies \(some also audited by E&Y as identified in document \)](#) with the consequent effect on the MAC Income and Balance Sheets. I believe this difference in depreciation policy reporting and practice would equate to several million dollars per year in profitability and of course Balance Sheet value issues. (*At the end of FY2009 MAC represented for their audit that the asset value of Machinery, Equipment and Tooling was for some C\$177 million*)

Mr Neill offered his opinion on the MAC Balance Sheet/book value of the North American Plant and Equipment, as well as other assets, in answer to part of a question by Mr Claude Proulx during the Q3.2006 earnings conference call with analysts which you can listen to [here](#) or [read a complete copy of the Q3.2006 Earnings webcast call transcript](#). Of course as the non-resident MALUK Directors Mr Neill and Mr Dekker have both known and approved the MALUK 10 year P&E depreciation policy and published MALUK statutory accounts from the beginning in FY2004 to date.

From my strategic/sales and marketing perspective, in fact, on several occasions I increased the finance costing rates in contract bids and documentation to obtain higher selling prices for MAC proposals to prospective and actual customers. One particular customer bid proposal I vividly recall in late January 2006/February 2006 was increased by almost \$18 million. Obviously I do not know what happens now in MAC to address this in the Sales and Marketing bids through the MAC bid and approval governance processes to ensure appropriate pricing is submitted for new work to beat the 15% + gross margin/profitability targets set by the Magellan Board.

b) the MAC inventory policies and provisions - regarding costing/realizable value basis and slow/non-moving materials (to my knowledge this was addressed only by EY (UK) in MALUK FY2005 statutory reporting. [See Part B Point 2B E&Y letter dated 11 July 2007](#). *“Uncorrected Misstatements : We understand that not all of the differences raised in the matters above were adjusted by Magellan Corporation in the preparation of their group accounts for the year ended 31 December 2005. However the decision as to the materiality of these adjustments for this purpose was discussed and agreed between Magellan Aerospace Corporation and EY Canada. For the purposes of the UK statutory accounts for the year ended 31 December 2005 all audit differences raised in the matters discussed above have been adjusted in the statutory accounts.....”* – these adjustments equated to some C\$2m + and [MAC FY2006 financial statements were adjusted for their MALUK FY2005 overrides](#). [I have no evidence of what was implemented in MAC North America](#) ??? and obviously shareholders et al would look at relative measures such as inventory turns in comparison with competitors and best practice norms (*even the internal MALUK inventory comparison of inventory as a % of annual sales was 15% compared to twice that at 30% for the North American operations in FY2006, this is also evident in inventory turns benchmark comparisons*)[you can also read more on Mr Neill’s views on inventories in the Q3.2006 MAC earnings webcast call transcript](#)

(At the end of FY2009 MAC represented for their audit that the asset value of MAC Inventories was for some C\$147 million. Based on the E&Y audit fees of C\$5.7+ m from FY2006 – FY2009 and Mr Dekker’s assessment, in that same Q3.2006 webcast answer that 80% of those fees were being incurred for inventories “third party verification”, some C\$4.5m was paid in fees to Ernst & Young for that various inventories work in FY2006-FY2009) and

c) in the strategic planning process, after the Airbus A340-500/600 (NRC approx C\$40m in FY2006), the second largest MAC Balance Sheet item is the **GE414 engine on the SuperHornet F/A 18 E/F** programme. [This GE414 cash investment was also addressed by Nick Morton of RBC during the Q3.2006 MAC Earnings webcast call](#) (p10-13). I suggested that E&Y Canada carefully consider the **validity and verification of the GE414 program asset value (recorded as Technology Rights) of some C\$30m + on the MAC Balance Sheet**. This was after some 5 years and 450+ engine deliveries of front end exhaust systems since the contract award by GE in 2003 and the related revenue sharing agreement with MAC. For that audit MAC will also probably have partly relied on the [latest production forecasts from Forecast International Inc for the Super Hornet published in March 2008](#). [As you can see more than 50% of the forecast production deliveries had now been completed since contract award with a “FI Good confidence” expectation that production would cease in FY2014](#). Spares volumes would be additional

to that forecast and E&Y should/would have carefully read the commercial agreement on the revenue share as part of their audit process. [The latest Teal Group external market forecast dated December 2009 for the SuperHornet programme shows about 550 engine deliveries in the six year period 2004-2009 and a remaining 10 year forecast of approximately 400, including a speculative 88 for undetermined customers.](#)

At the Farnborough AirShow 2010 [Mr Douglas Barrie of Aviation Week took "A sortie in the F/A-18F" - see video.](#)

As at the end of Q4.2009 the MAC Chairman (Mr Edwards) , Chair of the Audit Committee (Mr Dimma), CEO (Mr Butyniec) and CFO (Mr Dekker) signed off the E&Y audited and publicly reported MAC Balance Sheet value in the FY2009 MAC Annual Report for almost CS30m – see below. Separately I am also aware that Mr Neill was incredibly agitated and lost his temper before abruptly walking out of a conversation with Murray Edwards during the concluding internal discussions/negotiations on the GE414 program in December 2003. Subsequently I understood from a senior Head Office colleague that Mr Edwards was also annoyed with Mr Neill when he failed to involve Mr Edwards properly in the MAC governance processes when further GE414 program investment commitments were made by Mr Neill/Magellan in 2005.

"TECHNOLOGY RIGHTS

As at December 31, 2009 the Corporation's technology rights amounted to \$29,158 [2008 — \$32,567] net of accumulative amortization of \$9,832 [2008 — \$6,673]. Technology rights relate to an agreement signed in 2003, which permits the Corporation to manufacture aerospace engine components and share in the revenue generated by the final sale of the engine. A follow-on contract was signed in 2005."

UPDATED 7 APRIL 2011:

Substantively consistent with the other market forecasts available the [latest Teal Group external market forecast in December 2010](#) shows about 640 engine deliveries in the seven year period from 2004 – 2010 and a remaining 10 year forecast of approximately 332 units as the production programme moves to a conclusion with the introduction of the Joint Strike Fighter (F35).

(As you can see that is approx 35% of the total 972 units, whilst the MAC Balance Sheet would need to utilize a future amortization figure of approximately FOUR times that used in the preceding 2004 – 2010 period to fully recover the cash and asset within their current strategic planning five year period.. by FY2015. It would appear that an amortization figure of approximately \$35,000 per engine was used by MAC, and E&Y accepted in the FY2010 financial statements. From another perspective if maintained at that \$35000 amortization level approximately 400 additional engines (a total of 732) would be required to recover the entire \$25m on the MAC Balance Sheet also signed by Mr Edwards and Dimma as at 31 December 2010.

This is based on the E&Y audited FY2010 MAC Annual Report which records "As at December 31, 2010 the Corporation's technology rights amounted to \$25,654 [2009 - \$29,158] net of accumulative amortization of \$13,251 [2009 - \$9,832]. Technology rights relate to an agreement signed in 2003, which permits the Corporation to manufacture aerospace engine components and share in the revenue generated by the final sale of the engine. A follow-on contract was signed in 2005." - *end of update.*

[OPEN LETTER to the Chairman and Chief Executive Officer, Mr Louis P. Pagnutti , of Ernst & Young \(MAC public auditors\) and other prior back-up documents . Magellan Aerospace Corporation 2010 AGM](#)

[Resolutions and AGM \(14 May 2010\) and other relevant documents.](#)

[See copy of email trail re OPEN LETTER delay to Mr Trent Henry \(successor\) in August 2010.](#)

Copy 1. [Mr N. Murray Edwards](#) (Chairman of Magellan Aerospace Corporation) ,

Copy 2/3 The [Accountancy and Actuarial Discipline Board \(AADB\)](#) in the UK.

“The Accountancy & Actuarial Discipline Board ("[AADB](#)") is the independent, investigative and disciplinary body for accountants and actuaries in the UK. It has up to [eleven members](#). The [AADB](#) is responsible for operating and administering an independent disciplinary scheme (the Accountancy Scheme) covering members of the following accountants' professional bodies:- *the Association of Chartered Certified Accountants, the Chartered Institute of Management Accountants, the Chartered Institute of Public Finance and Accountancy and the Institute of Chartered Accountants in England and Wales; The Institute of Chartered Accountants of Ireland and the Institute of Chartered Accountants of Scotland.*

The AADB will deal with cases which raise or appear to raise important issues affecting the public interest in the UK and which need to be investigated to determine whether or not there has been any misconduct by an accountant or accountancy firm, or by an actuary.”

And then the [Canadian Public Accountability Board](#) (CPAB - since its incorporation in 2003, the mission of the Canadian Public Accountability Board (CPAB) has been: *To contribute to public confidence in the integrity of financial reporting of public companies in Canada by promoting high quality, independent auditing,*

Copy 4. The [Ontario Securities Commission](#) and

Copy 5. The [Royal Canadian Mounted Police \(RCMP\)](#) – Commercial Crime section.

Copy 6. Etc

With the global financial and banking crisis in FY2008 the Chartered Accountants of Canada issued a [relevant CA ALERT on 17 December 2008 – CA Profession’s Role In Restoring Confidence](#) and formed in 2008 the

Copy 7. The [Public Trust Committee of the Canadian Chartered Institute of Accountants](#) (CICA)

UPDATED AUGUST 2010: Several of the business readers have observed, after reading the website and on reflection, that it was three people with personal career familiarity with accounting/finance matters within the Big 4 audit firms who “blew the whistle”. [Mr Paul Moore \(“Truth – Forget it” video\)](#) - a former audit partner at KPMG and celebrated HBOS whistleblower. [Mr Matthew Lee \(Lehman Brothers whistleblower\)](#) – a former principal at E&Y. Brian Little – Magellan Aerospace - a former senior consultancy associate with E&Y from 1997 – 2001 and subsequent exposure to PwC “independent forensic investigation?” processes. Due to my ill-health/mental breakdown in early February 2010 I was unable to write this OPEN LETTER or attend the May 2010 AGM . I am currently recovering and I hope I am sufficiently well to be able to compile this OPEN LETTER and send it in the next few months toing other appropriate regulatory bodies and interested parties suggested in discussions with my MP – for example “The Accountancy & Actuarial Discipline Board (AADB)” and the Solicitors Regulation Authority

and the Law Society – he is currently giving this some further thought before the summer recess of Parliament.)

Following my emails to Mr Dimma on 23 July 2010 / 2 August 2010 “Extract”

UPDATED 2 AUGUST 2010 : A340 Anonymous whistleblower letter to Mr Edwards in 2002

Arising from Mr Furbay’s termination by Mr Dekker on the 23 June 2010 I have received a copy of a letter/information sent by an Anonymous Whistleblower on the A340 Project in 2002 to Mr Edwards – when he was Chairman and CEO/President of Magellan Aerospace. Please find attached a scanned copy of the covering letter. As you can read it sets out this Magellan/Aeronca “whistleblower’s” view on the A340 -500/600 project :

“Dear Mr Edwards

It is this writers belief that Magellan Aerospace Corporation has a significant long term financial exposure on an A340 contract – stateside – see attached.

The subject contract was grossly underbid. At last count it was also grossly under-costed. I can find no mention of the potential impact anywhere in your financial reporting.

A conservative estimate of that level of exposure could be \$50 Million U.S,

This writer recommends that you task Mr William A. Dimma with an audit of the subject A340 Estimate at Completion (EAC) at your U.S. Subsidiary.....”

QUESTION 4 Can you please confirm when , in your role as Chairman of the Audit Committee, you received a copy of this “whistleblowing” letter from Mr Edwards? When you carried out your investigation, at his request, where can we see the public record of the financial implications of that in the public accounts of Magellan since FY2002 or is there none?

As before I look forward to a response to my four questions (and four supplementaries) by the end of July 2010.”

I wrote an email to Mr David De Wolf of E&Y on 3 August 2010 and asked whether

“Given the magnitude of this A340-500/600 matter and the letter/information provided did Mr Dimma make you aware of this “anonymous” whistleblower letter (or perhaps Mr Edwards) as you had been the E&Y audit partner from 1996-2005 before being rotated off by your Chairman/CEO Mr Louis Pagnutti.”

As yet I have received no reply.

UPDATED 7 April 2011: I wrote an email on 18 March 2011 to Mr Trent Henry, the new leader of E&Y Canada, and Mr Linsdell in advance of the completion of the FY2010 audit of Magellan’s Financial statements and their public release. As you can read this was copied to Mr Dimma.

A few days earlier, on 16 March 2011, I requested that Mr Henry also provide support to E&Y in their response to Mr Shannon’s questions regarding “independent forensic investigations”.

Then after the release of the MAC FY 2010 Financial statements Mr Shannon MP followed up his November and 15 December 2010 letters to Mr Dimma in his email dated 6 April 2011; in a part of

which you can see he records that there is no evidence that PwC repaid any of its C\$3m fees to MAC and its shareholders.

You will recall earlier that I stated

<For information : *Magellan Aerospace Corporation used only a fixed amortization amount of \$30,000 per exhaust unit in FY2006 – which if continued at \$30000 per exhaust unit would lead to **only 65% recovery of the circa C\$40m+ (USD 38.25M) inventory on the December 2006 MAC Balance Sheet.** PwC set this out further in their para 8.117 : Current production costs per unit are such that at present the pre-amortisation margin generated per unit is not sufficient to absorb an amortization of USD 30,000 per unit and still break-even. In order for MAC to report an overall breakeven position, while at the same time amortising NRC inventory, it has been capitalizing that amount of production costs that is necessary to achieve the break-even position each year. For this reason , “production inventory” for the A340 programme has been increasing”. If MAC were to maintain the amortization at \$30,000 per exhaust system, as in FY2006, only \$3.30 million would have been reduced from the total A340 programme asset for the 110 units delivered by MAC in the three years between January 2007 and the end of December 2009/FY2009. (Updated 18 January 2011: With aircraft production exhaust units now all delivered a total of 110 production – to 131 A340-500/600 - production aircraft and 11 spares were delivered by MAC in the four years between January 2007 and the end of December 2010/FY2010, or equivalent to \$3.63m). PwC continues at para 8.118 “PwC believes that MAC’s NRC and production inventories should be considered collectively (for a total inventory of USD 38.2 million) and then amortised from this basis onward. Aeronca should also review the NRC amortization factor. We believe that this factor should vary with the profitability of each unit. As increasing labour and material cost efficiencies are realized in the production process, furthermore, the amortization rate should increase.” >*

At 7 April 2011 following the publication of the MAC FY2010 audited financial statements the following

MAC Balance Sheet valuation for A340-500/600 at 31 December 2006 = \$USD 38.25m / C\$ 44.60m
(Of this C\$44.6m; approx C\$34.6m was Engineering .Other costs and C\$10m in prodn/labour learning)

Actual Deliveries

Other remarks

FY2007 - 45 exhaust units

(We know that during FY2006 MAC /E&Y continued to add A340 labour learning to inventories/asset and at the end of FY2007 the Eng inventories valuation (including A340) was C\$62.40m whilst the labour learning costs, including A340 and all of which would be shortly to be written off were C\$29.6m)

FY2008 - 48 exhaust units

(With the introduction of the new CICA inventories standards on 1 Jan 2008 MAC/E&Y wrote off circa C\$10m for all A340 I/I asset. A C\$10.4m retroactive price adjustment INCLUDING an undisclosed A340 NRC /pricing recovery was recorded in Q3.2008. A total of C\$14.5m was amortised for ALL MAC projects; leaving a total (including A340) of Deferred Development Costs of C\$69.2m on MAC Balance Sheet at Year end. The exact number amortised for A340 was not disclosed and therefore the residual C\$ value)

FY2009 - 17 exhaust units

A total of C\$7.4m was amortised for ALL MAC projects ; leaving a total (including A340) of Deferred Development Costs of C\$59.5M on the MAC Balance Sheet. The C\$ number for A340 was not disclosed.

FY2010 - 11 exhaust units

A total of C\$7.7m was amortised for ALL MAC projects ; leaving a total (including A340) of Deferred Development Costs of C\$54.7m on the MAC Balance Sheet. The C\$ number for A340 was not disclosed.

Q1.FY2011 – 0 exhaust units

Total Actual deliveries in period FY 2007 – Q1.2011 = 121 exhaust units

This brings the total development, production and spares figure shipped to 555 exhaust units. E&Y in their FY2006 audit testing used a figure of some 1285 exhaust units by the end of the current contract in FY2012; or a further 833 exhaust units from FY2007 - FY2012. My expectation at that time (as relayed to E&Y and PwC) was a delinquency of perhaps 50% of the NRC Balance Sheet value for the A340 "asset." **As at today, from the documents/information available, I believe the MAC Balance Sheet continues to be over-stated by in excess of C\$10m on an equivalent basis, a "material" value in every sense of the accounting standards and reality.**

The reader will already have mentally noted that if MAC/E&Y had maintained the USD30,000 amortization number then a total of circa C\$4m (less than 10%) would have been the reduction / amortization in the MAC Balance Sheet as at 31 December 2010.

Brian Little

Former Senior Officer and Senior Vice-President IT, Strategy and Business Development - to 2006

5 May 2011

From: Brian Little [mailto:brian@fortfield.com]
Sent: 05 May 2011 09:35
To: 'trent.henry@ca.ey.com'; 't.henry@ca.ey.com'
Cc: 'scott.halliday@uk.ey.com'; 'lcameron@uk.ey.com'; 'JIM SHANNON'
Subject: OPEN PUBLIC LETTER

[ON THE RECORD - OPEN LETTER / EMAILS](#)

Mr Trent Henry

Further to my email below please find attached an OPEN LETTER to ERNST & YOUNG dated 5 May 2011 which builds on the email trail below from 10 August 2009 – 8 August 2010 and the separate email trail which is located on my website www.fortfield.com at

UPDATED 7 April 2011: I wrote an [email on 18 March 2011 to Mr Trent Henry, the new leader of E&Y Canada, and Mr Linsdell](#) in advance of the completion of the FY2010 audit of Magellan's Financial statements and their public release. As you can read this was copied to Mr Dimma.

A few days earlier, [on 16 March 2011, I requested that Mr Henry also provide support to E&Y](#) in their response to Mr Shannon's questions regarding "independent forensic investigations".

The content and request should be clear in this OPEN LETTER. It would appear t many of us that it would be good sense that another auditor (other than E&Y and PwC) should now have the opportunity to independently audit this Public Company from FY2011. As MAC Ordinary Shareholders my wife and I intend to vote for such a change.

If there are any further questions or clarification required, which cannot be provided from your staff or within my website, please do not hesitate to make contact with me .

Regards

Brian Little

Telephone 0044 28427 88054
Fax 0044 28427 88054
Mobile 0044 789 4445920
Skype whitechurch176

PS Mr Shannon MP . As per our your telcon last night - thanks for ringing us, despite obvious " election fever" etc.

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 08 August 2010 19:12
To: 'trent.henry@ca.ey.com'; 't.henry@ca.ey.com'
Cc: 'lou.pagnutti@ca.ey.com'; 'sgate1@uk.ey.com'; 'scott.halliday@uk.ey.com'
Subject: FW: website update

Mr Trent Henry

See email trail below. Website (www.fortfield.com) further updated with some latest information e.g the attached 16 JULY 2010 update extract .

It now remains for me to compile and forward my OPEN LETTER to you (rather than Mr Pagnutti) at some time in the next couple of months and then travel to Canada again – obviously all subject to a sustained continuation in a recovery in my health.

Regards

Brian Little

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 19 January 2010 14:44
To: 'lou.pagnutti@ca.ey.com'
Subject: FW: website update

Mr Pagnutti - website updated and OPEN LETTER will be forwarded now in February 2010 . Supporting information already on hyperlink

Kind regards

Brian Little

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 06 January 2010 09:53
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'; 'wdimma@msn.com'; 'wdimma@brookfield.com'; 'ewilliams@brookfield.com'
Subject: RE: website update

Don

Just to confirm www.fortfield.com now updated and released. As you can see in Part G I have added the E&Y part towards the end and included only two of the emails from the Folder in the hyperlink .

The draft Open Letter to E&Y is dated w/c 18 January 2010 but it is now likely to be provided towards the end of January 2010 but still in good time before MAC FY2009 results are audited and completed.

Kind regards

Brian

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 18 December 2009 17:06
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'; 'sgate1@uk.ey.com'
Subject: RE: website update

Don - Following our return home the website <http://www.fortfield.com/mal.html> has now been updated with the various information and in particular the download facility of my A340 On the Record Final Report. I will add the other documents re E&Y in January 2010.

Kind Regards

Brian Little

P.S Stephen - I was able to obtain Barbara's contact details from another old source within E&Y . Thanks Brian

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 04 December 2009 09:00
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'
Subject: RE: A340 On the Record FINAL REPORT - UPDATED 4 December 2009

For the record – Magellan Aerospace external auditors

Don : I note, on behalf of my husband Brian, that there was no response from you to his further invitation for comments on the factual accuracy or omissions in his Report. He is travelling with friends at present in Canada/USA and has asked me to inform you that he is now has some amendments and additions to the report which he is updating and will replace the Report and add all the supporting documents /letters on our www.fortfield.com website later next week.

Jackie Little

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 27 November 2009 19:15
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'; 'sgate1@uk.ey.com'
Subject: RE: A340 On the Record FINAL REPORT - UPDATED 27 November 2009

For the record

Don : I have received no response from you on the Final Report – preliminary release version. I did however receive a number of inputs and suggestions from others which I have properly considered and included amendments or additions where appropriate.

Following an email from PinsentMasons last evening stating that “*the document contains what we consider to be many inaccurate and incorrect statements concerning my clients*” I have emailed them asking they can they be more specific – at least on the substantive matters - in order that I may also properly consider those inputs.

Unlike the approach taken by Mr Dimma as Chair of the MAC Audit Committee , Mr Jewett of TORYS and it would certainly seem Mr Tracey of PwC in their production of the C\$3m + Final Report in June/July 2007 I again invite any comments on that factual accuracy or omissions in this amended report dated 27 November 2009.

As with MAC I have requested that those final inputs are received by 4 pm (Toronto time) on Thursday 3 December 2009 in order that I can finally complete the document and provide a general release. You may provide those directly to me (preferably) or via Pinsentmasons.

You can now download the [A340.On.the.Record.Final.Report.27.November.2009](#) at www.fortfield.com and enter the Members area using the password MAL.

Regards

Brian Little

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 16 November 2009 21:53
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'
Subject: RE: A340 On the Record FINAL REPORT - preliminary release

For the record

I did not receive any response to my invitation for comment on the factual accuracy of the A340 Final Draft report from E&Y. I have however, received comments and inputs from others which I have incorporated in the attached A340 On the Record. Final Report – preliminary release.

You will not be surprised to see that E&Y/you are referenced at various points through the Final Report. Perhaps I could draw your attention in particular to Page 33 regarding the inventory /stocks already in place to support the A340 predicted Spares Demand shown at page 59/doc 3605H.

As E&Y USA will shortly be embarking on their audit activity for FY 2009 you may wish to direct them towards a physical stock check of these Engine rings as they are unique to the A340. Some of the materials may still be in a raw material state. That could be part of the “audit testing” you get in signing off the A340 part of the MAC FY2009 accounts this year. I am certainly content that I have done my due diligence in that regard before cross examining Mr Neill on 27 July 2009 and again since.

I invite E&Y again to make any further comments or inputs on Factual accuracy or omissions in this FINAL REPORT before Friday 27th November 2009.

Regards

Brian Little

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 08 November 2009 22:57
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'
Subject: Final Draft Report Issue AA - embargoed to Q3.2009 MAC results release - invitation to comment on Factual Accuracy.

For the record

I did not receive any responses to my prior emails below. Please find attached Final Draft Version AA which E & Y are invited to comment on any factual accuracy errors by Friday 13th November 2009. Whilst there is some final “clean up” required the document is substantially complete and meets what I said would be provided at an appropriate time at the MAC AGM in May 2009.

Regards
Brian Little

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 03 November 2009 08:29
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'
Subject: RE: Rich Neill - oral evidence on 27 July 2009 Magellan Aerospace audits

For the record -

Noted no input/responses as yet . Extension to 6 November 2009 as per my email yesterday

Kind regards

Brian Little

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 26 October 2009 09:23
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'
Subject: FW: Rich Neill - oral evidence on 27 July 2009 Magellan Aerospace audits

Don further to my email last Monday (19th) please find attached an extended document (16 Pages) on A340. We completed the evidence section of the UK case last Thursday.

I invite you to respond on any factual accuracy issues or substantive omissions in the attached A340 document by COB Friday 30 October 2009.

Hopefully by now you will have recognized this is proceeding beyond a simple client-firm relationship process.

You will note that in several places in the attached document that I have said that we do not , as yet, know what E&Y have carried out as part of their audit process on that subject matter . I hope you can provide whatever factual information you feel able to , on these subjects, for inclusion so that everyone has the invitation and opportunity (not afforded to me) to comment on the information in advance of declaring any Conclusions or Observations and this document being part of wider briefings for others.

You will also see that I have suggested at Page 7 that E&Y may wish to carry out a physical inventory audit of the A340 machined rings and related base materials to underpin Mr Neill' evidence on 27 July 2009 that all the "excess inventory" is already in place – some 120-150 sets- to support the predicted demand for Spares in the 14 March 2007 schedule - re=attached for your convenience.

I encouraged a voluntary documents disclosure since 7 May 2009 and then sought the disclosure of specific-information based documents for the FY2007 and FY2008 audits. so that I could give further evidence in the UK. The Tribunal decided last Wednesday that it was not necessary for me to do so and on the basis of their Ruling we believe they have

determined that I had now sufficient evidence and documents to support my reasonable belief in FY2006 on A340. Indeed although the Respondents QC said that it would be permissible to hear more evidence on some specific documents it seems that the Tribunal have been satisfied with what they have now already heard and the final Component Maintenance manuals and Aerospace Press publications in late 2005/2006 and that no further documents are necessary.

If MAC can demonstrate to me that I am wrong and I do not have all the information (Requests 15A, 16B and 16C) then It seems foolhardy not to persuade me of that and provide the relevant information. The fact that MAC will not do so simply confirms in mind that it is not so and accelerates the processes elsewhere. I complete my Closing submissions in the UK case in January /February 2010.

Earlier this year I asked in an email that you brief your E& Y (Canada) Managing Partner , Mr Lou Pagnutti and provide him with some of the relevant correspondence between us since December 2006 to the present day. I hope that has already been successfully achieved by you.

For your information A similar process has been completed with PwC UK (Mr Ian Powell on 8 October 2009) and PwC Canada (Mr Christie Clark on 14 October 2009) – File Copy Mr Edwards

Kind regards

Brian Little

From: Brian Little [<mailto:brian@fortfield.com>]

Sent: 19 October 2009 11:14

To: 'Don.A.Linsdell@ca.ey.com'

Cc: 'David.A.DeWolfe@ca.ey.com'

Subject: FW: Rich Neill - oral evidence on 27 July 2009 Magellan Aerospace audits

Don Further to my email I note that Pinsentmasons have not provided the answers that you will have considered and provided to your client.

I now invite you to consider, on behalf of E&Y , the attached one page - A340 paper for any factual accuracy errors and let me know in writing any evidence available to you for that error together with any supporting contemporaneous documentation. Could I please have this by COB on Wednesday 21 October 2009. Any inputs or confirmation in this instance would be much appreciated

I suppose you will also shortly be considering the MAC Q3/2009 results and their position/submissions on the A340 and GE414.

Kind Regards

Brian

From: Brian Little [<mailto:brian@fortfield.com>]

Sent: 28 September 2009 13:12

To: 'Don.A.Linsdell@ca.ey.com'

Cc: 'David.A.DeWolf@ca.ey.com'; 'wdimma@brookfield.com'; 'wdimma@msn.com';
'pjewett@torys.com'; 'RAE Charles'; 'Lou.Pagnutti@ca.ey.com'; 'ichurch@edcofin.com'
Subject: RE: Rich Neill - oral evidence on 27 July 2009 Magellan Aerospace audits

For the record

Point 1 - As yet I have not received a reply via Mr Dimma/Mr Rae to the six questions posed to you/EY in my 4 September 2009 email below. I hope by now you have or will shortly provide the answers to Mr Dimma etc and that Mr Rae will be able to convey those to me by 15 October 2009.

Point 2 - As you also know you were provided with emails by me with document disclosures (on 14 December 2008 at 07.03, 07.05 and 07.06) made by the Respondents following the UK Tribunal Order in December 2008 in which I asked you/EY to confirm to their client or me before my UK Evidence-in-Chief in January 2009 which of the documents disclosed in accordance with the precise UK Court Order (points 2 & 3) had been viewed or received by Ernst and Young in the course of their MAC Audit for FY2006. Also if there were any further relevant documents. As a minimum definitively we can now see from three contemporary documents the evidence of the MAC representations to EY for your A340 audit and on which you will have, in part, formed your public audit opinion.

A) After the seven month PwC investigation ,as you know in the Final PwC report at para 8.61, **PwC amended the paragraph to add**

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."

In doing so Mr Furbay of MAC provided the Excel workbooks for Q4.2006 (including document 1831/1831A, Q2.2006 - 1830/1830A) to EY which included a further revision to the Aeronca calculated Selling Prices from Q2.2006 contributing in excess of C\$6m to the Revenues in the EAC and moving the gross profit to a \$137K over the whole programme. This was NOT what PwC fundamentally said in their analysis of the S8470K

increase at para 8.62B . No supporting paperwork was provided in the PwC report of the justification for those changes and any checks on the calculation itself. This is Request 15A in the spreadsheet. Perhaps those documents are in your Aeronca audit files from TIMET BETA21S data and the Aeronca/Aircelle formula calculations.

For completeness I was completely unaware, until I read PwC para 8.117, that Mr Dekker / Mr Furbay were also continuing to capitalise some \$1.5m of the “excess” labour costs into further learning costs in A340 inventory , which must have been considered acceptable to EY in FY 2005, FY2006 and perhaps FY2007? You of course would have known then that ultimately the new Canadian inventory accounting rules (3031) would permit their approx C\$10m “write –off” as part of the circa C\$40m Learning costs charge to Retained Earnings in MAC’s Balance Sheet from January 2008.

- B) Following the MAC AGM in May 2009 Mr Dekker attended the next UK hearing on 8 June 2009 and provided a copy of an email and attachments sent directly to Ernst and Young on 1 March 2007 which represented the Aeronca production actual and future estimates of some 1184 production units to FY 2016 (circa 290 A340-500/600 production aircraft) and 190 Spares and Repairs. This was not in the December 2008 disclosure and obviously EY did not bring that omission in meeting the Court Order at Point 2 to their clients attention.
- C) The Magellan Aerospace Corporation Audit Results and Communications Reports - dated 16 March 2007 (doc 3993 – 4013) and 30 March 2007 (doc 4053 – 4079). Finally disclosed after Court intervention on several occasions in late March 2009.

Point 3 -

I also record the following formally with you and EY (Canada) NOW as a relevant extract (the yellow background is additive) from part of a letter later this week to Mr Rae at the Respondents solicitors--

You then proceed to say later in your letter “I make the above comments in light of what the overwhelming content of your correspondence concerns, which is in the main is to address further technical and detailed issues concerning A340 accounting” and later “A very large proportion of your letter to me on 4 September relates to matters that are akin to submissions or argument. At the risk of repeating a point I have made to you on several occasions, I do not agree to litigate this case in correspondence, which is again what you are inviting us to do.”

You have stated in your letters

Mr Rae --- Pinsentmasons letter - 27 August 2009

In regard to the likely need for spare exhaust parts, the Respondents case has always been (and remains) that Dr Thamburaj’s work gave rise to a calculation of the likely life span of the parts. This allowed an estimate to be made as to the likely demand of such parts. Dr Thamburaj’s work concerned this and not some regulatory, mandatory requirement, that the parts be replaced after 40000 flying hours.

Mr Rae --- Pinsentmasons letter - 14 September 2009

“As you well know, our view is that Magellan’s position on the likely, predicted need for spares (based on Dr Thamburaj’s research) is clear and consistent.”

In my letter of 4 September 2009 I set out quite clearly that I considered that despite having “warned” Mr Lynch QC about his line of questioning of Mr Bobbi on 8 June 2009 on “replacement spares” etc he, it would seem, did not fully appreciate the consequences of that outside the public courtroom in the aerospace business world. The aerospace regulatory processes are quite clear and the financial accounting for Non recurring Engineering and Development costs (NRC) which follows from that long and well-established globally. It is also the case that Mr Lynch QC and yourself have a responsibility (at least in my mind) to ensure that issues beyond just the “UK-centric litigation” are properly considered by yourselves with the Respondents. Mr Neill then attributes the blame for the further outside courtroom follow ups /misrepresentations within the industry to Mr Bobbi. For the avoidance of doubt Mr Lynch QC **directly caused the actions** taken by Mr Bobbi and myself to verify further, beyond all doubt, that the information/evidence given by Mr Bobbi and myself was not mistaken – we have verified 100% what he and I have said. You will also recall that Magellan refused Mr Bobbi’s offer to meet with them, following Mr Lynch QC having made that suggestion /remark in his cross examination to show him further documentation to support the position you continue to state in your letters above.

Your letter suggests that I am trying to litigate through correspondence and that it is solely a matter of argument etc. With respect the purpose for me having detailed transcripts of oral evidence on a word for word basis, is that I can “educate Mr Lynch QC and yourself” on a subject of which you have very limited business experience and step beyond the reading of the “English word” in selected documents immediately before each hearing and actually understand what is being said. It is to my mind “education through correspondence” so that the consequences for your clients of that public court-room are well understood by you both and EY /PwC. It is sworn court room public evidence that everyone is responsible and accountable for. In the same way I find the legal process in an Employment Tribunal new so likewise is the aerospace industry to both of you and we all have the opportunity to learn as we go.

You complain about the word for word quoted evidence from Mr Bobbi’s and Mr Neill’s oral evidence – as I suggested before both Mr Lynch QC and you should read that evidence carefully again and learn what is actually being said and think beyond a public courtroom to its implications elsewhere. Those court stenographer transcripts can assist both of your understanding.

It is also abundantly clear to me that Mr Dekker is in large part instructing you on some of these matters and your letter statements above, as he knows full well that the International accounting policy and practice for NRC Engineering and Development costs can ONLY include Repairs work when they are 1. **“scheduled” repairs** (that is NOT an ON CONDITION Service Life Policy for the Trent 500 Exhaust system as Mr Neill confirmed) with 2. **known revenues and costs** and 3. which are **100% certain to be carried out by the OEM**. This is why Mr Neill, from his engine experience, knows that only certain NRC can be retained on the Balance Sheet – a certain point for repair/overhaul AND a certain revenue and cost AND

a 100% OEM Repair – such as on Engines and APU's. These are the subject of mandatory documents within EASA, FAA etc for “actual” time limits/”hot service life parts” - known as LLC – Life Limited Components.

That of course is not the situation on the Trent 500 Exhaust Nozzle and Plug – which is Maintenance “On Condition” – document 3625A-3625Z2 / Mr Neill's oral evidence and confirmed by the eight airlines and Airbus - which we have spoken to. In effect the Repairs are, as PwC say at para 8.72,, are simply unpredictable, with variable revenues and costs and no certainty that Magellan will carry out those Repairs.

As both Mr Neill in his email at document 3597 and PwC state in document 693 at paragraphs 8.68 “ ***The shortfall of 365 units is therefore required to be made up of spares in order to support the future programmes volume estimate of MAC.***” and

at para 8.72 ***“It is of note that the internal report also makes reference to the requirement for repairs in its conclusion and not explicitly to the need for spares or replacement units. Management acknowledges the unpredictability of repair work and has appropriately chosen not to consider repairs in the EAC analysis. Management believes that given the estimated life of the exhaust system, there will be a combination of spare units and repair work. Further, management asserts that the requirement for spare units will support and exceed the total number of units projected in the EAC”*** (CL – we know from the oral evidence of other Respondents witnesses and also Mr Neill that “***Management asserts***” is a reference solely to him).

Then at para 8.76 (following the para 8.74 and 8.75 table with the PwC calculated “1572” Units to replace or Repair by FY2021. (CL which we know to be the subject of basic logic, maths and business errors. Then on 27 August 2009 following the disclosure of the Aeronca 14 March 2007 document 3605H (2MB attached) we can see that Magellan provided an analysis of “886” Spares and Repairs which PwC do not record anywhere in their Reports or Exhibits. At present we do not know whether this was provided to EY at all, or whether indeed EY asked for such an analysis in their deliberations.

Para 8.76 ***“In order to achieve MAC's EAC projections, only 365 replacement (i.e spare) exhaust system units would need to be delivered. This is far below the expected demand of 1,572 spare and repair units as set out in paragraph 8.75 above.”*** (CL : For the record it would seem that PwC have concluded that in excess of some **23%** (365/1572) of their Spares and Repairs calculation at Para 8.75 is acceptable for inclusion in the Q4.2006 EAC. We also know now from Mr Neill's oral evidence that although PwC did not acknowledge or refer to it anywhere they also had the Furbay/Neill 14 March analysis in late March 2007 (new document 3605H), a sum of 365/886 or **41% minimum** allocation for complete replacement Spares, must have been a part of what was in Mr Neill's mind and some of his assertions in his emails at document 3597/3598. For completeness you know that the “365” “calculation” was based on the Forecast International Aril 2007 report and also mistakenly double counted Airbus/Aircelle WIP and inventory. Had the attached document 3605H production volumes produced by Aeronca on 14 March 2007 (and similar to the market consensus of the six other global forecasts and data from the publications cited by Mr Neill been used) then in excess of a further 700 replacement spare units would have been needed to, as PwC should have put it in para 8.68 ***“The shortfall of 700+ units is therefore required to be made up of spares in order to support the future programmes volume estimate of MAC.”***

In real business terms this would mean that every A340 aircraft in airline service would require a "Spares replacement" - not a Repair – at least once in its product life. That crucially is not what Mr Neill's said in his oral evidence repeatedly, nor Dr Thamburaj in his emails and documents, nor Professor Ghonem's 2003 Article summary and conclusions nor anybody else with actual experience within the aerospace industry. You should revisit carefully directly with Mr Neill and Dr Thamburaj precisely what they are saying to their customers and the airlines as I warn you now in writing (as I did verbally to Mr Lynch QC on 8 June 2009) that if you continue to pursue the line you have been doing then I will be absolutely clear to Airbus and the contacts we have in the top management of the eight airlines (new contact via Ian Massey - Audit Chair at Vought and my friend and a former Airbus Toulouse CFO - in SAA) what Magellan propose, despite all the documentation in their possession, to do on replacements for their Exhaust systems. Let me assure you cannot do say one thing in a public courtroom involving over a hundred million dollars of additional costs to the airlines and additive revenues to Magellan and then say another elsewhere without consequences. The cause of any such outcome, for the avoidance of doubt, will lie with Mr Lynch QC and yourself and the rigour with which you properly consider the mounting documentary evidence and actually read both the documents disclosed and those requested for voluntary disclosure and those within the amended Application. If I am so wrong then show me the documentary evidence – every Magellan action and new document disclosed to date has simply added to my "reasonable belief" in August / September 2006 that Magellan would not address the A340 NRC on their Balance Sheet by a minimum of \$10m.

You then proceed to complain that once again I am asking for new documents. That is also a function of the continuing "education" process. Mr Bobbi was quite clear in his evidence that talked to, viewed and received a copy of the Airbus Maintenance Manuals for the Trent 500 Exhaust Nozzle and Plug with multiple airlines and consistently told the Tribunal in evidence that parts would most likely be repaired etc. Also that there was no knowledge or documents within the industry or indeed any discussion (done discretely) about any life limits or substantial replacement programmes for these components or challenges in the Airbus Direct Maintenance Cost Guarantees. If you turn to my letter to Mr Tracey of PwC on 22 November 2008 (document 3474-3476 – copied to you) you will Mr Stafford's request and the reference to these documents at Requests 3 and 4. There is nothing new – it seems we have to get the documentary evidence to continue to show how appalling the PwC "independent forensic investigation" was and perhaps hope that Mr Lynch QC and yourself have (hopefully mistakenly) embarked on a process in which you are unknowingly continuing to assist the Respondents break the law on its Public Financial Reporting. As you said you would do in your letter of 14 September 2009 you have now disclosed those Manuals and the six pages which Mr Bobbi and I have from three airlines (78.11.41 Pages 5001/5002 and 78-11.42 pages 5001/5002/5003 & 15004.page 2) or included – two of which are in fact also correctly annotated by someone pre disclosure with the reference "**return the xxxxx to the manufacturer for analysis and repair**". **At one point Mr Lynch Qc seems to suggest that there may be different documents in existence between Magellan Aerospace and Aircelle rather than the ones we had seen and issued by Airbus/Aircelle to the airlines. This disclosure confirms that they are in fact identical at the relevant pages and what we expected regarding "On Condition" and Return to factory for Repair.**" There is of course no reference to a recommended service life etc and indeed Mr Neill gave evidence frequently on Repairs and as you also saw in the transcripts the calculation of 40000 flying hours was the "Worst Case Scenario" etc

In the simplest layman terms what Mr Neill said in his oral evidence on 27 July 2009 was that the airlines are recommended to schedule to do the inspection checks described in the disclosed Airbus/Aircelle Component Maintenance manuals from the second removal of the Trent 500 engines for overhaul (i.e at 40000 flying hours/4650 cycles) and at all subsequent 20000 fh checks. If any of the inspection/checks criteria are found that necessitate a repair then the Airbus Component Maintenance Manual suggests it is returned to Aircelle for repair.

Mr Bobbi also gave evidence about Spares replacements and their “reasonable predictability” for strategy , operational planning and financial scenario/accounting purposes. I also have prior experience with this process from my procurement/contracting experience with Shorts / Bombardier on the C23A aircraft for the USAF and the IAE V2500 nacelle with Rohr/Goodrich over some ten months in 1984/1985 (EY audit them).

For education purposes in simple terms Nacelle Spares usually arise from three elements

1. Initial Provisioning for Quick Engine Change Units (QECU) – these are normally contracted with the initial order and are predictable based on the number of airlines operating the engine/aircraft , the airline “inventory” policy/MRO centres and their risk of “accidental Airline damage. This information or assessment is readily available within the aircraft/engine manufacturers and some of the largest component suppliers – e.g. Rohr/Goodrich, SNECMA/Safran . Today this is also software predicted with various algorithms and from both the major software packages the data available for A340 aircraft in service would predict 16 units. While I was at MAC Magellan showed 18 units were delivered for Spares purposes in their EAC.
2. Airline Spares Inventory / Rotables - Mr Neill referred in his evidence to “Rotables”. These are spare units which are generally purchased or leased (such as those offered to Virgin Atlantic in document 4263/) or exchanged. This happens when there becomes an increasing possibility of components requiring Repair in the life cycle of the product. These “rotables” are also forecast using custom software packages in what is part of a “Ranging and Scaling process” with major drivers obviously being Guaranteed Turnround Times (in MAC case 30 calendar days/25 calendar days) , Replacement prices (say \$250K each = as production / Aircelle contract) , and “assessed Vendor Repair performance” . This has also been run though as part of the Mark Bobbi report December/March 2009 report with a prediction of 36 units needed for the in service A340 fleet in 2012. Separately I have now provided the detailed data from end June 2009 (see summary at document 4240A-E) to some friends in an organisation I worked with in 1985 and they have provided predictive results for Trent 500 of some **38 “rotables” units at peak in FY2012/FY2014**. It should be noted that as some aircraft are withdrawn from service and put in long term storage it is not unusual for some of the high expense components to be removed and used as part of the “rotables” inventory, which of course reduces the purchase or lease of replacement spares. An example I would cite is Virgin Atlantic who now have two A340 600 aircraft in storage at Lourdes in September 2009 and who I understand are planning to use some “high cost” components from MSN371 as part of their “rotables” inventory.

3. The final part is of course the parts which are returned for Repair and which after analysis are judged uneconomical to repair (Beyond Economical Repair - BER) and where a replacement is required. There are lots of benchmarks on this available within the industry and lead times guaranteed for the provision of same. Mr Neill you will see in the transcript referred to heavy repairs on a couple of occasions in his evidence and the associated revenues. I have obtained up to date data on this from RR / Goodrich / Vought /Bombardier and SNECMA for exhaust systems. Including elements 1. and 2. the lowest number was 13% Spares for the In service fleet of Airbus A330's with RR Trent engines. Of the remaining eleven engine types the highest was a current military application of some 24% in Rohr. **As part of the global EY you will of course be able to speak with your EY audit partner (Goodrich.Rohr - Mr EEEEEEE , Vought – Ms YYYYYY and Bombardier – Mr XXXXX in Montreal) to verify their approach and accounting/aerospace experience on civil engine nacelle spares and repairs .**

The market/business development people at Rohr/Goodrich estimate that the Spares market is for some 20% of the in service fleet for the Trent engine exhaust and nozzle which is 50% higher because of the use of some thin BETA21S sheet in parts of the Exhaust system. Their estimate for the 125 aircraft in airline service is for a potential 100 spares (categories 1, 2 and 3) leaving the remainder of the market available for a Repair and Overhaul offering (see specifically the A340 exhaust nozzle and plug in their Capabilities Brochure (document 4269F) . They also correctly point out that it is important because of the wider strategic Goodrich relationship with RR (such as A350XWB engine nacelle and new Single Aisle product research) and as the Trent 500 engine is concentrated in 8 global airlines with some 100 plus aircraft– almost all of whom have some form of “one-stop MRO offering” from the Goodrich family of products.

If we turn now to Magellan estimates. Their representation to EY for the FY2006 audit was for approximately 1184/1200 units in service (approx 290 aircraft) as at 1 March 2007 and some 190 units for Spares AND Repairs. If one excludes the elements 1. and 2. above which would arise from 300 A340 type aircraft in service - which would on software simulation be 59 Spares units – then some 131 units would have been the likely “predictable” Spares replacement forecast. This would have represented some 14% of the total Spares as a % of aircraft in service.

Mr Bobbi from his detailed work, including reviewing the documents from Magellan in December 2008 – March 2009, gave a Spares forecast total of 104 – 130 units (including the 18 delivered) which he knew was equivalent to some 20% - 25% of the forecast total in service. In this he recognised that some BER repairs, which would lead to Spares replacements, were more likely than for the usual Inconel /Steel alternatives exhaust systems..

For my part I had estimated a total of 150 units (including the 18 already delivered) as my Shorts and Bombardier experience was of an approximately 25% being subject to being Beyond Economical Repair (BER) criteria. In hindsight my Spares estimate of 25% is probably too high as at the time I had insufficiently factored in the much higher total Spares replacement prices relative to the actual costs of some of the thinner BETA21S sheet materials needed in the replacement/repairs. “ End of Extract

The matters for EY and its overall audit performance in MAC, beyond the A340 above, have not been covered at this time so that our focus presently can remain on the Representations being made in the MAC quarterly accounts for Q3.2009 and FY2009 by 31 March 2010, and from one perspective still remain within the two year time limit.

Point 4

In the attached spreadsheet (55kb) you will see a reference to Requests 16B, 16C and 16D – hopefully you will assist your client and the EY reputation. In the case of Request 16D it should be simple to verify the “huge” stock of unique A340 Machined rings that are in inventory to support the assertions of the Respondents solicitors in their letter quotes above, estimated spares volumes in document 3605H dated 14 March 2007 (attached again for completeness), and the oral evidence of Mr Neill that the reasons for the minimal orders from MAC on TIMET at present is that these Machined rings etc for spares (150 units plus) can be readily manufactured from inventory is on hand. Four stock checks and validation should be simple for an EY auditor to satisfy themselves on that matter and the replacement spares assertion on which it seems MAC and EY rely.

Kind Regards

Brian

P.S I don't know whether you watched the CBC programme – Fifth Estate - Riding on Risk on Friday night (Sept 25) which was about whistleblowers in Air Transport Canada . It was apparently very good and prompted one of the Canadian team to bring it to all of our attention -- in particular the personal risk and implications for whistleblowers because of the dreadful “culture” in Canada. They reminded me of the story which Clare Pettifer (one of the UK witnesses) had told her in their written preparations for Canada when she recalled you as an auditor of a top auditing firm telling me in London, right at the end of our meeting on 14 December 2006, that “it doesn't pay to be a whistleblower”. From a financial perspective only that may well be true as your clients, and their UK legal team, drive me into personal bankruptcy around 10 December 2009. My conscience is clear having achieved 100% price increases from Airbus and major customer payment accelerations – as their witnesses confirmed in the UK (and agreed supplier contract payment deferrals – as their witnesses confirmed in the UK case) only a few weeks/days before and after being fired at Toronto Airport three years ago. And of course all the evidence from the protected disclosures and the continuing A340 contemporary documentary evidence points to the validity of the cases then, now and in the future.

b

From: Brian Little [<mailto:brian@fortfield.com>]

Sent: 04 September 2009 11:35

To: 'Don.A.Linsdell@ca.ey.com'

Cc: 'David.A.DeWolf@ca.ey.com'; 'wdimma@brookfield.com'; 'wdimma@msn.com'; 'RAE Charles'; 'Lou.Pagnutti@ca.ey.com'

Subject: RE: Rich Neill - oral evidence on 27 July 2009 Magellan Aerospace audits

Don

As it seems that you are unlikely to respond directly to me as I am not your client will you please respond with the answers to the questions that I posed in my email dated 31 August 2009 below . You will most likely wish to respond in a note to Mr Dimma as Chair of the Magellan Aerospace Audit Committee – which can then be promptly relayed to Mr Rae so that he may formally respond to the Tribunal and myself.

Part 1

Q1. Can you confirm that the document at Attachment 5 below (Aeronca) A340 schedule dated 14 March 2007 was never viewed or provided to EY by Magellan Aerospace during the FY2006 audit. YES/NO - if it was provided what was the first date on which EY viewed or received it – your EY FY2006 audit file. I will return to this below.

Q2. I assume this specific “128 remaining Production and 886 Spares and Repairs analysis” in Attachment 5 was not discussed by Mr Neill with EY. - YES/NO If my assumption is wrong then when was this discussed (your EY audit file notes) and with whom in EY.

Q3. Can you confirm that the “market data from other publications/forecasts” file was not viewed or received by EY. YES/NO If the contents of the file were received by Magellan can you please provide a copy to Mr Dimma from your EY FY2006 audit file.

Q4. Can you please confirm that Mr Neill did not discuss his market “data from publications / forecasts file” with EY. YES/NO If he did then when was that (your audit file notes) and with whom in EY.

Q5 Can you confirm that Magellan Aerospace did not provide a copy of the Forecast International Market report dated April 2007 before your audit signature on the FY2006 MAC Annual Report in March 2007. YES / NO - if it was provided what was the first date on which EY viewed or received it – from your EY FY2006 audit file.

Q6 Can you confirm that EY did not view or receive the extensive Technical reports in 1999 and 2005 on the BETA21S testing carried out by Dr Thamburaj. YES/NO If you did view or receive copies when was that (from your EY audit file notes) and from whom in Magellan .

Part 2

I said I would return to the Aeronca schedule dated 14 March 2009 above – attachment 5. My specific questions at Q1 and Q2 above related to the FY2006 audit and not FY2007 and FY2008.

It seems to me however that EY ought now to have recognized that the top scenario – that is a production series build of only 135 aircraft is a very probable outcome. All the external market forecasts (seven) in the public domain place these as 132 – 137 aircraft with Forecast international latest report (April 2009) now joining the rest for 133 aircraft.

As at September 2009 the “detail” production aircraft situation is

Aircraft Delivered - 123 aircraft - the final order from Etihad (MSN1040) for their A380 delay compensation "deal" is delivered imminently (both of the recent Iberia deliveries MSN960 and MSN1017

are in storage In LDE and will be joined this month by MSN 996 which will be formally delivered after its recent deferral for delivery by Airbus to Iberia to September 2010.

3 aircraft The final two A340 600 aircraft on order from Iberia will now be delivered in 2011, following an agreement in June 2009 with Airbus on deferral by one year.

3 aircraft A340 500 aircraft in storage ex Kingfisher airlines since mid 2008 . MSN 886 and MSN 893 in storage at Toulouse and MSN902 in storage in LDE. The only airline A340

- *500 / 600 sales campaign in Airbus at present is the effort by Airbus's John Leahy to enforce the sale of two of these aircraft to SAA by end 2009 as part of a wider*
- *contract dispute resolution..*

3 VIP aircraft in Toulouse assembly line, currently for delivery in H1 2010 – Air Ukraine, Asian VIP and other unknown operator – all are the ULH A340 500 aircraft

6 Virgin Atlantic order - expect to be cancelled in due course with Airbus - recent 6 X A330 order and A380 contract discussions as they relate to A350 – 1000XWB etc .

TOTAL **132 "real" orders** and VS – 6 to be removed in due course

Therefore the forecast of **135 A340 500/600 aircraft from August 2006/early 2007** remains appropriate (expect one per year A340 500 VIP order from 2011 - 2014) and is consistent with what all the market forecasters (now also FI) have been saying since late 2006 /early 2007. Therefore the numbers used by Aeronca in their upper schedule on 14 March 2007 - i.e further 128 (BL – 126) is valid. I would expect that there are however few , if any, exhaust system deliveries still required by Aircelle now for production of these "132" aircraft. There may be a few spares.

Turning now to the "Spares" calculation - I dealt with this in my email below but it strikes me and others having read that email that it is very probable that Aeronca are still representing to EY that they will build at least "886" spares as per that 14 March 2007 schedule by FY2021. Therefore Dev/prodn 434 plus 128 = **562** + 18 plus a further + 886 = 904 for a total of 1466 (to cover the 1285 used in amortization).

If this were adjusted to 560 plus say 500/525 (see my email below) this would be some 1085 - some 200 short of the 1285 used in the amortization in FY2006. This of course assumes that every aircraft in the airline fleet will be subject to a full replacement of the Trent 500 exhaust system sourced from Magellan. You have seen my comments in my email below on this -- with estimates ranging from 104 – 150 units – about 20 -25% of the "identified" market for both Spares and Repairs. If the A340 NRC had remained at circa \$40m this would have required an average \$400K or \$266K cost to be included in the pricing to recover same. Of course we know, as I stated in my email below on 10 August 2009, that since then the A340 NRC has been reduced through Canadian accounting policy

changes in 2008 with the “write off” of circa C\$10m in labour learning costs (whilst EY still accepted those further asset additions in the MAC Balance Sheet at approx the 400th set in FY2006) and the commercial outcome with Aircelle on arbitration? - the sums from which were directed towards retroactive revenue and applied against the A340 NRC.

You will have seen my comments on this in my email on 10 August 2009 below and then read Mr Neill’s evidence in the court transcripts about the remaining balance of C\$15 – C\$20m at December 2008. If every unit in the airline fleet is replaced (125 aircraft) then the \$30k previously been applied in the NRC recovery by MAC/EY will need to continue for all the replacement spares. However unless the spares pricing has been changed in the recent commercial agreement with Aircelle **then for 100/150 spares a cost of at least \$150K or \$100K will need to be recovered in the selling prices .**

I obviously do not know, yet, what representations regarding Spares volumes were included in what you assessed, and EY declared was acceptable, in the FY2008 audit but obviously the “886” spares seems highly probable to be the basis of that representation by Magellan management.

I hope you can respond promptly to the six questions in Part 1 and provide to Mr Dimma so that they can be relayed to Mr Rae.

Kind regards

Brian Little

Note : For Charles Rae on return from his holidays 7 September 2009. This should enable you to proceed with a prompt response to me so that I may complete the required confidential document for Mr Lynch QC/yourself and the Tribunal. This will permit me to meet my obligations to the Tribunal and yourselves by mid September 2009 before that Tribunal review scheduled for 21 September 2009.

From: Brian Little [<mailto:brian@fortfield.com>]
Sent: 31 August 2009 15:54
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'
Subject: RE: Rich Neill - oral evidence on 27 July 2009

For the Record

Don – I hope you will recall my 8 July 2009 email in which I explained, following an immediate query, why we had not produced a financial model for the WB4 Case 4D Scenario for the “1572” Spares units from FY2007 to FY2021. Which was the expected demand, calculated by PwC, and recorded in both of their Reports at para 8.74/8.75. It was incorrect – not just in the basic logic and mathematics used by PwC, but also the aerospace business reality. I will return to this “expected spares demand” subject matter in Part B below.

From the court evidence in the transcripts (attachments to my 10 August 2009 email below) you will now have had the opportunity during the last month to read the further testimonies on the A340 subject on June 8/10 and on 27 July 2009 to the UK court. You will therefore have read in the oral evidence that neither Mr Dekker or Mr Neill “corrected” this

“1572” spares view when they both met with PwC on 3 May 2007 to discuss the “final” draft PwC report. I assume likewise that you did not bring this basic error to the attention of PwC when you received your final “draft” copy from Mr Dimma. As you know I was not permitted to make our various inputs to the “Final” Draft PwC report by Mr Dimma/Mr Jewitt in June/July 2007, and Mr Tracey of PwC failed to insist in the alleged “independent forensic investigation” that I must be invited to also do so. That was, and will continue to prove to be, a profoundly serious error in professional judgment and of course in any event EY cannot rely on the PwC reports for their “unqualified” audit opinion for Magellan Aerospace financial statements in FY2006 and since.

List of attached documents

1. Documents oral evidence.extract.RAN.doc.25.august..doc (59kb) – Page 1 Tribunal Order December 2008
2. Tribunal.Order.Request.21.document.disclosure.verification.accuracy.31.august.2009 (38kb)
- 3 Doc3605B.EY.1March.2007.disclosed8June2009hearing.doc (27kb) and magellan A340 forecast.1.March.2007 (817kb):Sent June
- 4 etorder.3dec.neillemail.29march2007. (754kb) – includes FI April 2007 report in “scan”
- 5 Magellan.A340.forecasts.14.march.2007. (2MB)- production (562 and spares = 886) BL case – 560 and spares 100-150)etc
- 6 BL.WB4 BL135ac.prodn.MACreplacementsparesvolumes.... now with added case4D.613 spares. (216kb) WB1-WB 5 – July 2009
- 7 A340 Fleet Hrs and Cycles.31.August.2009. (25kb) – actual stats for flying hours/flight cycles - 4400 average across in service
- 8 Data from other publications RAN evidence July27.doc.attachment.B.30augustupdated.doc (53kb)

Some background for “recollection” purposes - please read an extract of the 3 December 2008 Tribunal Order (reference.doc1.page1.) and then the remainder of the relevant extracts of oral evidence. I have selected these from the complete RA Neill transcript evidence document provided to you with my 10 August 2009 email trail below.

The outcome of that Court Order in December 2008 at ref1.page1 was a series of additional documents disclosures on 11 December 2008 by the Respondents solicitors- Charles Rae. All of which were previously forwarded through email to you in mid December 2008. I have now made a spreadsheet showing the overall A340 document disclosures made by PwC in their Report/Exhibits and through the Tribunal Order process. A number of additional documents have also been subsequently disclosed.

At this time I would like to focus in on two parts/perspectives. One on a few particular matters within that Tribunal Order spreadsheet in which EY can consider and then provide the answers to Magellan and/or myself. These are listed at Request 1A ,5/5A and 8.

PART A

Request 1A/1B - please read (reference document 4) etorder.3dec.neillemail.29march.2007 which is an email trail exchange between Stephen R.Moore of PwC Canada and Mr Neill of Magellan Aerospace. Based on a letter on 9

January 2009 from the Respondents solicitors I am advised that you/EY never saw this email. You will of course have read the email trail as an attachment to my mid December 2008 email after disclosure to the Court. You can also see Mr Neill's reference in the first para of his email on March 2009 to an "analysis" for "the likely spares requirement was in excess of 800 units over the period 2007 to 2021..... this data was sent to you on 14 March 2007".

That 14 March 2007 "analysis" document (2MB) has now been disclosed to me, for the first time last Thursday 27 August 2009, and is attached at ref 5. I think it is very unlikely that this latest "analysis" was ever viewed or received by you/EY from Magellan or PwC.

Can you please confirm that EY never received this 14 March 2007 document/information for their consideration from MAC and/or PwC prior to your 16 March MAC Audit Committee meeting minutes and then your 27 March sign-off of the FY2006 MAC financial statements. Secondly and crucially was this specific and important "analysis" raised or discussed with Mr Neill by EY.

Although it was not disclosed by Magellan in accordance with the December 2008 Tribunal Order, and you failed to bring that to their attention after receipt of the "disclosed" documents from me in mid December 2008, we now know that EY were sent an email on 1 March 2007 attaching the "latest" Aeronca schedules of that date attached at ref3. For completeness I also re attach a copy of the 1 March 2007 email sent to EY and the equivalent attached Aeronca document format - 27kb and 817kb files. I sent this 1 March 2007 document previously with my email to you on 22 June 2009.

I know EY will have used the EAC for Q4.2006 as the basis of your yearend audit testing. Another relevant and related email and attachments – 27kb - including "auditor assessment at a glance remarks etc" was sent to both PwC and you on 5 May 2009. I will return to this latest 14 March 2007 document as part of Part 2 of this email.

Request 5/5A - please now read the oral evidence of Mr Neill on 27 July 2009 (reference doc 8 pages 1/2 and reference doc 1 pages 6/7) where Mr Neill refers to a file of data of publications, forecasts etc which he gave to PwC Canada in March 2007.

I assume from the June and July 2009 oral evidence, and the fact that Mr Neill is not referenced as a person to whom inquiries were made in either of your EY 2006 Audit Results and Communications reports, that none of his "market information file" was made available by Magellan to EY (or indeed requested by you/EY so as to assess the validity of my comments and documents) or secondly discussed with Mr Neill – can you please confirm that this is correct. The data from the other publications was of course available in the public domain and for completeness I attach a copy of the relevant publications and references listed in the 18 month period from September 2005 to 31 March 2007. Some of these articles you will recall I referred to from the Flight International magazine when we met in December 2006. (doc.ref 8 : see attached file 53kb)

Can you also confirm that PwC or Magellan did not provide you/EY with a copy of the Forecast International April 2007 market report for A340 – that attached to doc ref4 prior to the EY audit signature on the MAC FY2006 financial statements. We already know that PwC Canada and Mr Tracey did not obtain the various teal Group A340 market reports available through the PwC UK subscription/team in London and there is no reference to any other files/documents/publication articles by PwC in their Reports..

Request 8 - there is no reference in the PwC report to the two large technical reports dated 1999 and 2005 disclosed by Magellan in December 2008. Please now read the oral evidence of Mr Neill on 27 July 2007 (reference doc 1 pages 6 and 7) where he says that he would not have seen the value in providing these reports to EY or PwC but could not recall whether he did or did not provide them. Mr Dekker was certain he did not provide or discuss them with EY or PwC. **Can you confirm , as I also believe, that the EY staff did not see or view these Technical reports.**

PART B

Point 1 : Please now look closely at this 14 March 2007 document ref 5. The top scenario – shows a further 128 exhaust systems for A340 production from 2007 and equates to the production of 135 aircraft x A340 – 500/600 by Magellan for Aircelle/Airbus by 2009. On “volumes” this 128 is similar to what I told you when I was showing you the dossier file, DIR 44 etc, on the Emirates A340 order cancellation in October 2006 on 14 December 2006 in London. This DIR 44 document I then circulated to you in the MAC Director folders sent by courier to you personally in Canada in January 2007 and I know Ms Hadfield told me that she would also bring this to your attention having read the same article in the Times. Based on that 14 March 2007 analysis MAC would then have required a further 700 plus “actual” spares units to meet the pricing/ revenue and amortization volumes (1285). I described this when we were discussing volumes, in simple terms, as it could be about half of the “amortization” quantity we had been using in MAC at our December 2006 meeting in London.

The “calculated” Spares numbers by John Furbay, totaling 886 from FY2007 to FY2021 in that same 14 March 2007 schedule, under I believe Rich Neill’s instruction, assumes “full replacement” and the associated pricing/revenue of every Exhaust system by Magellan on a 8 year cycle /40000 flying hours. I believe Mr Furbay made an mistake in his calculations and did not use the “aircraft in service” dates. Perhaps he used volumes shipped per year from Aeronca to Aircelle. On the RAN-assumed basis of a 8 year replacement “life” and aircraft in service” data I would have expected the number to be approximately 800 units. If you maintain Magellan’s replacement spares assumptions and adjust for the actual flying hours per “airline” aircraft per year of 4400 there is about a 9 year life (see doc ref 7). For the airline-only aircraft the Spares would have been equal to just over 600 units. In my email of 2 July 2009, attaching the various financial models, I included a WB 4 with cases 4A, 4B and 4C. I have now re-attached that WB4 file at doc ref 7 with a Case 4D scenario for the production volumes (My 126 v 128 in the 14 March 2007 document) and the “revised calculation” of 613 Spares.

I should also say, for the avoidance of doubt, that I do not accept the legitimacy of the “Replacement Spares” assumptions being made – and I am sure it also struck you whilst reading the RAN full and selected evidence extracts, of the regular reference to “On Condition” and the constant reference to repairs and the “worst” case scenario and other “aerospace” language to that effect. You will of course also have read Mr Bobbi’s witness statement and his oral evidence – including the “instructed” line of questioning by Mr Lynch QC. Even if there was an acceptance of a 8/9 year “actual” life it seems inappropriate to everyone (including the engines guys) I have spoken with for any company, or its public auditor, to accept the recovery of Engineering and Development NRC over a longer period than the typical aircraft life depreciation – generally 15 years though some A340 operators, including the largest airline operator Lufthansa (24 a/c – 12 years) adopt

less. At best, around a 500/520 spares number could have been used. This is similar to what Deloitte and I modeled in Case 4A in doc ref6 - as if there was "reasonable evidence available for a "one life" cycle replacement which could only be supplied by Magellan Aerospace.

Although not very legible I think the lower scenario in that 14 March 2007 document at doc ref 5 seems to be based on completing the aircraft orders shown on the Airbus website/O & D totalling 153 orders in January /February 2007 – the highest ever recorded. However it seems from that March 2007 analysis that Magellan (and PwC) determined that they would continue to include the "orders" for 3 Air Canada and 18 Emirates aircraft orders, which everyone knew (including EY), had been effectively cancelled in 2004/2005 and October 2006 (DIR44-doc 2642/2643) respectively etc. These would be removed in due course as the normal commercial activities were addressed and certainly by August 2007 when the PwC report was completed and circulated the order website "picture" had begun its decline. PwC also deliberately ignored this information in March 2007, despite the fact that they are the public auditors for both Air Canada and Emirates and internally would have that information readily available to them in any research, never mind both the Annual Reports and the Emirates "cancellation" recorded in the actual "text" in the Forecast International April 2007 report. And of course the consensus (excluding FI) amongst the external market forecasters was for lower series production levels (circa 135 a/c) than those 153 aircraft orders since mid 2006/early 2007. The six orders /deliveries deferred indefinitely by VS was widely known in February/March 2007 and their Airbus "assembly" aircraft re-assigned to Lufthansa.

Point 2 : On the face of it also seems that with the exception of Safran /Aircelle (Deloitte) & Spirit and GKN (PwC) that others **are not aware of the extensive audit experience available to EY globally on nacelle and their component systems through Goodrich/Rohr (global number 1) , Vought and Bombardier – Belfast (V2500 etc)**. As you know I worked as a part – time Associate consultant with EY (UK) – 1997- 2001 and of course previously from 1979 – 1995 at Bombardier in Belfast where I had my "exposure" to the engine nacelles world and Canadian "accounting" practice during my frequent visits to Montreal.

You will therefore be aware of EY accounting policy and practice on nacelle repairs with regard to Engineering and Development NRC recoveries in each country and vice versa – as per the brief reference to that in the PwC report para 8.72. ".....*Management acknowledges the unpredictability of repair work and appropriately has chosen not to consider repairs in its EAC analysis.* " From my involvement with EY through Bombardier on the V2500 and the other Shorts-based programmes (Bae 146, CF34, DASH8.BR710 etc) I know this policy and practice was and is consistent with what Bombardier and both EY Canada and EY UK accepted in their audits.

I raise this again as you will now have read the oral evidence during Mr Neill's evidence on 27 July 2009 and the frequent reference to Trent 500 maintenance checks "On Condition" and Repairs. In particular I have extracted some specific "passages" (35kb file) from that oral evidence in which he refers to worse case scenarios etc and difficult operating conditions etc as the basis of the "Thamburaj" – March 2007 calculations and testing regime. These are worst case scenarios – that is the most optimistic view possible for the volume of replacement spares and given its materiality in the MAC Balance Sheet and future cash recoveries there should be commercial and technical documentation in place to

support the “ life” / replacement scenarios been suggested. None of those supporting documents have been disclosed yet – in fact the sole commercial document to date refers to Repairs and a 27 cent DMC per flying hour in Year 2000 terms for the Exhaust Nozzle and Plug.

I have re-checked my belief with some former colleagues at Rohr/Goodrich in the USA on the V2500 project (who incidentally also offer repair/overhaul capability on Trent 500 engine exhausts and plugs) and just last weekend with a former Bombardier UK and Canada colleague on the business and related accounting. I had also done so previously with a former business acquaintance and friend (ex Airbus Toulouse Accountant) and now Chair of the Audit Committee at EY client, Vought. All of them confirmed my belief and their Spares and separately Repairs business and accounting policy in this regard.

No doubt you have already researched the detail of this further within EY (or can certainly do so now) to ensure that you are pursuing a “consistent” audit policy and practice to the rest of the nacelle industry at Magellan Aerospace. I remain satisfied in my business belief and accounting understanding on this matter both in 1990 to 1992 (in Belfast and Rohr) and in all my experience thereafter – hence the reason for my “protected disclosures” in 2006 and my meetings with EY in December 2006.

IF you need me to clarify any of this then please do not hesitate to contact me. On this occasion I also look forward to hearing from you directly when providing the limited answers needed for Part 1.

Kind regards

Brian

From: Brian Little [mailto:brian@fortfield.com]
Sent: 10 August 2009 20:26
To: 'Don.A.Linsdell@ca.ey.com'
Cc: 'David.A.DeWolf@ca.ey.com'
Subject: Rich Neill - oral evidence on 27 July 2009

Don – as a matter of record I attach copies of the Court transcripts for Mr Neill’s public evidence on 27 July 2009. I think you will already have a copy of Mr Dekker’s oral evidence (10 June 2009) and Mark Bobbi’s evidence (8 June 2009) on A340 but attach for ease of reference and record.

On reading these transcripts in addition to what seems from their evidence to be at best a very cursory and non-integrated review by you/EY with MAC Senior Directors and Officers (Mr Neill/Mr Dekker/Mr Butyniec) on A340 in March 2007 you will note further evidence from Mr Neill on the allocation of the retroactive price adjustment monies from the Aircelle commercial contract to the reduction of the A340 NRC . That also seems to be substantively consistent with what Mr Edwards said in his oral evidence on 31 March 2009 and as reported in the Globe and Mail and the Annual Report for FY2008.

This retroactive price adjustment was of course in excess of the representation (prices/volumes and costs) made by MAC at the end of FY2006 for the “pessimistic scenario” from FY2007 to FY2012 --- the small gross profit of \$137K after the recovery of the US\$38.25m (approx C\$45m) – and accepted by yourselves as the basis of your yearend audit testing. Most certainly that “specific” C\$40m + cash/asset recovery to MAC will

never happen by FY2012 or beyond. No doubt you will also understand the significance of the A340 “replacement spares” evidence and the financial EAC pricing and volume assumptions you were provided.

Kind regards

Brian