

Magellan Aerospace Corporation
Third Quarter Report
September 30, 2008

Magellan Aerospace Corporation (the "Corporation" or "Magellan") is listed on the Toronto Stock Exchange under the symbol MAL. The Corporation is a diversified supplier of components to the aerospace industry. Through its network of facilities throughout North America and the United Kingdom, Magellan supplies leading aircraft manufacturers, airlines and defence agencies throughout the world.

Financial Results

On November 14, 2008, the Corporation released its financial results for the third quarter of 2008. All amounts are expressed in Canadian dollars unless otherwise indicated. The results are summarized as follows:

	Three-months ended September 30			Nine-months ended September 30		
	2008	2007	Change	2008	2007	Change
<i>(Expressed in thousands, except per share amounts)</i>						
Revenues	\$ 173,088	\$ 147,926	17.0%	\$ 506,291	\$ 442,264	14.5%
Gross Profit	\$ 22,568	\$ 14,557	55.0%	\$ 57,713	\$ 46,018	25.4%
Net Income (Loss)	\$ 2,655	\$ (2,911)	-	\$ 5,489	\$ (6,392)	-
Net Income (Loss) per share	\$ 0.12	\$ (0.18)	-	\$ 0.24	\$ (0.42)	-
EBITDA*	\$ 22,101	\$ 9,603	130.1%	\$ 55,440	\$ 28,346	95.6%
EBITDA* per share	\$ 1.22	\$ 0.53	130.2%	\$ 3.05	\$ 1.56	95.5%

This quarterly statement contains certain forward-looking statements that reflect the current views and/or expectations of the Corporation with respect to its performance, business and future events. Such statements are subject to a number of risks, uncertainties and assumptions, which may cause actual results to be materially different from those expressed or implied. The Corporation assumes no future obligation to update these forward-looking statements.

***The Corporation has included certain measures in this quarterly statement, including EBITDA, the terms for which are not defined under Canadian generally accepted accounting principles. The Corporation defines EBITDA as earnings before interest, taxes, depreciation and amortization and non-cash charges. The Corporation has included these measures, including EBITDA, because it believes this information is used by certain investors to assess financial performance and EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Corporation's principal business activities prior to consideration of how these activities are financed and how the results are taxed in various jurisdictions. Although the Corporation believes these measures are used by certain investors (and the Corporation has included them for this reason), these measures may not be comparable to similarly titled measures used by other companies.**

Management's Discussion and Analysis

In the third quarter of 2008, the Corporation generated increased revenue and gross profit over the third quarter 2007, and corresponding increases for the nine months ending September 30 2008. Results for the three and nine-months ended September 30, 2008 included one-time retroactive price adjustments totalling \$10.4 million and \$4.9 million, respectively. Revenues also increased over a broad spectrum of the Corporation's customer base, and were particularly strong in the United States and the United Kingdom.

The Corporation achieved improvements in EBITDA on a year-over-year quarterly basis, and on a year-to-date basis from 2007 to 2008 largely due to the one-time retroactive price adjustment recorded in the current quarter. Underlying operational improvements, rationalization of product lines, and updates of commercial agreements have each contributed to earnings in the third quarter, and in the nine months to September 30, 2008. In light of the current economic environment the Corporation has experienced decreased production expectations on certain product lines and as a result recorded write-downs on inventory and deferred costs totalling \$3.1 million in the quarter ended September 30, 2008.

The Corporation continued to apply new technology and methodology in the third quarter at its operating sites, improving throughput and attracting additional awards of work from its customer base. It also continued to transfer non-core work packages to emerging market sites, generating capacity for complex core work in its facilities, and meeting a share of customer off-set requirements.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Annual Report available on www.sedar.com.

Revenues

	Three-months ended September 30			Nine-months ended September 30		
	2008	2007	Change	2008	2007	Change
<i>(Expressed in thousands)</i>						
Canada	\$ 71,591	\$ 73,247	(2.3 %)	\$ 223,572	\$ 211,028	5.9 %
United States	67,219	44,731	50.3 %	180,565	140,045	28.9 %
United Kingdom	34,278	29,948	14.5 %	102,154	91,191	12.0 %
Total revenue	\$ 173,088	\$ 147,926	17.0 %	\$ 506,291	\$ 442,264	14.5 %

Consolidated revenues for the third quarter of 2008 were \$173.1 million, an increase of \$25.2 million or 17.0% over the third quarter of 2007. As noted in Note 5 "Inventories" in the Corporation's 2007 audited financial statements, due to the long-term nature of the Corporation's contracts, the Corporation may be in negotiations with its customers over amendments to pricing or other terms. During the third quarter of 2008, the Corporation concluded its negotiations in respect to one such long-term contract with a European customer and as a result recorded one-time retroactive price adjustments totalling \$10.4 million, which was a direct increase to both of the Corporation's revenue and EBITDA in the third quarter of 2008. Increased sales in both the United States and the United Kingdom can be attributed to the Corporation's increased participation on the Boeing and Airbus family of parts over the third quarter of 2007. The acquisition of Verdict Aerospace Components Ltd. ("Verdict") contributed in part to the increased sales in the United Kingdom. Sales in Canada declined from the third quarter of 2007 due to significant proprietary products sales in the third quarter of 2007 which did not recur in the same quarter in 2008. Magellan continues to have a healthy order book on its proprietary products and the decline quarter over quarter represents the timing of sales rather than a decline in orders.

Gross Profit

	Three-months ended September 30			Nine-months ended September 30		
	2008	2007	Change	2008	2007	Change
<i>(Expressed in thousands)</i>						
Gross profit	\$ 22,568	\$ 14,557	55.0 %	\$ 57,713	\$ 46,018	25.4 %
Percentage of revenue	13.0 %	9.8 %		11.4 %	10.4 %	

Gross profits of \$22.6 million (13.0% of revenues) were reported for the third quarter of 2008 compared to \$14.6 million (9.8% of revenues) during the same period in 2007. Gross profit, as a percentage of sales, increased over the third quarter of 2007 due to the Corporation concluding one-time retroactive price adjustments totalling \$10.4 million in the quarter, as well as a change in the Corporation's product mix. Gross profit for the third quarter of 2008, excluding the impact of the negotiated \$10.4 million one-time retroactive price adjustment and the write-down of \$3.1 million taken in the quarter due to the impact of the uncertainties of the current economic climate, would have been \$15.3 million (9.4% of revenues). The Corporation continues to assess its core competencies to look at improving efficiencies whether internally or through emerging markets to strengthen future gross margins.

Administrative and General Expenses

	Three-months ended September 30		Nine-months ended September 30	
	2008	2007	2008	2007
<i>(Expressed in thousands)</i>				
Administrative and general expenses	\$ 12,113	\$ 9,137	\$ 32,807	\$ 31,672
Foreign exchange loss (gain)	(2,190)	3,107	(3,246)	5,630
Gain on sale of capital assets	(9)	(1,281)	(1,643)	(1,262)
Total administrative and general expenses	\$ 9,914	\$ 10,963	\$ 27,918	\$ 36,040
Percentage of revenue	5.7 %	7.4 %	5.5 %	8.1 %

Total administrative and general expenses were \$9.9 million (5.7% of revenues) in the third quarter of 2008 compared to \$11.0 million (7.4% of revenues) in the same period of 2007. Administrative and general expenses before foreign exchange and the gain on the sale of capital assets were \$12.1 million (7.0% of revenues) in the third quarter of 2008, an increase when compared to \$9.1 million (6.2% of revenues) in the third quarter of 2007. Administrative and general expenses in the third quarter of 2007 were offset by currency collar gains of \$0.7 million that did not recur in the third quarter of 2008. In addition, the Corporation recorded a provision of \$0.4 million against accounts receivable related to one customer due to the current economic environment.

Interest Expense

	Three-months ended September 30		Nine-months ended September 30	
	2008	2007	2008	2007
<i>(Expressed in thousands)</i>				
Interest on bank indebtedness and other long-term debt	\$ 3,809	\$ 3,191	\$ 11,004	\$ 9,053
Convertible debenture interest	442	1,487	1,691	4,462
Accretion charge for convertible debt	65	595	371	1,769
Discount on sale of accounts receivable	1,771	848	4,039	2,683
Total interest expense	\$ 6,087	\$ 6,121	\$ 17,105	\$ 17,967

Interest expense in the third quarter of 2008 was consistent with the third quarter of 2007 at \$6.1 million. Interest and accretion expense in relation to the convertible debentures were lower in the third quarter of 2008 than the comparative quarter in 2007 due to a lower principal amount of convertible debentures outstanding which was offset by interest paid on an increased debt level in the current quarter in comparison to the same quarter of 2007.

Provision for (recovery of) Income Taxes

	Three-months ended September 30		Nine-months ended September 30	
	2008	2007	2008	2007
<i>(Expressed in thousands)</i>				
Provision for current income taxes	\$ 176	\$ 484	\$ 384	\$ 1,417
Expense (recovery) of future income taxes	3,736	(100)	6,817	(3,014)
Total expense (recovery) of income taxes	\$ 3,912	\$ 384	\$ 7,201	\$ (1,597)
Effective Tax Rate	59.6 %	(15.2) %	56.7 %	20.0 %

The Corporation recorded an income tax expense of \$3.9 million for the third quarter of 2008, compared to an income tax expense of \$0.4 million for the third quarter of 2007. The change in effective tax rates is a result of a changing mix of income across the different jurisdictions in which the Corporation operates and due to the unrecorded tax benefits derived from temporary differences in Canada.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

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

	Three-months ended September 30		Nine-months ended September 30	
	2008	2007	2008	2007
<i>(Expressed in thousands)</i>				
Net income (loss)	\$ 2,655	\$ (2,911)	\$ 5,489	\$ (6,392)
Interest	6,087	6,121	17,105	17,967
Taxes	3,912	384	7,201	(1,597)
Stock based compensation	295	400	908	1,050
Depreciation and amortization	6,057	5,609	17,552	17,318
Amortization of deferred development costs	3,095	-	7,185	-
EBITDA	\$ 22,101	\$ 9,603	\$ 55,440	\$ 28,346

EBITDA for the third quarter of 2008 was \$22.1 million, compared to \$9.6 million in the third quarter of 2007. Growth in revenues and higher gross profit in the third quarter of 2008 compared to 2007 contributed to the increase in EBITDA for the current quarter. EBITDA for the third quarter of 2008, excluding the impact of the negotiated \$10.4 million one-time retroactive price adjustments and the write-down of \$3.1 million taken in the quarter due to the impact of the uncertainties of the current economic climate, would have been \$14.8 million. Prior to the adoption of the CICA Handbook Section 3031, "Inventories", the Corporation included in inventory deferred development costs and the amortization of these costs were not a component within the EBITDA calculation.

Liquidity and Capital Resources

Cash Flow from Operations

	Three-months ended September 30		Nine-months ended September 30	
	2008	2007	2008	2007
<i>(Expressed in thousands)</i>				
(Increase) decrease in accounts receivable	\$ (2,410)	\$ 3,200	\$ (4,646)	\$ (1,810)
Decrease (increase) in inventories	2,092	2,392	(16,898)	(20,943)
Decrease (increase) in prepaid expenses and other	1,087	490	775	(7,951)
(Decrease) increase in accounts payable	(10,369)	(3,247)	(4,765)	9,814
Changes to non-cash working capital balances	\$ (9,600)	\$ 2,835	\$ (25,534)	\$ (20,890)
Cash provided by (used in) operating activities	\$ 7,065	\$ 6,112	\$ 9,204	\$ (13,205)

In the quarter ended September 30, 2008, the Corporation generated \$7.1 million of cash in its operations, compared to \$6.1 million in the third quarter of 2007. Cash was generated by decreased inventories and prepaid expenses, offset by a decrease in accounts payable and an increase in accounts receivable.

Investing Activities

	Three-months ended September 30		Nine-months ended September 30	
	2008	2007	2008	2007
<i>(Expressed in thousands)</i>				
Acquisition of Verdict (note 3)	\$ -	\$ -	\$ (4,240)	\$ -
Purchase of capital assets	(4,988)	(6,119)	(14,325)	(16,464)
Proceeds of disposals of capital assets	24	1,342	2,808	1,695
Decrease (increase) in other assets	318	(1,544)	(5,848)	1,937
Cash used in investing activities	\$ (4,646)	\$ (6,321)	\$ (21,605)	\$ (12,832)

In the third quarter of 2008, the Corporation invested \$5.0 million in capital assets to upgrade and enhance its capabilities for current and future programs.

Financing Activities

	Three-months ended September 30		Nine-months ended September 30	
	2008	2007	2008	2007
<i>(Expressed in thousands)</i>				
Increase (decrease) in bank indebtedness	\$ 1,548	\$ (2,577)	\$ 29,235	\$ 18,379
Decrease in loan payable	-	-	(15,000)	-
Increase in loan payable	-	-	15,000	13,557
Decrease in long-term debt	(402)	(269)	(16,864)	-
Increase in long-term debt	-	-	50,000	-
Decrease in convertible debentures	-	-	(69,985)	-
Increase in convertible debentures	-	-	20,778	-
(Decrease) increase in long-term liabilities	(70)	1,863	(833)	(10,131)
Issue of Common Shares	17	26	60	65
Dividends on Preference Shares	(400)	(400)	(1,200)	(1,200)
Cash provided by (used in) financing activities	\$ 693	\$ (1,357)	\$ 11,191	\$ 20,670

The Corporation amended its operating credit facility with its existing lenders on June 24, 2008. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was increased by \$20 million to a Canadian dollar limit of \$95 million plus a US dollar limit of \$90 million, with a maturity date of May 23, 2009. The facility is extendable for unlimited one-year renewal periods by the agreement of the Corporation and the lenders and continues to be guaranteed by the Chairman of the Corporation. An annual standby guarantee fee in 2008 of 1.0% (2007 – 0.1%) of the guaranteed amount was provided by the Corporation in consideration for this guarantee. This standby fee was increased to 1.35% on June 24, 2008 in consideration for providing additional security for the Corporation's obligations. Due to this guarantee, interest is charged at the bankers' acceptance or LIBOR rates plus 1.0%, compared to the rate of bankers' acceptance or LIBOR rates plus 4.5% that was charged in 2005 prior to the guarantee being provided. The net

annual savings to the Corporation is approximately \$4.1 million assuming an average of \$190.0 million borrowed under the operating capacity.

On March 30, 2007, the Corporation borrowed \$15.0 million by way of a promissory note from a corporation wholly owned by a common director. This loan was due July 1, 2008 and bore interest at a rate of 9% per annum. This loan was repaid on January 30, 2008.

On January 30, 2008, the Corporation closed a private placement of an aggregate of \$21.0 million 8.5% convertible unsecured subordinated debentures, due January 31, 2010 (the "New Debentures") the proceeds of which were used to fund, in part, the repayment of the \$70.0 million principal amount of outstanding 8.5% unsecured subordinated debentures (the "Existing Debentures") which matured on January 31, 2008 (Note 4 – Refinancing).

On January 30, 2008, in order to fund the remaining balance of approximately \$50.0 million on the maturity of the Existing Debentures, a corporation controlled by the Chairman of the Board, provided a loan of \$50.0 million (the "Original Loan") and a \$15.0 million bridge loan (the "Bridge Loan") to the Corporation. All of the funds from the Bridge Loan and approximately \$35.0 million of the funds from the Original Loan were used to repay the balance of the Existing Debentures and the \$15.0 million additional funds from the Original Loan was provided to the Corporation to retire \$15.0 million of subordinated debt due to a company with a common director, who is also the owner of all of the shares of such lender. Both the Original Loan and the Bridge Loan bear interest at a rate of 10% per annum calculated and payable monthly and are collateralized and subordinated to the Corporation's existing bank credit facility. The Original Loan is repayable on July 1, 2009 and the Bridge Loan that was repayable on July 31, 2008 was repaid on June 24, 2008. (Note 4 – Refinancing).

The Corporation's operating credit facility and the Original Loan are both due within a one-year period. The Corporation has not yet engaged in any discussions with its lenders regarding the renewal of these facilities and in light of the current credit conditions there is no certainty that the Corporation will be able to renew these facilities. If the Corporation is unable to renew (as it has done in previous years) or re-finance these facilities, its ability to continue as a going concern may be uncertain.

The 2009 pension expense is sensitive to both investment performance and the discount rate as of December 31, 2008 and will be determined at that time. Given year-to-date performance of global capital markets, we are currently anticipating higher pension expense in 2009 absent a sharp market recovery or a significant increase in the discount rate before year-end. Through the end of September, our pension plan assets experienced a negative 4.8% return, reflecting the general market performance. From a funding perspective, the next required actuarial valuation for the most significant plans, which will determine minimum pension contributions, varies from December 31, 2008 to December 31, 2010.

Share Data and Share Consolidation

As at October 31, 2008, the Corporation had 18,189,271 common shares outstanding and 2,000,000 outstanding First Preference Shares Series A.

At the Corporation's Annual General and Special Meeting, the Corporation's shareholders approved a consolidation of Magellan's issued and outstanding common shares on the basis of one new common share for each five common shares presently issued and outstanding which was effective May 21, 2008.

Risks and Uncertainties

The Corporation manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without hindering the ability to maximize returns. Management has procedures to identify and manage significant operational and financial risks.

Deterioration in the Global Credit and Capital Markets

The credit and capital markets have experienced unprecedented deterioration in 2008, including the failure of a number of significant and established financial institutions in the U.S and abroad, all of which will have an impact on the availability of credit and capital in the near term. If uncertainties in these markets continue, or these markets deteriorate further, it could have a material adverse impact on the Corporation's liquidity and capital resources.

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

The Corporation and its subsidiaries have significant debt obligations. If the Corporation is unable to meet its debt obligations, it may need to consider refinancing or adopting alternative strategies to reduce or delay capital expenditures, selling assets or seeking additional equity capital.

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

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

A portion of the Corporation's revenues and expenses are currently denominated in U.S. dollars and Great British Pounds (GBP), and it is expected that some revenues and expenses will continue to be based in currencies other than the Canadian dollar. Therefore, fluctuations in the Canadian dollar exchange rate relative to these other currencies will impact the Corporation's results of operations and financial condition from period to period. In addition, the Corporation is subject to currency fluctuations from the translation of revenues, expenses, assets and liabilities of its self-sustaining foreign operations using a functional currency other than the Canadian dollar. The following table demonstrates the change in the Canadian dollar in the third quarter of 2008 in comparison to the U.S. dollar and the GBP.

	Beginning of Quarter	End of Quarter	% Change
USD/CAD	1.0197	1.0642	4.4%
GBP/CAD	2.0276	1.8868	(6.9)%

The resulting foreign exchange gains or losses are included in net income or loss and other comprehensive income or loss in the period. We cannot predict the effect of foreign exchange losses in the future; however, if significant foreign exchange losses are experienced, they could have a material adverse effect on our business, results of operations, and financial condition.

The agreements with labour unions representing certain of the Corporation's employees are subject to renewal.

If the Corporation is unable to renew all agreements as they become subject to renegotiation from time to time, it could result in work stoppages and other labour disturbances which could have a material adverse effect on its business. This risk may be mitigated by the ability of the Corporation to transfer work from one location to another.

The Corporation may need additional financing for acquisitions and capital expenditures and additional financing may not be available on acceptable terms.

The Corporation's ability to grow is dependent upon, and may be limited by, among other things, availability under the credit facilities and by particular restrictions contained therein and the Corporation's other financing arrangements. In that case, additional funding sources may be needed, and the Corporation may not be able to obtain the additional capital necessary to pursue its internal growth and acquisition strategy or, if the Corporation can obtain additional financing, the additional financing may not be on financial terms, which are satisfactory to it.

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

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

Critical Accounting Estimates

The preparation of financial statements requires the Corporation to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies with respect to the level of judgment involved and the potential impact on the Corporation's reported financial results. Estimates are deemed critical when the Corporation's financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period.

Inventories

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

Asset Impairment

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

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

Income Taxes

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

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

Foreign Currency Translation

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

Changes in Accounting Policies

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

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

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

	Reported, as at December 31, 2007	Impact of accounting changes (a)	Additional adjustment of the impact of accounting changes (b)	Restated, as at January 1, 2008
Assets				
Inventories	\$ 274,011	\$ (118,171)	\$ (3,291)	\$ 152,549
Capital assets	245,727	10,852	-	256,579
Other assets	55,707	67,471	-	123,178
	\$ 575,445	\$ (39,848)	\$ (3,291)	\$ 532,306
Liabilities				
Future income tax liabilities	\$ 16,799	\$ (7,692)	\$ (1,152)	\$ 7,955
Shareholders' equity	\$ 265,927	\$ (32,156)	\$ (2,139)	\$ 231,632

- (a) Learning curve balances of \$39,848 and a future income tax recovery of \$7,692 were charged to retained earnings on adoption of Section 3031, both effective January 1, 2008. This new section also prescribed that certain development costs and program tooling costs may no longer be classified as inventory. As a result, \$67,471 of deferred development costs related to long-term contracts have been reclassified to other assets and \$10,852 of program tooling costs have been reclassified to capital assets, both effective January 1, 2008.
- (b) During the preparation of the nine-month interim financial statements an additional adjustment was identified in the effect of the adoption of Section 3031 with respect to certain learning curve balances that were not identified as part of the initial analysis. The Corporation has made an additional adjustment to the impact of the learning curve balances and the related income tax recovery charged to retained earnings of \$3,291 and \$1,152, respectively.

On January 1, 2008, the Corporation adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants: Handbook Section 1535, Capital Disclosures ("Section 1535"), Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862") and Handbook Section 3863, Financial Instruments – Presentation ("Section 3863").

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

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

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

Future Changes in Accounting Policies

In February 2008, the Accounting Standards Board confirmed that Canadian generally accepted accounting principles for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Corporation, for interim and annual financial statements beginning on January 1, 2011. IFRS uses a conceptual framework similar to Canadian generally accepted accounting principles, but there are significant differences on recognition, measurement and disclosures. The Corporation is currently evaluating the impact of the adoption of IFRS on its Consolidated Financial Statements.

Section 3064, Goodwill and Other Intangible Assets, will replace Handbook Section 3062, Goodwill and Other Intangible Assets. This new standard will be effective for fiscal years beginning on or after October 1, 2008 and the Corporation will

adopt it on January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Corporation is currently evaluating the impact of the adoption of this new Section on its financial statements.

Controls and Procedures

Based on the current Canadian Securities Administrators ("CSA") rules under Multilateral Instrument 52-109, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at September 30, 2008 that they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting.

Management does not expect disclosure controls and procedures to prevent all errors, misstatements or fraud. In addition, internal control over financial reporting that management has designed and established may be circumvented and rendered ineffective as a result of unauthorized acts of individuals through collusion or management override. A system of control, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that control objectives are met. Due to the inherent limitations in a system of control, there is no absolute assurance that all control issues, which may result in errors, misstatements, or fraud, can be prevented or detected. The inherent limitations include, amongst other things: (i) management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of isolated errors; or (iii) assumptions about the likelihood of future events.

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

Outlook

The outlook for the aerospace industry has been buffeted by contrasting events, and signals are not yet fully consistent. The global financial turmoil of the third quarter of 2008, with its resulting credit issues, has served as a damper on expectations of the civil aircraft industry. Countering this doubt, order books of OEM's remain strong, while 2009 plans for increased production are now being placed on suppliers, the Corporation is closely monitoring its customers activity levels in order to align its production with their needs. Defence sector demand is expected to retain its strength in the short to medium term, although most commentators are calling for reductions in 2012-2014. This is particularly the case in the United States due to the current high expenditure rate, the financial and credit issues, and the uncertainty caused by the change of administration.

The Corporation has a balanced book of business in both civil and defence aerospace. It has won a series of new programs that are moving towards production, or production ramp-ups. Notably, the Airbus A380 and F35 (Joint Strike Fighter program) are forecast to double production rates in 2009, and the Boeing B787 Dreamliner is forecast to enter service with airlines during 2009, and ramp up in production through 2009-2012. Civil aircraft and engine order books are at historically high levels, and could be expected to withstand some order cancellations with minimum impact. The Corporation has won new space vehicle participation, and proprietary products continue to benefit from growing markets.

Management has developed and is implementing strategies to improve its ability to detect impending demand change and is reacting accordingly.

On behalf of the Board



Richard A. Neill
Vice Chairman



James S. Butyniec
President and Chief Executive Officer

November 14, 2008