



**Magellan Aerospace Corporation
Third Quarter Report
September 30, 2009**

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, the United Kingdom and India, Magellan supplies leading aircraft manufacturers, airlines and defence agencies throughout the world.

Financial Results

On November 12, 2009, the Corporation released its financial results for the third quarter of 2009. 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		
	2009	2008	Change	2009	2008	Change
<i>(Expressed in thousands, except per share amounts)</i>						
Revenues	\$ 164,165	\$ 173,088	(5.2) %	\$ 520,776	\$ 506,291	2.9 %
Gross Profit	\$ 21,388	\$ 22,568	(5.3) %	\$ 63,212	\$ 57,713	9.5 %
Net Income	\$ 10,756	\$ 2,655	305.1 %	\$ 24,028	\$ 5,489	337.7 %
Net Income per share – Diluted	\$ 0.20	\$ 0.12	66.7 %	\$ 0.59	\$ 0.24	145.8 %

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

This Management Discussion and Analysis ("MD&A") has been prepared as of November 12, 2009, and should be read in conjunction with the Corporation's unaudited interim consolidated financial statements and notes thereto for the three and nine month periods ended September 30, 2009 and with the audited financial statements and notes thereto for the year ended December 31, 2008, both available on the Corporation's website at www.magellan.aero.

Overview

The Corporation's performance in the third quarter of 2009 reflects the seasonal impact of plant shutdowns for summer vacations, and isolated softening of specific sub-sectors of the civil aerospace markets in the third quarter 2009 when compared to the third quarter of 2008. The further softening of the business jet sub-sector and the weakening of the US Dollar versus the Canadian Dollar have contributed to reduced reported revenues in the third quarter 2009 when compared to second quarter 2009. In spite of these headwinds, the Corporation's overall performance year-to-date in 2009 continued to improve over that of 2008.

Factors contributing positively to the 2009 third quarter performance included the continued stability of the civil airliner market sub-sector, in both single-aisle and twin-aisle models, and the steadiness of the defence market. Some timing issues impacted the revenues reported in the third quarter of 2009 from the sale of proprietary products in the defence and space sector, but the underlying demand remained solid.

The diversification of the Corporation's markets also protected sales and margins to some degree. Lower than expected revenues from the business jet sub-sector and the continued delays in ramping up production of the Airbus A380 and the Boeing 787 were in part offset by the strength of demand on the legacy airliner models of both major OEM's. Additionally, the Joint Strike Fighter F-35 program, which has recently received strong endorsement from both the new United States administration and Congress, continued to increase its pace of low-rate production and is projected to reach full scale production within the next five years.

The third quarter of 2009 also saw continued improvements in operating efficiency and capacity in the Corporation's facilities, improved capability through the phase-in of new technology and training, and the continued transfer of non-core work to local and emerging market suppliers.

Revenues

	Three-months ended September 30			Nine-months ended September 30		
	2009	2008	Change	2009	2008	Change
<i>(Expressed in thousands)</i>						
Canada	\$ 78,353	\$ 71,591	9.4 %	\$ 247,934	\$ 223,572	10.9 %
United States	48,854	67,219	(27.3) %	157,594	180,565	(12.7) %
United Kingdom	36,958	34,278	7.8 %	115,248	102,154	12.8 %
Total revenue	\$ 164,165	\$ 173,088	(5.2) %	\$ 520,776	\$ 506,291	2.9 %

Consolidated revenues for the third quarter of 2009 were \$164.2 million, a decrease of \$8.9 million or 5.2% lower than the third quarter of 2008. Higher volumes in the Corporation's proprietary products contributed to increased revenues in Canada. In US Dollars, revenues in the United States declined from the third quarter of 2008 primarily as a result of a one-time retroactive price adjustment totalling \$10.4 million recorded in the third quarter of 2008 and also due to reduced requirements from the Corporation's major customers. Revenues in the United Kingdom increased over revenues in the same period in 2008, despite the decline in the British Pound exchange rate versus the Canadian Dollar. Revenues in the United Kingdom, in British Pounds, increased by 17.6% as production activity on the Airbus statement of work increased. The appreciation of the US Dollar and the decline of the British Pound against the Canadian Dollar, over the exchange rates prevailing in the third quarter of 2008, contributed, on a net basis, to an increase of \$1.6 million in revenues.

Gross Profit

	Three-months ended September 30			Nine-months ended September 30		
	2009	2008	Change	2009	2008	Change
<i>(Expressed in thousands)</i>						
Gross profit	\$ 21,388	\$ 22,568	(5.3) %	\$ 63,212	\$ 57,713	9.5 %
Percentage of revenue	13.0 %	13.0 %		12.1 %	11.4 %	



Gross profit of \$21.4 million (13.0% of revenues) was reported for the third quarter of 2009 compared to \$22.6 million (13.0% of revenues) during the same period in 2008. Gross profit in the third quarter of 2009 includes a \$4.1 million benefit resulting from the recognition of investment tax credits earned in the first nine months of the year. Gross profit in the third quarter of 2008 included a one-time retroactive price adjustment totalling \$10.4 million as the Corporation concluded negotiations in respect of a long-term contract with a European customer. Gross profit, without the items listed above, was 10.5% of revenues for the third quarter of 2009 compared to 7.0% of revenues for the third quarter of 2008.

Administrative and General Expenses

	Three-months ended September 30		Nine-months ended September 30	
	2009	2008	2009	2008
<i>(Expressed in thousands)</i>				
Administrative and general expenses	\$ 9,982	\$ 12,113	\$ 32,783	\$ 32,807
Percentage of revenue	6.1 %	7.0 %	6.3 %	6.5 %

Administrative and general expenses were \$10.0 million (6.1% of revenues) in the third quarter of 2009 compared to \$12.1 million (7.0% of revenues) in the third quarter of 2008. In the third quarter of 2008 the Corporation had recorded one-time charges totalling approximately \$1.4 million which did not recur in 2009.

Other

	Three-months ended September 30		Nine-months ended September 30	
	2009	2008	2009	2008
<i>(Expressed in thousands)</i>				
Foreign exchange gain	\$ (1,171)	\$ (2,190)	\$ (6,673)	\$ (3,246)
Loss (gain) on sale of capital assets	180	(9)	189	(1,643)
Other	\$ (991)	\$ (2,199)	\$ (6,484)	\$ (4,889)

Other income of \$1.0 million in the third quarter of 2009 consisted of realized and unrealized foreign exchange gains (largely on the Corporation's currency contracts) due to the weaker Canadian Dollar in comparison to the United States Dollar. Other income in the third quarter of 2008 resulted largely from a foreign exchange gain of \$2.2 million.

Interest Expense

	Three-months ended September 30		Nine-months ended September 30	
	2009	2008	2009	2008
<i>(Expressed in thousands)</i>				
Interest on bank indebtedness and long-term debt	\$ 4,331	\$ 3,809	\$ 10,544	\$ 11,004
Convertible debenture interest	1,010	442	2,796	1,691
Accretion charge for convertible debt	138	65	536	371
Discount on sale of accounts receivable	136	1,771	1,636	4,039
Total interest expense	\$ 5,615	\$ 6,087	\$ 15,512	\$ 17,105

Interest expense of \$5.6 million in the third quarter of 2009 was lower than the third quarter of 2008 amount of \$6.1 million. Convertible debenture interest and the accretion expense in relation to the convertible debentures were higher in the third quarter of 2009 than the comparative quarter in 2008 due to a higher principal amount of convertible debentures outstanding. Lower discount expense on the sale of accounts receivable resulted from decreased amounts of accounts receivables sold in the third quarter of 2009 when compared to the same quarter of 2008.

(Recovery of) Provision for Income Taxes

	Three-months ended September 30		Nine-months ended September 30	
	2009	2008	2009	2008
<i>(Expressed in thousands)</i>				
(Recovery of) provision for current income taxes	\$ (321)	\$ 176	\$ 81	\$ 384
(Recovery) expense of future income taxes	(3,653)	3,736	(2,708)	6,817
Total (recovery) expense of income taxes	\$ (3,974)	\$ 3,912	\$ (2,627)	\$ 7,201
Effective Tax Rate	(58.6)%	59.6 %	(12.3)%	56.7 %



The Corporation recorded an income tax recovery of \$4.0 million for the third quarter of 2009, compared to an income tax expense of \$3.9 million for the third quarter of 2008. The change in effective tax rates resulted from the Corporation recognizing additional deferred tax assets in Canada totalling \$4.3 million in the third quarter of 2009 as the Corporation has determined that it will be able to benefit from some of its previously unrecorded future tax assets. Due to the recognition of these previous unrecorded future tax assets, the Corporation's effective tax rate in the current quarter was (58.6)% versus a normalized expected tax rate of between 30% to 35%.

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 the Corporation's 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	
	2009	2008	2009	2008
<i>(Expressed in thousands)</i>				
Net income	\$ 10,756	\$ 2,655	\$ 24,028	\$ 5,489
Interest	5,615	6,087	15,512	17,105
Taxes	(3,974)	3,912	(2,627)	7,201
Stock based compensation	170	295	575	908
Depreciation and amortization	8,233	9,152	26,650	24,737
EBITDA	\$ 20,800	\$ 22,101	\$ 64,138	\$ 55,440

EBITDA for the third quarter of 2009 was \$20.8 million, compared to \$22.1 million in the third quarter of 2008. As previously discussed, a one-time retroactive price adjustment totalling \$10.4 million contributed to higher gross profit and increased the EBITDA for the third quarter of 2008.

Liquidity and Capital Resources

Cash Flow from Operations

	Three-months ended September 30		Nine-months ended September 30	
	2009	2008	2009	2008
<i>(Expressed in thousands)</i>				
Decrease (increase) in accounts receivable	\$ 8,302	\$ (2,410)	\$ (31,882)	\$ (4,646)
Decrease (increase) in inventories	7,158	2,092	17,717	(16,898)
Decrease (increase) in prepaid expenses and other	1,806	1,087	(4,271)	775
Decrease in accounts payable	(11,676)	(10,369)	(28,789)	(4,765)
Changes to non-cash working capital balances	5,590	(9,600)	(47,225)	(25,534)
Cash provided by (used in) operating activities	\$ 11,855	\$ 7,065	\$ (5,473)	\$ 9,204

In the quarter ended September 30, 2009, the Corporation generated \$11.9 million of cash in its operations, compared to \$7.1 million in the third quarter of 2008. Cash was generated through decreased accounts receivable, inventory and prepaid expenses. The Corporation has partially offset the generation of cash in operating activities through the reduction in accounts payable in the third quarter of 2009. The increase in accounts receivable during the nine-month period resulted from a net decrease in the amount of accounts receivable sold under the Corporation's securitization facilities at the end of the third quarter of 2009 when compared to the same quarter in 2008. One of the Corporation's current securitization facilities, which was undrawn as at September 30, 2009 and in the amount of \$20 million, expires on December 31, 2009. The Corporation is exploring options of other securitization programs that may be available to replace the expiring facility.



Investing Activities

	Three-months ended September 30		Nine-months ended September 30	
	2009	2008	2009	2008
<i>(Expressed in thousands)</i>				
Acquisition of Verdict (note 3)	\$ –	\$ –	\$ –	\$ (4,240)
Purchase of capital assets	(1,592)	(4,988)	(14,761)	(14,325)
Proceeds of disposals of capital assets	107	24	339	2,808
Decrease (increase) in other assets	2,222	(318)	(47)	(5,848)
Cash provided by (used in) investing activities	\$ 737	\$ (5,282)	\$ (14,469)	\$ (21,605)

In the third quarter of 2009, the Corporation invested \$1.6 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	
	2009	2008	2009	2008
<i>(Expressed in thousands)</i>				
(Decrease) increase in bank indebtedness	\$ (8,221)	\$ 1,548	\$ (10,845)	\$ 29,235
Decrease in loan payable	–	–	–	(15,000)
Increase in loan payable	–	–	–	15,000
Decrease in long-term debt	(647)	(402)	(2,058)	(16,684)
Increase in long-term debt	–	–	15,000	50,000
Decrease in convertible debentures	–	–	(20,950)	(69,864)
Increase in convertible debentures	–	–	39,667	20,778
Decrease in long-term liabilities	(38)	(70)	(310)	(833)
Issue of Common Shares	–	17	8	60
Dividends on Preference Shares	–	(400)	–	(1,200)
Cash (used in) provided by financing activities	\$ (8,906)	\$ 693	\$ 20,512	\$ 11,191

On April 30, 2009, the Corporation amended its operating credit facility with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was decreased to a Canadian Dollar limit of \$90 million plus a US Dollar limit of \$85 million, with a maturity date of May 22, 2010. 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 Board of the Corporation. An annual standby guarantee fee in 2009 of 1.35% (2008 – 1.35%) of the guaranteed amount is provided by the Corporation in consideration for this guarantee.

On April 30, 2009, the Corporation also completed the following previously announced financing arrangements:

(a) the purchase by the Chairman of the Corporation, directly or indirectly, of \$40 million principal amount of a new issue of 10% Convertible Secured Subordinated Debentures (the "New Convertible Debentures") with a three year term by private placement; and

(b) the extension and restatement of a previous secured subordinated loan from Edco Capital Corporation ("Edco"), which is wholly owned by the Chairman of the Corporation, to the Corporation to increase the principal amount from \$50 million to \$65 million and to extend the maturity date of the loan to July 1, 2010 in consideration for the payment of a one time fee to Edco equal to 1% of the principal amount of \$50 million outstanding and an increase in the interest rate on the loan from 10% to 12% per annum payable monthly in arrears.

(together the "2009 Financing Arrangements")

As a result of a requirement under a change of control provision in the previously issued 8.5% convertible unsecured debentures due January 31, 2010 (the "2008 Debentures"), the Corporation was required to make an offer to purchase the \$20.95 million of 2008 Debentures at a price of 102.5% of the principal amount plus accrued and unpaid interest utilizing the proceeds of the 2009 Financing Arrangements. In the second quarter of 2009 the 2008 Debentures were fully repurchased by the Corporation.

Pursuant to a similar change of control definition in the Corporation's outstanding Preference Shares' terms, the Corporation is required to retract its outstanding Preference Shares at a price of \$10.00 per share plus accrued and unpaid dividends, unless such retraction contravenes any instrument of indebtedness of the Corporation or the terms of the Ontario Business



Corporations Act (the "OBCEA"). The Corporation is currently not in the position to retract the Preference Shares as it is prohibited from doing so by the terms of its operating credit facility and any default in the operating credit facility would result in the Corporation being unable to pay its liabilities as they become due and constitute a contravention of the OBCEA. Accordingly, the Preference Shares continue to be classified as equity instruments. In addition, dividends for the period ending April 30, 2009 and July 31, 2009 totalling \$0.8 million have not been declared and remain cumulative as at September 30, 2009. Subsequent to September 30, 2009, additional dividends for the period ending October 31, 2009 totalling \$0.4 million have also not been declared and remain cumulative.

Share Data

As at October 31, 2009, the Corporation had 18,209,001 common shares outstanding, 2,000,000 outstanding First Preference Shares Series A convertible into 1,333,333 common shares and \$40.0 million convertible debentures convertible into 40,000,000 common shares. The dilutive weighted average number of common shares outstanding, resulting from the potential common shares issuable on the conversion of the convertible debentures, for the three and nine month periods ending September 30, 2009 were 58,209,001 and 42,207,509 respectively.

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.

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

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader US and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

The Corporation cannot predict the depth or duration of downturns in the domestic and global economies nor the effects on markets that the Corporation serves, particularly the airline industry. The Corporation's ability to increase or maintain its revenues and operating results may be impaired as a result of negative general economic conditions. The current economic uncertainty renders estimates of future revenues and expenditures even more difficult than usual to formulate. The future direction of the overall domestic and global economies could have a significant impact on the Corporation's overall financial performance and impair the value of its Common Shares.

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

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

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

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



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

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

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

The Corporation amended and restated its Bank Facility Agreement with its existing lender on April 30, 2009. Under the terms of the Bank Facility Agreement, the Corporation has an operating credit facility, expiring on May 22, 2010, and extendable for unlimited one-year periods by agreement of the Corporation and the lenders. The Corporation's Bank Facility Agreement also requires the Corporation to maintain specified financial ratios. The Corporation's ability to meet the financial ratios can be affected by events beyond the Corporation's control, and there can be no assurance that the Corporation will be able to meet the ratios. There is no assurance that the Bank Facility Agreement will be renewed every year or that the terms of renewal will not be materially adverse to the Corporation. This credit facility is fully guaranteed by Mr. Edwards, a director and Chairman of the Board of the Corporation. There is also no assurance that Mr. Edward's guarantee, if required, will be available beyond the term of the current commitment which ends on May 22, 2010. There is no assurance that Magellan will be in compliance with its bank covenants at all times during the upcoming twelve months due to unforeseen events or circumstances, some of which are outlined in this "*Risks and Uncertainties*".

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

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

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

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

A reduction in defence spending by the United States or other countries could result in a decrease in revenue.

The Corporation relies on sales to military customers particularly in the United States. A significant reduction in military expenditures by the United States or other countries with which the Corporation has contracts could materially adversely



affect the Corporation's business and financial condition. The loss or significant reduction in government funding of a large program in which the Corporation participates could also materially adversely affect sales and earnings.

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

A portion of the Corporation's revenues and expenses are not currently denominated in Canadian Dollars, and it is expected that some revenues and expenses will continue to be based in currencies other than the Canadian Dollar. Therefore, fluctuations in the Canadian Dollar exchange rate will impact the Corporation's results of operations and financial condition from period to period. In addition, such fluctuations affect the translation of the Corporation's results for purposes of its consolidated financial statements. The Corporation's activities to manage its currency exposure may not be successful. The following table demonstrates the change in the Canadian Dollar in the third quarter of 2009 in comparison to the U.S Dollar and the GBP.

	Beginning of Quarter	End of Quarter	% Change
USD/CAD	1.1630	1.0707	(7.9) %
GBP/CAD	1.9122	1.7158	(10.3) %

The resulting foreign exchange gains or losses are included in net income or loss and other comprehensive income or loss in the period. The Corporation 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 Magellan's business, results of operations, and financial condition.

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

The Corporation is party to collective bargaining agreements throughout its business, which are subject to expiration at various times in the future. 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 that could have a material adverse effect on its business.

For more information in relation to the risks inherent in Magellan's business, reference is made to the information under "Risks Inherent in Magellan's Business" in the Annual Information Form, which is filed on SEDAR at www.sedar.com.

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

On January 1, 2009, the Corporation adopted CICA Handbook 3064, "Goodwill and Intangible Assets". This new section replaces the existing standards for "Goodwill and Other Intangible Assets" (CICA Handbook Section 3062) and "Research and Development Costs" (CICA Handbook Section 3450). The new standard (i) states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria; (ii) provides guidance on the recognition of internally generated intangible assets including research and development costs; and (iii) carries forward the current requirements of Section 3062 for subsequent measurement and disclosure of intangible assets and goodwill. The adoption of this new section did not have a material impact on the Corporation's consolidated financial statements.

On January 20, 2009, the Emerging Issues Committee ["EIC"] of the AcSB issued EIC Abstract 173, which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. The Corporation adopted this EIC on January 20, 2009 and applied the EIC retrospectively, without restatement of prior years to all financial assets and financial liabilities measured at fair value. The adoption of this new EIC did not have a material impact on its consolidated financial statements.

Future Changes in Accounting Policies

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

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

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

Section 1582 applies to acquisitions made from January 1, 2011 in which the acquirer obtains control of one or more businesses. The term "business" is more broadly defined than in the existing standard. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be "improbable", will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the



need for guidance on step acquisitions. A bargain purchase will result in recognition of a gain. Acquisition costs must be expensed.

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

These new standards will become effective in 2011.

International Financial Reporting Standards

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

The Corporation commenced its IFRS conversion efforts during 2008 and will implement IFRS over a transitional period which is anticipated to be completed by 2011. The transition project is comprised of the following key elements:

- Identification of relevant differences between Canadian GAAP and IFRS
- Set up of IFRS accounting policies
- Impact analysis on systems, processes, controls, reporting, and business policies and practices
- Implementation of solutions for the conversion to IFRS
- Awareness raising and training of personnel

The Corporation's IFRS implementation has progressed as planned and to date the Corporation has, with the assistance of outside IFRS consultants, held awareness and training sessions for key personnel and the board of directors; has completed its high level diagnostic which entails an assessment of the major difference between Canadian GAAP and IFRS; and is currently in the process of analyzing these differences. Significant differences will be identified and their impact assessed. The Corporation will provide updates as further progress is achieved and conclusions are reached.

Controls and Procedures

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at September 30, 2009 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 and internal control over financial reporting to prevent all errors, misstatements or fraud. In addition, internal control over financial reporting that management has designed and established may be circumvented and rendered ineffective as a result of unauthorized acts of individuals through collusion or management override. A system of control, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that control objectives are met. Due to the inherent limitations in a system of control, there is no absolute assurance that all controls issues, which may result in errors, misstatements, or fraud, can be prevented or detected. The inherent limitations include, amongst other things: (i) management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of isolated errors; (iii) assumptions about the likelihood of future events.

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 Corporation has a cautious outlook for the balance of 2009 and 2010 due to lingering unknowns related to new aircraft introductions in the civil airliner sub-sector, and political unknowns that could impact the transitions underway from legacy to new defence programs in North America and Europe. However, the civil airliner picture is more stable than earlier in 2009, with steady production of single-aisle and twin-aisle aircraft in both Airbus and Boeing planned to remain at or near current rates through 2010. Airlines in the United States have benefited from earlier capacity reductions and the implementation of additional revenue streams in early 2008. Most have improved revenue in 2009, and some are expected to be profitable in 2009. The process of replacing their aging fleets with new, more efficient aircraft is well underway in some leading airlines. On a global basis, international airlines are believed to be through the worst in late 2009, and travel rates are expecting to increase as GDP improves in leading trader nations.

The Corporation's management anticipates that the business aircraft sector will reach its bottom in mid 2010 to 2011 and will begin a gradual recovery thereafter. The Corporation has only a modest exposure to this part of the aerospace market.

Defence spending is forecasted to be stable through 2011-2012 in both new aerospace equipment and in the aftermarket. The transition from legacy programs to new replacement programs is underway in the United States and Europe, and the Corporation anticipates new work in key new programs commencing in late 2009 and early 2010. The new work falls within the core areas of the Corporation, will introduce newer technologies, and is anticipated to have extensive production runs.

To offset somewhat the potential slowing demand for current single aisle commercial aircraft, the Corporation has exposure to anticipated growth sectors of the global aerospace industry, in the Boeing 787, the Airbus A380 and the Joint Strike Fighter. The Corporation has captured opportunities on these new civil and defence programs, has continued to modernize its facilities and update its capabilities, and has taken measures to hopefully address contingencies that may arise during the economic uncertainty of 2009 to 2011. Notwithstanding these opportunities, much uncertainty exists regarding the increasing debt loads of leading nations as the current recession spending measures play out.

Additional Information and Continuous Disclosure

Updated information on the Corporation, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

Forward Looking Statements

This Management and Discussion Analysis contain 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.

November 12, 2009



MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three-months ended September 30		Nine-months ended September 30	
	2009	2008	2009	2008
<i>(Expressed in thousands of dollars, except per share amounts)</i>				
Revenues	\$ 164,165	\$ 173,088	\$ 520,776	\$ 506,291
Cost of revenues	142,777	150,520	457,564	448,578
Gross Profit	21,388	22,568	63,212	57,713
Administrative and general expenses	9,982	12,113	32,783	32,807
Other (note 15)	(991)	(2,199)	(6,484)	(4,889)
Interest	5,615	6,087	15,512	17,105
	14,606	16,001	41,811	45,023
Income before income taxes	6,782	6,567	21,401	12,690
(Recovery of) provision for income taxes				
Current	(321)	176	81	384
Future	(3,653)	3,736	(2,708)	6,817
	(3,974)	3,912	(2,627)	7,201
Net income	\$ 10,756	\$ 2,655	\$ 24,028	\$ 5,489
Net income per share				
Basic	0.57	0.12	1.25	0.24
Diluted	0.20	0.12	0.59	0.24

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(unaudited)

	Three-months ended September 30		Nine-months ended September 30	
	2009	2008	2009	2008
<i>(Expressed in thousands of dollars)</i>				
Retained earnings, beginning of the period	\$ 73,024	52,625	\$ 59,752	\$ 82,747
Effect of change in accounting policy	—	(2,139)	—	(34,295)
Adjusted retained earnings, beginning of period	73,024	50,486	59,752	48,452
Dividends	—	(400)	—	(1,200)
Net income	10,756	2,655	24,028	5,489
Retained earnings, end of the period	\$ 83,780	\$ 52,741	\$ 83,780	\$ 52,741

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME (LOSS)
(unaudited)

	Three-months ended September 30		Nine-months ended September 30	
	2009	2008	2009	2008
<i>(Expressed in thousands of dollars)</i>				
Net income	\$ 10,756	\$ 2,655	\$ 24,028	\$ 5,489
Other comprehensive income (loss):				
Unrealized (loss) gain on translation of financial statements of self-sustaining foreign operations	(15,183)	1,332	(17,987)	5,632
Comprehensive (loss) income	\$ (4,427)	\$ 3,987	\$ 6,041	\$ 11,121

See accompanying notes



MAGELLAN AEROSPACE CORPORATION

CONSOLIDATED BALANCE SHEETS

(unaudited)

As at
September 30
2009

As at
December 31
2008

(Expressed in thousands of dollars)

ASSETS

Current

Cash	\$	5,675	\$	5,362
Accounts receivable		94,004		67,435
Inventories (note 4)		152,534		178,474
Prepaid expenses and other		14,488		10,717
Future income tax assets		3,853		5,097
Total current assets		270,554		267,085

Capital assets

Technology rights		256,627		277,207
Deferred development costs		30,078		32,567
Other assets (note 4)		61,030		69,225
Future income tax assets		19,006		15,970
		16,933		8,643

Total long-term assets		383,674		403,612
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Total assets	\$	654,228	\$	670,697
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LIABILITIES AND SHAREHOLDERS' EQUITY

Current

Bank indebtedness (note 5)	\$	156,625	\$	177,766
Accounts payable and accrued charges		92,295		125,116
Current portion of long-term debt		66,775		52,321
Total current liabilities		315,695		355,203

Long-term debt		9,972		11,803
Future income tax liabilities		10,915		11,392
Convertible debentures		38,015		20,544
Other long-term liabilities		7,279		7,947
Total long-term liabilities		66,181		51,686

Shareholders' equity

Capital stock (note 6)		234,389		234,381
Contributed surplus		4,566		3,991
Other paid in capital		13,565		11,645
Retained earnings		83,780		59,752
Accumulated other comprehensive loss (note 8)		(63,948)		(45,961)

Total shareholders' equity		272,352		263,808
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Total liabilities and shareholders' equity	\$	654,228	\$	670,697
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See accompanying notes



MAGELLAN AEROSPACE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three-months ended September 30		Nine-months ended September 30	
	2009	2008	2009	2008
<i>(Expressed in thousands of dollars)</i>				
OPERATING ACTIVITIES				
Net income	\$ 10,756	\$ 2,655	\$ 24,028	\$ 5,489
Add (deduct) items not affecting cash				
Depreciation and amortization	8,233	9,152	26,650	24,737
Net gain (loss) on sale of capital asset	180	(9)	189	(1,643)
Employee future benefits	(5,555)	(1,199)	(3,734)	(4,066)
Write down of deferred costs	—	1,872	—	1,872
Deferred revenue	132	98	352	253
Stock based compensation	170	295	575	908
Accretion of convertible debentures	138	65	536	371
Future income tax (recovery) expense	(7,789)	3,736	(6,844)	6,817
	6,265	16,665	41,752	34,738
Net change in non-cash working capital items relating to operating activities	5,590	(9,600)	(47,225)	(25,534)
Cash provided by (used in) operating activities	11,855	7,065	(5,473)	9,204
INVESTING ACTIVITIES				
Acquisition of Verdict (note 3)	—	—	—	(4,240)
Purchase of capital assets	(1,592)	(4,988)	(14,761)	(14,325)
Proceeds from disposal of capital assets	107	24	339	2,808
Decrease (increase) in other assets	2,222	(318)	(47)	(5,848)
Cash provided by (used in) investing activities	737	(5,282)	(14,469)	(21,605)
FINANCING ACTIVITIES				
(Decrease) increase in bank indebtedness	(8,221)	1,548	(10,845)	29,235
Decrease in loan payable	—	—	—	(15,000)
Increase in loan payable	—	—	—	15,000
Decrease in long-term debt	(647)	(402)	(2,058)	(16,864)
Increase in long-term debt	—	—	15,000	50,000
Decrease in convertible debentures	—	—	(20,950)	(69,985)
Increase in convertible debentures	—	—	39,667	20,778
Decrease in long-term liabilities	(38)	(70)	(310)	(833)
Issuance of common shares	—	17	8	60
Dividends on preference shares	—	(400)	—	(1,200)
Cash (used in) provided by financing activities	(8,906)	693	20,512	11,191
Effect of exchange rate changes on cash	(389)	(568)	(257)	(304)
Net increase (decrease) in cash during the period	3,297	1,908	313	(1,514)
Cash, beginning of period	2,378	1,462	5,362	4,884
Cash, end of period	\$ 5,675	\$ 3,370	\$ 5,675	\$ 3,370

See accompanying notes



NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of dollars except share and per share data)

1. ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited interim consolidated financial statements have been prepared by Magellan Aerospace Corporation (the "Corporation") in accordance with generally accepted accounting principles in Canada with respect to preparation of interim financial statements on a basis consistent with those followed in the most recent audited consolidated financial statements except as noted in note 2. Accordingly, these unaudited interim consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes included in the Corporation's Annual Report for the year ended December 31, 2008.

In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments, which consist only of normal and recurring adjustments, necessary to present fairly the financial position at September 30, 2009 and the results of operations and cash flows for the three month and nine month periods ended September 30, 2009 and 2008.

2. CHANGE IN ACCOUNTING POLICIES

On January 1, 2009, the Corporation adopted CICA Handbook 3064, "Goodwill and Intangible Assets". This new section replaces the existing standards for "Goodwill and Other Intangible Assets" (CICA Handbook Section 3062) and "Research and Development Costs" (CICA Handbook Section 3450). The new standard (i) states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria; (ii) provides guidance on the recognition of internally generated intangible assets including research and development costs; and (iii) carries forward the current requirements of Section 3062 for subsequent measurement and disclosure of intangible assets and goodwill. The adoption of this new section did not have a material impact on the Corporation's consolidated financial statements.

On January 20, 2009, the Emerging Issues Committee ["EIC"] of the AcSB issued EIC Abstract 173, which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. The Corporation adopted this EIC on January 20, 2009 and applied the EIC retrospectively, without restatement of prior years to all financial assets and financial liabilities measured at fair value. The adoption of this new EIC did not have a material impact on its consolidated financial statements.

3. VERDICT ACQUISITION

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

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



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

	\$
Net Assets Acquired	
Current assets	2,600
Long-term assets	6,222
Liabilities	(3,245)
Future income tax liabilities	(1,309)
Cash Consideration Paid	4,268

4. INVENTORIES AND OTHER ASSETS

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 certain amounts capitalized in inventory or other assets 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.

5. BANK INDEBTEDNESS

On April 30, 2009, the Corporation amended and restated its credit agreement with its existing lenders. The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian limit of \$90,000 plus a US limit of US\$85,000 (\$181,010 at September 30, 2009). Under the terms of the credit agreement, the operating credit facility expires on May 22, 2010 and is extendable for unlimited one-year periods subject to mutual consent of the syndicate of lenders and the Corporation. Bank indebtedness as at September 30, 2009 of \$156,625 [December 31, 2008 - \$177,766] is payable on demand and bears interest at the bankers' acceptance or LIBOR rates, plus 3.25% (3.51% at September 30, 2009 [2008 - bankers' acceptance or LIBOR rates, plus 1.0% or 4.05%]). Included in the amount outstanding at September 30, 2009 is US\$67,190 [December 31, 2008 - US\$75,480]. At September 30, 2009, the Corporation had drawn \$156,625 under the operating credit and had issued letters of credit totalling \$2,194. A fixed and floating charge debenture on accounts receivable, inventories and capital assets is pledged as collateral for the operating credit facility. The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the operating credit facility until May 22, 2010 in consideration of payment by the Corporation of an annual fee payable monthly equal to 1.35% of the loan facility amount.

6. CAPITAL STOCK

The following table summarizes information on share capital and related matters as at September 30, 2009:

	Outstanding	Exercisable
Common shares	18,209,001	
Common shares stock options	743,910	450,230
Preferred shares	2,000,000	

On May 13, 2008, the Corporation's Board of Directors approved a consolidation of its outstanding common shares and stock options at a ratio of 1 consolidated share for 5 pre-consolidated shares in accordance with the authority given to the Board by the Corporation's shareholders at the annual and special meeting of shareholders held on May 13, 2008. The common shares of the Corporation began trading on the TSX on a consolidated basis on May 21, 2008. All references to share and per share data for all periods presented in the consolidated financial statements have been adjusted to give effect to the 1 for 5 common share consolidation.

The weighted average number of common shares outstanding during the three and nine month periods ended September 30, 2009 was 18,209,001 and 18,207,509 respectively [three and nine month periods ended September 30, 2008 - 18,185,614 and 18,181,819 respectively]. The dilutive weighted average number of common shares outstanding, resulting



from the potential common shares of 40,000,000 issuable on the conversion of the convertible debentures, for the three and nine month periods ending September 30, 2009 were 58,209,001 and 42,207,509 respectively.

7. STOCK-BASED COMPENSATION PLAN

The Corporation has an incentive stock option plan, which provides for the granting of options for the benefit of employees and directors. The maximum number of options for common shares that remain to be granted under this plan is 929,431. Options are granted at an exercise price equal to the market price of the Corporation's Common Shares at the time of granting. Options normally have a life of five years with vesting at 20.0% at the end of the first, second, third, fourth and fifth years from the date of the grant. In addition, certain business unit income tests must be met in order for the option holder's entitlement to fully vest.

The Corporation accounts for stock options using the fair value method. Compensation expense recorded during the three and nine month periods ended September 30, 2009 was \$170 and \$575 respectively [three and nine month periods ended September 30, 2008 was \$295 and \$908 respectively].

8. ACCUMULATED OTHER COMPREHENSIVE LOSS

Other comprehensive loss includes unrealized foreign currency translation gains and losses, which arise on the translation to Canadian Dollars of assets and liabilities of the Corporation's self-sustaining foreign operations. The Corporation recorded unrealized currency translation losses for the three and nine-month periods ended September 30, 2009 of \$15,183 and 17,987 [three and nine month periods ended September 30, 2008 – gains of \$1,332 and \$5,632 respectively]. These gains and losses are reflected in the consolidated balance sheet and had no impact on the net earnings for the period.

9. REFINANCING

The Corporation completed the following previously announced financing arrangements on April 30, 2009:

- (a) the purchase by the Chairman of the Corporation, directly or indirectly, of \$40,000 principal amount of 10% Convertible Secured Subordinated Debentures (the "New Convertible Debentures") due on April 30, 2012. Interest is due semi-annually in arrears on April 30 and October 31 in each year, the first such payment to fall due on October 31, 2009. The New Convertible Debentures are convertible, at the option of the holder at any time prior to April 30, 2012, in whole or in multiples of \$1,000, into fully paid and non-assessable Common Shares of the Corporation at the conversion price of \$1.00 per Common Share which is equal to the issuance on conversion of approximately 40,000,000 Common Shares in total. The New Convertible Debentures are secured obligations of the Corporation and are subordinated in right of payment to all of the Corporation's senior indebtedness. At September 30, 2009, \$38,015 of the New Convertible Debentures, net of transaction costs, has been attributed to the debt component and \$1,920 has been attributed to the equity component of the instrument. The difference between the carrying value and the face value of the New Convertible Debentures will be accredited using the effective interest rate method through periodic charges to income included in interest expense over the life of the New Convertible Debentures; and
- (b) the extension and restatement of a previous secured subordinated loan from Edco Capital Corporation ("Edco"), which is wholly owned by the Corporation's Chairman, to the Corporation to increase the principal amount from \$50,000 to \$65,000 and to extend the loan the maturity date of the loan to July 1, 2010 in consideration for the payment of a one time fee to Edco equal to 1% of the principal amount of \$50,000 outstanding and an increase in the interest rate on the loan from 10% to 12% per annum payable monthly in arrears.

(together the "2009 Financing Arrangements")

As a result of a requirement under a change of control provision in the previously issued 8.5% convertible unsecured debentures due January 31, 2010 (the "2008 Debentures"), the Corporation was required to make an offer to purchase the \$20,950 of 2008 Debentures at a price of 102.5% of the principal amount plus accrued and unpaid interest utilizing the proceeds of the 2009 Financing Arrangements. During the second quarter of 2009, the 2008 Debentures were fully repurchased.

Pursuant to a similar change of control definition in the Corporation's outstanding Preference Shares' terms, the Corporation is required to retract its outstanding Preference Shares at a price of \$10.00 per share plus accrued and unpaid dividends, unless such retraction contravenes any instrument of indebtedness of the Corporation or the terms of the Ontario Business Corporations Act (the "OBCA"). The Corporation is currently not in the position to retract the Preference Shares as it is prohibited from doing so by the terms of its operating credit facility and any default in the operating credit facility would



result in the Corporation being unable to pay its liabilities as they become due and constitute a contravention of the OBCA. Accordingly, the Preference Shares continue to be classified as equity instruments. In addition, dividends for the period ended April 30, 2009 and July 31, 2009 totalling \$800 have not been declared and remain cumulative as at September 30, 2009. Subsequent to September 30, 2009, dividends for the period ended October 30, 2009 totalling \$400 have also not been declared and remain cumulative.

10. FINANCIAL INSTRUMENTS

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

[a] Categories of financial assets and liabilities

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

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

	As at September 30, 2009	As at December 31, 2008
Held for trading ¹	\$ 5,675	\$ 5,418
Loans and receivables ²	94,719	68,652
Financial liabilities ³	363,682	385,697
Derivatives not accounted for as hedges ⁴	–	1,853
Derivatives not accounted for as hedges ⁵	2,888	–

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

² Includes accounts receivables

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

⁴ Included in accounts payable and accrued charges

⁵ Included in prepaid expenses and other

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

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

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

Long-term debt

The fair value of the Corporation's long-term debt, calculated by discounting the expected future cash flows based on current rates for debt with similar terms and maturities, is \$75,201 at September 30, 2009.

Convertible debentures

The fair market value of the Corporation's Convertible Debentures, calculated by discounting the expected future cash flows at prevailing interest rates, is estimated at \$34,216.

As at September 30, 2009, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was \$76,747.

[b] Forward foreign exchange contracts

The Corporation has entered into forward foreign exchange contracts to mitigate future cash flow exposures in US Dollars and British Pounds. Under these contracts the Corporation is obliged to purchase or sell specific amounts of US Dollars and



British Pounds at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in US Dollars and British Pounds.

During 2009, the Corporation entered into a foreign exchange collar that set a floor of \$1.2350 Canadian per \$1.00 US and a ceiling of \$1.3333 Canadian per \$1.00 US of which \$17,500 will expire within a year.

The Corporation has foreign exchange contracts outstanding at September 30, 2009 as follows:

	Amount	Exchange rate
Maturity – less than 1 year – US Dollar	\$ 17,500	1.2350 – 1.3333

The mark-to-market on these financial instruments as at September 30, 2009 was an unrealized gain of \$2,888, which a portion has been recorded in net earnings for the period.

[c] Risks arising from financial instruments and risk management

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

Credit risk

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

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

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

The following table sets forth details of the age of the trade accounts receivable as at September 30, 2009:

	\$
Total trade accounts receivable	81,325
Less: Allowance for doubtful accounts	(1,353)
Total trade accounts receivable, net	79,972
Of which:	
Not overdue	73,307
Past due for more than one day but not more than three months	7,482
Past due for more than three months but not more than six months	113
Past due for more than six months but not more than one year	216
Past due for more than one year	207
Less: Allowance for doubtful accounts	(1,353)
Total trade accounts receivable, net	79,972

Liquidity risk

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



are the operating credit facility and the indebtedness provided by a company controlled by a common director, which require the continued support by the Chairman of the Board of the Corporation.

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

	Due less than 1 year	Due between 1 and 3 years	Due between 4 and 5 years	Due after 5 years	Total
Bank indebtedness	\$ 156,625	\$ –	\$ –	\$ –	\$ 156,625
Long-term debt	65,849	4,376	1,954	2,132	74,311
Capital lease obligations	1,089	1,628	–	–	2,717
Operating leases	1,676	2,611	1,013	338	5,638
Other long-term liabilities	–	5,204	100	1,974	7,278
Convertible debentures	4,000	48,000	–	–	52,000
Total	229,239	61,819	3,067	4,444	298,569

Currency risk

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

The most significant transaction exposures arise in the Canadian operations where significant portions of the revenues are transacted in US Dollars. As a result, the Corporation may experience transaction exposures because of the volatility in the exchange rate between the Canadian and US Dollar. Based on the Corporation's current US denominated net inflows, as of September 30, 2009, fluctuations of +/- 1% would, everything else being equal, have an effect on net earnings and on other comprehensive income for the three months ended September 30, 2009 of approximately +/- \$95 and \$1,158 respectively.

Interest rate risk

The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. At September 30, 2009, \$164,762 of the Corporation's total debt portfolio is subject to movements in floating interest rates. In addition, a portion of the Corporation's accounts receivable securitization programs are exposed to interest rate fluctuations. The objective of the Corporation's interest rate management activities is to minimize the volatility of the Corporation's earnings. The Corporation monitors its exposure to interest rates and has not entered into any derivative contracts to manage this risk. A fluctuation in interest rates of 100 basis points (1 percent) would have impacted the amount of interest charged to net earnings during the three months ended September 30, 2009 by approximately +/- \$388.

11. MANAGEMENT OF CAPITAL

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

As at September 30, 2009, total managed capital was \$543,739, comprised of shareholders' equity of \$272,352 and interest-bearing debt of \$271,387. Included in interest bearing debt is the debt component of the convertible debentures of \$38,015, where a component of the associated interest expense is a non-cash charge.

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



period.

The Corporation must adhere to covenants in its operating credit facility. As at September 30, 2009, the Corporation was in compliance with these covenants.

12. EMPLOYEE FUTURE BENEFITS

The total benefit cost in the registered plans for the three-month and nine-month periods ended September 30 includes the following components:

	Three-months ended September 30		Nine-months ended September 30	
	2009	2008	2009	2008
<i>(Expressed in thousands)</i>				
Current service cost	\$ 424	\$ 506	\$ 1,270	\$ 1,514
Interest cost on projected benefit obligations	1,643	1,572	4,944	4,710
Expected returns on plan assets	(1,565)	(1,848)	(4,703)	(5,536)
Amortization of net actuarial loss	219	120	657	358
Amortization of past service costs	170	169	518	509
Net benefit cost recognized	\$ 891	\$ 519	\$ 2,686	\$ 1,555

13. RELATED PARTY TRANSACTIONS

During the three and nine month periods ended September 30, 2009, the Corporation sold receivables to a corporation wholly owned by a common director in the amount of \$nil and \$65,448 respectively [2008 - \$113,528 and \$320,597], for a discount of \$nil and \$860 respectively [2008 - \$1,385 and \$2,894] representing an annualized interest rate of 7.5% [2008 - 7.5%]. Included in this balance, as at September 30, 2009, is a reserve of \$nil [2008 - \$4,135].

During the three and nine month periods ended September 30, 2009, the Corporation paid guarantee fees in the amount of \$619 and \$1,966 respectively [2008 - \$634 and \$1,355] to the Chairman of the Corporation and incurred interest of \$nil and \$1,683 respectively [2008 - \$1,262 and \$3,352] in relation to the \$50,000 loan to Edco, a corporation which is controlled by the Chairman of the Corporation, which was refinanced on April 30, 2009. During the three and nine month periods ended September 30, 2009 the Corporation incurred interest of \$1,985 and \$3,288 respectively in relation to the \$65,000 loan due on July 1, 2010 to Edco. At September 30, 2009, the Corporation owed Edco \$1,002. [Note 9 – Refinancing]

The Chairman of the Corporation, who is also a director, and another director of the Corporation, held \$18,150 of the \$20,950 2008 Debentures that were refinanced on April 30, 2009. Interest paid during the three and nine month periods ended September 30, 2009 on the 2008 Debentures was \$nil and \$961 respectively [2008 - \$385 and \$638]. On April 30, 2009 the Chairman of the Corporation subscribed to \$40,000 of the New Convertible Debentures. Interest accrued during the three and nine month periods ended September 30, 2009 on the New Convertible Debentures was \$1,008 and 1,677 respectively.

14. SEGMENTED INFORMATION

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

Capital assets are based on the country in which they are located. Domestic and foreign capital assets consist of:

	As at September 30, 2009				As at December 31, 2008			
	Canada	US	UK	Total	Canada	US	UK	Total
Capital assets	\$ 117,170	\$ 113,937	\$ 25,520	\$ 256,627	\$ 118,917	\$ 135,691	\$ 22,599	\$ 277,207



Revenue is attributable to countries based on the location of the customers. Domestic and foreign revenues consist of:

	Three-months ended September 30							
	2009				2008			
	Canada	US	UK	Total	Canada	US	UK	Total
Revenues								
Domestic	\$ 24,545	\$ 42,178	\$ 33,463	\$ 100,186	\$ 27,737	\$ 47,790	\$ 30,423	\$ 105,950
Export	53,808	6,676	3,495	63,979	43,854	19,429	3,855	67,138
Total revenues	\$ 78,353	\$ 48,854	\$ 36,958	\$ 164,165	\$ 71,591	\$ 67,219	\$ 34,278	\$ 173,088

	Nine-months ended September 30							
	2009				2008			
	Canada	US	UK	Total	Canada	US	UK	Total
Revenues								
Domestic	\$ 89,000	\$ 133,254	\$ 101,799	\$ 324,053	\$ 85,082	\$ 140,142	\$ 92,898	\$ 318,122
Export	158,934	24,340	13,449	196,723	138,490	40,423	9,256	188,169
Total revenues	\$ 247,934	\$ 157,594	\$ 115,248	\$ 520,776	\$ 223,572	\$ 180,565	\$ 102,154	\$ 506,291

The major customers for the Corporation for the three and nine month periods ended September 30 are as follows:

	Three-months ended September 30		Nine-months ended September 30	
	2009	2008	2009	2008
	Major Customers			
Canadian operations				
- Number of customers	2	3	2	3
- Percentage of total Canadian revenue	24 %	39 %	25 %	36 %
US operations				
- Number of customers	1	2	2	2
- Percentage of total US revenue	32 %	60 %	45 %	52 %
UK operations				
- Number of customers	2	1	2	1
- Percentage of total UK revenue	78 %	72 %	80 %	76 %

15. SUPPLEMENTARY INFORMATION

Included in other expenses is a foreign exchange gain on the conversion of foreign currency denominated working capital balances and debt for the three and nine month periods ended September 30, 2009 was \$1,171 and \$6,673 respectively [three and nine month periods ended September 30, 2008, gains of \$2,190 and \$3,246 respectively].

16. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2009 consolidated financial statements.

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