MAGELLAN AEROSPACE CORPORATION

ANNUAL REPORT 2007

IN 2007, THE AEROSPACE INDUSTRY CONTINUED TO GROW, ESTABLISHING RECORD ORDERS FOR CIVIL AIRCRAFT, INCREASED GROWTH IN DEMAND FOR BUSINESS JETS AND CIVIL HELICOPTERS, AND A STRONG, STEADY SUPPLY TO THE GLOBAL DEFENCE MARKET IN AEROSPACE.

LETTER TO SHAREHOLDERS

Magellan Aerospace Corporation continued to make progress through 2007 to sharpen focus on its core capabilities, enhance its efficiency, and deliver increased value to its customers. Revenue and gross profit improved in spite of currency exchange headwinds, reflecting the increased operating efficiencies and improved pricing in late 2007.

INDUSTRY STATUS

In 2007, the aerospace industry continued to grow, establishing record orders for civil aircraft, increased growth in demand for business jets and civil helicopters, and a strong, steady supply to the global defence market in aerospace. The industry continued its globalization, with growing participation in Brazil and Mexico, Eastern Europe and Russia, China, India and much of South East Asia.

MAGELLAN AEROSPACE

Over the past few years, Magellan has increasingly focused its attention on refining its core capabilities, not only for current activities, but also looking forward to new products, markets, and a different environment that will emerge over the next five to ten years. New technologies in materials, capital equipment and manufacturing processes have been accessed. Actions are being implemented to ensure that Magellan's core capabilities in each of its operating sites meet these emerging requirements. Close cooperation with key customers is helping to align Magellan's capabilities, both current and future, to meet the requirements going forward.

In 2007, Magellan completed the restructuring of three sites, and accomplished the first phase on a fourth site. The restructuring pursued four goals: focus on core capabilities; upgrade of those capabilities; off-load of non-core activity; and increase in value to the customers for each capability. The strategy being followed is referred to within Magellan as "40-30-30", representing a model wherein 40% of Magellan's production will take place within its own facilities, 30% will be with local market supplier facilities, and 30% will be with emerging market supplier facilities.

The focus on core activity and the phase-out of non-core manufacturing to the supply base produced benefits in late 2007 that will continue throughout 2008 and beyond. Investment in new capital equipment, inventory and training is primarily focused on the core activity, reducing Magellan's overall expenditures in these areas. Outsourced work is being replaced by additional core work to improve efficiency

IN ALIGNMENT WITH ITS CORE CAPABILITIES, MAGELLAN CAPTURED SIGNIFICANT WORK PACKAGES ON THREE MAJOR PROGRAMS, AND ADDITIONAL OPPORTUNITIES ARE BEING PURSUED IN 2008.

and increase value. Optimized capital and training will create additional capacity, increasing return on capital. These outcomes were visible in several areas in 2007, and will become more significant in each of the next few years.

Magellan's outsourcing activity to emerging market supplier facilities advanced in 2007, particularly in India. To enable the production of finished parts in India, Magellan teamed with a local partner to establish an Indian entity through which a processing facility is being built, and support to supply chain expansion is being managed. The facility will be operational later in 2008.

In alignment with its core capabilities, Magellan, in addition to key work already under contract, added significant work packages on three major programs, and is pursuing additional opportunities in 2008. Three programs are of most significance to Magellan: the large Airbus A380; the twin-aisle Boeing B787; and the US-led Joint Strike Fighter F35 military aircraft. Participation is also being sought on the twin-aisle Airbus A350, with initial engineering efforts expected to commence in 2008.

During 2007, work on A380 landing gear, wing structures and engine exhaust systems restarted following some integration issues at Airbus, and initial customer deliveries were made in December 2007. Delivery by Magellan of B787 landing gear assemblies and machined wing structures commenced during 2007. Boeing has announced delays in initial deliveries which could cause delays in the overall supply base. The first production Joint Strike Fighter F35B Short Take Off and Vertical Landing (STOVL) variant was rolled out in 2007, and will join the earlier F35A Conventional Take Off and Landing (CTOL) variant in flight tests in 2008. This major international defence program is expected to deliver in excess of 3,000 aircraft over the next 20-30 years. Magellan has secured major participation on this program in the manufacture of aircraft machined structures, composite structures, and various engine and auxiliary sub-assemblies.

Bidding activity on the Airbus A350 aircraft occurred in 2007, and Magellan submitted a number of proposals for participation utilizing its established core capabilities in the manufacture of wing structural components, including both spars and ribs for aircraft wings. These opportunities, and others expected to arise in 2008, could provide new, long-term engineering and production workload for Magellan.

During 2007, Magellan increased production on a number of products for both the Airbus A320 and the Boeing B737 aircraft families to meet strong airline customer demand. Magellan also continued to deliver military aircraft engine and landing gear components and assemblies and provided aftermarket repair and overhaul services to various customers in North America and Europe. These mature programs in the civil and defence sectors are forecast to continue for five to ten more years, bridging the time period to achieve full production rates on the new programs outlined above.

MAGELLAN'S MATURE PROGRAMS IN THE CIVIL AND DEFENCE SECTORS ARE FORECAST TO CONTINUE FOR FIVE TO TEN MORE YEARS, BRIDGING THE TIME PERIOD TO ACHIEVE FULL PRODUCTION RATES ON THE NEW PROGRAMS.

In addition to the manufacture of aircraft structural parts and landing gear components, the year saw further success in Magellan's aero engine business with additional orders for components of the F414, production engine on the F18E/F, as well as new applications for the HTF7000 engine manufactured by Honeywell. Magellan is a revenue share partner on both programs while continuing to enjoy success with more traditional supply contracts to these and other engine programs. During the year, Magellan supplied increased volumes on a number of defense products while at the same time continued existing roles in engine repair and overhaul. All of this, along with the newer programs entering into production, give management confidence as it looks forward to the periods ahead and provide further incentive to achieve success in cost reduction initiatives and the pursuit of new manufacturing technologies.

FINANCIAL

The weakening of the US dollar relative to the Canadian Dollar and British Pound Sterling throughout 2007 has had a significant negative impact on Magellan's reported results. Costs incurred in Canadian Dollars or British Pound Sterling are often found in products that are sold in US Dollars, thus driving reduced revenues and gross margins when these revenues are converted into Canadian Dollars for financial reporting. Foreign exchange issues have masked the higher volumes of production, and the increased efficiencies and underlying productivity improvements achieved in 2007. The extreme volatility of the aforementioned foreign exchange markets and the risk factors identified in Management Discussion and Analysis herein are major challenges Magellan faces in 2008 and beyond as it attempts to return to profitability.

The Board of Directors of Magellan has resolved to propose a consolidation of Magellan's issued and outstanding Common Shares on the basis of one new Common Share for each ten Common Shares presently issued and outstanding.

During this period when financial markets were extremely volatile, we appreciate the continued support shown by our shareholders and financial partners. We thank our dedicated employees for the steady progress that continues to be made at the manufacturing plants as productivity improves, building a stronger company.

Richard A. Neill
Vice Chairman
March 28, 2008

James S. Butyniec
President and Chief Executive Officer

The Management Discussion and Analysis ("MD&A") of financial condition and results of operations should be read in conjunction with the 2007 consolidated financial statements and notes. Magellan Aerospace Corporation ("Magellan" or the "Corporation") reports its audited consolidated financial statements in accordance with Canadian generally accepted accounting principles.

The MD&A contains forward looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance. All statements other than statements of historical facts may be forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "expects," "projects," "plans," "anticipates," and similar expressions. The projections, estimates and beliefs contained in such forward-looking statements are based on management's assumptions relating to the production performance of Magellan's assets and competition throughout the aerospace industry in 2007 and continuation of the current regulatory and tax regimes in the jurisdiction in which the Corporation operates, and necessarily involve known and unknown risks and uncertainties, including the business risks discussed in this MD&A, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. The Corporation does not undertake to update any forward-looking information in this document whether as to new information, future events or otherwise.

The date of this MD&A is March 28, 2008.

COMPANY OVERVIEW

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

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

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

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

The Corporation supplies aerostructures products to an international customer base in the civil and defence markets. Components are produced to aerospace tolerances using conventional and high-speed automated machining centers. Capabilities include precision casting of airframe-mounted components. Management believes that Magellan's dedication to technological innovation combined with low cost sourcing from emerging markets will position Magellan attractively to capture targeted complex assembly programs.

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

The Corporation serves both the commercial and defence markets. In 2007, 65.8% of sales were derived from the commercial markets (2006 – 64%, 2005 – 68%) while 34.2% of sales related to defence markets (2006 – 36%, 2005 – 32%).

OUTLOOK

In 2008, the civil aerospace market continues to show strong demand for new and replacement aircraft and engines in the airliner, business jet and helicopter market sectors. This strength is seen globally through both orders and deliveries. Constraining factors include the high price of fuel, and fears that increased fares may temper the growth in passenger traffic. The civil airline industry is experiencing some consolidation in the mainline airlines, and some restructuring in the low-cost sector. These measures aim to strengthen the profitability of the carriers, enabling continued fleet replacement with new, fuel efficient aircraft. Business jets and helicopters continue to show strong sales in all sectors in ever widening global markets. Finally, defence aerospace markets remain solid, with several new programs moving forward towards production ramp-up. The Joint Strike Fighter F35 aircraft, a number of new military transport aircraft, and a broad range of helicopters are amongst those programs with the most potential impact.

Magellan advanced its position on targeted new programs during 2007, and hopes to see positive results in 2008 through increased production and delivery. Magellan also concluded a number of initiatives in 2007 to modernize four of its operating facilities, to further develop a robust supply chain in both domestic and emerging markets, and to renew commercial arrangements with customers that reflect current and expected financial conditions. The successful retooling, supply base strengthening and commercial updates put Magellan in a more competitive position in 2008.

Magellan entered 2008 with current participation in both high-volume single-aisle programs (Airbus A320 family and Boeing 737 family), the leading military aircraft programs in the U.S.A. and Europe (F15, F18E/F, AH64D and the Eurofighter/Typhoon), a broad range of engine participation on airliners, business jets, helicopters and military aircraft. Participation in the key new programs (A380, B787, F35, A350) is at various stages from in-production to initial design and development. Magellan has been able to maintain its targeted 60:40 revenue split between civil and defence work, strong participation with both Airbus and Boeing, engine participation with four of five targeted engine primes, and full access to the global helicopter market.

Magellan continues to face the investment challenges associated with the launch of multiple new generation programs, competitive pressures of the global distribution of aerospace manufacturing activities, and in the short term, the headwinds of unfavourable foreign exchange rates. These challenges are being offset to some degree by natural hedging through U.S. dollar purchasing, the advancement to production of the A380 and B787 aircraft, and the increased velocity of the F35 program. Magellan has addressed start-up investments for the new programs over the past three years, and has put a plan in place to meet the production ramp-up costs to be faced over the next 2-5 years. Magellan is also well advanced on achieving the cost advantages of the global emerging markets.

RISK FACTORS

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

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

Fluctuations in the value of foreign currencies could result in currency exchange losses.
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 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'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 May 27, 2005, as amended from time to time (the "Bank Facility Agreement"). Under the terms of the Bank Facility Agreement, the Corporation has an operating credit facility, expiring on May 25, 2007, and extendable for unlimited one-year periods by agreement of the Corporation and the lenders. On March 30, 2007 the Bank Facility Agreement was extended to May 24, 2008. The Corporation's Bank Facility Agreement also requires the Corporation to maintain specified financial ratios. The Corporation's ability to meet these 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 these 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 25, 2008. There is no assurance that the Corporation 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."

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.

SELECTED ANNUAL FINANCIAL INFORMATION

Expressed in millions of dollars except per share information

	2007	2006 (restated)	2005
Revenues	**597.8**	575.2	568.5
Net loss for the year	**(11.3)**	(8.1)	(6.1)
Loss per common share			
Basic and diluted	**(0.14)**	(0.11)	(0.08)
Total assets	**649.4**	682.0	665.1
Total long term financial liabilities	**108.0**	106.9	118.4

The Corporation has not paid dividends on its Common Shares in the past four years. In 2005, the Corporation issued 2,000,000 8.0% Cumulative Redeemable First Preference Shares Series A ("Preference Shares"). The Corporation paid dividends thereon of $0.80 per share in 2007 and 2006.

In 2004, the Corporation entered into a five-year accounts receivable securitization program with a securitization trust (the "Trust"). On February 23, 2007, the Trust suspended its securitization program with the Corporation. The Corporation did not incur any costs to extinguish the program and is actively pursuing other opportunities for accounts receivable securitization.

On February 5, 2007 Magellan announced the formation of a 50:50 joint ownership company with QuEst Machining & Manufacturing to launch the first independent processing facility in India to cater to the needs of the aerospace manufacturing industry. This facility, presently planned at 15,000 square feet, will initially focus on processes for aluminum, titanium, and stainless steel components for aero-structure and aero-engine components. Management expects this new facility to open in 2008.

On March 30, 2007, the Corporation renewed the Bank Facility Agreement with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was increased by $20.0 million to $175.0 million with a maturity date of May 24, 2008. The facility is extendable for unlimited one-year renewal periods on the agreement of the lenders and the Corporation and continues to be fully guaranteed by the Chairman of the Board of the Corporation.

In addition, on March 30, 2007, the Corporation borrowed $15.0 million by way of a secured promissory note from a corporation wholly-owned by a common director. This note is due July 1, 2008 and bears interest at a rate of 9% per annum. The note is collateralized and subordinated to the bank credit facility. The Corporation repaid the full amount of the note on January 31, 2008.

The Corporation had a record year for orders for its proprietary products; the level of orders in 2007 surpassed $50.0 million for the year. Orders in 2007 have included a number of modern rocket motor products that have been developed by Magellan for use as drone booster motors, air-to-ground rockets, test firing support, various aerial targets, and meteorological data gathering. Magellan's MAC-200 small satellite bus (platform) was designed by Magellan to fill the Canadian Space Agency's requirement for a general bus to support a variety of missions and a wide range of payloads to meet the needs of the scientific community, industry, and the Government of Canada. Magellan is currently working on the CASSIOPE bus, the first application of the MAC-200, which is scheduled for launch in 2008.

A significant amount of the Corporation's revenues are denominated in US dollars. The value of the Corporation's revenues denominated in US dollars translated into Canadian dollars has been negatively impacted, on a cumulative basis over the last two years, by $50.6 million as the US dollar declined in value. This decline in the US dollar's value relative to the Canadian dollar has partially offset the underlying growth of the Corporation's business. After adjusting for the exchange impact noted above, the Corporation's revenues have increased by approximately 14% over 2005 levels.

2007 UPDATES

- Manufacturing License Agreement with Lockheed Martin to manufacture composite structural items for the F-35 aircraft Low Rate Initial Production and Full Scale Production phases of the U.S. led international Joint Strike Fighter program. Production participation by the Corporation commenced in 2007, and could extend to 2035.
- Letter of Intent agreed with BAE Systems to manufacture metallic and composite structural assemblies for the F-35 aircraft Low Rate Initial Production and Full Scale Production phases of the U.S. led international Joint Strike Fighter program. Production participation by the Corporation is expected to commence in 2008-2009, and could extend to 2035.
- Production re-commenced in 2007 on the Corporation's existing long-term contracts with Airbus and Tier 1 suppliers for major structural components of the wing, main and wing landing gear structures, and engine exhaust systems for the Airbus A380 Very Large Aircraft. Revenues to the Corporation currently exceed $1 million per aircraft.
- Deliveries commenced in 2007 on the Corporation's long-term contract with Messier-Dowty to supply main and nose landing gear subassemblies for the Boeing B787 Dreamliner civil airliner.
- Deliveries of various proprietary products in the space, defence and rotary wing sectors were made in 2007, or will be made during 2008, following record orders in 2007 in excess of $50 million for these engineered products.
- Numerous contracts were updated in 2007 to reflect increased production rates, higher material costs, the effects of foreign exchange variations and efficiencies achieved by the Corporation.

MAJOR PLANT RATIONALIZATIONS

Four plant rationalizations and modernizations projects were completed or met major milestones in 2007. The Corporation's operation in the UK completed a major re-allocation of work within its facilities, and to its supply base, to improve efficiencies and provide capacity for increased workloads. The Corporation's casting operations also completed upgrades to equipment and facilities and re-allocation of product families between sites, resulting in major efficiency gains to increase throughput by over 30%. The Corporation's aeroengine machining operations in Massachusetts restarted operations in new facilities that offer needed room to expand production to accommodate increasing demand. Finally, the Corporation's operations in New York completed Phase I of its upgrade program, upgrading and augmenting its production equipment, and consolidating operations to achieve greater flow and efficiency. This project is expected to complete its final phase of the upgrade in 2008-2010.

The Corporation is experiencing significantly increased demand across all product lines due to major new opportunities reaching production over the next several years. Planning is complete or in final stages, and facility re-alignment progressed in 2007 and will continue. A new sourcing strategy is also being developed to accommodate major production rate increases without expanding physical facilities. Core production will continue within the Corporation's facilities, while greater use of outside supply will be made for supporting production and processing.

LABOUR MATTERS

A labour agreement at one of the Corporation's facilities expired on December 31, 2007, and management is currently in negotiations. Labour agreements at five of its facilities will expire during 2008. Management is currently in negotiations with respect to a labour agreement that is set to expire on March 31, 2008.

FINANCING MATTERS

On January 30, 2008, the Corporation closed a private placement of an aggregate of $20.9 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.

The New Debentures are redeemable by Magellan for the first six months of the term at 102.5% of principal value and the holders have no conversion rights. After the first six months of the term, the New Debentures are convertible, at the option of the holder, at any time prior to maturity into common shares of Magellan at a conversion price of $2.00 per share, which is equal to a conversion rate of 500 common shares per one thousand dollars of principal amount of debentures or the issuance on conversion of approximately 10.5 million common shares in total.

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 of the Corporation, 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 of additional funds from the Original Loan was provided to the Corporation to retire $15.0 million of subordinated debt due to a corporation 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, 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 is repayable on July 31, 2008. In addition, on January 24, 2008, in consideration for the provision of additional security for the Corporation's obligations under its existing secured bank credit facility, the Corporation has increased the standby guarantee payable to the Chairman of the Board of the Corporation from 0.1% per annum to 1% per annum of the principal amount guaranteed.

RESULTS FROM OPERATIONS

REVENUES

TWELVE-MONTHS ENDED DECEMBER 31

Expressed in thousands of dollars

	2007	2006	Change
Canada	**289,904**	273,305	6.1%
United States	**188,330**	186,597	0.9%
United Kingdom	**119,574**	115,321	3.7%
Total Revenues	**597,808**	575,223	3.9%

Consolidated revenues for the year ended December 31, 2007 were $597.8 million, an increase of $22.6 million or 3.9% over the previous year. During 2007, the Corporation's sales volume increased by 7.3% over the previous year. This increase in sales volume, over all geographical regions, was mainly due to increase in production rates at original equipment manufacturers ("OEMs") for aircraft and engines and record sales of proprietary products in our Canadian operations. The strengthening of the Canadian dollar against the US dollar through 2007 in comparison to the average exchange rate in effect during the same period in 2006 has adversely reduced revenues by approximately $19.5 million.

GROSS PROFIT

TWELVE-MONTHS ENDED DECEMBER 31

Expressed in thousands of dollars

	2007	2006	Change
Gross profit	**58,914**	51,022	15.5%
Percentage of revenue	**9.9%**	8.9%	

Gross profit in 2007 was $58.9 million, an increase of $7.9 million from 2006. As a percentage of revenue, gross profit was 9.9% of sales in 2007 compared to 8.9% of sales in 2006. As mentioned above, the increasing value of the Canadian dollar as compared to the US dollar had a significant negative impact on gross margin. The net effect of the foreign exchange rates was a reduction in gross profit of approximately $5.3 million in 2007 over 2006 levels. While the strengthening of the Canadian dollar relative to the US dollar had decreased revenues, the full benefit of a stronger Canadian dollar had not yet flowed through the cost of sales for parts bought earlier in the year using US dollars.

During the last few years, the Corporation undertook a program to rationalize and modernize four of its facilities. During the latter part of 2007, the Corporation began to realize the anticipated operational efficiencies at several of these manufacturing facilities. These improvements in efficiencies have yet to be fully realized and as a result the Corporation continues to take steps to improve manufacturing techniques, and implement other cost reduction initiatives. It is also increasing its low-cost sourcing activities to improve the gross profit.

ADMINISTRATIVE AND GENERAL EXPENSES

TWELVE-MONTHS ENDED DECEMBER 31

Expressed in thousands of dollars

	2007	2006
Administrative and general expenses	**42,446**	41,766
(Gain) loss on sale of capital assets	**(1,257)**	238
Foreign exchange loss (gain)	**5,576**	(4,429)
Total administrative and general expenses	**46,765**	37,575
Percentage of revenues	**7.8%**	6.5%

Total administrative and general expenses for 2007 were $46.8 million, compared to $37.6 million in 2006. Included in administrative and general expenses is a foreign exchange loss, resulting from the change in foreign exchange rates on the Corporation's US denominated working capital balances and debt in Canada, of $5.6 million in 2007 versus a gain of $4.4 million in 2006. During the year, the Corporation disposed of capital assets and recorded gains on the sale of capital assets of $1.3 million ($0.2 million loss in 2006). Excluding these gains and losses, administrative and general expenses in 2007 were 7.1% of revenues, a decrease from the 2006 level of 7.3% of revenues.

In addition, administrative and general expenses also contain legal and accounting fees of approximately $3.5 million incurred by the Corporation in relation to a wrongful dismissal claim by a former employee and as a result a detailed investigation of concerns raised by a former employee regarding certain accounting issues. The concerns were thoroughly investigated by PricewaterhouseCoopers ("PWC") who, under the direction of the Corporation's audit committee, prepared a report for the audit committee on their findings.The Corporation's legal counsel has advised the Board of Directors that PWC met with the audit committee and the Corporation's external auditors, and based on the report prepared by PWC, PWC has advised the audit committee that they had not found anything that would undermine the integrity or accuracy of the Corporation's financial statements.

AMENDED AND RESTATED RESULTS

Accounting errors and misstatements in accounts receivable were uncovered at one of the Corporation's divisions during the course of an ongoing process to collect outstanding accounts receivable on a timely basis. This prompted an internal investigation that uncovered the overstatement of various assets on the balance sheet resulting from improper accounting and also discovered unsupported and unrecorded transactions. As a result of the accounting irregularities that occurred from 2003 to 2007, the Corporation suffered a pre-tax write-down of $5.7 million, net of anticipated insurance proceeds, as the overstated carrying values of the assets were written down to their appropriate values. Currently, the Corporation is engaged in a process to recover a portion of the loss through its $1.5 million all risk crime insurance policy. Although the amounts of the restatements relating to the individual years prior to 2007 were not likely material, the Corporation has restated those periods as the cumulative effect of the accounting irregularities was material in 2007. See note 3 of the consolidated financial statements.

FACILITY RATIONALIZATION

During 2006, the Corporation undertook major initiatives at four of its manufacturing facilities in order to streamline production and increase capacity. Significant activities took place during 2006 with respect to this program and management expects to continue to achieve operational efficiencies at these facilities in 2008 and beyond.

As part of this rationalization program, the Corporation sold portions of its surplus real estate and realized gains on the sales. To prepare this real estate for sale, machinery and equipment was disposed of for minimal proceeds. Accordingly, a non-cash charge was recorded in the financial statements in 2006.

Costs were also incurred to relocate machinery and equipment either to within the same facility or to new locations. As these are one-time amounts, and significantly large, they have been disclosed separately in the Consolidated Statements of Operations.

	2006
Amortization charge	$5,301
Equipment relocation costs	2,815
Less: gain on sale of surplus real estate	(5,661)
Facility rationalization costs	2,455

INTEREST EXPENSE

TWELVE-MONTHS ENDED DECEMBER 31

Expressed in thousands of dollars

	2007	2006
Interest on bank indebtedness and long-term debt	**12,068**	10,442
Convertible debenture interest	**5,950**	5,950
Accretion charge on convertible debt	**2,354**	2,289
Discount on sale of accounts receivable	**4,211**	3,693
Total interest expense	**24,583**	22,374

Interest costs for 2007 were $24.6 million, an increase of $2.2 million from 2006. Interest costs are higher in 2007 compared to 2006 as a result of higher interest rates and the deterioration in cash flow from operating activities, which resulted in increased bank debt during the year. During the year, the Corporation sold $399.6 million of accounts receivable at a discount of $4.2 million, which represented an annualized interest rate of 6.82%. This discount was included in interest expense. In 2006, $358.0 million of receivables were sold at a discount of $3.7 million, which represented an annualized interest rate of 6.28%.

PROVISION FOR (RECOVERY OF) INCOME TAXES

TWELVE-MONTHS ENDED DECEMBER 31

Expressed in thousands of dollars

	2007	2006 (restated)
Provision for current income taxes	**207**	264
Recovery of future income taxes	**(1,300)**	(3,507)
Total recovery of income taxes	**(1,093)**	(3,243)
Effective Tax Rate	**8.8%**	28.5%

The Corporation recorded a recovery of income taxes in 2007 of $1.1 million on a pre-tax loss of $12.4 million, representing an effective tax rate of 8.8%, compared to a recovery of $3.2 million on a pre-tax loss of $11.4 million in 2006 for an effective tax rate of 28.5%. During 2007, the Corporation recorded a valuation allowance of $2.7 million against its future tax assets in Canada as the recovery of the future tax assets were not "more likely than not." In addition, the valuation allowance of $1.6 million previously recorded with respect to the tax losses in the United Kingdom was no longer required; and as such, the benefit of these tax losses was recorded in the fourth quarter of 2007. Also included in the recovery of income taxes is an adjustment of $0.4 million, which reflects the reduction in Canadian income tax rates substantially enacted in 2006.

CASH FLOW FROM OPERATING ACTIVITIES

TWELVE-MONTHS ENDED DECEMBER 31

Expressed in thousands of dollars

	2007	2006 (restated)
Decrease in accounts receivable	**16,148**	7,088
Increase in inventories	**(16,112)**	(9,991)
Increase in prepaid expenses and other	**(5,064)**	(606)
Decrease in accounts payable and accrued charges	**(1,463)**	(10,257)
Net change in non-cash working capital items	**(6,491)**	(13,766)
Cash provided by operating activities	**3,050**	2,576

Operating activities for 2007 generated cash flows before changes in working capital of $9.5 million compared to $16.3 million in the prior year. In 2007, operating activities provided cash of $3.1 million, a $0.5 million increase compared to $2.6 million provided in 2006 due principally to lower profitability and increased pension funding offset by lower use of cash in working capital. Changes in non-cash working capital used cash of $6.5 million, a result of increases in inventories and prepaid expenses, decrease in accounts payable and accrued charges offset by a decrease in accounts receivable. Inventory increased during the year due to investments in various programs across substantially all of the Corporation's divisions. In 2006, changes in non-cash working capital used cash of

$13.8 million was principally a result of an increase in inventory, a decrease in accounts payable and accrued charges, offset by a decrease in accounts receivable. The Corporation continues to focus on maximizing inventory turn times and timely collection of receivables to minimize its investment in working capital.

CASH FLOW FROM INVESTING ACTIVITIES

TWELVE-MONTHS ENDED DECEMBER 31

Expressed in thousands of dollars

	2007	2006
Purchase of capital assets	**(22,968)**	(30,972)
Proceeds from disposals of capital assets	**2,240**	9,708
Increase in other assets	**1,279**	(4,063)
Cash used in investing activities	**(19,449)**	(25,327)

The Corporation invested $23.0 million in capital assets during the year, to upgrade its machinery and facilities, a decrease of $8 million from 2006. In 2007 and 2006, proceeds from the sale of capital assets, totalling $2.2 and $9.7 million, respectively, were used to fund a portion of the investment in capital assets. Capital additions were for advanced technology production equipment as well as information technology systems, both designed to increase productivity, reduce cycle time and improve technology capability.

SELECTED QUARTERLY FINANCIAL INFORMATION

	2007				2006 (restated)			
Expressed in millions of dollars except per share information	**March 31**	**June 30**	**Sept 30**	**Dec 31**	March 31	June 30	Sept 30	Dec 31
Revenues	**144.1**	**150.3**	**147.9**	**155.5**	137.0	150.0	143.5	144.7
Net (loss) income	**(1.7)**	**(1.7)**	**(2.9)**	**(5.0)**	(0.7)	(5.7)	0.2	(1.9)
(Loss) income per common share								
Basic and diluted	**(0.02)**	**(0.02)**	**(0.04)**	**(0.06)**	(0.01)	(0.07)	0.00	(0.03)

The US$/C$ exchange rate was very volatile during 2007, the US dollar deteriorated by 15% against the Canadian dollar; from US$/C$ exchange rate of 1.17 at the start of the year to 0.99 by year's end. The volatility in value moved an unprecedented 23% during the year; from a high of US$/C$ of 1.19 in February to a low of 0.91 in November. This extreme movement and volatility has severely impacted Canadian exporters to the US as well as Canadian reporting companies that have US assets and US operations. The decline in value of the US dollar verses the Canadian dollar significantly impacted revenues on a quarterly basis.

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.

The table below provides a reconciliation of EBITDA to net loss for the year:

TWELVE-MONTHS ENDED DECEMBER 31

Expressed in thousands of dollars

	2007	2006 (restated)
Net loss for the year	**(11,341)**	(8,139)
Interest	**24,583**	22,374
Taxes	**(1,093)**	(3,243)
Stock based compensation	**1,450**	945
Amortization charge	**-**	5,301
Depreciation and amortization	**22,799**	22,472
EBITDA	**36,398**	39,710

LIQUIDITY

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

Expressed in thousands of dollars

				Payments due by period	
Contractual Obligations Cdn $	**Total**	**Less than 1 year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Long-Term Debt	26,195	16,063	2,523	2,598	5,011
Capital Lease Obligations	3,743	1,036	1,498	1,209	-
Operating Leases	11,886	4,665	3,681	1,821	1,719
Other Long-Term Liabilities	6,552	425	1,020	3,630	1,477
Convertible Debentures	70,000	70,000	-	-	-
Total Contractual Obligations	**118,376**	**92,189**	**8,722**	**9,258**	**8,207**

Major cash flow requirements for 2008 include repayments of $70.0 million convertible debentures and a $15.0 million secured promissory note, and payments of operating leases of $4.7 million. Subsequent to year end, the Corporation repaid the convertible debentures of $70.0 million and the secured promissory note of $15.0 million through the receipt of funds from the New Debentures, the Original Loan, and the Bridge Loan. In addition, the Bridge Loan entered into on January 30, 2008 will be due and payable on July 31, 2008. These transactions are detailed in note 21 of the consolidated financial statements and not reflected in the table above.

The Corporation's ability to continue as a going concern is contingent upon its ability to obtain additional sources of funding to finance future operations. Efforts will be required to obtain these additional funds, but there is no assurance that additional financing will be available on acceptable terms, if at all. In the event that the Corporation is not able to successfully obtain additional financing as required, management will be required to re-evaluate the Corporation's business operations and to reduce expenditures. See "Risk Factors."

The Corporation has made contractual commitments to purchase $6.7 million of capital assets. The Corporation also has purchase commitments, largely for materials, in 2007, made through the normal course of operations, of $192.0 million. The Corporation plans to finance these capital commitments with operating cash flow and existing credit facility.

As at December 31, 2007, the Corporation was not in compliance with respect to the financial covenant ratio of current assets to current liabilities. Subsequent to year end, the Corporation amended the operating credit facility with respect to this covenant.

As described in Note 1, management of the Corporation is evaluating the new accounting standard Section 3031, Inventories, and believes the manner in which costs are allocated to inventory will be impacted but the extent of the impact will not be determined until the evaluation is complete. As a result of the application of the new standards, the Corporation may be unable to meet the minimum coverage levels prescribed in the financial covenants in the Bank Facility Agreement for the period ended March 31, 2008. If required, management will request a waiver of these covenants.

OFF BALANCE SHEET ARRANGEMENTS

The Corporation has entered into arrangements in which it sold certain accounts receivable at a discount. This discount typically represents approximately 1.0% to 2.0% over 60 day BA or LIBOR rates.At December 31, 2007, the amount of accounts receivables sold remained outstanding was $61.8 million. A reserve of $5.9 million is included within accounts receivable that represents the maximum credit recourse to the purchaser of the accounts receivable.

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

The Corporation has entered into foreign exchange contracts to hedge future cash flow exposure in US dollars and Norwegian Kroners. Under these contracts the Corporation is obliged to purchase specific amounts of US dollars and Norwegian Kroners at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in US dollars and Norwegian Kroners.

The Corporation had foreign exchange contracts outstanding at December 31 2007, as follows:

	Amount	Exchange rate
Maturity - less than 1 year - U.S. Dollar	$52.1 million	1.0075
Maturity - less than 1 year - Norwegian Kroner	26.1 million	0.1811

These foreign exchange contracts are recorded at their fair value of $0.8 million.

RELATED PARTY TRANSACTIONS

As at December 31, 2007, the Chairman of the Board of the Corporation held $15.0 million of the $70.0 million of convertible debentures issued in 2003. The related cash interest for the year was $1.3 million (2006 – $1.3 million). The convertible debentures were repaid on January 31, 2008.

On March 30, 2007, the Corporation entered into secured promissary note with a corporation, which is controlled by a common director, in the amount of $15.0 million, due July 1, 2008 bearing interest at a rate of 9.0%. In 2007, $1.0 million of interest was paid in relation to the loan. The note was repaid on January 31, 2008.

The Chairman of the Board of the Corporation has also guaranteed the amounts drawn under the bank operating credit facility and in 2007 was paid an annual fee of $0.2 million (2006 – $0.2 million), 0.1% of the guaranteed amount as compensation for this guarantee.

During the year, the Corporation entered into numerous financing agreements to sell accounts receivable totaling $228.1 million to a corporation with a common director, for a discount of $2.5 million.

The Corporation incurred consulting costs of $0.1 million payable to the Chairman of the Board of the Corporation. As well, the Corporation paid legal fees of $0.05 million to a law firm in which a director is a partner.

CRITICAL ACCOUNTING ESTIMATES

COST OF SALES

Average unit cost for products produced under long-term contracts is determined based on the estimated total production costs for a predetermined program quantity. Program quantities are established based on management's assessment of market conditions and foreseeable demand at the beginning of the production stage for each program, taking into consideration both customer supplied and independent data. The average unit cost is recorded in cost of sales as products are completed. Under the learning curve concept, which anticipates a predictable decrease in unit costs as tasks and production techniques become more efficient through repetition and management action, excess over-average production costs during the early stages of a program are deferred and recovered from sales of products anticipated to be produced later at lower-than-average costs.

Estimates of average unit costs and of program quantities are an integral component of average cost accounting. Management conducts regular reviews as well as a detailed annual review in the fourth quarter, as part of its annual budget process, of its cost estimates and program quantities, and the effect of any revisions are accounted for by way of a cumulative catch-up adjustment to income in the period in which the revision takes place.

INVENTORIES

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

ASSET IMPAIRMENT

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

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

INCOME TAXES

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

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

FOREIGN CURRENCY TRANSLATION

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Corporation has not utilized any financial instruments to hedge its exposure to foreign currency flows in 2007 and 2006.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement and Section 3865, Hedges. The adoption of these new standards resulted in changes in the accounting for financial instruments and hedges, as well as the recognition of certain transition adjustments. As provided under the standards, the comparative annual consolidated financial statements have not been restated, except for the presentation of translation gains or losses on self-sustaining foreign operations as part of comprehensive loss.

The adoption of these Sections was done retroactively without restatement of the consolidated financial statements of prior periods. The effect of these changes in accounting policies on net income for year ended December 31, 2007 was not significant.

The reader is referred to Note 2 in the accompanying audited consolidated financial statements for the year ended December 31, 2007 for further details regarding the adoption of these standards.

Future changes in accounting policies are described in detail in Note 1 of the audited consolidated financial statements for the year ended December 31, 2007. The reader is referred to this note for further details regarding the adoption of these standards.

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 December 31, 2007 that they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting, and have assessed the effectiveness of disclosure controls and procedures.

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 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; (ii) assumptions about the likelihood of future events.

In preparation for the annual certification, the Corporation had dedicated resources to document disclosure controls and procedures and internal control over financial reporting, and evaluate the effectiveness of disclosure controls and procedures. An evaluation was carried out, under the supervision of and with participation of management, including the President and Chief Operating Officer (President and Chief Executive Officer effective as of January 28, 2008) and Vice President, Finance and Corporate Secretary, of the effectiveness of the Corporation's disclosure controls, as defined in the rules of the CSA. Based on that evaluation, management concluded that the Corporation's disclosure controls and procedures were effective as of December 31, 2007, as the established disclosure controls and procedures provide a reasonable level of assurance that information required to be disclosed by the Corporation in its filings is accumulated, communicated, and reported on a timely basis.

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

OTHER INFORMATION

The authorized capital of the Corporation consists of an unlimited number of Preference Shares, issuable in series, and an unlimited number of common shares. As at March 28, 2008, 90,892,828 common shares were outstanding and 2,000,000 Preference Shares were outstanding.

The Corporation had outstanding approximately $20.9 million of 8.5% convertible unsecured subordinated debentures, due January 31, 2010. The debentures were convertible at any time prior to the maturity date by holders into common shares of the Corporation at a conversion price of $2.00 per common share. Full conversion of the convertible debentures would give rise to an additional 10,475,000 common shares.

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

MANAGEMENT'S REPORT

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

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

James S. Butyniec
President and Chief Executive Officer

John B. Dekker
Vice President Finance and Corporate Secretary

MARCH 28, 2008

AUDITORS' REPORT

TO THE SHAREHOLDERS OF MAGELLAN AEROSPACE CORPORATION

We have audited the consolidated balance sheets of MAGELLAN AEROSPACE CORPORATION as at December 31, 2007 and 2006 and the consolidated statements of operations, retained earnings, cash flows and comprehensive loss for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants
TORONTO, CANADA, MARCH 26, 2008

CONSOLIDATED BALANCE SHEETS

As at December 31
[Expressed in thousands of dollars]

	2007	2006 (restated note 3)
Assets		
Current		
Cash	**$ 4,884**	$ 9,896
Accounts receivable [NOTE 20(f)]	**35,659**	56,232
Inventories [NOTE 5]	**274,011**	275,751
Prepaid expenses and other	**13,127**	9,628
Future income tax assets [NOTE 15]	**6,264**	5,914
Total current assets	**333,945**	357,421
Capital assets, net [NOTE 6]	**245,727**	264,801
Other [NOTE 14]	**55,707**	52,680
Future income tax assets [NOTE 15]	**14,064**	7,068
	649,443	681,970
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness [NOTE 7]	**139,748**	142,457
Accounts payable and accrued charges [NOTE 8]	**119,881**	128,066
Convertible debentures [NOTE 10]	**13,834**	-
Current portion of long-term debt [NOTE 9]	**2,099**	2,039
Total current liabilities	**275,562**	272,562
Long-term debt [NOTE 9]	**27,839**	15,902
Convertible debentures [NOTE 10]	**55,950**	67,430
Future income tax liabilities [NOTE 15]	**16,799**	20,785
Other long-term liabilities [NOTE 8]	**7,366**	2,748
Total long-term liabilities	**107,954**	106,865
Shareholders' equity		
Capital stock [NOTES 11 AND 12]	**234,310**	234,171
Contributed surplus [NOTE 20 (g)]	**3,249**	1,799
Other paid in capital [NOTE 10]	**11,100**	11,100
Retained earnings	**82,747**	95,688
Accumulated other comprehensive loss [NOTE 13]	**(65,479)**	(40,215)
Total shareholders' equity	**265,927**	302,543
	649,443	681,970

Commitments and contingencies [NOTE 22]
See accompanying notes

On behalf of the Board:

N. Murray Edwards
Director

William A. Dimma
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

As at December 31
[Expressed in thousands of dollars except per share data]

	2007	2006 (restated note 3)
Revenues	**$ 597,808**	$ 575,223
Cost of revenues [NOTE 3]	**538,894**	524,201
Gross profit	**58,914**	51,022
Expenses		
Administrative and general expenses [NOTES 3 AND 19]	**46,765**	37,575
Facility rationalization [NOTE 4]	**-**	2,455
Interest [NOTES 7 AND 20(a)]	**24,583**	22,374
	71,348	62,404
Loss before income taxes	**(12,434)**	(11,382)
Provision for (recovery of) income taxes [NOTE 15]		
Current	**207**	264
Future	**(1,300)**	(3,507)
	(1,093)	(3,243)
Net loss for the year	**(11,341)**	(8,139)
Retained earnings, beginning of year [NOTE 3]	**95,688**	105,427
Dividends on Preference Shares	**(1,600)**	(1,600)
Net loss for the year	**(11,341)**	(8,139)
Retained earnings, end of year	**82,747**	95,688
Loss per common share [NOTE 11]		
Basic and diluted	**(0.14)**	(0.11)

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

As at December 31
[Expressed in thousands of dollars]

	2007	2006 (restated note 3)
Operating Activities		
Net loss for the year	**$ (11,341)**	$ (8,139)
Add (deduct) items not affecting cash		
Depreciation and amortization	**22,799**	22,472
Net gain on sale of capital assets	**(1,257)**	(5,423)
Write-down of assets	**206**	277
Employee future benefits	**(6,977)**	2,064
Deferred revenue	**3,544**	-
Amortization charge [NOTE 4]	**-**	5,301
Stock based compensation [NOTE 12]	**1,450**	945
Issuance of common shares to the directors	**63**	63
Accretion of convertible debentures	**2,354**	2,289
Future income tax recoveries	**(1,300)**	(3,507)
	9,541	16,342
Net change in non-cash working capital items related to operating activities [NOTE 20[c]]	**(6,491)**	(13,766)
Cash provided by operating activities	**3,050**	2,576
Investing Activities		
Purchase of capital assets	**(22,968)**	(30,972)
Proceeds from disposal of capital assets	**2,240**	9,708
Decrease (increase) in other assets	**1,279**	(4,063)
Cash used in investing activities	**(19,449)**	(25,327)
Financing Activities		
Increase in bank indebtedness	**11,695**	28,138
Increase of long-term debt	**13,190**	5,456
Decrease in other long-term liabilities	**(9,780)**	(7,895)
Issuance of common shares	**76**	50
Dividends on preference shares	**(1,600)**	(1,600)
Cash provided by financing activities	**13,581**	24,149
Effect of exchange rate changes on cash	**(2,194)**	1,072
Net (decrease) increase in cash during the year	**(5,012)**	2,470
Cash, beginning of year	**9,896**	7,426
Cash, end of year	**4,884**	9,896

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

As at December 31
[Expressed in thousands of dollars]

	2007	2006 (restated note 3)
Net loss for the year	**$ (11,341)**	$ (8,139)
Other comprehensive loss:		
Net unrealized gain (loss) on translation of net investment in foreign operations [NOTE 13]	**(25,264)**	5,073
Comprehensive Loss	**(36,605)**	(3,066)

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

USE OF ESTIMATES

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

REVENUE RECOGNITION

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

The most significant revenue recognition policies are outlined below:

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

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

Revenues from certain long-term contracts are recognized on a percentage of completion basis. The percentage complete is calculated based upon contract costs incurred to date compared with total estimated contract costs. The percentage complete is then applied to total anticipated contract revenue to determine the period's revenue. A provision for the estimated loss is made when contract costs are expected to exceed estimated contract revenue.

COST OF SALES

The average unit costs for long-term contracts is determined based on the estimated total production costs for a predetermined contract quantity. In the early stages of a long-term contract, a constant gross margin is achieved by continuing to defer in inventory the excess over average production costs. This excess over estimated average production costs is recovered from sales of units anticipated to be produced at lower-than-average costs, as a result of the learning curve concept, which anticipates a predictable decrease in unit costs as tasks and production techniques become more efficient through repetition and management action.

Non-recurring costs, which are comprised of the development costs, pre-production and tooling costs related to these contracts, are amortized based on the pre-determined contract quantity.

Estimates of revenues, unit production costs and delivery periods associated with forecasted orders are an integral component of the learning curve concept, and management's ability to reasonably estimate these amounts is a requirement for the use of the learning curve concept. Management conducts quarterly reviews as well as a detailed annual review in the fourth quarter of its assumptions as to the number of units to be produced, the estimated period over which the units will be delivered and the estimated future costs and revenues associated with the programs. Adjustments of estimates are accounted for prospectively with the exception of anticipated losses on specific programs, which are recognized immediately in the period when losses are identified.

INVENTORY

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

As the operating cycles for long-term contracts are longer than one year, inventory related to these contracts is included in current assets and is calculated using long-term average cost which reflects higher unit costs at the early phase of a program and lower unit costs at the end of the program (the learning curve concept). The difference between actual and long-term average costs in the early stage of a program is included in inventory. Inventoried costs on long-term contracts also include pre-production costs consisting primarily of engineering costs, including applicable overhead, and other development costs.

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

CAPITAL ASSETS

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

Buildings	40 years
Machinery and equipment	20 years

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

IMPAIRMENT OF LONG-LIVED ASSETS

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

TECHNOLOGY RIGHTS

Included in other assets are the costs to purchase technological rights applicable to a specific long-term contract. These costs will be amortized on a units of production basis to cost of goods sold over the anticipated term of the long-term contract.

RESEARCH AND DEVELOPMENT

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

Development costs are capitalized when certain criteria are met for deferral and their recovery is reasonably assured. Capitalized development costs are included in other assets.

GOVERNMENT INVESTMENT

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

CONVERTIBLE DEBENTURES

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

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

FOREIGN EXCHANGE TRANSLATION

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

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

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

EMPLOYEE BENEFIT PLANS

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

STOCK BASED COMPENSATION PLAN

Stock options granted are accounted for under the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period with a corresponding credit to contributed surplus. On the exercise of stock options, consideration received and the accumulated contributed surplus amount is credited to capital stock.

INCOME TAXES

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

LOSS PER COMMON SHARE

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

Under the "if converted" method:

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

Under the "treasury stock" method:

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

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation manages its foreign currency through the use of derivative financial instruments. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes. For the year ended December 31, 2007, the Corporation's derivative contracts were not designated as hedges and as a result are recorded on the Consolidated Balance Sheets at their fair value. Any changes in fair value during the period are reported in foreign exchange in the Consolidated Statement of Operations. Transaction costs incurred to acquire financial instruments are included in the underlying balance.

SALE OF RECEIVABLES

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

FUTURE CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, except as noted in Section 3064, the Corporation will adopt the following accounting standards recently issued by the Canadian Institute of Chartered Accountants (CICA):

[a] Section 3031, Inventories

This section of the CICA Handbook provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories and expands the disclosure requirements to increase transparency. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. Management of the Corporation is evaluating the new standards and believes the method it uses to allocate costs to inventory will be impacted and will lead to a reduction in the amount of costs that can be included in inventory.

[b] Section 1535, Capital Disclosures

Section 1535, "Capital Disclosures", establishes guidelines for the disclosure of information on an entity's capital and how it is managed. Effective for fiscal periods beginning on or after October 1, 2007, this enhanced disclosure enables users to evaluate the entity's objectives policies and processes for managing capital. This new requirement is for disclosure only and will not impact the financial results of the Corporation.

[c] Section 3862, Financial Instruments – Disclosure and Presentation

In December 2006, the CICA issued Section 3862, "Financial Instruments – Disclosure", and Section 3863, "Financial Instruments – Presentation" to replace the existing Section 3861 "Financial Instruments – Disclosure and Presentation." Section 3862 requires enhanced disclosure on the nature and extent of financial instrument risks and how an entity manages those risks. Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments. These sections are effective for fiscal periods beginning on or after October 1, 2007. This new requirement is for disclosure only and will not impact the financial results of the Corporation.

[d] Section 3064, Goodwill and Intangible Assets

The CICA issued the new accounting standard Section 3064, "Goodwill and Intangible Assets" which will replace 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 recognitions 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.

2. ACCOUNTING CHANGES

FINANCIAL INSTRUMENTS

On January 1, 2007, the Company adopted the CICA Handbook Sections 3855, Financial Instruments – Recognition and Measurement, 3865, Hedges, 1530, Comprehensive Income and 3861, Financial Instruments – Disclosure and Presentation. All derivative instruments, including embedded derivatives, are recorded in the statement of financial position at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

Embedded derivatives are required to be separated and measured at fair values if certain criteria are met. Embedded derivatives include elements of contracts whose cash flows move independently from the host contract.

The impact of the change in the accounting policy related to embedded derivatives was not material, as at January 1, 2007.

Section 3855, Financial Instruments–Recognition and Measurement

Under the new standards, all 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 statement of financial liabilities, 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 are derecognized or impaired.

The Corporation has classified its cash and cash equivalents and investments, which are classified as other assets, as held for trading. Accounts receivable are classified as loans and receivables. Accounts payable and long-term debt have been classified as other financial liabilities, all of which are measured at amortized cost.

Section 3865, Hedges

Under the previous standards, derivatives that met the requirements for hedge accounting were generally accounted for on an accrual basis. Under the new standards, in a cash flow hedge relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in accumulated other comprehensive income. The ineffective portion is recognized in net income.

As at January 1, 2007, the Corporation's derivative contracts were not designated as hedges and as a result are recorded on the Consolidated Balance Sheets at their fair value. Any change in the fair value during the period are reported in foreign exchange in the Consolidated Statement of Operations.

Section 1530, Comprehensive Income

Accumulated other comprehensive income is included on the Consolidated Balance Sheets as a separate component of shareholders' equity (net of tax), and includes unrealized foreign currency translation gains and losses on self-sustaining foreign operations net of the gains or losses on related hedges. The Corporation now presents a consolidated statement of comprehensive income as part of the consolidated financial statements. As required, comparative consolidated financial statements provided for earlier periods relating to foreign currency translation of self-sustaining foreign operations have been restated to reflect application of this section. All other changes resulting from the adoption of the new standards are recorded on January 1, 2007 without restatement of comparative figures.

3. AMENDED AND RESTATED RESULTS

Accounting errors and misstatements in accounts receivable were uncovered at one of the Corporation's divisions during the course of an ongoing process to collect outstanding accounts receivable on a timely basis. This prompted an internal investigation that uncovered the overstatement of various assets on the balance sheet resulting from improper accounting and also discovered unsupported and unrecorded transactions. As a result of the accounting irregularities that occurred from 2003 to 2007, the Corporation recorded a loss of $5,748, net of anticipated insurance proceeds, as the overstated carrying values of the assets were written down to their appropriate values. Currently, the Corporation is engaged in a process to recover a portion of the loss through its $1,500 all risk crime insurance policy. Although the amounts of the restatements relating to the individual years prior to 2007 were not likely material, the Corporation has restated those periods as the cumulative effect of the accounting irregularities was material in 2007. A loss of $2,158 was recorded in 2007 (2006 – loss of $1,159) in relation to the accounting irregularities. The impacts on the Statements of Operations for 2007 and 2006 were an increase of cost of revenues by $1,588 and $249, respectively, and an increase of administrative and general expenses by $570 and $910, respectively. Included in the impact of administrative and general expenses is a write-down of fixed assets of $206 and $277, in 2007 and 2006 respectively. The 2006 opening retained earnings balance was also reduced by $1,592.

The effects of all the resulting adjustments required to the originally issued 2006 annual consolidated financial statements are set out in the following tables in financial statement format:

As at December 31, 2006

BALANCE SHEET

	Restated	Originally Reported
Assets		
Current		
Cash	$ 9,896	$ 9,896
Accounts receivable	56,232	58,066
Inventories	275,751	276,462
Prepaid expenses and other	9,628	10,396
Future income tax assets	5,914	5,914
Total current assets	357,421	360,734
Capital assets, net	264,801	265,078
Other	52,680	52,680
Future income tax assets	7,068	5,829
	681,970	684,321
Liabilities and shareholders' equity		
Current		
Bank indebtedness	$ 142,457	$ 142,457
Accounts payable and accrued charges	128,066	128,066
Current portion of long-term debt	2,039	2,039
Total current liabilities	272,562	272,562
Long-term debt	15,902	15,902
Convertible debentures	67,430	67,430
Future income tax liabilities	20,785	20,785
Other long-term liabilities	2,748	2,748
Total long-term liabilities	106,865	106,865
Shareholders' equity		
Capital stock	234,171	234,171
Contributed surplus	1,799	1,799
Other paid in capital	11,100	11,100
Retained earnings	95,688	98,039
Accumulated other comprehensive loss	(40,215)	(40,215)
Total shareholders' equity	302,543	304,894
	681,970	684,321

Year ended December 31, 2006

INCOME STATEMENT

	Restated	Originally Reported
Revenues	$ 575,223	$ 575,223
Cost of revenues	524,201	523,952
Gross profit	51,022	51,271
Expenses		
Administrative and general expenses	37,575	36,665
Facility rationalization	2,455	2,455
Interest	22,374	22,374
	62,404	61,494
Loss before income taxes	(11,382)	(10,223)
Provision for (recovery of) income taxes		
Current	264	264
Future	(3,507)	(3,107)
	(3,243)	(2,843)
Net loss for the year	(8,139)	(7,380)
Retained earnings, beginning of year	105,427	107,019
Dividends on Preference Shares	(1,600)	(1,600)
Net loss for the year	(8,139)	(7,380)
Retained earnings, end of year	95,688	98,039
Loss per common share		
Basic and diluted	(0.11)	(0.10)

Year ended December 31, 2006

CONSOLIDATED STATEMENT OF CASH FLOWS

	Restated	Originally Reported
Operating Activities		
Net loss for the year	$ (8,139)	$ (7,380)
Add (deduct) items not affecting cash		
Depreciation and amortization	22,472	22,472
Net gain on sale of capital assets	(5,423)	(5,423)
Write-down of assets	277	-
Employee future benefits	2,064	-
Amortization charge	5,301	5,301
Stock based compensation	945	945
Issuance of common shares to the directors	63	63
Accretion of convertible debentures	2,289	2,289
Future income tax recoveries	(3,507)	(3,107)
	16,342	15,160
Net change in non-cash working capital items related to operating activities	(13,766)	(12,561)
Cash provided by operating activities	2,576	2,599
Investing Activities		
Purchase of capital assets	(30,972)	(30,972)
Proceeds from disposal of capital assets	9,708	9,708
Increase in other assets	(4,063)	(1,999)
Cash used in investing activities	(25,327)	(23,263)
Financing Activities		
Increase in bank indebtedness	28,138	28,138
Increase of long-term debt	5,456	5,456
Decrease in other long-term liabilities	(7,895)	(9,982)
Issuance of common shares	50	50
Dividends on preference shares	(1,600)	(1,600)
Cash provided by financing activities	24,149	22,062
Effect of exchange rate changes on cash	1,072	1,072
Net increase in cash during the year	2,470	2,470
Cash, beginning of year	7,426	7,426
Cash, end of year	9,896	9,896

The restated 2006 cash flow statement has also been adjusted to reflect the payments of certain other long-term liabilities as an operating activity ($2,087 use of cash) which had previously been reported as a financing activity. In addition, cash flow from operating activities has also been adjusted to reflect the impact of employee future benefits as an operating item ($2,064 source of cash) which had previously been reflected as an investing activity.

4. FACILITY RATIONALIZATION

During 2006, the Corporation undertook a program to rationalize and modernize four of its facilities. As part of this rationalization program, the Corporation sold a portion of its surplus real estate and realized a gain on the sale. In order to prepare this real estate for sale, machinery and equipment was disposed of for minimal proceeds. Accordingly, a non-cash amortization charge was recorded in the consolidated financial statements.

Costs were also incurred to relocate machinery and equipment either within the same facility or to new locations.

As these are one-time and are significantly large they have been disclosed separately in the Consolidated Statements of Operations.

	2006
Amortization charge	$ 5,301
Equipment relocation costs	2,815
Less: gain on sale of surplus real estate	(5,661)
Facility rationalization costs	2,455

5. INVENTORIES

	2007	2006 (restated note 3)
Production costs of contracts currently in process	**$ 197,713**	$ 194,235
Excess of production cost of delivered units over the estimated average of all units expected to be produced [learning curve costs]	**29,598**	30,237
Engineering and other costs	**62,376**	66,306
	289,687	290,778
Less: advances and progress payments	**15,676**	15,027
	274,011	275,751

Learning curve costs involve measurement uncertainty, and accordingly, the carrying amounts could be materially different from the amounts recovered.

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

6. CAPITAL ASSETS

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

						2006 (restated note 3)
		Cost		Accumulated depreciation		Net book value
Land	$	15,580	$	-	$	15,580
Buildings		94,313		27,832		66,481
Machinery and equipment		309,399		126,659		182,740
		419,292		154,491		264,801

Included in machinery and equipment are construction in progress expenditures of $2,195 [2006 – $2,684].

The above amounts include $8,024 [2006 – $8,455] of capital assets under capital leases and accumulated depreciation of $1,870 [2006 – $1,418] related thereto. Depreciation recorded in the year related to capital assets under capital leases totaled $397 [2006 – $277].

7. BANK INDEBTEDNESS

The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian limit of $75,000 plus a US limit of US$90,000 ($164,217 at December 31, 2007). Bank indebtedness of $139,748 [2006 – $142,457] is payable on demand and bears interest at the bankers' acceptance or LIBOR rates, plus 0.875% (5.7% at December 31, 2007 [2006 – 5.9%]). Included in the amount outstanding at December 31, 2007 is US$84,171 [2006 – US$82,325]. At December 31, 2007, the Corporation had drawn $139,748 under the operating credit and had issued letters of credit totaling $1,912 such that $22,557 was unused and available. A fixed and floating charge debenture on accounts receivable, inventories and capital assets is pledged as collateral for the operating loans. The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the credit facility.

As at December 31, 2007, the Corporation was not in compliance with respect to the financial covenant ratio of current assets to current liabilities. Subsequent to the year end, the Corporation amended the operating credit facility agreement with respect to this covenant.

As described in Note 1, management of the Corporation is evaluating the new accounting standard Section 3031, Inventories, and believes the manner in which costs are allocated to inventory will be impacted but the extent of the impact will not be determined until the evaluation is complete. As a result of the application of the new standard, the Corporation may be unable to meet the minimum coverage levels prescribed in the financial covenants in the bank facility agreement for the period ended March 31, 2008. If required, management will request a waiver of these covenants.

8. OTHER LONG-TERM LIABILITIES

	2007	2006
Non-interest bearing amounts owed to third parties [a]	$ -	$ 10,029
Accrued costs related to plant and program closures [b]	516	4,681
Other [c]	7,126	2,630
	7,642	17,340
Less current portion included in accounts payable and accrued charges	276	14,592
	7,366	2,748

Amounts are due as follows:

2008	$ 276
2009	830
2010	43
2011	2,301
2012	1,329
Thereafter	2,863
	7,642

[a] The non-interest bearing amounts at December 31, 2006, were net of an unamortized discount of $148 based on an average imputed interest rate of 6.5%.

[b] During 2003, the Corporation announced its decision to cease operations at its Fleet Industries plant in Fort Erie, Ontario. Management estimated the potential costs and losses resulting from this decision and recorded total charges in 2003 and 2004 of $38,889. At December 31, 2007, a balance of $516 [2006 – $4,681] remains as a liability. The Corporation expects to settle this liability over the next five years and accordingly, has included $129 [2006 – $4,170] in accounts payable and accrued charges while the remaining $387 [2006 – $511] is recorded in other long-term liabilities.

[c] Other long-term liabilities include $3,575 [2006 -$nil] of deferred revenue in relation to a long-term contract.

9. LONG-TERM DEBT

	2007	2006
Property mortgage [a]	$ 4,361	$ 5,343
Other non-bank loans [b]	21,834	7,705
Obligations under capital leases (bearing interest at 5.6% to 7.9%) [c]	3,743	4,893
	29,938	17,941
Less current portion	2,099	2,039
	27,839	15,902

[a] The property mortgage of $4,361 (£2,225) is comprised of financing of certain land in the United Kingdom acquired in 2006. This same land is collateral for this mortgage and bears interest at bank rate plus 0.90%, which at December 31, 2007 was 6.4% [2006 – 5.9%]. The fair value of this property mortgage was not significantly different from its recorded amount.

[b] Other non-bank loans include loans provided by governmental authorities that bear interest of 2.0% to 9.25%. During 2007, the Corporation entered into a secured promissory note with a corporation, which is controlled by a common director, in the amount of $15,000, due July 1, 2008 bearing interest at a rate of 9.0%. The promissory note was refinanced with long-term debt on January 31, 2008, and as a result, the promissory note has been classified as long-term debt. [Note 21 - Subsequent events]

[c] Future minimum lease payments under the capital leases in effect at December 31, 2007, are as follows:

2008	$	1,279
2009		985
2010		813
2011		813
2012		475
Thereafter		-
Total minimum lease payments		4,365
Less capital lease payments representing interest		622
Principal amount of capital lease payments		**3,743**

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

2008	$	2,099
2009		17,060
2010		1,961
2011		2,035
2012		1,772
Thereafter		5,011
		29,938

10. CONVERTIBLE DEBENTURES

On January 7, 2003, the Corporation completed an offering of $70,000 of 8.5% convertible unsecured subordinated debentures, due January 31, 2008 [Note 21 – Subsequent events]. The debentures pay interest on a semi-annual basis on January 31 and July 31 in each year commencing July 31, 2003. The debentures are convertible, at any time prior to the maturity date, by the holders into common shares of the Corporation, at a conversion price of $4.50 per common share. During the year, $15 convertible debentures were converted into common shares. The debentures are redeemable by the Corporation between January 31, 2006 and January 31, 2007 at a price equal to the principal amount, plus accrued and unpaid interest, if any, provided that the current market price is not less than 125% of the conversion price, and after January 31, 2007 and prior to the maturity date at a price equal to the principal amount, plus accrued and unpaid interest, if any. On redemption or maturity, the Corporation will have the option of retiring the convertible debentures with common shares in which case the number of common shares issuable is based on 95% of the weighted average trading price of the Corporation's common shares for the 20 consecutive trading days prior to the date fixed for redemption or maturity. In addition, the Corporation may elect from time to time to issue and deliver freely tradeable common shares to a trustee in order to raise funds to satisfy the obligation to pay interest on the convertible debentures. The debentures are unsecured obligations of the Corporation and will be subordinated in right of payment to all of the Corporation's existing and future senior indebtedness.

As a result of these terms and as explained under "Significant Accounting Policies – Convertible Debentures", $11,100 has been attributed to the equity component of the debenture and is classified as other paid in capital. At December 31, 2007, $69,784 [2006 – $67,430] has been attributed to the debt component. Based on the terms of the refinancing completed in January 2008, $55,950 of the convertible debentures continued to be classified as long term, with the remaining $13,834 classified as current liability. The difference between the carrying value and the face value of the debentures will be accreted through periodic charges to income included in interest expense over the life of the debenture.

11. CAPITAL STOCK

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

Series A	**Number of shares**	Stated capital
Outstanding at December 31, 2007 and 2006	**2,000,000**	$ 19,949

On May 27, 2005, the Corporation issued 2,000,000 8.0% Cumulative Redeemable First Preference Shares Series A ("Preference Shares") at a price of $10.00 per preference share for total gross proceeds of $20,000. Each preference share is convertible at the holder's option into 3.33 common shares of Magellan (6,666,667 common shares in aggregate) at a price of $3.00 per common share. The Preference Shares will not be redeemable by the Corporation at any time prior to July 1, 2008. Thereafter, the Preference Shares are redeemable, under certain conditions, at the option of the Corporation at $10.00 per preference share plus accrued and unpaid dividends. In addition, on or after July 1, 2010, under certain circumstances the holder has the right to require the Corporation redeem the shares at $10.00 per preference share plus accrued and unpaid dividends. Directors and officers of the Corporation purchased directly or indirectly 1,135,000 of the Preference Shares issued.

Common shares:

	Number of shares	Stated capital
Outstanding at December 31, 2005	**90,792,410**	$ 214,109
Issued to employees and directors	**41,146**	113
Outstanding at December 31, 2006	**90,833,556**	214,222
Issued upon conversion of convertible debentures	**3,333**	15
Stock options exercised	**4,000**	10
Issued to employees and directors	**43,830**	114
Outstanding at December 31, 2007	**90,884,719**	214,361

Under the terms of the Corporation's Employee Share Purchase Plan ("ESPP"), eligible employees are able to purchase common shares at 100% of the average market price for the period preceding the purchase. The Corporation matches purchased shares on a 50% basis after an approximately one year vesting period. During the year, the Corporation issued common shares 20,582 [2006 – 18,882] under the ESPP for $50 [2006 – $50] and at

December 31, 2007, 210,408 common shares are reserved for issue. During 2007, the Corporation issued 23,248 [2006 – 22,264] common shares valued at $63 [2006 – $63] to the directors of the Corporation for services rendered by the directors of the Corporation.

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

	2007	2006 (restated note 3)
Net loss	$ (11,341)	$ (8,139)
Dividends on Preference Shares	(1,600)	(1,600)
Loss attributable to common shareholders	(12,941)	(9,739)
Weighted average shares outstanding	90,849,253	90,803,403
Net effect of dilutive instruments [NOTES 10 AND 12]	–	–
Diluted weighted average shares outstanding	90,849,253	90,803,403
Loss per common share - basic and diluted	(0.14)	(0.11)

As a result of the net losses for the years ended December 31, 2007 and 2006, there is no dilutive effect of the stock options, convertible debentures and preference shares.

12. 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 3,998,853. Options are granted at an exercise price equal to the market price of the Corporation's common shares at the time of granting. Options normally have a life of five years with vesting at 20% at the end of the first, second, third, fourth and fifth years from the date of the grant. In addition, certain business unit income tests must be met in order for the optionholder's entitlement to fully vest.

A summary of the plan and changes during each of 2007 and 2006 are as follows:

	2007		2006	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	3,919,600	$ 3.12	3,299,800	$ 3.47
Granted	1,430,250	3.20	1,514,000	3.08
Exercised	(4,000)	2.65	-	-
Forfeited/expired	(978,000)	3.77	(894,200)	4.34
Outstanding, end of year	4,367,850	3.00	3,919,600	3.12

The following table summarizes information about options outstanding and exercisable at December 31, 2007:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life [in years]	Weighted average exercise price	Number exercisable	Weighted average exercise price
$ 2.65	1,080,500	3.00	$ 2.65	340,100	$ 2.65
3.00 – 3.20	3,287,350	4.02	3.11	559,350	3.04
	4,367,850	3.77	3.00	899,450	2.89

The Corporation accounts for stock options granted after January 1, 2003 under the fair value method. Compensation expense recorded during the year was $1,450 [2006 – $945].

The fair value of stock options is estimated at the date of grant using the Black-Scholes' option pricing model with the following weighted average assumptions:

	2007	2006
Risk-free interest rate	4.08%	4.00%
Expected volatility	46%	46%
Expected life of the options	5 years	5 years
Expected dividend yield	0%	0%

The weighted average fair value of stock options granted in 2007 was $1.57 [2006 – $1.40].

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

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	2007	2006
Balance, beginning of period	$ (40,215)	$ (45,288)
Net unrealized gain (loss) on translation of net investment in foreign operations	(25,264)	5,073
Total accumulated other comprehensive income	(65,479)	(40,215)

The unrealized loss in 2007 resulted primarily from the strengthening of the Canadian dollar against the US dollar.

14. OTHER ASSETS

	2007	2006
Technology rights, net of accumulative amortization of $4,522 [2006 - $2,275]	$ 34,491	$ 37,117
Pension benefit asset [note 16]	9,368	2,391
Development costs	8,143	8,088
Advances and note receivable	1,341	2,242
Other	2,364	2,842
	55,707	52,680

Technology rights relate to an agreement signed during 2003, which permits the Corporation to manufacture aerospace engine components and share in the revenue generated by the final sale of the engine. A follow-on contract was signed in 2005.

Development costs relate to costs that were incurred for the development of new programs by the Corporation for which future revenues are reasonably assured.

15. INCOME TAXES

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

	2007	2006
Corporate tax rate for manufacturing companies	34.8%	37.8%
Expected tax recovery	$ (4,327)	$ (4,302)
Non deductible accretion and stock option charges	1,447	1,299
Change in valuation allowance	1,158	-
Permanent differences	229	285
Change in income tax rates	400	(525)
	(1,093)	(3,243)

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

	2007	2006
Canada		
Future income tax asset - current		
Accounting provisions not currently deductible for tax purposes	$ 5,116	$ 3,942
Future income tax assets - long-term		
Operating loss carryforwards	9,512	5,557
Investment tax credits	17,617	13,772
Accounting provisions not currently deductible for tax purposes	15,827	16,351
Valuation Allowance	(2,748)	-
	40,208	35,680
Future income tax liabilities - long-term		
Tax depreciation in excess of book depreciation	23,959	28,549
Deferred employee future benefits	3,724	2,345
	27,683	30,894
United States		
Future income tax asset - current		
Accounting provisions not currently deductible for tax purposes	$ 1,148	$ 1,972
Future income tax assets - long-term		
Operating loss carryforwards and investment tax credits	9,119	9,986
Accrued employee future benefits	494	894
	9,613	10,880
Future income tax liability – long-term		
Tax depreciation in excess of book depreciation	26,412	31,665
United Kingdom		
Future income tax asset – long-term		
Operating loss carryforwards and investment tax credits	1,539	-
Accounting provisions not currently deductible for tax purposes	-	2,282

During the fourth quarter of 2007, the Corporation recorded a valuation allowance of $2,748 against its future tax assets in Canada as the recovery of the future tax assets were not "more likely than not". In addition, the valuation allowance of $1,590 previously recorded with respect to the tax losses in the United Kingdom was no longer required; and as such, the benefit of these tax losses was recorded in the fourth quarter of 2007.

The Corporation has operating loss carryforwards in Canada that expire in 2027 of approximately $7,965 [2006 – $nil] for which no benefit has been recognized in the consolidated financial statements.

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

16. EMPLOYEE FUTURE BENEFITS

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

Consolidated cash payments contributed by the Corporation for employee future benefits related to its defined benefit and defined contribution pension plans and payments directly to beneficiaries for its unfunded other benefits plan was $15,188 [2006 - $12,395].

[a] Defined contribution plans

The Corporation's expenses for defined contribution plans for the year ended December 31, 2007 was $4,240 (2006 - $6,187).

[b] Defined benefit plans

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

Pension plans:

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

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

Other benefit plans:

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

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

	Pension Plans		Other benefit plans	
	2007	2006	**2007**	2006
Change in benefit obligation				
Benefit obligation, beginning of year	**$ 105,203**	$ 107,506	**$ 999**	$ 1,093
Member contributions during the year	**303**	260	**-**	-
Current service cost (employer)	**1,868**	2,310	**-**	-
Interest cost	**6,280**	6,454	**306**	423
Plan amendments	**1,147**	-	**-**	-
Benefits paid	**(7,652)**	(7,644)	**(401)**	(482)
Actuarial gain	**(1,792)**	(3,694)	**-**	-
Foreign exchange (loss) gain	**(1,391)**	11	**(142)**	(35)
Benefit obligation, end of year	**103,966**	105,203	**762**	999
Change in plan assets				
Market value of plan assets - beginning of year	**99,214**	92,775	**-**	-
Actual return on plan assets	**1,850**	8,001	**-**	-
Member contributions during the year	**303**	260	**-**	-
Employer contributions	**10,547**	5,726	**-**	-
Benefits paid	**(7,652)**	(7,572)	**-**	-
Foreign exchange (loss) gain	**(1,214)**	24	**-**	-
Market value of plan assets - end of year	**103,048**	99,214	**-**	-
Reconciliation of funded status				
Funded status - deficit	**(918)**	(5,989)	**(762)**	(999)
Unamortized past service costs	**1,120**	339	**-**	-
Unamortized net actuarial loss	**9,166**	8,041	**-**	-
Accrued benefit asset (liability)	**9,368**	2,391	**(762)**	(999)

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

All defined benefit plans were in a deficit as at December 31, 2007 and 2006.

NET BENEFIT PLAN COSTS:

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

	Pension Plans		Other benefit plans	
	2007	2006	**2007**	2006
Current service cost	**$ 1,868**	$ 2,310	**$ -**	$ -
Interest cost	**6,280**	6,454	**306**	423
Actual return on plan assets	**(1,850)**	(8,001)	**-**	-
Actuarial (gain) loss	**(1,792)**	(3,694)	**-**	-
Plan amendments	**1,147**	-	**-**	-
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefits	**5,653**	(2,931)	**306**	423
Adjustments to recognize the long-term nature of employee future benefit costs:				
Difference between expected return and actual return on plan assets for the year	**(5,224)**	1,447	**-**	-
Differences between actuarial loss recognized for the year and actual actuarial losses on accrued benefit obligation for the year	**2,493**	4,796	**-**	-
Difference between amortization of past service costs for the year and actual plan amendments for the year	**(781)**	281	**-**	-
Net benefit cost recognized	**2,141**	3,593	**306**	423

SIGNIFICANT ASSUMPTIONS AND SENSITIVITY ANALYSIS:

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

	Pension Plans		Other benefit plans	
	2007	2006	**2007**	2006
Accrued Benefit Obligation at December 31				
Discount rate	**6.0%**	6.0%	**7.0%**	7.0%
Expected long-term rate of return on plan assets	**7.0%**	7.0%	**-**	-
Rate of compensation increase	**3.0%**	3.0%	**-**	-
Benefit costs for the years ended December 31				
Discount rate	**6.0%**	6.0%	**7.0%**	7.0%
Expected long-term rate of return on plan assets	**7.0%**	7.0%	**-**	-
Rate of compensation increase	**3.0%**	3.0%	**-**	-

For measurement purposes, a 5.0% to 10.0% annual rate of increase in the per capita cost of covered health care and dental benefits was assumed for 2007. The rate was assumed to decrease gradually over the next 10 years to 3.0% and to remain at that level thereafter.

The impact of applying a one-percentage-point increase and decrease in the assumed health care and dental benefit trend rates as at December 31, 2007 was nominal.

PLAN ASSETS:

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

Asset Category	Percentage of plan assets	
	2007	2006
Equities	**48.7%**	55.0%
Fixed income	**41.7%**	38.7%
Cash and short-term investments	**9.6%**	6.3%
Total	**100.0%**	100.0%

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

	2007	2006
Defined benefit plans	**$ 121**	$ 267

17. SEGMENTED INFORMATION

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

Domestic and foreign operations consist of the following:

				2007				2006 (restated note 3)
	Canada	**U.S.**	**U.K.**	**Total**	Canada	U.S.	U.K.	Total
Revenues								
Domestic	**$ 94,269**	**$ 160,191**	**$ 113,829**	**$ 368,289**	$ 96,496	$ 153,176	$ 109,998	$ 359,670
Export	**195,635**	**28,139**	**5,745**	**229,519**	176,809	33,421	5,323	215,553
Total revenues	**289,904**	**188,330**	**119,574**	**597,808**	273,305	186,597	115,321	575,223
Capital assets, net	**117,945**	**107,254**	**20,528**	**245,727**	121,805	120,553	22,443	264,801

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

	2007	2006
Major customers		
Canadian operations		
Number of customers	**3**	3
Percentage of total Canadian revenue	**37%**	35%
U.S. operations		
Number of customers	**1**	3
Percentage of total U.S. revenue	**39%**	58%
U.K. operations		
Number of customers	**1**	1
Percentage of total U.K. revenue	**81%**	80%

18. FINANCIAL INSTRUMENTS

[a] Fair value

Fair value is the estimated amount for which a financial instrument could be exchanged between willing parties, based on the current market for instruments with the same risk, principal and maturity. The Corporation has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, with the exception of the convertible debentures, 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, investments, 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 is $28,579 and is estimated using discounted cash flow analysis based on the Corporation's current incremental borrowing rates for similar types of arrangements. The fair values are not necessarily indicative of the amounts that the Corporation may incur at actual market transactions.

Convertible Debentures

The fair market value of the Corporation's Convertible Debentures, calculated based on available market data at December 31, 2007 was $69,649.

[b] Credit risk

The Corporation's financial assets that are exposed to credit risk consist primarily of cash and accounts receivable. For accounts receivable, 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. These accounts receivable are subject to normal industry credit risks.

[c] Interest rate risk

The Corporation is exposed to significant interest rate cash flow risk in its bank indebtedness as any market change will have an immediate, or almost immediate, impact in the interest paid.

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

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

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

	Amount	Exchange rate
Maturity – less than 1 year – U.S. Dollar	**$ 52,100**	**1.0075**
Maturity – less than 1 year – Norwegian Kroner	**26,096**	**0.1811**

These foreign exchange contracts are recorded in other liabilities at their fair value of $817.

19. RELATED PARTY TRANSACTIONS

During the year, the Corporation entered into numerous financing agreements to sell receivables to a corporation wholly-owned by a common director in the amount of $228,143 [2006 – $62,455], for a discount of $2,484 [2006 – $580] representing an annualized interest rate of 7.5% [2006 – 8.10%]. Included in this balance, as at December 31, 2007, is a reserve of $5,924 [2006 – $895].

On March 30, 2007, the Corporation entered into a secured promissory note with a corporation, which is controlled by a common director, in the amount of $15,000, due July 1, 2008 bearing interest at a rate of 9.0%. In 2007, $1,025 of interest was paid in relation to the loan.

The Chairman of the Board of the Corporation holds $15,000 of the 8.5% convertible debentures issued and outstanding as at December 31, 2007. The related cash interest paid in the year was $1,275 [2006 – $1,275].

The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the Corporation's credit facility. An annual fee of 0.10% of the guaranteed amount or $168 [2006 – $155] is paid in consideration for the guarantee.

During the year, the Corporation incurred consulting costs of $100 [2006 – $50] payable to a company controlled by the Chairman of the Board of the Corporation in 2007. As well, the Corporation paid legal fees of $52 [2006 - $21] to a law firm in which a director is a partner.

20. SUPPLEMENTARY INFORMATION

[a] Interest expense on long-term debt in 2007 was $10,066 [2006 – $8,646]. Interest on capital leases in 2007 was $300 [2006 – $411].

[b] During 2007, the Corporation received $nil [2006 – $2,225] of government assistance, which has been credited to the related assets. The Corporation is eligible for an additional $2,074 for the period from January 1, 2008 to December 31, 2008 based on approved expenditures. The assistance is repayable as royalties ranging from 1% to 3% of certain future revenue.

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

	2007	2006 (restated note 3)
Accounts receivable	**$ 16,148**	$ 7,088
Inventories	**(16,112)**	(9,991)
Prepaid expenses and other	**(5,064)**	(606)
Accounts payable and accrued charges	**(1,463)**	(10,257)
	(6,491)	(13,766)

[d] Interest paid during 2007 amounted to $21,231 [2006 – $19,321] and income taxes refunded during 2007 amounted to $817 [2006 – payment of $157].

[e] During the year, the Corporation realized a foreign exchange loss on the conversion of foreign currency denominated working capital balances and debt of $5,576 [2006 – gain of $4,429].

[f] In the 2004 fiscal year, the Corporation entered into a five-year accounts receivable securitization program permitting it to sell on an on-going basis, certain of its trade accounts receivable to a securitization trust (the "Trust") to a maximum of $46,000. The total amount transferred to the Trust during the year amounted to $24,063 [2006 – $210,922] for a discount of $248 [2006 – $2,186] representing an annualized interest rate of 6.26% [2006 – 6.51%]. The discount has been included in interest expense in the consolidated statements of operations. Included in accounts receivable as at December 31, 2007, is a cash reserve of $nil [2006 – $6,635], which the Trust has invested in trust for the Corporation. The reserve represents the portion of the consideration, which is withheld from the Corporation until payments are received by the Trust. During the year, the reserve earned investment income of $125 [2006 – $302], which is included in interest income. The Trust and its investors have no recourse on the Corporation's other assets for failure of the debtors to pay when due, other than the retained interest in the Trust. On February 23, 2007, this program was suspended by the counter-party.

During the year, the Corporation sold receivables to various financial institutions in the amount of $147,389 [2006 – $84,584], for a discount of $1,479 [2006 – $927] representing an annualized interest rate of 5.87% [2006 – 6.03%].

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

21. SUBSEQUENT EVENTS

[a] New financing

On January 30, 2008 the Corporation closed a private placement of an aggregate of $20,950 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 $69,985 principal amount of outstanding 8.5% unsecured subordinated debentures (the "Existing Debentures) which matured on January 31, 2008.

The New Debentures are redeemable by the Corporation for the first six months of the term at 102.5% of principal value and the holders have no conversion rights. After the first six months of the term, the New Debentures are convertible, at the option of the holder, at any time prior to maturity into common shares of the Corporation at a conversion price of $2.00 per share, which is equal to a conversion rate of 500 common shares per $1,000 principal amount of debentures or the issuance on conversion of approximately 10,475,000 common shares in total.

On January 30, 2008, in order to fund the remaining balance of approximately $50,000 on the maturity of the Existing Debentures, a corporation controlled by the Chairman of the Board of the Corporation, provided a loan of $50,000 (the "Original Loan") and a $15,000 bridge loan (the "Bridge Loan") to the Corporation. All of the funds from the Bridge Loan and approximately $35,000 of the funds from the Original Loan were used to repay the balance of the Existing Debentures and the $15,000 additional funds from the Original Loan was provided to the Corporation to retire $15,000 of subordinated debt due to a corporation 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, 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 is repayable on July 31, 2008. In addition, on January 24, 2008, in consideration for the provision of additional security for the Corporation's obligations under its existing secured credit facility, the Corporation has increased the standby guarantee payable to the Chairman of the Board of the Corporation from 0.1% per annum to 1% per annum of the principal amount guaranteed.

[b] New acquisition

On February 13, 2008, the Corporation acquired 100% of the outstanding common shares of Verdict Aerospace Components Ltd. ("Verdict"), a corporation in the United Kingdom, for a cash purchase price of $4,240. The results of operations will be included in the consolidated financial statements as of January 1, 2008, the effective date of the purchase. Verdict is a high precision manufacturer of make to print components and assemblies for the global aerospace industry. Verdict specializes in precision airframe components and assemblies for aerostructures, orbit payloads and missile seeker systems. Management is in the process of finalizing the purchase price allocation.

22. COMMITMENTS AND CONTINGENCIES

[a] Operating lease commitments

The Company has lease commitments related to properties, equipment and other items. At December 31, 2007, future minimum annual lease payments are as follows:

2008	$ 4,665
2009	2,468
2010	1,213
2011	1,107
2012	714
Thereafter	1,719
	11,886

[b] Contingencies

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

23. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 consolidated financial statements.

BOARD OF DIRECTORS AND OFFICERS

Corporate Officers

N. Murray Edwards
Chairman

Richard A. Neill
Vice Chairman

James S. Butyniec [A]
President and Chief Executive Officer

John B. Dekker
Vice President
Finance and Corporate Secretary

William A. Matthews
Vice President, Marketing

Jo-Ann C. Ball
Vice President, Human Resources

Larry A. Winegarden
Vice President, Corporate Strategy

Konrad B. Hahnelt
Vice President,
Strategic Global Sourcing

Board Of Directors

N. Murray Edwards
Chairman,
Magellan Aerospace Corporation
President,
Edco Financial Holdings Ltd.,
Calgary, Alberta

Richard A. Neill
Vice Chairman,
Magellan Aerospace Corporation,
Mississauga, Ontario

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

William A. Dimma, C.M., O. Ont. [1, 2]
Chairman,
Home Capital Group,
Toronto, Ontario

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

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

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

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

Hon. M. Douglas Young, P.C. [2, 4, B]
Chairman,
Summa Strategies Canada Inc.,
Ottawa, Ontario

Committees Of The Board

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

(2) *Governance and Nominating*
Committee Chairman:
M. Douglas Young

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

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

Notes

(A) *President and Chief Operating Officer until January 27, 2008 and President and Chief Executive Officer effective January 28, 2008*

(B) *Not nominated to the Board of Directors for the ensuing year*

OPERATING FACILITIES DIRECTORY AND SHAREHOLDER INFORMATION

Canada

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

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

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

1340 Tower Street, Bldg. 3,
Abbotsford, British Columbia V2T 6H5
Tel: 604 870 3700

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

United States

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

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

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

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

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

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

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

United Kingdom

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

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

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

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

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

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

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

Corporate Office

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

www.magellan.aero

For investor information:
ir@magellan.aero

Auditors

Ernst & Young LLP
Toronto, Ontario

Transfer Agent

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

Stock Listing

Toronto Stock Exchange – TSX
Common Shares – MAL

Annual Meeting

The Annual and Special Meeting of the Shareholders of Magellan Aerospace Corporation will be held on Tuesday, May 13th, 2008 at 2:00 p.m. at The Living Arts Centre, 4141 Living Arts Drive, Mississauga, Ontario L5B 4B8

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