Magellan Aerospace Corporation
Second Quarter Report
June 30, 2007

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

Financial Results

On August 13, 2007, the Corporation released its financial results for the second quarter of 2007. All amounts are expressed in Canadian dollars unless otherwise indicated. The results are summarized as follows:

	Three-months ended June 30			Six-months ended June 30		
(Expressed in thousands, except per share amounts)	**2007**	**2006**	**Change**	**2007**	**2006**	**Change**
Revenues	$ 150,283	$ 149,977	0.2%	$ 294,338	$ 286,999	2.6%
Gross Profit	$ 16,213	$ 13,132	23.5%	$ 31,462	$ 27,428	14.7%
Net loss	$ (1,734)	$ (5,666)	-	$ (3,481)	$ (6,324)	-
Net loss per share	$ (0.02)	$ (0.07)	-	$ (0.05)	$ (0.08)	-
EBITDA*	$ 9,230	$ 9,595	-3.8%	$ 18,743	$ 19,494	-3.9%
EBITDA* per share	$ 0.10	$ 0.11	-9.1%	$ 0.21	$ 0.21	0.0%

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

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

Management's Discussion and Analysis

During the second quarter of 2007, the aerospace industry continued to expand in all major sectors. Magellan benefited from growth in the civil airliner, business jet and helicopter sectors. In the airliner sector, production rates for single aisle, and selected twin aisle aircraft, continued the strong growth of the previous quarter and this trend is expected to continue throughout 2007. Business jet and helicopter growth remains very strong, and the resulting growth in small and mid-sized turbofan engines has tested Magellan's increased capacity to support these products. The more stable defence sector is highlighted by the launch of low rate initial production of the F35 Joint Strike Fighter aircraft and associated engines.

However, Magellan was negatively impacted in the quarter by the continuing halt in A380 large aircraft program due to unresolved design and manufacturing issues. The aircraft is expected to resume deliveries by fourth quarter 2007. The value of Magellan sales delayed in the second quarter was approximately $8 million, bringing the total value to $15 million for the first half of 2007.

Operationally, Magellan continues to ramp up production for initial testing and flight units of landing gear components for the Boeing B787 aircraft, and for low rate initial production of various elements of the F35 and engines of the multi-national Joint Strike Fighter program. Demand for the B787 continues to grow rapidly, with over 600 aircraft now on firm order for deliveries commencing in 2008. The F35 is also benefiting from strong American and international political support, and the current demand for approximately 2,500 aircraft over the next 25 years appears likely to increase.

The effects of the Magellan transition from the ramp-down of mature and discontinued programs of previous years to the ramp-up of new programs over the next several reporting periods is reflected in the modest increase in revenue quarter over quarter. The return to production of the A380 aircraft, forecast to occur in the fourth quarter of 2007, and continuing growth in existing in-house programs will help to restore revenues to plan.

Revenues

	Three-months ended June 30			Six-months ended June 30		
(Expressed in thousands)	**2007**	**2006**	**Change**	**2007**	**2006**	**Change**
Canada	$ 73,139	$ 71,937	1.7 %	$ 137,781	$ 137,203	0.4 %
United States	47,251	49,333	(4.2) %	95,314	93,229	2.2 %
United Kingdom	29,893	28,707	4.1 %	61,243	56,567	8.3 %
Total Revenue	$ 150,283	$ 149,977	0.2 %	$ 294,338	$ 286,999	2.6 %

Consolidated revenues for the second quarter of 2007 were $150.3 million, an increase of $0.3 million from the second quarter of 2006. If the average exchange rates experienced in the comparable period in 2006 remained constant in 2007, revenues for the second quarter would have been $152.4 million, an increase of $2.1 million. The decline in the value of the US dollar versus the Canadian dollar during the second quarter had a negative impact on revenue. If average exchange rates experienced in the first quarter of 2007 remained constant in the second quarter of 2007, consolidated revenues for the second quarter of 2007 would have been approximately $157.0 million, or approximately $6.7 million higher.

Gross Profit

	Three-months ended June 30			Six-months ended June 30		
(Expressed in thousands)	**2007**	**2006**	**Change**	**2007**	**2006**	**Change**
Gross profit	$ 16,213	$ 13,132	23.5 %	$ 31,462	$ 27,428	14.7 %
Percentage of revenue	10.8 %	8.8 %		10.7 %	9.6 %	

Gross profits of $16.2 million (10.8% of revenues) were reported for the second quarter of 2007 compared to $13.1 million (8.8% of revenues) during the same period in 2006. Gross profit, as a percentage of sales, has been consistent in 2007 and has improved over 2006. Benefits from the Corporation's ongoing rejuvenation of four of its facilities have started to materialize in the quarter with respect to improved efficiencies and also better control of scrap in the castings business.

The decline in the value of the US dollar versus the Canadian dollar during the second quarter of 2007 also had a negative impact on gross margin. Had exchange rates remained the same as in the first quarter of 2007, gross margin would have been approximately $1.4 million higher for the second quarter of 2007.

Administrative and General Expenses

	Three-months ended June 30		Six-months ended June 30	
(Expressed in thousands)	**2007**	**2006**	**2007**	**2006**
Administrative and general expenses	$ 11,007	$ 10,007	$ 22,555	$ 20,256
Foreign exchange loss / (gain)	2,154	-	2,523	(282)
Total administrative and general expenses	$ 13,161	$ 10,007	$ 25,078	$ 19,974
Percentage of revenue	8.8%	6.7%	8.5%	7.0%

Administrative and general expenses were $13.2 million, or 8.8% of revenues in the second quarter of 2007 compared to $10.0 million, or 6.7% of revenues in the same period of 2006. Included in total administration and general expenses for the second quarter of 2007, is a foreign exchange loss of $2.2 million which had a negative impact on administrative and general expenses in the quarter. Without this item, administrative and general expenses were $11.0 million (or 7.3% of revenues) in the second quarter of 2007 compared to $10.0 million (or 6.7% of revenues) in the second quarter of 2006.

Interest Expense

	Three-months ended June 30		Six-months ended June 30	
(Expressed in thousands)	**2007**	**2006**	**2007**	**2006**
Interest on bank indebtedness and other long-term debt	$ 3,074	$ 3,015	$ 5,862	$ 5,040
Convertible debenture interest	1,487	1,462	2,975	2,950
Accretion charge for convertible debt	590	573	1,174	1,146
Discount on sale of accounts receivable	1,021	1,027	1,835	1,937
Total interest expense	$ 6,172	$ 6,077	$ 11,846	$ 11,073

Interest expense in the second quarter of 2007 was $6.2 million, $0.1 million higher than the second quarter of 2006.

Provision for (Recovery of) Income Taxes

	Three-months ended June 30		Six-months ended June 30	
(Expressed in thousands)	**2007**	**2006**	**2007**	**2006**
Provision for current income taxes	$ 844	$ 90	$ 933	$ 182
Recovery of future income taxes	(2,230)	(2,677)	(2,914)	(2,778)
Total recovery of income taxes	$ (1,386)	$ (2,587)	$ (1,981)	$ (2,596)
Effective Tax Rate	44.4 %	31.3 %	36.3 %	29.1 %

There was a recovery of income taxes of $1.4 million for the second quarter of 2007, compared to an income tax recovery of $2.6 million for the second quarter of 2006. The change in effective tax rates is a result of a changing mix of income across the different jurisdictions in which Magellan operates.

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

(Expressed in thousands)	Three-months ended June 30 2007	Three-months ended June 30 2006	Six-months ended June 30 2007	Six-months ended June 30 2006
Net loss	$ (1,734)	$ (5,666)	$ (3,481)	$ (6,324)
Interest	6,172	6,077	11,846	11,073
Taxes	(1,386)	(2,587)	(1,981)	(2,596)
Facility rationalization charge	-	5,301	-	5,301
Stock based compensation	395	255	650	435
Depreciation and amortization	5,783	6,215	11,709	11,605
EBITDA	$ 9,230	$ 9,595	$ 18,743	$ 19,494

EBITDA for the second quarter of 2007 was $9.2 million, a decrease of $0.4 million from the second quarter of 2006. Higher gross profit in the second quarter of 2007 compared to 2006 was offset by the higher administrative and general expenses.

Liquidity and Capital Resources

Cash Flow from Operations

(Expressed in thousands)	Three-months ended June 30 2007	Three-months ended June 30 2006	Six-months ended June 30 2007	Six-months ended June 30 2006
Decrease (increase) in accounts receivable	$ 7,599	$ 5,099	$ (5,010)	$ 536
Increase in inventories	(5,995)	(3,429)	(23,335)	(19,386)
(Increase) decrease in prepaid expenses and other	(7,627)	898	(8,441)	(1,829)
Increase (decrease) in accounts payable	6,307	(2,932)	3,116	8,178
Changes to non-cash working capital balances	$ 284	$ (364)	$ (33,670)	$ (12,501)
Cash provided by (used in) operating activities	$ 3,084	$ 3,637	$ (26,513)	$ (3,116)

In the quarter ended June 30, 2007, the Corporation generated $3.1 million of cash in its operations, compared to $3.6 million in the second quarter of 2006. Cash was generated due to lower accounts receivable and higher accounts payable, offset by increases to inventory and prepaid expenses. Inventories rose in response to increasing demand from the Corporation's customers.

Investing Activities

(Expressed in thousands)	Three-months ended June 30 2007	Three-months ended June 30 2006	Six-months ended June 30 2007	Six-months ended June 30 2006
Purchase of capital assets	$ (3,259)	$ (11,084)	$ (10,345)	$ (14,143)
Proceeds of disposals of capital assets	79	239	353	335
Increase in other assets	(643)	(1,711)	(1,665)	(2,589)
Cash used in investing activities	$ (3,823)	$ (12,556)	$ (11,657)	$ (16,397)

In the second quarter of 2007, the Corporation invested $3.3 million in capital assets to upgrade and enhance its capabilities for current and future programs. In 2006 the Corporation rationalized and modernized four of its facilities. These programs were essentially completed by the end of 2006.

Financing Activities

(Expressed in thousands)	Three-months ended June 30 2007	Three-months ended June 30 2006	Six-months ended June 30 2007	Six-months ended June 30 2006
Increase in bank indebtedness	$ 1,149	$ 11,758	$ 20,957	$ 20,478
(Decrease) increase of long-term debt	(580)	4,689	13,826	4,572
(Decrease) increase in long-term liabilities	(340)	(8,112)	347	(8,037)
Issue of Common Shares	21	12	39	26
Dividends on Preference Shares	(400)	(400)	(800)	(800)
Cash (used in) provided by financing activities	$ (150)	$ 7,947	$ 34,369	$ 16,239

The Corporation renewed its operating credit facility, on March 30, 2007, with its existing lenders. Under the terms of the renewed agreement, the maximum amount available under the operating credit facility was increased by $20 million to $175 million with a maturity date of May 24, 2008. The facility is extendable for unlimited one-year renewal periods and continues to be fully guaranteed by the Chairman of the Board of the Corporation. An annual fee of 0.10% of the guaranteed amount or $175 [2006 - $155] is paid in consideration for this guarantee. Due to this guarantee, interest is charged at the bankers' acceptance or LIBOR rates, plus 0.875% compared to the rate charged prior to the guarantee of bankers' acceptance or LIBOR rates, plus 4.5%. The net annual savings to the Corporation is approximately $5.3 million assuming an average of $150 million borrowed under the operating facility.

On March 30, 2007, the Corporation borrowed $15 million by way of a secured promissory note from a corporation with a common director. This note is due July 1, 2008 and bears interest at a rate of 9% per annum, which was lower than rates provided by the Corporation's financial advisors for similar instruments. The note is collateralized and subordinated to the bank credit facility, thereby assisting the Corporation to remain in compliance with its senior debt arrangement.

The Corporation's 8.5% convertible unsecured subordinated debentures currently outstanding are due January 31, 2008. The Corporation is reviewing a number of options with respect to refinancing these debentures including replacement with another form of debt or conversion into common shares.

Outstanding Share Data

As at August 13, 2007, the Corporation had 90,847,533 common shares outstanding and 2,000,000 outstanding First Preference Shares Series A.

Risks and Uncertainties

The Corporation manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without hindering the ability to maximize returns. Management has procedures to identify and manage significant operational and financial risks. For a more detailed discussion of these potential business risks, readers should review the "Risk Factors" section of the 2006 Annual MD&A filed by the Corporation with the Canadian securities regulatory authorities, which are hereby incorporated by reference.

Critical Accounting Estimates

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

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

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

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

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

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

Foreign Currency Translation
The functional currency of the Corporation is Canadian dollars. Many of the Corporation's 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.

Changes in Accounting Policies

Effective January 1, 2007, the Company 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 interim 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 is done retroactively without restatement of the consolidated financial statements of prior periods. The effect of these changes in accounting policies on net income for the second quarter of fiscal 2007 is not significant.

The reader is referred to Note 2 in the accompanying unaudited interim consolidated financial statements for the period ended June 30, 2007 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 June 30, 2007 that they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting.

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

Outlook

Magellan continues to experience improved gross margins achieved through completed rejuvenation efforts at several operating divisions, greater pricing power, and resolution of a number of program issues with its customers. The market continues to be strong, with both Airbus and Boeing showing increased order and production growth, and the business jet and helicopter sectors also showing very robust demand. In addition, strategic sourcing initiatives with suppliers in both local and emerging markets, should continue to reduce Magellan's average costs, and attract more business to Magellan facilities from key customers.

As part of this strategic sourcing initiative, the Corporation is working closely with a partner to establish a low-cost aerospace processing facility in India. This facility will initially satisfy requirements for final processing of parts currently manufactured for the Corporation by subcontractors in India. Discussions are also underway with major customers to use this facility to provide processing for components they are sourcing in India.

The Boeing 787 is continuing its outstanding success in the marketplace. The first aircraft was rolled out in July, and production rates are scheduled to continue to ramp up over the next two years. The F35 Joint Strike Fighter program, gaining increasingly strong international political support, is projected to experience year-on-year increases in production rates through the next several years. Magellan's successful participation in landing gear, airframe and engine development and production activities on these new programs provides an opportunity to refresh and upgrade the Corporation's manufacturing technology, and generate annual increases in revenue through the foreseeable future. Concurrently, continued growth and strength in the business jet and helicopter sectors provide Magellan with increased business opportunities for components ranging from castings to engine modules, structural elements and specialty equipment.

The Corporation has been modernizing its facilities in preparation for the increased technology and manufacturing capacity required to meet the demands of three major programs: the Boeing 787, the Airbus A380 and the Joint Strike Fighter. Magellan's current level of participation on these programs is approximately $500,000 per aircraft on the B787, $1,200,000 per aircraft on the A380 and $200,000 to $1,300,000 per aircraft, depending on the model, on the Joint Strike Fighter. Based on currently anticipated production rates of the various programs and models, these programs are targeted to generate additional annual revenues to the Corporation of approximately $40 million in 2008, $70 million in 2009 and $110 million in 2010. Costs to support initial efforts on these programs have been invested by Magellan over the past several years and have positioned it to be an important participant.

On behalf of the Board

Richard A. Neill
Vice Chairman

James S. Butyniec
President and Chief Operating Officer

August 13, 2007