

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		
	2007	2006	Change	2007	2006	Change
<i>(Expressed in thousands, except per share amounts)</i>						
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		
	2007	2006	Change	2007	2006	Change
<i>(Expressed in thousands)</i>						
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		
	2007	2006	Change	2007	2006	Change
<i>(Expressed in thousands)</i>						
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	
	2007	2006	2007	2006
<i>(Expressed in thousands)</i>				
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	
	2007	2006	2007	2006
<i>(Expressed in thousands)</i>				
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	
	2007	2006	2007	2006
<i>(Expressed in thousands)</i>				
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)

	Three-months ended June 30		Six-months ended June 30	
	2007	2006	2007	2006
<i>(Expressed in thousands)</i>				
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

	Three-months ended June 30		Six-months ended June 30	
	2007	2006	2007	2006
<i>(Expressed in thousands)</i>				
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

	Three-months ended June 30		Six-months ended June 30	
	2007	2006	2007	2006
<i>(Expressed in thousands)</i>				
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

	Three-months ended June 30		Six-months ended June 30	
	2007	2006	2007	2006
<i>(Expressed in thousands)</i>				
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

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND
RETAINED EARNINGS

(unaudited)

	Three-months ended June 30		Six-months ended June 30	
	2007	2006	2007	2006
<i>(Expressed in thousands of dollars, except per share amounts)</i>				
Revenues	\$ 150,283	\$ 149,977	\$ 294,338	\$ 286,999
Cost of revenues	134,070	136,845	262,876	259,571
Gross profit	16,213	13,132	31,462	27,428
Administrative and general expenses	13,161	10,007	25,078	19,974
Facility rationalization (note 3)	-	5,301	-	5,301
Interest	6,172	6,077	11,846	11,073
	19,333	21,385	36,924	36,348
Loss before income taxes	(3,120)	(8,253)	(5,462)	(8,920)
Provision for (recovery of) income taxes				
- Current	844	90	933	182
- Future	(2,230)	(2,677)	(2,914)	(2,778)
	(1,386)	(2,587)	(1,981)	(2,596)
Net loss for the period	(1,734)	(5,666)	(3,481)	(6,324)
Retained earnings, beginning of the period	95,892	105,961	98,039	107,019
Dividends	(400)	(400)	(800)	(800)
Net loss for the period	(1,734)	(5,666)	(3,481)	(6,324)
Retained earnings, end of period	\$ 93,758	\$ 99,895	\$ 93,758	\$ 99,895
Loss per share				
Basic	\$ (0.02)	\$ (0.07)	\$ (0.05)	\$ (0.08)
Diluted	\$ (0.02)	\$ (0.07)	\$ (0.05)	\$ (0.08)

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE
LOSS

(unaudited)

	Three-months ended June 30		Six-months ended June 30	
	2007	2006	2007	2006
<i>(Expressed in thousands of dollars)</i>				
Net loss	\$ (1,734)	\$ (5,666)	\$ (3,481)	\$ (6,324)
Other comprehensive loss:				
Unrealized loss on translation of financial statements of self-sustaining foreign operations	(12,115)	(5,240)	(13,266)	(4,370)
Comprehensive loss	\$ (13,849)	\$ (10,906)	\$ (16,747)	\$ (10,694)

See accompanying notes

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED BALANCE SHEETS

(unaudited)

(Expressed in thousands of dollars)

	As at June 30 2007	As at December 31 2006
ASSETS (note 5)		
Current		
Cash	\$ 5,419	\$ 9,896
Accounts receivable	60,120	58,066
Inventories (note 4)	291,715	276,462
Prepaid expenses and other	18,079	10,396
Future income tax assets	5,745	5,914
Total current assets	381,078	360,734
Capital assets	252,773	265,078
Other	53,813	52,680
Future income tax assets	6,985	5,829
Total assets	\$ 694,649	\$ 684,321
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (note 5)	\$ 154,794	\$ 142,457
Accounts payable and accrued charges	132,127	128,066
Convertible debentures	68,604	-
Current portion of long-term debt	1,738	2,039
Total current liabilities	357,263	272,562
Long-term debt	29,425	15,902
Future income tax liabilities	16,944	20,785
Convertible debentures	-	67,430
Other long-term liabilities	2,981	2,748
Total liabilities	406,613	379,427
Shareholders' equity		
Capital stock (note 6)	234,210	234,171
Contributed surplus	2,449	1,799
Other paid in capital	11,100	11,100
Retained earnings	93,758	98,039
Accumulated other comprehensive loss (note 9)	(53,481)	(40,215)
Total shareholders' equity	288,036	304,894
Total liabilities and shareholders' equity	\$ 694,649	\$ 684,321

See accompanying notes

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three-months ended June 30		Six-months ended June 30	
	2007	2006	2007	2006
<i>(Expressed in thousands of dollars)</i>				
OPERATING ACTIVITIES				
Loss for the period	\$ (1,734)	\$ (5,666)	\$ (3,481)	\$ (6,324)
Add (deduct) items not affecting cash				
Depreciation and amortization	5,783	6,215	11,709	11,605
(Gain) loss on sale of capital assets	(4)	-	19	-
Facility rationalization charge (note 3)	-	5,301	-	5,301
Stock option charge	395	255	650	435
Accretion of convertible debentures	590	573	1,174	1,146
Future income taxes recoveries	(2,230)	(2,677)	(2,914)	(2,778)
	2,800	4,001	7,157	9,385
Net change in non-cash working capital items relating to operating activities	284	(364)	(33,670)	(12,501)
Cash provided by (used in) operating activities	3,084	3,637	(26,513)	(3,116)
INVESTING ACTIVITIES				
Purchase of capital assets	(3,259)	(11,084)	(10,345)	(14,143)
Proceeds from disposal 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)
FINANCING ACTIVITIES				
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
Effect of exchange rate changes on cash	(907)	(337)	(676)	(359)
Net decrease in cash	(1,796)	(1,309)	(4,477)	(3,633)
Cash, beginning of period	7,215	5,102	9,896	7,426
Cash, end of period	\$ 5,419	\$ 3,793	\$ 5,419	\$ 3,793

See accompanying notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

1. ACCOUNTING POLICIES**Basis of presentation**

The accompanying unaudited interim consolidated financial statements have been prepared by the Corporation in accordance with generally accepted accounting principles in Canada with respect to preparation of interim financial statements on a basis consistent with those followed in the most recent audited consolidated financial statements. Accordingly, these unaudited interim consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes included in the Corporation's Annual Report for the year ended December 31, 2006.

In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments, which consist only of normal and recurring adjustments, necessary to present fairly the financial position at June 30, 2007 and the results of operations and cash flows for the three and six month periods ended June 30, 2007 and 2006.

2. CHANGE IN ACCOUNTING POLICY

The Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments – Recognition and Measurement: Section 3865, Hedges: Section 1530, Comprehensive Income and Section 3861, Financial Instruments – Disclosure and Presentation on January 1, 2007. The adoption of these new standards resulted in changes in the accounting for financial instruments and hedges. The comparative interim consolidated financial statements have not been restated, except for the presentation of translation gains or losses on self-sustaining foreign operations. The principal changes in the accounting for financial instruments and hedges due to the adoption of these accounting standards are described below.

a) Comprehensive Income

Comprehensive income includes the Company's net income and other comprehensive income. Other comprehensive income includes unrealized exchange gains and losses on translation of self-sustaining foreign operations.

b) Financial Assets and Financial Liabilities

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 position and are measured at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. 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 instrument is derecognized or impaired.

As a result of the adoption of these standards, the Company has classified its cash and cash equivalents 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.

c) Derivatives and Hedges**Derivatives**

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

Hedge Accounting

At the inception of a hedging relationship, the Company documents the relationship between the hedging instrument and the hedged item, as well as the risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the consolidated statement of financial position or to specific firm commitments or forecasted transactions. The Company also assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used are effective in offsetting changes in fair values or cash flows of hedged items.

Under the previous standards, derivatives that met the requirements for hedge accounting were generally accounted for on an accrual basis. Under the new standards, all derivatives are recorded at fair value.

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.

The adoption of these new standards was done retroactively without restatement of the consolidated financial statements of prior periods. The effect of these changes in accounting policies on during 2007 was not significant.

3. 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 portions of its surplus real estate in the third and fourth quarter of 2006 and realized gains of \$5.7 million on the sales. To prepare this real estate for sale, machinery and equipment was disposed of for minimal proceeds. Accordingly, a non-cash charge of \$5.3 million (\$0.04 per share on an after tax basis) was recorded in the financial statements in the second quarter of 2006.

4. INVENTORIES

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.

5. 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 (\$170,886 at June 30, 2007). Bank indebtedness as at June 30, 2007 of \$154,794 [December 31, 2006 - \$142,457] is payable on demand and bears interest at the bankers' acceptance or LIBOR rates, plus 0.875% [5.8% at June 30, 2007]. Included in the amount outstanding at June 30, 2007 is US\$87,764 [December 31, 2006 - US\$82,325]. At June 30, 2007, the Corporation had drawn \$154,794 under the operating credit and had issued letters of credit totalling \$1,925 such that \$18,281 was unused and available. A fixed and floating charge debenture on certain of the Corporation's assets is pledged as collateral for the operating loan. The Chairman of the Board has provided a guarantee for the full amount of the credit facility. An annual fee of 0.10% of the guaranteed amount or \$175 [2006 - \$155] is paid in consideration for the guarantee.

6. CAPITAL STOCK

The following table summarizes information on share capital and related matters as at June 30, 2007:

	Outstanding	Exercisable
Common shares	90,846,405	
Common shares stock options	5,004,050	1,497,010
Preferred shares	2,000,000	

The weighted average number of common shares outstanding during the three-month and six-month periods ended June 30, 2007 was 90,844,495 and 90,840,493 respectively.

7. STOCK-BASED COMPENSATION PLAN

The Corporation has an incentive stock option plan, which provides for the granting of options for the benefit of employees and directors. The maximum number of options for common shares that remain to be granted under this plan is 3,342,653. Options are granted at an exercise price equal to the market price of the Corporation's Common Shares at the time of granting. Options normally have a life of five years with vesting at 20.0% at the end of the first, second, third, fourth and fifth years from the date of the grant. In addition, certain business unit income tests must be met in order for the option holder's entitlement to fully vest.

The Corporation accounts for stock options issued after January 1, 2003 using the fair value method. Compensation expense recorded during the three-month and six-month periods ended June 30, 2007 was \$395 and \$650 respectively [June 30, 2006 - \$255 and \$435]. In the six-month period ended June 30, 2007, there were 1,430,000 stock options issued at an exercise price of \$3.20. The fair value of these options was \$1.57.

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

Risk-free interest rate	4.0 %
Expected volatility	46.0 %
Expected average life of options	5 years
Expected dividend yield	0.0 %

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.

8. SEGMENTED INFORMATION

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

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

	As at June 30, 2007				As at December 31, 2006			
	Canada	US	UK	Total	Canada	US	UK	Total
Capital assets	\$ 119,127	\$ 112,998	\$ 20,648	\$ 252,773	\$ 122,082	\$ 120,553	\$ 22,443	\$ 265,078

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

	Three-months ended June 30							
	2007				2006			
	Canada	US	UK	Total	Canada	US	UK	Total
Revenue								
Domestic	\$ 23,626	\$ 41,367	\$ 29,261	\$ 94,254	\$ 26,002	\$ 40,705	\$ 26,126	\$ 92,833
Export	49,513	5,884	632	56,029	45,935	8,628	2,581	57,144
Total revenue	\$ 73,139	\$ 47,251	\$ 29,893	\$ 150,283	\$ 71,937	\$ 49,333	\$ 28,707	\$ 149,977

	Six-months ended June 30							
	2007				2006			
	Canada	US	UK	Total	Canada	US	UK	Total
Revenue								
Domestic	\$ 47,073	\$ 83,199	\$ 60,016	\$ 190,288	\$ 49,335	\$ 75,985	\$ 52,921	\$ 178,241
Export	90,708	12,115	1,227	104,050	87,868	17,244	3,646	108,758
Total revenue	\$ 137,781	\$ 95,314	\$ 61,243	\$ 294,338	\$ 137,203	\$ 93,229	\$ 56,567	\$ 286,999

The major customers for the Corporation for the three-month and six-month periods ended June 30, 2007 are as follows:

	Three-months ended June 30		Six-months ended June 30	
	2007	2006	2007	2006
Major Customers				
Canadian operations				
- Number of customers	3	3	3	4
- Percentage of total Canadian revenue	36 %	36 %	35 %	45 %
US operations				
- Number of customers	2	3	2	3
- Percentage of total US revenue	51 %	56 %	51 %	59 %
UK operations				
- Number of customers	1	1	1	1
- Percentage of total UK revenue	89 %	67 %	84 %	76 %

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

Other comprehensive loss includes foreign currency translation gains and losses, which arise on the translation to Canadian dollars of assets and liabilities of the Corporation's self-sustaining foreign operations. The unrealized currency translation loss for the three-month and six-month periods ended June 30, 2007 was \$12,115 and \$13,266 respectively [2006 – losses of \$5,240 and \$4,370]. This is reflected in the consolidated balance sheets and has no impact on net loss.

10. FINANCIAL INSTRUMENTS

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

[a] Fair Value

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, 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, based on current rates for debt with similar terms and maturities, is \$29,351 at June 30, 2007.

Convertible Debentures

The fair market value of the Corporation's Convertible Debentures, calculated based on available market data at June 30, 2007 was \$69,839.

[b] Credit risk

The Corporation's financial assets that are exposed to credit risk consist primarily of cash and 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 risk due to its bank indebtedness being at variable rates. For the six months ended June 30, 2007, the Company made interest payments on long-term debt and convertible debentures of \$3,319 [2006 – \$2,950].

[d] Forward foreign exchange contracts

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

The Corporation has foreign exchange contracts outstanding at June 30, 2007 as follows:

	Amount	Exchange rate
Maturity – less than 1 year – U.S. Dollar	\$42,300	1.06943

The fair value of these foreign exchange contracts is \$170 favourable as at June 30, 2007.

11. EMPLOYEE FUTURE BENEFITS

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

	Three-months ended June 30		Six-months ended June 30	
	2007	2006	2007	2006
<i>(Expressed in thousands)</i>				
Current service cost	\$ 467	\$ 578	\$ 934	\$ 1,155
Interest cost on projected benefit obligations	1,577	1,614	3,154	3,227
Expected returns on plan assets	(1,771)	(1,363)	(3,541)	(2,726)
Amortization of net actuarial loss	148	-	297	-
Amortization of past service costs	120	70	240	141
Net benefit cost recognized	\$ 541	\$ 899	\$ 1,084	\$ 1,797

12. RELATED PARTY TRANSACTIONS

During the three-month and six-month periods ended June 30, 2007, the Corporation sold receivables to a corporation with a common director in the amount of \$48,555 and \$74,572 respectively [June 30, 2006 - \$18,268 and \$34,663], for a discount of \$682 and \$943 respectively [June 30, 2006 - \$156 and \$301] representing an annualized interest rate of 7.5% and 7.5% respectively [June 30, 2006 – 8.5% and 8.3%]. Included in this balance, as at June 30, 2007, is a reserve of \$4,281 [2006 - \$591].

13. SUPPLEMENTARY INFORMATION

Foreign exchange loss on the conversion of foreign currency denominated working capital balances and debt for the three-month and six-month periods ended June 30, 2007 was \$2,154 and \$2,523 respectively [June 30, 2006 – gain of nil and \$282].

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