

Magellan Aerospace Corporation
Third Quarter Report
September 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 November 12, 2007, the Corporation released its financial results for the third quarter of 2007. All amounts are expressed in Canadian dollars unless otherwise indicated. The results are summarized as follows:

	Three-months ended September 30			Nine-months ended September 30		
	2007	2006	Change	2007	2006	Change
<i>(Expressed in thousands, except per share amounts)</i>						
Revenues	\$ 147,926	\$ 143,548	3.1 %	\$ 442,264	\$ 430,546	2.7 %
Gross Profit	\$ 14,557	\$ 13,052	11.5 %	\$ 46,018	\$ 40,479	13.7 %
(Loss) net income	\$ (2,911)	\$ 221	-	\$ (6,392)	\$ (6,104)	-
Net loss per share	\$ (0.04)	\$ 0.00	-	\$ (0.08)	\$ (0.07)	-
EBITDA*	\$ 9,603	\$ 11,195	-14.2 %	\$ 28,346	\$ 30,684	-7.6 %
EBITDA* per share	\$ 0.11	\$ 0.12	-8.3 %	\$ 0.31	\$ 0.34	-8.8 %

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

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

Management's Discussion and Analysis

The third quarter of 2007 marked a number of transitions towards commencing work on new programs, as well as experiencing continued increases in production rates for Magellan for the mainstay products of the current market. Boeing B787 pre-production activities in support of first flight, certification and entry into production continued to build. Airbus A380 restart preparations began late in the quarter towards first customer deliveries, with a return to production forecast for the end of 2007. Production rates for Airbus A320 and Boeing B737 single-aisle airliners rose to record levels as global demand continues unabated. In addition, business aircraft and helicopters are also in a strong growth period, and industry analysts are forecasting increased volumes through to 2010.

Magellan benefited in the third quarter from the increasing production rates in the single-aisle airliner sector, business aircraft and helicopter sectors. Aerostructure components and assemblies are manufactured for , among others, the A320 and B737 aircraft, whose production rates are increasing rapidly, while aerostructure, aeroengine and landing gear products are delivered to single-aisle airliners, business jets/turbo-props and helicopters. Pre-production test and certification components continued to be delivered to the B787 program, and production unit delivery underwent steady increases in the third quarter. The current delay announced for the B787 program is not expected to impact Magellan's production and delivery plan for the aircraft. The defence sector remains buoyant with orders for spares and new equipment continuing while pre-production aircraft components manufacture for the F35 and F136 engine of the Joint Strike Fighter (JSF) Program continued at a brisk pace across several Magellan plants.

Magellan continued to be impacted unfavourably by the delay in production of the A380 aircraft, however the restart is now scheduled for the fourth quarter of 2007, and activity commenced in Magellan in the third quarter to prepare for the required deliveries in 2008.

Revenues

	Three-months ended September 30			Nine-months ended September 30		
	2007	2006	Change	2007	2006	Change
<i>(Expressed in thousands)</i>						
Canada	\$ 73,247	\$ 67,140	9.1 %	\$ 211,028	\$ 204,343	3.3 %
United States	44,731	47,730	-6.3 %	140,045	140,959	-0.1 %
United Kingdom	29,948	28,678	4.4 %	91,191	85,244	7.0 %
Total Revenue	\$ 147,926	\$ 143,548	3.1 %	\$ 442,264	\$ 430,546	2.7 %

Consolidated revenues for the third quarter of 2007 were \$147.9 million, an increase of \$4.4 million or 3.1% from the third quarter of 2006. This was achieved despite the decline in the value of the U.S. dollar versus the Canadian dollar experienced during the third quarter which had a negative impact on revenue. If the average exchange rates experienced in the comparable period in 2006 remained constant in 2007, revenues for the third quarter would have been \$153.2 million (\$5.3 million higher) and would have represented an increase of 6.7% over 2006. The Company continues to experience increased customer demands and as a result increased sales on a number of programs.

Gross Profit

	Three-months ended September 30			Nine-months ended September 30		
	2007	2006	Change	2007	2006	Change
<i>(Expressed in thousands)</i>						
Gross profit	\$ 14,557	\$ 13,052	11.5 %	\$ 46,018	\$ 40,479	13.7 %
Percentage of revenue	9.8 %	9.1 %		10.4 %	9.4 %	

Gross profits of \$14.6 million (9.8% of revenues) were reported for the third quarter of 2007 compared to \$13.1 million (9.1% of revenues) during the same period in 2006. Gross profit, as a percentage of sales, has improved over 2006. Benefits from the Corporation's ongoing rejuvenation of four of its facilities continue 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 U.S. dollar versus the Canadian dollar during the third 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 \$2.7 million higher for the third quarter of 2007.

Administrative and General Expenses

	Three-months ended September 30		Nine-months ended September 30	
	2007	2006	2007	2006
<i>(Expressed in thousands)</i>				
Administrative and general expenses	\$ 9,137	\$ 9,999	\$ 31,672	\$ 30,259
Gain on sale of capital assets	(1,281)	(301)	(1,262)	(301)
Foreign exchange loss / (gain)	3,107	(297)	5,630	(579)
Total administrative and general expenses	\$ 10,963	\$ 9,401	\$ 36,040	\$ 29,379
Percentage of revenue	7.4 %	6.5 %	8.1 %	6.8 %

Administrative and general expenses were \$10.9 million (7.4% of revenues) in the third quarter of 2007 compared to \$9.4 million (6.5% of revenues) in the same period of 2006. Included in total administration and general expenses for the third quarter of 2007, is a gain on the sale of capital assets of \$1.3 million and a foreign exchange loss of \$3.1 million that had a negative impact on administrative and general expenses in the quarter. Without these items, administrative and general expenses were \$9.1 million (6.2% of revenues) in the third quarter of 2007 compared to \$10.0 million (7.0% of revenues) in the third quarter of 2006.

Interest Expense

	Three-months ended September 30		Nine-months ended September 30	
	2007	2006	2007	2006
<i>(Expressed in thousands)</i>				
Interest on bank indebtedness and other long-term debt	\$ 3,191	\$ 2,162	\$ 9,053	\$ 7,174
Convertible debenture interest	1,487	1,487	4,462	4,462
Accretion charge for convertible debt	595	573	1,769	1,719
Discount on sale of accounts receivable	848	975	2,683	2,910
Total interest expense	\$ 6,121	\$ 5,197	\$ 17,967	\$ 16,265

Interest expense in the third quarter of 2007 was \$6.1 million, \$0.9 million higher than the third quarter of 2006 as a result of increased debt levels necessary to support increased production demand.

Provision for (Recovery of) Income Taxes

	Three-months ended September 30		Nine-months ended September 30	
	2007	2006	2007	2006
<i>(Expressed in thousands)</i>				
Provision for (recovery of) current income taxes	\$ 484	\$ (100)	\$ 1,417	\$ 83
Provision for (recovery of) future income taxes	(100)	428	(3,014)	(2,350)
Total Provision for (recovery of) income taxes	\$ 384	\$ 328	\$ (1,597)	\$ (2,267)
Effective Tax Rate	(15.2) %	59.7 %	20.0 %	27.1 %

There was a provision for income taxes of \$0.4 million for the third quarter of 2007, compared to \$0.3 million for the third 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 September 30		Nine-months ended September 30	
<i>(Expressed in thousands)</i>	2007	2006	2007	2006
(Loss) net income	\$ (2,911)	\$ 221	\$ (6,392)	\$ (6,104)
Interest	6,121	5,197	17,967	16,265
Taxes	384	328	(1,597)	(2,267)
Facility rationalization charge	-	-	-	5,301
Stock based compensation	400	255	1,050	690
Depreciation and amortization	5,609	5,194	17,318	16,799
EBITDA	\$ 9,603	\$ 11,195	\$ 28,346	\$ 30,684

EBITDA for the third quarter of 2007 was \$9.6 million, a decrease of \$1.6 million from the third quarter of 2006. Higher administrative and general expenses offset increased gross profits in the third quarter of 2007 compared to 2006.

Liquidity and Capital Resources

Cash Flow from Operations

	Three-months ended September 30		Nine-months ended September 30	
<i>(Expressed in thousands)</i>	2007	2006	2007	2006
Decrease (increase) in accounts receivable	\$ 3,200	\$ 8,831	\$ (1,810)	\$ 9,457
Decrease (increase) in inventories	2,392	4,229	(20,943)	(15,157)
Decrease (increase) in prepaid expenses and other	490	3,220	(7,951)	1,391
Decrease in accounts payable	(3,247)	(19,197)	(130)	(11,109)
Changes to non-cash working capital balances	\$ 2,835	\$ (2,917)	\$ (30,834)	\$ (15,418)
Cash provided by (used in) operating activities	\$ 5,132	\$ 1,659	\$ (21,380)	\$ (1,458)

In the quarter ended September 30, 2007, the Corporation generated \$5.1 million of cash in its operations, compared to \$1.7 million in the third quarter of 2006. Cash was generated primarily due to lower accounts receivable and lower inventories partially offset by lower accounts payable.

Investing Activities

	Three-months ended September 30		Nine-months ended September 30	
<i>(Expressed in thousands)</i>	2007	2006	2007	2006
Purchase of capital assets	\$ (6,119)	\$ (6,047)	\$ (16,464)	\$ (20,190)
Proceeds from disposals of capital assets	1,342	3,634	1,695	3,969
(Increase) decrease in other assets	(564)	949	(2,229)	(1,640)
Cash used in investing activities	\$ (5,341)	\$ (1,464)	\$ (16,998)	\$ (17,861)

In the third quarter of 2007, the Corporation invested \$6.1 million in capital assets to upgrade and enhance its capabilities for current and future programs.

Financing Activities

	Three-months ended September 30		Nine-months ended September 30	
	2007	2006	2007	2006
<i>(Expressed in thousands)</i>				
(Decrease) increase in bank indebtedness	\$ (2,577)	\$ 7,051	\$ 18,379	\$ 27,529
(Decrease) increase of long-term debt	(269)	378	13,557	4,950
Increase (decrease) in long-term liabilities	1,863	340	2,210	(7,697)
Issue of Common Shares	26	14	65	40
Dividends on Preference Shares	(400)	(400)	(1,200)	(1,200)
Cash (used in) provided by financing activities	\$ (1,357)	\$ 7,383	\$ 33,011	\$ 23,622

The Corporation renewed its operating credit facility with its existing lenders on March 30, 2007. Under the terms of the renewed agreement, the maximum amount available under the operating credit facility is a Canadian dollar limit of \$75 million plus a US dollar limit of \$90 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 \$150.0 million borrowed under the operating facility.

On March 30, 2007, the Corporation borrowed \$15.0 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, amending and extending the terms of the existing convertible debentures with the approval of such debenture holders, or conversion into common shares.

Outstanding Share Data

As at November 12, 2007, the Corporation had 90,853,698 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.

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

A portion of the Corporation's revenues and expenses are currently denominated in U.S. dollars and Great British Pounds (GBP), and it is expected that some revenues and expenses will continue to be based in currencies other than the Canadian dollar. Therefore, fluctuations in the Canadian dollar exchange rate relative to these other currencies will impact the Corporation's results of operations and financial condition from period to period. In addition, the Corporation is subject to currency fluctuations from the translation of revenues, expenses, assets and liabilities of its self-sustaining foreign operations using a functional currency other than the Canadian dollar. The following table demonstrates the change in the Canadian dollar in the third quarter of 2007 in comparison to the U.S dollar and the GBP.

	Beginning of Quarter	End of Quarter	% Change
USD/CAD	1.0654	0.9948	(6.6)%
GBP/CAD	2.1333	2.0313	(4.8)%

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

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 third 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 September 30, 2007 for further details regarding the adoption of these standards.

Future Changes in Accounting Policies

In June 2007, the Accounting Standards Board issued a new accounting standard, Section 3031 "Inventories", which will replace Section 3030 "Inventories". Section 3031 prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost, including allocation of overheads and other costs to inventories, prohibits the use of the last-in, first-out (LIFO) method, and requires the reversal of previous write-downs when there is a subsequent increase in the value of inventories. It also requires greater disclosure regarding inventories and cost of sales. The new accounting standard is effective, for the Company, for interim and annual financial statements beginning on January 1, 2008. The Company is currently assessing the impact of this new standard on its Consolidated Financial Statements.

In December 2006, the Accounting Standards Board issued Section 1535 "Capital Disclosures", which establishes standards for disclosing information about an entity's capital and how it is managed. The new accounting standard is effective, for the Company, for interim and annual statements beginning on January 1, 2008.

Controls and Procedures

Based on the current Canadian Securities Administrators ("CSA") rules under Multilateral Instrument 52-109, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at September 30, 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

As 2008 approaches, the global aerospace marketplace offers broad opportunity for Magellan in the civil airliner, business aircraft and helicopters, and defence and space sectors. Record production rates in single aisle airliner production in both

Airbus and Boeing provide Magellan with a strong base of ongoing aerostructures work. Three new generation airliners entering the marketplace in 2007-2008 (Airbus A380 and Boeing B787) and 2013 (Airbus A350) provide Magellan with access to new technology and manufacturing processes, new products such as landing gear, and the means to renew production capabilities.

The very strong demand for business jets and helicopters has created a rapidly growing body of work in small to mid-size engines within Magellan's plants. In the defence sector, the Boeing F-18 continues its strong sales performance with the GE 414 engine while recent contracts announced for sales of proprietary defence products show the diversity the company enjoys in this sector. The Joint Strike Fighter, the largest military aircraft program ever undertaken, will enter production over the next several years. The JSF program will bring to Magellan world leading manufacturing technology, strong new relationships with leading American and European customers, and the stability of a multi-decade program.

Magellan also faces 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 heavy weight of unfavourable foreign exchange rates related to the U.S. dollar. The negative impacts of exchange rates on Magellan are being offset to some degree by natural hedging through U.S. dollar purchasing. Magellan has addressed start-up investments for the new programs over the past two 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.

On behalf of the Board



Richard A. Neill
Vice Chairman



James S. Butyniec
President and Chief Operating Officer

November 12, 2007

MAGELLAN AEROSPACE CORPORATION
**CONSOLIDATED STATEMENTS OF OPERATIONS AND
RETAINED EARNINGS**

(unaudited)

	Three-months ended September 30		Nine-months ended September 30	
	2007	2006	2007	2006
<i>(Expressed in thousands of dollars, except per share amounts)</i>				
Revenues	\$ 147,926	\$ 143,548	\$ 442,264	\$ 430,546
Cost of revenues	133,369	130,496	396,246	390,067
Gross profit	14,557	13,052	46,018	40,479
Administrative and general expenses	10,963	9,401	36,040	29,379
Facility rationalization (note 3)	-	(2,095)	-	3,206
Interest	6,121	5,197	17,967	16,265
	17,084	12,503	54,007	48,850
(Loss) income before income taxes	(2,527)	549	(7,989)	(8,371)
Provision for (recovery of) income taxes				
- Current	484	(100)	1,417	83
- Future	(100)	428	(3,014)	(2,350)
	384	328	(1,597)	(2,267)
(Loss) net income for the period	(2,911)	221	(6,392)	(6,104)
Retained earnings, beginning of the period	93,758	99,894	98,039	107,019
Dividends on preference shares	(400)	(400)	(1,200)	(1,200)
Net income (loss) for the period	(2,911)	221	(6,392)	(6,104)
Retained earnings, end of period	\$ 90,447	\$ 99,715	\$ 90,447	\$ 99,715
(Loss) income per common share				
Basic and diluted	\$ (0.04)	\$ 0.00	\$ (0.08)	\$ (0.07)

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

(unaudited)

	Three-months ended September 30		Nine-months ended September 30	
	2007	2006	2007	2006
<i>(Expressed in thousands of dollars)</i>				
Net income (loss) for the period	\$ (2,911)	\$ 221	\$ (6,392)	\$ (6,104)
Other comprehensive loss:				
Unrealized (loss) gain on translation of financial statements of self-sustaining foreign operations (Note 9)	(9,081)	920	(22,347)	(3,450)
Comprehensive (loss) income	\$ (11,992)	\$ 1,141	\$ (28,739)	\$ (9,554)

See accompanying notes

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED BALANCE SHEETS

(unaudited)

(Expressed in thousands of dollars)

(unaudited)	As at September 30 2007		As at December 31 2006	
(Expressed in thousands of dollars)				
ASSETS (note 5)				
Current				
Cash	\$	3,786	\$	9,896
Accounts receivable		54,837		58,066
Inventories (note 4)		280,608		276,462
Prepaid expenses and other		16,933		10,396
Future income tax assets		5,625		5,914
Total current assets		361,789		360,734
Capital assets, net		245,880		265,078
Other		53,302		52,680
Future income tax assets		5,409		5,829
Total assets	\$	666,380	\$	684,321
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Bank indebtedness (note 5)	\$	146,409	\$	142,457
Accounts payable and accrued charges		124,364		128,066
Convertible debentures		69,184		-
Current portion of long-term debt		16,933		2,039
Total current liabilities		356,890		272,562
Long-term debt		13,556		15,902
Future income tax liabilities		15,304		20,785
Convertible debentures		-		67,430
Other long-term liabilities		4,582		2,748
Total liabilities		390,332		379,427
Shareholders' equity				
Capital stock (note 6)		234,214		234,171
Contributed surplus		2,849		1,799
Other paid in capital		11,100		11,100
Retained earnings		90,447		98,039
Accumulated other comprehensive loss (note 9)		(62,562)		(40,215)
Total shareholders' equity		276,048		304,894
Total liabilities and shareholders' equity	\$	666,380	\$	684,321

See accompanying notes

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

**Three-months ended
September 30**
**Nine-months ended
September 30**
(Expressed in thousands of dollars)

	2007	2006	2007	2006
OPERATING ACTIVITIES				
(Loss) net income for the period	\$ (2,911)	\$ 221	\$ (6,392)	\$ (6,104)
Add (deduct) items not affecting cash				
Depreciation and amortization	5,609	5,194	17,318	16,799
Gain on sale of capital assets	(1,281)	-	(1,262)	-
Facility rationalization charge (note 3)	-	(2,095)	-	3,206
Stock based compensation (note 7)	400	255	1,050	690
Accretion of convertible debentures	580	573	1,754	1,719
Future income tax (recoveries) provision	(100)	428	(3,014)	(2,350)
	2,297	4,576	9,454	13,960
Net change in non-cash working capital items relating to operating activities	2,835	(2,917)	(30,834)	(15,418)
Cash provided by (used in) operating activities	5,132	1,659	(21,380)	(1,458)
INVESTING ACTIVITIES				
Purchase of capital assets	(6,119)	(6,047)	(16,464)	(20,190)
Proceeds from disposal of capital assets	1,342	3,634	1,695	3,969
(Decrease) increase in other assets	(564)	949	(2,229)	(1,640)
Cash used in investing activities	(5,341)	(1,464)	(16,998)	(17,861)
FINANCING ACTIVITIES				
(Decrease) increase in bank indebtedness	(2,577)	7,051	18,379	27,529
(Decrease) increase of long-term debt	(269)	378	13,557	4,950
Increase (decrease) in long-term liabilities	1,863	340	2,210	(7,697)
Issue of Common Shares	26	14	65	40
Dividends on Preference Shares	(400)	(400)	(1,200)	(1,200)
Cash (used in) provided by financing activities	(1,357)	7,383	33,011	23,622
Effect of exchange rate changes on cash	(67)	449	(743)	91
Net (decrease) increase in cash	(1,633)	8,027	(6,110)	4,394
Cash, beginning of period	5,419	3,793	9,896	7,426
Cash, end of period	\$ 3,786	\$ 11,820	\$ 3,786	\$ 11,820

See accompanying notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

1. ACCOUNTING POLICIES**Basis of presentation**

The accompanying unaudited interim consolidated financial statements have been prepared by Magellan Aerospace Corporation ("the Corporation") in accordance with generally accepted accounting principles in Canada with respect to preparation of interim financial statements on a basis consistent with those followed in the most recent audited consolidated financial statements. 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 September 30, 2007 and the results of operations and cash flows for the three and nine month periods ended September 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 Corporation'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 Corporation 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

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 Corporation 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 Corporation 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 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 on the sales of \$2,095 and \$3,566, respectively. To prepare this real estate for sale, machinery and equipment was disposed of for minimal proceeds. Accordingly, a non-cash charge of \$5,301 (\$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 (\$164,532 at September 30, 2007). Bank indebtedness as at September 30, 2007 of \$146,409 [December 31, 2006 - \$142,457] is payable on demand and bears interest at the bankers' acceptance or LIBOR rates, plus 0.875% [6.0% at September 30, 2007]. Included in the amount outstanding at September 30, 2007 is US\$87,053 [December 31, 2006 - US\$82,325]. At September 30, 2007, the Corporation had drawn \$146,409 under the operating credit and had issued letters of credit totalling \$1,914 such that \$16,209 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 September 30, 2007:

	Outstanding	Exercisable
Common shares	90,853,698	
Common shares stock options	4,845,050	1,448,010
Preferred shares	2,000,000	

The weighted average number of common shares outstanding during the three-month and nine-month periods ended September 30, 2007 was 90,849,933 and 90,843,678, 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 3,501,653. 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 nine-month periods ended September 30, 2007 was \$400 and \$1,050, respectively [September 30, 2006 - \$255 and \$690]. In the nine-month period ended September 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:

	2007	2006
Risk-free interest rate	4.0 %	4.0 %
Expected volatility	46.0 %	46.0 %
Expected average life of options	5 years	5 years
Expected dividend yield	0.0 %	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 September 30, 2007				As at December 31, 2006			
	Canada	US	UK	Total	Canada	US	UK	Total
Capital assets	\$ 118,667	\$ 107,221	\$ 19,992	\$ 245,880	\$ 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 September 30							
	2007				2006			
	Canada	US	UK	Total	Canada	US	UK	Total
Revenue								
Domestic	\$ 23,131	\$ 38,012	\$ 28,259	\$ 89,402	\$ 21,204	\$ 39,691	\$ 27,499	\$ 88,394
Export	50,116	6,719	1,689	58,524	45,936	8,039	1,179	55,154
Total revenue	\$ 73,247	\$ 44,731	\$ 29,948	\$ 147,926	\$ 67,140	\$ 47,730	\$ 28,678	\$ 143,548

Nine-months ended September 30								
	2007				2006			
	Canada	US	UK	Total	Canada	US	UK	Total
Revenue								
Domestic	\$ 70,204	\$ 121,171	\$ 88,231	\$ 279,606	\$ 70,539	\$ 115,676	\$ 80,420	\$ 266,635
Export	140,824	18,874	2,960	162,658	133,804	25,283	4,824	163,911
Total revenue	\$ 211,028	\$ 140,045	\$ 91,191	\$ 442,264	\$ 204,343	\$ 140,959	\$ 85,244	\$ 430,546

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

	Three-months ended September 30		Nine-months ended September 30	
	2007	2006	2007	2006
Major Customers				
Canadian operations				
- Number of customers	3	3	3	4
- Percentage of total Canadian revenue	36 %	37 %	36 %	46 %
US operations				
- Number of customers	1	3	1	3
- Percentage of total US revenue	42 %	56 %	42 %	58 %
UK operations				
- Number of customers	1	1	1	1
- Percentage of total UK revenue	66 %	87 %	78 %	83 %

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

Other comprehensive loss includes unrealized foreign currency translation gains and losses, which arise on the translation to Canadian dollars of assets and liabilities of the Corporation's self-sustaining foreign operations. The unrealized currency translation loss for the three-month and nine-month periods ended September 30, 2007 was \$9,081 and \$22,347, respectively [2006 – gain of \$920 and loss \$3,450]. This loss is reflected in the consolidated balance sheets and has no impact on net income (loss).

10. FINANCIAL INSTRUMENTS

The Corporation's policy is not to utilize derivative financials 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 \$28,748 at September 30, 2007.

Convertible Debentures

The fair market value of the Corporation's Convertible Debentures, calculated based on available market data at September 30, 2007 was \$68,935.

[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 nine months ended September 30, 2007, the Company made interest payments on long-term debt and convertible debentures of \$5,634 [2006 – \$4,720].

[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 Norwegian kroner (NOK). Under these contracts the Corporation is obliged to purchase or sell specific amounts of U.S. dollars and NOK at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in U.S. dollars and Norwegian kroner.

The Corporation has a foreign exchange contract outstanding at September 30, 2007 as follows:

	Amount	Exchange rate
Maturity – less than 1 year – NOK	49,726	0.17948 – 0.18514
Maturity – less than 1 year – U.S. Dollar Put	\$6,000	1.1975
Maturity – less than 1 year – U.S. Dollar Call	\$6,000	1.1530
Maturity – less than 1 year – U.S. Dollar	\$52,100	1.0055

The fair values of these foreign exchange contracts were favourable by approximately \$544 as at September 30, 2007.

11. EMPLOYEE FUTURE BENEFITS

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

	Three-months ended September 30		Nine-months ended September 30	
	2007	2006	2007	2006
<i>(Expressed in thousands)</i>				
Current service cost	\$ 467	\$ 578	\$ 1,401	\$ 1,733
Interest cost on projected benefit obligations	1,577	1,614	4,731	4,840
Expected returns on plan assets	(1,771)	(1,363)	(5,312)	(4,090)
Amortization of net actuarial loss	148	-	445	-
Amortization of past service costs	120	70	360	211
Net benefit cost recognized	\$ 541	\$ 899	\$ 1,625	\$ 2,694

12. RELATED PARTY TRANSACTIONS

During the three-month and nine-month periods ended September 30, 2007, the Corporation sold receivables to a corporation with a common director in the amount of \$69,761 and \$144,333, respectively [September 30, 2006 - \$16,156 and \$46,906], for a discount of \$826 and \$1,768, respectively [September 30, 2006 - \$218 and \$519] representing an annualized interest rate of 7.5% and 7.5%, respectively [September 30, 2006 – 8.5% and 8.3%]. Included in this balance,

as at September 30, 2007, is a reserve of \$4,988 [2006 - \$3,053].

13. SUPPLEMENTARY INFORMATION

Foreign exchange loss on the conversion of foreign currency denominated working capital balances and debt for the three-month and nine-month periods ended September 30, 2007 was \$3,107 and \$5,630, respectively [September 30, 2006 – gain of \$297 and \$579].

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