MAGELLAN
AEROSPACE CORPORATION

Magellan Aerospace Corporation
Third Quarter Report
September 30, 2008

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 14, 2008, the Corporation released its financial results for the third quarter of 2008. 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		
(Expressed in thousands, except per share amounts)	**2008**	**2007**	**Change**	**2008**	**2007**	**Change**
Revenues	$ 173,088	$ 147,926	17.0%	$ 506,291	$ 442,264	14.5%
Gross Profit	$ 22,568	$ 14,557	55.0%	$ 57,713	$ 46,018	25.4%
Net Income (Loss)	$ 2,655	$ (2,911)	-	$ 5,489	$ (6,392)	-
Net Income (Loss) per share	$ 0.12	$ (0.18)	-	$ 0.24	$ (0.42)	-
EBITDA*	$ 22,101	$ 9,603	130.1%	$ 55,440	$ 28,346	95.6%
EBITDA* per share	$ 1.22	$ 0.53	130.2%	$ 3.05	$ 1.56	95.5%

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

In the third quarter of 2008, the Corporation generated increased revenue and gross profit over the third quarter 2007, and corresponding increases for the nine months ending September 30 2008. Results for the three and nine-months ended September 30, 2008 included one-time retroactive price adjustments totalling $10.4 million and $4.9 million, respectively. Revenues also increased over a broad spectrum of the Corporation's customer base, and were particularly strong in the United States and the United Kingdom.

The Corporation achieved improvements in EBITDA on a year-over-year quarterly basis, and on a year-to-date basis from 2007 to 2008 largely due to the one-time retroactive price adjustment recorded in the current quarter. Underlying operational improvements, rationalization of product lines, and updates of commercial agreements have each contributed to earnings in the third quarter, and in the nine months to September 30, 2008. In light of the current economic environment the Corporation has experienced decreased production expectations on certain product lines and as a result recorded write-downs on inventory and deferred costs totalling $3.1 million in the quarter ended September 30, 2008.

The Corporation continued to apply new technology and methodology in the third quarter at its operating sites, improving throughput and attracting additional awards of work from its customer base. It also continued to transfer non-core work packages to emerging market sites, generating capacity for complex core work in its facilities, and meeting a share of customer off-set requirements.

For additional information, please refer to the *"Management's Discussion and Analysis"* section of the Annual Report available on www.sedar.com.

Revenues

	Three-months ended September 30			Nine-months ended September 30		
(Expressed in thousands)	**2008**	**2007**	**Change**	**2008**	**2007**	**Change**
Canada	$ 71,591	$ 73,247	(2.3 %)	$ 223,572	$ 211,028	5.9 %
United States	67,219	44,731	50.3 %	180,565	140,045	28.9 %
United Kingdom	34,278	29,948	14.5 %	102,154	91,191	12.0 %
Total revenue	$ 173,088	$ 147,926	17.0 %	$ 506,291	$ 442,264	14.5 %

Consolidated revenues for the third quarter of 2008 were $173.1 million, an increase of $25.2 million or 17.0% over the third quarter of 2007. As noted in Note 5 "Inventories" in the Corporation's 2007 audited financial statements, due to the long-term nature of the Corporation's contracts, the Corporation may be in negotiations with its customers over amendments to pricing or other terms. During the third quarter of 2008, the Corporation concluded its negotiations in respect to one such long-term contract with a European customer and as a result recorded one-time retroactive price adjustments totalling $10.4 million, which was a direct increase to both of the Corporation's revenue and EBITDA in the third quarter of 2008. Increased sales in both the United States and the United Kingdom can be attributed to the Corporation's increased participation on the Boeing and Airbus family of parts over the third quarter of 2007. The acquisition of Verdict Aerospace Components Ltd. ("Verdict") contributed in part to the increased sales in the United Kingdom. Sales in Canada declined from the third quarter of 2007 due to significant proprietary products sales in the third quarter of 2007 which did not recur in the same quarter in 2008. Magellan continues to have a healthy order book on its proprietary products and the decline quarter over quarter represents the timing of sales rather than a decline in orders.

Gross Profit

(Expressed in thousands)	Three-months ended September 30			Nine-months ended September 30		
	2008	**2007**	**Change**	**2008**	**2007**	**Change**
Gross profit	$ 22,568	$ 14,557	55.0 %	$ 57,713	$ 46,018	25.4 %
Percentage of revenue	13.0 %	9.8 %		11.4 %	10.4 %	

Gross profits of $22.6 million (13.0% of revenues) were reported for the third quarter of 2008 compared to $14.6 million (9.8% of revenues) during the same period in 2007. Gross profit, as a percentage of sales, increased over the third quarter of 2007 due to the Corporation concluding one-time retroactive price adjustments totalling $10.4 million in the quarter, as well as a change in the Corporation's product mix. Gross profit for the third quarter of 2008, excluding the impact of the negotiated $10.4 million one-time retroactive price adjustment and the write-down of $3.1 million taken in the quarter due to the impact of the uncertainties of the current economic climate, would have been $15.3 million (9.4% of revenues). The Corporation continues to assess its core competencies to look at improving efficiencies whether internally or through emerging markets to strengthen future gross margins.

Administrative and General Expenses

(Expressed in thousands)	Three-months ended September 30		Nine-months ended September 30	
	2008	**2007**	**2008**	**2007**
Administrative and general expenses	$ 12,113	$ 9,137	$ 32,807	$ 31,672
Foreign exchange loss (gain)	(2,190)	3,107	(3,246)	5,630
Gain on sale of capital assets	(9)	(1,281)	(1,643)	(1,262)
Total administrative and general expenses	$ 9,914	$ 10,963	$ 27,918	$ 36,040
Percentage of revenue	5.7 %	7.4 %	5.5 %	8.1 %

Total administrative and general expenses were $9.9 million (5.7% of revenues) in the third quarter of 2008 compared to $11.0 million (7.4% of revenues) in the same period of 2007. Administrative and general expenses before foreign exchange and the gain on the sale of capital assets were $12.1 million (7.0% of revenues) in the third quarter of 2008, an increase when compared to $9.1 million (6.2% of revenues) in the third quarter of 2007. Administrative and general expenses in the third quarter of 2007 were offset by currency collar gains of $0.7 million that did not recur in the third quarter of 2008. In addition, the Corporation recorded a provision of $0.4 million against accounts receivable related to one customer due to the current economic environment.

Interest Expense

(Expressed in thousands)	Three-months ended September 30		Nine-months ended September 30	
	2008	**2007**	**2008**	**2007**
Interest on bank indebtedness and other long-term debt	$ 3,809	$ 3,191	$ 11,004	$ 9,053
Convertible debenture interest	442	1,487	1,691	4,462
Accretion charge for convertible debt	65	595	371	1,769
Discount on sale of accounts receivable	1,771	848	4,039	2,683
Total interest expense	$ 6,087	$ 6,121	$ 17,105	$ 17,967

Interest expense in the third quarter of 2008 was consistent with the third quarter of 2007 at $6.1 million. Interest and accretion expense in relation to the convertible debentures were lower in the third quarter of 2008 than the comparative quarter in 2007 due to a lower principal amount of convertible debentures outstanding which was offset by interest paid on an increased debt level in the current quarter in comparison to the same quarter of 2007.

Provision for (recovery of) Income Taxes

(Expressed in thousands)	Three-months ended September 30		Nine-months ended September 30	
	2008	**2007**	**2008**	**2007**
Provision for current income taxes	$ 176	$ 484	$ 384	$ 1,417
Expense (recovery) of future income taxes	3,736	(100)	6,817	(3,014)
Total expense (recovery) of income taxes	$ 3,912	$ 384	$ 7,201	$ (1,597)
Effective Tax Rate	59.6 %	(15.2) %	56.7 %	20.0 %

The Corporation recorded an income tax expense of $3.9 million for the third quarter of 2008, compared to an income tax expense of $0.4 million for the third quarter of 2007. The change in effective tax rates is a result of a changing mix of income across the different jurisdictions in which the Corporation operates and due to the unrecorded tax benefits derived from temporary differences in Canada.

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

In addition to the primary measures of earnings and earnings per share in accordance with GAAP, the Corporation includes certain measures in this MD&A, including EBITDA (earnings before interest expense, income taxes, depreciation, amortization and certain non-cash charges). The Corporation has provided these measures because it believes this information is used by certain investors to assess financial performance and EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Corporation's principal business activities prior to consideration of how these activities are financed and how the results are taxed in the various jurisdictions. Each of the components of this measure are calculated in accordance with GAAP, but EBITDA is not a recognized measure under GAAP, and our method of calculation may not be comparable with that of other companies. Accordingly, EBITDA should not be used as an alternative to net earnings as determined in accordance with GAAP or as an alternative to cash provided by or used in operations.

(Expressed in thousands)	Three-months ended September 30		Nine-months ended September 30	
	2008	**2007**	**2008**	**2007**
Net income (loss)	$ 2,655	$ (2,911)	$ 5,489	$ (6,392)
Interest	6,087	6,121	17,105	17,967
Taxes	3,912	384	7,201	(1,597)
Stock based compensation	295	400	908	1,050
Depreciation and amortization	6,057	5,609	17,552	17,318
Amortization of deferred development costs	3,095	-	7,185	-
EBITDA	$ 22,101	$ 9,603	$ 55,440	$ 28,346

EBITDA for the third quarter of 2008 was $22.1 million, compared to $9.6 million in the third quarter of 2007. Growth in revenues and higher gross profit in the third quarter of 2008 compared to 2007 contributed to the increase in EBITDA for the current quarter. EBITDA for the third quarter of 2008, excluding the impact of the negotiated $10.4 million one-time retroactive price adjustments and the write-down of $3.1 million taken in the quarter due to the impact of the uncertainties of the current economic climate, would have been $14.8 million. Prior to the adoption of the CICA Handbook Section 3031, "Inventories", the Corporation included in inventory deferred development costs and the amortization of these costs were not a component within the EBITDA calculation.

Liquidity and Capital Resources

Cash Flow from Operations

(Expressed in thousands)	Three-months ended September 30		Nine-months ended September 30	
	2008	2007	2008	2007
(Increase) decrease in accounts receivable	$ (2,410)	$ 3,200	$ (4,646)	$ (1,810)
Decrease (increase) in inventories	2,092	2,392	(16,898)	(20,943)
Decrease (increase) in prepaid expenses and other	1,087	490	775	(7,951)
(Decrease) increase in accounts payable	(10,369)	(3,247)	(4,765)	9,814
Changes to non-cash working capital balances	$ (9,600)	$ 2,835	$ (25,534)	$ (20,890)
Cash provided by (used in) operating activities	$ 7,065	$ 6,112	$ 9,204	$ (13,205)

In the quarter ended September 30, 2008, the Corporation generated $7.1 million of cash in its operations, compared to $6.1 million in the third quarter of 2007. Cash was generated by decreased inventories and prepaid expenses, offset by a decrease in accounts payable and an increase in accounts receivable.

Investing Activities

(Expressed in thousands)	Three-months ended September 30		Nine-months ended September 30	
	2008	2007	2008	2007
Acquisition of Verdict (note 3)	$ -	$ -	$ (4,240)	$ -
Purchase of capital assets	(4,988)	(6,119)	(14,325)	(16,464)
Proceeds of disposals of capital assets	24	1,342	2,808	1,695
Decrease (increase) in other assets	318	(1,544)	(5,848)	1,937
Cash used in investing activities	$ (4,646)	$ (6,321)	$ (21,605)	$ (12,832)

In the third quarter of 2008, the Corporation invested $5.0 million in capital assets to upgrade and enhance its capabilities for current and future programs.

Financing Activities

(Expressed in thousands)	Three-months ended September 30		Nine-months ended September 30	
	2008	2007	2008	2007
Increase (decrease) in bank indebtedness	$ 1,548	$ (2,577)	$ 29,235	$ 18,379
Decrease in loan payable	-	-	(15,000)	-
Increase in loan payable	-	-	15,000	13,557
Decrease in long-term debt	(402)	(269)	(16,864)	
Increase in long-term debt	-	-	50,000	-
Decrease in convertible debentures	-	-	(69,985)	-
Increase in convertible debentures	-	-	20,778	-
(Decrease) increase in long-term liabilities	(70)	1,863	(833)	(10,131)
Issue of Common Shares	17	26	60	65
Dividends on Preference Shares	(400)	(400)	(1,200)	(1,200)
Cash provided by (used in) financing activities	$ 693	$ (1,357)	$ 11,191	$ 20,670

The Corporation amended its operating credit facility with its existing lenders on June 24, 2008. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was increased by $20 million to a Canadian dollar limit of $95 million plus a US dollar limit of $90 million, with a maturity date of May 23, 2009. The facility is extendable for unlimited one-year renewal periods by the agreement of the Corporation and the lenders and continues to be guaranteed by the Chairman of the Corporation. An annual standby guarantee fee in 2008 of 1.0% (2007 – 0.1%) of the guaranteed amount was provided by the Corporation in consideration for this guarantee. This standby fee was increased to 1.35% on June 24, 2008 in consideration for providing additional security for the Corporation's obligations. Due to this guarantee, interest is charged at the bankers' acceptance or LIBOR rates plus 1.0%, compared to the rate of bankers' acceptance or LIBOR rates plus 4.5% that was charged in 2005 prior to the guarantee being provided. The net

annual savings to the Corporation is approximately $4.1 million assuming an average of $190.0 million borrowed under the operating capacity.

On March 30, 2007, the Corporation borrowed $15.0 million by way of a promissory note from a corporation wholly owned by a common director. This loan was due July 1, 2008 and bore interest at a rate of 9% per annum. This loan was repaid on January 30, 2008.

On January 30, 2008, the Corporation closed a private placement of an aggregate of $21.0 million 8.5% convertible unsecured subordinated debentures, due January 31, 2010 (the "New Debentures") the proceeds of which were used to fund, in part, the repayment of the $70.0 million principal amount of outstanding 8.5% unsecured subordinated debentures (the "Existing Debentures") which matured on January 31, 2008 (Note 4 – Refinancing).

On January 30, 2008, in order to fund the remaining balance of approximately $50.0 million on the maturity of the Existing Debentures, a corporation controlled by the Chairman of the Board, provided a loan of $50.0 million (the "Original Loan") and a $15.0 million bridge loan (the "Bridge Loan") to the Corporation. All of the funds from the Bridge Loan and approximately $35.0 million of the funds from the Original Loan were used to repay the balance of the Existing Debentures and the $15.0 million additional funds from the Original Loan was provided to the Corporation to retire $15.0 million of subordinated debt due to a company with a common director, who is also the owner of all of the shares of such lender. Both the Original Loan and the Bridge Loan bear interest at a rate of 10% per annum calculated and payable monthly and are collateralized and subordinated to the Corporation's existing bank credit facility. The Original Loan is repayable on July 1, 2009 and the Bridge Loan that was repayable on July 31, 2008 was repaid on June 24, 2008. (Note 4 – Refinancing).

The Corporation's operating credit facility and the Original Loan are both due within a one-year period. The Corporation has not yet engaged in any discussions with its lenders regarding the renewal of these facilities and in light of the current credit conditions there is no certainty that the Corporation will be able to renew these facilities. If the Corporation is unable to renew (as it has done in previous years) or re-finance these facilities, its ability to continue as a going concern may be uncertain.

The 2009 pension expense is sensitive to both investment performance and the discount rate as of December 31, 2008 and will be determined at that time. Given year-to-date performance of global capital markets, we are currently anticipating higher pension expense in 2009 absent a sharp market recovery or a significant increase in the discount rate before year-end. Through the end of September, our pension plan assets experienced a negative 4.8% return, reflecting the general market performance. From a funding perspective, the next required actuarial valuation for the most significant plans, which will determine minimum pension contributions, varies from December 31, 2008 to December 31, 2010.

Share Data and Share Consolidation

As at October 31, 2008, the Corporation had 18,189,271 common shares outstanding and 2,000,000 outstanding First Preference Shares Series A.

At the Corporation's Annual General and Special Meeting, the Corporation's shareholders approved a consolidation of Magellan's issued and outstanding common shares on the basis of one new common share for each five common shares presently issued and outstanding which was effective May 21, 2008.

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.

Deterioration in the Global Credit and Capital Markets
The credit and capital markets have experienced unprecedented deterioration in 2008, including the failure of a number of significant and established financial institutions in the U.S and abroad, all of which will have an impact on the availability of credit and capital in the near term. If uncertainties in these markets continue, or these markets deteriorate further, it could have a material adverse impact on the Corporation's liquidity and capital resources.

The Corporation's debt is significant and may need to be refinanced and such refinancing may not be available.
The Corporation and its subsidiaries have significant debt obligations. If the Corporation is unable to meet its debt obligations, it may need to consider refinancing or adopting alternative strategies to reduce or delay capital expenditures, selling assets or seeking additional equity capital.

The Corporation renewed its bank credit agreement with its existing lender on June 24, 2008 (the "Bank Facility Agreement"). Under the terms of the Bank Facility Agreement, the Corporation has an operating credit facility, expiring on May 23, 2009, and extendable for unlimited one-year periods by agreement of the Corporation and the lenders. The Corporation's Bank Facility Agreement also requires the Corporation to maintain a specified financial ratio. The Corporation's ability to meet the financial ratio can be affected by events beyond the Corporation's control, and there can be no assurance that the Corporation will be able to meet this ratio. There is no assurance that the Bank Facility Agreement will be renewed every year or that the terms of renewal will not be materially adverse to the Corporation. This credit facility is guaranteed by the Chairman of the Corporation. There is also no assurance that the guarantee, if required, will be available beyond the term of the current commitment which ends on May 23, 2009. There is no assurance that Magellan will be in compliance with all of its bank covenants at all times during the upcoming twelve months due to unforeseen events or circumstances, some of which are outlined in the Annual Information Form - "Risks Inherent in Magellan's Business".

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 2008 in comparison to the U.S dollar and the GBP.

	Beginning of Quarter	End of Quarter	% Change
USD/CAD	1.0197	1.0642	4.4%
GBP/CAD	2.0276	1.8868	(6.9)%

The resulting foreign exchange gains or losses are included in net income or loss and other comprehensive income or loss 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.

The agreements with labour unions representing certain of the Corporation's employees are subject to renewal.
If the Corporation is unable to renew all agreements as they become subject to renegotiation from time to time, it could result in work stoppages and other labour disturbances which could have a material adverse effect on its business. This risk may be mitigated by the ability of the Corporation to transfer work from one location to another.

The Corporation may need additional financing for acquisitions and capital expenditures and additional financing may not be available on acceptable terms.
The Corporation's ability to grow is dependent upon, and may be limited by, among other things, availability under the credit facilities and by particular restrictions contained therein and the Corporation's other financing arrangements. In that case, additional funding sources may be needed, and the Corporation may not be able to obtain the additional capital necessary to pursue its internal growth and acquisition strategy or, if the Corporation can obtain additional financing, the additional financing may not be on financial terms, which are satisfactory to it.

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

Critical Accounting Estimates

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

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

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

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

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

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

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

Changes in Accounting Policies

Effective January 1, 2008, the Corporation was required to adopt Canadian Institute of Chartered Accounts ("CICA"): Handbook Section 3031 "Inventories", which replaces Section 3030 "Inventories". The Corporation adopted this new section retrospectively, without restatement of prior periods. This new section provides revised guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides revised guidance on the cost methodologies that are to be used to assign costs to inventories and expands the disclosure requirements to increase transparency.

As a result of these required changes in accounting policies, the Corporation was required to adopt the unit cost method for inventory related to its long-term contracts in replacement of the long-term average cost method. The unit cost method is the prescribed cost method under which the actual production costs are charged to each unit produced and recognized to income as the unit is sold. The Corporation previously accounted for the cost of production inventory using the long-term average cost which reflected higher unit costs at the early phase of a program and lower unit costs at the end of the program (the learning curve concept).

As at January 1, 2008, the effect of these accounting changes, required under Section 3031, on the Corporation's consolidated balance sheet is as follows:

	Reported, as at December 31, 2007	Impact of accounting changes (a)	Additional adjustment of the impact of accounting changes (b)	Restated, as at January 1, 2008
Assets				
Inventories	$ 274,011	$ (118,171)	$ (3,291)	$ 152,549
Capital assets	245,727	10,852	-	256,579
Other assets	55,707	67,471	-	123,178
	$ 575,445	$ (39,848)	$ (3,291)	$ 532,306
Liabilities				
Future income tax liabilities	$ 16,799	$ (7,692)	$ (1,152)	$ 7,955
Shareholders' equity	$ 265,927	$ (32,156)	$ (2,139)	$ 231,632

(a) Learning curve balances of $39,848 and a future income tax recovery of $7,692 were charged to retained earnings on adoption of Section 3031, both effective January 1, 2008. This new section also prescribed that certain development costs and program tooling costs may no longer be classified as inventory. As a result, $67,471 of deferred development costs related to long-term contracts have been reclassified to other assets and $10,852 of program tooling costs have been reclassified to capital assets, both effective January 1, 2008.

(b) During the preparation of the nine-month interim financial statements an additional adjustment was identified in the effect of the adoption of Section 3031 with respect to certain learning curve balances that were not identified as part of the initial analysis. The Corporation has made an additional adjustment to the impact of the learning curve balances and the related income tax recovery charged to retained earnings of $3,291 and $1,152, respectively.

On January 1, 2008, the Corporation adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants: Handbook Section 1535, Capital Disclosures ("Section 1535"), Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862") and Handbook Section 3863, Financial Instruments – Presentation ("Section 3863").

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements for financial instruments. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

CICA Handbook Section 1400, General Accounting was amended to include the requirement to assess and disclose uncertainties about the Corporation's ability to continue as a going concern. The new requirements came into effect for the Corporation's fiscal year beginning January 1, 2008. The amended standard did not have an impact on the valuation or classification of the Corporation's unaudited interim consolidated financial statements.

Future Changes in Accounting Policies

In February 2008, the Accounting Standards Board confirmed that Canadian generally accepted accounting principles for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Corporation, for interim and annual financial statements beginning on January 1, 2011. IFRS uses a conceptual framework similar to Canadian generally accepted accounting principles, but there are significant differences on recognition, measurement and disclosures. The Corporation is currently evaluating the impact of the adoption of IFRS on its Consolidated Financial Statements.

Section 3064, Goodwill and Other Intangible Assets, will replace Handbook Section 3062, Goodwill and Other Intangible Assets. This new standard will be effective for fiscal years beginning on or after October 1, 2008 and the Corporation will

adopt it on January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Corporation is currently evaluating the impact of the adoption of this new Section on its financial statements.

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, 2008 that they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting.

Management does not expect disclosure controls and procedures to prevent all errors, misstatements or fraud. In addition, internal control over financial reporting that management has designed and established may be circumvented and rendered ineffective as a result of unauthorized acts of individuals through collusion or management override. A system of control, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that control objectives are met. Due to the inherent limitations in a system of control, there is no absolute assurance that all control issues, which may result in errors, misstatements, or fraud, can be prevented or detected. The inherent limitations include, amongst other things: (i) management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of isolated errors; or (iii) assumptions about the likelihood of future events.

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

Outlook

The outlook for the aerospace industry has been buffeted by contrasting events, and signals are not yet fully consistent. The global financial turmoil of the third quarter of 2008, with its resulting credit issues, has served as a damper on expectations of the civil aircraft industry. Countering this doubt, order books of OEM's remain strong, while 2009 plans for increased production are now being placed on suppliers, the Corporation is closely monitoring its customers activity levels in order to align its production with their needs. Defence sector demand is expected to retain its strength in the short to medium term, although most commentators are calling for reductions in 2012-2014. This is particularly the case in the United States due to the current high expenditure rate, the financial and credit issues, and the uncertainty caused by the change of administration.

The Corporation has a balanced book of business in both civil and defence aerospace. It has won a series of new programs that are moving towards production, or production ramp-ups. Notably, the Airbus A380 and F35 (Joint Strike Fighter program) are forecast to double production rates in 2009, and the Boeing B787 Dreamliner is forecast to enter service with airlines during 2009, and ramp up in production through 2009-2012. Civil aircraft and engine order books are at historically high levels, and could be expected to withstand some order cancellations with minimum impact. The Corporation has won new space vehicle participation, and proprietary products continue to benefit from growing markets.

Management has developed and is implementing strategies to improve its ability to detect impending demand change and is reacting accordingly.

On behalf of the Board

Richard A. Neill
Vice Chairman

James S. Butyniec
President and Chief Executive Officer

November 14, 2008

MAGELLAN
AEROSPACE CORPORATION

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

(Expressed in thousands of dollars, except per share amounts)	Three-months ended September 30		Nine-months ended September 30	
	2008	**2007**	**2008**	**2007**
Revenues	$ 173,088	$ 147,926	$ 506,291	$ 442,264
Cost of revenues	150,520	133,369	448,578	396,246
Gross Profit	22,568	14,557	57,713	46,018
Administrative and general expenses	9,914	10,963	27,918	36,040
Interest	6,087	6,121	17,105	17,967
	16,001	17,084	45,023	54,007
Income (loss) before income taxes	6,567	(2,527)	12,690	(7,989)
Provision for (recovery of) income taxes				
Current	176	484	384	1,417
Future	3,736	(100)	6,817	(3,014)
	3,912	384	7,201	(1,597)
Net income (loss) for the period	2,655	(2,911)	5,489	(6,392)
Net income (loss) per share				
Basic and Diluted	0.12	(0.18)	0.24	(0.42)

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(unaudited)

(Expressed in thousands of dollars)	Three-months ended September 30		Nine-months ended September 30	
	2008	**2007**	**2008 (restated – note 2)**	**2007**
Retained Earnings, beginning of the period	52,625	93,758	82,747	98,039
Effect of change in accounting policy (note 2)	2,139	-	34,295	-
Adjusted retained earnings, beginning of period	50,486	93,758	48,452	98,039
Dividends	(400)	(400)	(1,200)	(1,200)
Net income (loss) for the period	2,655	(2,911)	5,489	(6,392)
Retained Earnings, end of the period	$ 52,741	$ 90,447	$ 52,741	$ 90,447

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

(Expressed in thousands of dollars)	Three-months ended September 30		Nine-months ended September 30	
	2008	**2007**	**2008**	**2007**
Net income (loss) for the period	$ 2,655	$ (2,911)	$ 5,489	$ (6,392)
Other comprehensive (loss) income:				
Unrealized (loss) gain on translation of financial statements of self-sustaining foreign operations	1,332	(9,081)	5,632	(22,347)
Comprehensive (loss) income	$ 3,987	$ (11,992)	$ 11,121	$ (28,739)

See accompanying notes

MAGELLAN AEROSPACE CORPORATION

CONSOLIDATED BALANCE SHEETS

(unaudited) *(Expressed in thousands of dollars)*		**As at September 30 2008**		**As at December 31 2007**
ASSETS				
Current				
Cash	$	3,370	$	4,884
Accounts receivable		44,374		35,659
Inventories (restated - notes 2 and 5)		176,562		274,011
Prepaid expenses and other		12,336		13,127
Future income tax assets		5,786		6,264
Total current assets		242,428		333,945
Capital assets (note 2)		263,608		245,727
Other assets (notes 2 and 5)		123,864		55,707
Future income tax assets		13,533		14,064
Total assets	$	643,433	$	649,443
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Bank indebtedness (note 6)	$	176,223	$	139,748
Accounts payable and accrued charges		117,700		119,881
Convertible debentures (note 4)		-		13,834
Current portion of long-term debt		51,847		2,099
Total current liabilities		345,770		275,562
Long-term debt (note 4)		12,560		27,839
Future income tax liabilities		14,464		16,799
Convertible debentures (note 4)		20,457		55,950
Other long-term liabilities		7,116		7,366
Total liabilities		400,367		383,516
Shareholders' equity				
Capital stock (note 7)		234,370		234,310
Contributed surplus		4,157		3,249
Other paid in capital		11,645		11,100
Retained earnings (restated - note 2)		52,741		82,747
Accumulated other comprehensive loss (note 10)		(59,847)		(65,479)
Total shareholders' equity		243,066		265,927
Total liabilities and shareholders' equity	$	643,433	$	649,443

See accompanying notes

MAGELLAN AEROSPACE CORPORATION

MAGELLAN AEROSPACE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(Expressed in thousands of dollars)

	Three-months ended September 30		Nine-months ended September 30	
	2008	**2007**	**2008**	**2007**
OPERATING ACTIVITIES				
Net income (loss) for the period	$ 2,655	$ (2,911)	$ 5,489	$ (6,392)
Add (deduct) items not affecting cash				
Depreciation and amortization	9,152	5,609	24,737	17,318
Net gain on sale of capital asset	(9)	(1,281)	(1,643)	(1,262)
Employee future benefits	(1,199)	(1,417)	(4,066)	(4,166)
Write down of deferred costs	1,872	-	1,872	-
Deferred revenue	98	2,397	253	2,397
Stock based compensation	295	400	908	1,050
Accretion of convertible debentures	65	580	371	1,754
Future income tax expense (recovery)	3,736	(100)	6,817	(3,014)
	16,665	3,277	34,738	7,685
Net change in non-cash working capital items relating to operating activities	(9,600)	2,835	(25,534)	(20,890)
Cash provided by (used in) operating activities	7,065	6,112	9,204	(13,205)
INVESTING ACTIVITIES				
Acquisition of Verdict (note 3)	-	-	(4,240)	-
Purchase of capital assets	(4,988)	(6,119)	(14,325)	(16,464)
Proceeds from disposal of capital assets	24	1,342	2,808	1,695
Decrease (increase) in other assets	(318)	(1,544)	(5,848)	1,937
Cash used in investing activities	(5,282)	(6,321)	(21,605)	(12,832)
FINANCING ACTIVITIES				
Increase in bank indebtedness	1,548	(2,577)	29,235	18,379
Decrease in loan payable	-	-	(15,000)	-
Increase in loan payable	-	-	15,000	13,557
Decrease in long-term debt	(402)	(269)	(16,864)	-
Increase in long-term debt	-	-	50,000	-
Decrease in convertible debentures	-	-	(69,985)	-
Increase in convertible debentures	-	-	20,778	-
(Decrease) increase in long-term liabilities	(70)	1,863	(833)	(10,131)
Issuance of Common Shares	17	26	60	65
Dividends on Preference Shares	(400)	(400)	(1,200)	(1,200)
Cash provided by (used in) financing activities	693	(1,357)	11,191	20,670
Effect of exchange rate changes on cash	(568)	(67)	(304)	(743)
Net increase (decrease) in cash during the period	1,908	(1,633)	(1,514)	(6,110)
Cash, beginning of period	1,462	5,419	4,884	9,896
Cash, end of period	$ 3,370	$ 3,786	$ 3,370	$ 3,786

See accompanying notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in thousands of dollars except share and per share data)

1. ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited interim consolidated financial statements have been prepared by Magellan Aerospace Corporation (the "Corporation") in accordance with generally accepted accounting principles in Canada with respect to preparation of interim financial statements on a basis consistent with those followed in the most recent audited consolidated financial statements except as noted in note 2. Accordingly, these unaudited interim consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes included in the Corporation's Annual Report for the year ended December 31, 2007.

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, 2008 and the results of operations and cash flows for the three and nine month periods ended September 30, 2008 and 2007.

2. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2008, the Corporation was required to adopt Canadian Institute of Chartered Accounts ("CICA"): Handbook Section 3031 "Inventories", which replaces Section 3030 "Inventories". The Corporation adopted this new section retrospectively, without restatement of prior periods. This new section provides revised guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides revised guidance on the cost methodologies that are to be used to assign costs to inventories and expands the disclosure requirements to increase transparency.

As a result of these required changes in accounting policies, the Corporation was required to adopt the unit cost method for inventory related to its long-term contracts in replacement of the long-term average cost method. The unit cost method is the prescribed cost method under which the actual production costs are charged to each unit produced and recognized to income as the unit is sold. The Corporation previously accounted for the cost of production inventory using the long-term average cost which reflected higher unit costs at the early phase of a program and lower unit costs at the end of the program (the learning curve concept).

As at January 1, 2008, the effect of these accounting changes, required under Section 3031, on the Corporation's consolidated balance sheet is as follows:

	Reported, as at December 31, 2007	Impact of accounting changes (a)	Additional adjustment of the impact of accounting changes (b)	Restated, as at January 1, 2008
Assets				
Inventories	$ 274,011	$ (118,171)	$ (3,291)	$ 152,549
Capital assets	245,727	10,852	-	256,579
Other assets	55,707	67,471	-	123,178
	$ 575,445	$ (39,848)	$ (3,291)	$ 532,306
Liabilities				
Future income tax liabilities	$ 16,799	$ (7,692)	$ (1,152)	$ 7,955
Shareholders' equity	$ 265,927	$ (32,156)	$ (2,139)	$ 231,632

(a) Learning curve balances of $39,848 and a future income tax recovery of $7,692 were charged to retained earnings on adoption of Section 3031, both effective January 1, 2008. This new section also prescribed that certain development costs and program tooling costs may no longer be classified as inventory. As a result, $67,471 of deferred development costs related to long-term contracts have been reclassified to other assets and $10,852 of program tooling costs have been reclassified to capital assets, both effective January 1, 2008.

(b) During the preparation of the nine-month interim financial statements an additional adjustment was identified in the effect of the adoption of Section 3031 with respect to certain learning curve balances which were not identified as part of the initial analysis. The Corporation has made an additional adjustment to the impact of the learning curve balances and the related income tax recovery charged to retained earnings of $3,291 and $1,152, respectively.

Cost of revenue for the three and nine-month periods ended September 30, 2008 increased by $419 and $1,588, respectively, on the adoption of this new section.

Section 3031 requires inventory to be valued at the lower of cost or net realizable value ("NRV"). The new section also allows for the reversal of previous write-downs of inventory items when the NRV of those items subsequently recovers.

CICA Handbook Section 1400 was amended to include the requirement to assess and disclose uncertainties about the Corporation's ability to continue as a going concern. The new requirements came into effect for the Corporation's fiscal year beginning January 1, 2008. The new standard did not have an impact on the valuation or classification of amounts in the Corporation's unaudited interim consolidated financial statements.

Effective January 1, 2008, the Corporation also adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants: Handbook Section 1535, Capital Disclosures ("Section 1535"), Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862") and Handbook Section 3863, Financial Instruments – Presentation ("Section 3863").

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements for financial instruments. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Future changes in accounting policy
Section 3064, Goodwill and Other Intangible Assets, will replace Handbook Section 3062, Goodwill and Other Intangible Assets. This new standard will be effective for fiscal years beginning on or after October 1, 2008 and the Corporation will adopt it on January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Corporation is currently evaluating the impact of the adoption of this new Section on its financial statements.

3. VERDICT ACQUISITION

On February 13, 2008, the Corporation acquired all the outstanding shares of Verdict Aerospace Components Ltd. ("Verdict") for consideration of $4,240, including acquisition costs of $127. Verdict is based in the United Kingdom and is a high precision manufacturer of make-to-print components and assemblies for the global aerospace industry. The acquisition has been accounted for by the purchase method of accounting with the results of operations of Verdict included in the consolidated financial statements from January 1, 2008, the effective date of purchase.

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

The allocation of purchase price is preliminary and may change upon completion of an appraisal currently being performed on the acquired assets and liabilities of Verdict. The effect of any such change is not expected to be material.

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

	$
Net Assets Acquired	
Current assets	2,600
Long-term assets	5,284
Liabilities	(3,245)
Future income tax liabilities	(399)
Consideration Paid	
Cash	4,240

4. REFINANCING

[a] On January 30, 2008, the Corporation closed a private placement of an aggregate of $20,950 8.5% convertible unsecured subordinated debentures, due January 31, 2010 (the "New Debentures") the proceeds of which were used to fund, in part, the repayment of the $69,985 principal amount of outstanding 8.5% unsecured subordinated debentures (the "Existing Debentures") which matured on January 31, 2008.

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

The value of the holders' option to convert the convertible debentures into common shares of the Corporation is recorded as other paid in capital. As a result $545 of the New Debentures has been attributed to the equity component of the debenture and $20,287 (net of transaction costs) has been attributed to the debt component as at January 30, 2008. The difference between the carrying value and the face value of the debentures will be accreted through periodic charges to income included in interest expense over the life of the debenture.

[b] On January 30, 2008, in order to fund the remaining balance of approximately $50,000 on the maturity of the Existing Debentures, a corporation controlled by the Chairman of the Board, provided a loan of $50,000 (the "Original Loan") and a $15,000 bridge loan (the "Bridge Loan") to the Corporation. All of the funds from the Bridge Loan and approximately $35,000 of the funds from the Original Loan were used to repay the balance of the Existing Debentures and the $15,000 additional funds from the Original Loan was provided to the Corporation to retire $15,000 of subordinated debt due to a company with a common director, who is also the owner of all of the shares of such lender. Both the Original Loan and the Bridge Loan bear interest at a rate of 10% per annum calculated and payable monthly and are collateralized and subordinated to the Corporation's existing bank credit facility. The Original Loan is repayable on July 1, 2009 and the Bridge Loan was repayable on July 31, 2008. The Corporation repaid the Bridge Loan on June 24, 2008. In consideration for the provision of additional security for the Corporation's obligations under its existing secured credit facility, the standby guarantee fee payable to the Chairman of the Board of the Corporation has increased from 0.1% per annum to 1.35% per annum of the principal amount guaranteed.

The Corporation's operating credit facility and the Original Loan are both due within a one-year period. The Corporation has not yet engaged in any discussions with its lenders regarding the renewal of these facilities and in light of the current credit conditions there is no certainty that the Corporation will be able to renew these facilities. If the Corporation is unable to renew (as it has done in previous years) or re-finance these facilities, its ability to continue as a going concern may be uncertain.

5. INVENTORIES AND OTHER ASSETS

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

6. BANK INDEBTEDNESS

On June 24, 2008 the Corporation amended and restated its credit agreement with its existing lenders. The Corporation has an operating credit facility, with a syndicate of banks, with a Canadian limit of $95,000 plus a US limit of US$90,000 ($190,778 at September 30, 2008). Under the terms of the credit agreement, the operating credit facility expires on May 23, 2009 and is extendable for unlimited one-year periods by agreement of the Corporation and the lenders. Bank indebtedness as at September 30, 2008 of $176,223 [December 31, 2007 - $139,748] is payable on demand and bears interest at the bankers' acceptance or LIBOR rates, plus 1.0% (4.05% at September 30, 2008 [2007 – bankers' acceptance or LIBOR rates, plus 0.875% or 5.8%]). Included in the amount outstanding at September 30, 2008 is US$81,254 [December 31, 2007 - US$84,171]. At September 30, 2008, the Corporation had drawn $176,223 under the operating credit and had issued letters of credit totalling $1,270 such that $13,285 was unused and available. A fixed and floating charge debenture on accounts receivable, inventories and capital assets is pledged as collateral for the operating credit facility. The Chairman of the Board of the Corporation has provided a guarantee for the full amount of the operating credit facility.

7. CAPITAL STOCK

The following table summarizes information on share capital and related matters as at September 30, 2008:

	Outstanding	Exercisable
Common shares	18,187,685	
Common shares stock options	766,910	285,410
Preferred shares	2,000,000	

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

The weighted average number of common shares outstanding during the three and nine month periods ended September 30, 2008 was 18,185,614 and 18,181,819 respectively.

8. 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 902,431. Options are granted at an exercise price equal to the market price of the Corporation's Common Shares at the time of granting. Options normally have a life of five years with vesting at 20.0% at the end of the first, second, third, fourth and fifth years from the date of the grant. In addition, certain business unit income tests must be met in order for the option holder's entitlement to fully vest.

The Corporation accounts for stock options issued after January 1, 2003 using the fair value method. Compensation expense recorded during the three and nine month periods ended September 30, 2008 was $295 and $908 respectively [three and nine month periods ended September 30, 2007 was $400 and $1,050 respectively].

9. 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.

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AEROSPACE CORPORATION

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

	As at September 30, 2008				As at December 31, 2007			
	Canada	US	UK	Total	Canada	US	UK	Total
Capital assets	$ 118,766	$ 119,025	$ 25,817	$ 263,608	$ 117,945	$ 107,254	$ 20,528	$ 245,727

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

	Three-months ended September 30							
	2008				2007			
	Canada	US	UK	Total	Canada	US	UK	Total
Revenue								
Domestic	$ 27,737	$ 47,790	$ 30,423	$ 105,950	$ 23,131	$ 38,012	$ 28,259	$ 89,402
Export	43,854	19,429	3,855	67,138	50,116	6,719	1,689	58,524
Total revenue	$ 71,591	$ 67,219	$ 34,278	$ 173,088	$ 73,247	$ 44,731	$ 29,948	$ 147,926

	Nine-months ended September 30							
	2008				2007			
	Canada	US	UK	Total	Canada	US	UK	Total
Revenue								
Domestic	$ 85,082	$ 140,142	$ 92,898	$ 318,122	$ 70,204	$ 121,171	$ 88,231	$ 279,606
Export	138,490	40,423	9,256	188,169	140,824	18,874	2,960	162,658
Total revenue	$ 223,572	$ 180,565	$ 102,154	$ 506,291	$ 211,028	$ 140,045	$ 91,191	$ 442,264

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

	Three-months ended September 30		Nine-months ended September 30	
	2008	2007	2008	2007
Major Customers				
Canadian operations				
- Number of customers	3	3	3	3
- Percentage of total Canadian revenue	39 %	36 %	36 %	36 %
US operations				
- Number of customers	2	1	2	1
- Percentage of total US revenue	60 %	42 %	52 %	42 %
UK operations				
- Number of customers	1	1	1	1
- Percentage of total UK revenue	72 %	66 %	76 %	78 %

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

Other comprehensive loss includes unrealized foreign currency translation gains and losses, which arise on the translation to Canadian dollars of assets and liabilities of the Corporation's self–sustaining foreign operations. The Corporation recorded unrealized currency translation gain for the three and nine month periods ended September 30, 2008 of $1,332 and $5,632 respectively [three and nine month periods ended September 30, 2007, losses of $9,081 and $22,347 respectively]. These gains and losses are reflected in the consolidated balance sheet and had no impact on the net earnings for the period.

11. 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] Categories of financial assets and liabilities

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

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

	As at September 30, 2008	As at December 31, 2007
Held for trading[1]	3,442	5,246
Loans and receivables[2]	44,374	35,659
Financial liabilities[3]	378,787	345,517
Derivatives not accounted for as hedges[4]	193	817

[1] Includes cash and investments, which are classified as other assets
[2] Includes accounts receivables
[3] Includes bank indebtedness, accounts payable and accrued charges, long-term debt, and the debt component of the convertible debentures
[4] Included in current liabilities

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

Cash, accounts receivable, bank indebtedness and accounts payable and accrued charges
Due to the short period to maturity of these instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of their fair values.

Long-term debt
The fair value of the Corporation's long-term debt, calculated by discounting the expected future cash flows based on current rates for debt with similar terms and maturities, is $63,253 at September 30, 2008.

Convertible debentures
The fair market value of the Corporation's Convertible Debentures, calculated by discounting the expected future cash flows at prevailing interest rates, is estimated at its carrying value.

As at September 30, 2008, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $47,744.

[b] Forward foreign exchange contracts

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

The Corporation has foreign exchange contracts outstanding at September 30, 2008 as follows:

	Amount	Exchange rate
Maturity – less than 1 year – U.S. Dollar	$26,050	1.0719

The mark-to-market on these financial instruments as at September 30, 2008 was an unrealized loss of $193, which has

been recorded in net earnings for the period.

[c] Risks arising from financial instruments and risk management

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

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

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

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

The following table sets forth details of the age of the trade accounts receivable as at September 30, 2008:

	$
Total trade accounts receivable	35,356
Less: Allowance for doubtful accounts	(662)
Total trade accounts receivable, net	34,694
Of which:	
Not overdue	33,096
Past due for more than one day but not more than three months	1,765
Past due for more than three months but not more than six months	222
Past due for more than six months but not more than one year	148
Past due for more than one year	125
Less: Allowance for doubtful accounts	(662)
Total trade accounts receivable, net	34,694

Liquidity risk
The Corporation's objective in managing liquidity risk is to ensure that there are sufficient committed loan facilities in order to meet its liquidity requirements at any point in time. The Corporation has in place a planning and budgeting process to help determine the funds required to support the Corporation's normal operating requirements on an ongoing basis, taking into account its anticipated cash flows from operations and its operating facility capacity. The primary sources of liquidity are the operating credit facility and the indebtedness provided by a company controlled by a common director which require the continued support by the Chairman of the Board of the Corporation. As at September 30, 2008, the Corporation had undrawn lines of credit available to it of $13,285.

The contractual maturities of the Corporation's financial liabilities were presented in the Corporation's consolidated financial statements for the year ended December 31, 2007.

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

transaction exposures and the resulting volatility of the Corporation's earnings.

The most significant transaction exposures arise in the Canadian operations where significant portions of the revenues are transacted in U.S. dollars. As a result, the Corporation may experience transaction exposures because of the volatility in the exchange rate between the Canadian and U.S. dollar. Based on the Corporation's current U.S. denominated net inflows, as of September 30, 2008, fluctuations of +/- 1% would, everything else being equal, have an effect on net earnings and on other comprehensive income for the three months ended September 30, 2008 of approximately +/- $200 and $1.1 million respectively.

Interest rate risk
The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. At September 30, 2008, $184,904 of the Corporation's total debt portfolio is subject to movements in floating interest rates. In addition, a portion of the Corporation's accounts receivable securitization programs are exposed to interest rate fluctuations. The objective of the Corporation's interest rate management activities is to minimize the volatility of the Corporation's earnings. The Corporation monitors its exposure to interest rates and has not entered into any derivative contracts to manage this risk. A fluctuation in interest rates of 100 basis points (1 percent) would have impacted the amount of interest charged to net earnings during the quarter by approximately +/- $424.

12. MANAGEMENT OF CAPITAL

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

As at September 30, 2008, total managed capital was $504,153, comprised of shareholders' equity of $243,066 and interest-bearing debt of $261,087. Included in interest bearing debt is the debt component of the convertible debentures of $20,457, where the associated interest expense is a non-cash charge.

The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Board of Directors also reviews on an annual basis, the dividend policy, with respect to the Corporation's common and preference shares. There were no changes in the Corporation's approach to capital management during the period.

The Corporation must adhere to covenants in its credit facilities that are used to backstop its operating credit facility. As at September 30, 2008, the Corporation was in compliance with these covenants.

13. EMPLOYEE FUTURE BENEFITS

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

	Three-months ended September 30		Nine-months ended September 30	
(Expressed in thousands)	**2008**	**2007**	**2008**	**2007**
Current service cost	$ 506	$ 467	$ 1,514	$ 1,401
Interest cost on projected benefit obligations	1,572	1,577	4,710	4,731
Expected returns on plan assets	(1,848)	(1,771)	(5,536)	(5,312)
Amortization of net actuarial loss	120	148	358	445
Amortization of past service costs	169	120	509	360
Net benefit cost recognized	$ 519	$ 541	$ 1,555	$ 1,625

14. RELATED PARTY TRANSACTIONS

During the three and nine month periods ended September 30, 2008, the Corporation sold receivables to a corporation wholly owned by a common director in the amount of $113,528 and $320,597 respectively [2007 - $69,761 and $144,333], for a discount of $1,385 and $2,894 respectively [2007 - $826 and $1,768] representing an annualized interest rate of 7.5% [2007 - 7.5%]. Included in this balance, as at September 30, 2008, is a reserve of $4,135 [2007 - $4,988].

On January 30, 2008, two directors of the Corporation purchased $18,150 of the $20,950 8.5% convertible debentures issued by the Corporation (note 4).

15. SUPPLEMENTARY INFORMATION

Foreign exchange gain on the conversion of foreign currency denominated working capital balances and debt for the three and nine month periods ended September 30, 2008 was $2,190 and $3,246 respectively [three and nine month periods ended September 30, 2007, loss of $3,107 and $5,630 respectively].

16. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 consolidated financial statements.

For additional information contact:

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