



Magellan Aerospace Corporation
Third Quarter Report
September 30, 2010

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 8th, 2010, the Corporation released its financial results for the third quarter of 2010. All amounts are expressed in Canadian dollars unless otherwise indicated. The results are summarized as follows:

	Three month period ended September 30			Nine month period ended September 30		
	2010	2009	Change	2010	2009	Change
Expressed in thousands of dollars, except per share amounts						
Revenues	\$ 185,080	\$ 164,165	12.7%	\$ 544,445	\$ 520,776	4.5%
Gross Profit	\$ 23,659	\$ 21,388	10.6%	\$ 66,397	\$ 63,212	5.0%
Net Income	\$ 7,838	\$ 10,756	(27.1)%	\$ 17,263	\$ 24,028	(28.2)%
Net Income per share – Diluted	\$ 0.16	\$ 0.20	(20)%	\$ 0.35	\$ 0.59	(40.7)%

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 except as required by law.

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, dividends on preference shares, 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

This management's discussion and analysis ("MD&A") of financial condition and results of operations should be read in conjunction with the unaudited interim consolidated financial statements of Magellan Aerospace corporation ("Magellan" or the "Corporation") for the nine months ended September 30, 2010 and the audited consolidated financial statements for the year ended December 31, 2009. The date of the MD&A is November 8, 2010.

Overview

The Corporation reported higher revenue in the third quarter of 2010 than the third quarter of 2009, reflecting revenue of \$37.3 million recognized in the third quarter of 2010 on the Ghana electric power generation project. Revenue on the Ghana project replaced revenue that had been anticipated on several commercial programs that experienced production delays. Gross profit and net income for the third quarter of 2010 were \$23.7 million and \$7.8 million respectively, and \$66.4 million and \$17.3 million respectively for the nine months ending September 30 2010.

New aircraft and engines programs on which Magellan is participating in both the civil and defence aircraft markets demonstrated modest progress towards full scale production during the third quarter of 2010. The Boeing 787 program followed up its first flight in the fourth quarter of 2009 with successful tests of critical safety elements of the aircraft, and has accomplished a series of steps toward certification of the aircraft. However, the in-service date has been postponed to 2011 due to slow progress in selected flight tests. The Airbus 350XWB program has made progress towards finalizing design, configuration, and production plans to meet re-scheduled first flights in 2012. The F-35 Joint Strike Fighter ("JSF") program has demonstrated a number of key successes in its test flying; 63 production F-35s are now on order, and 19 development ground and flight test planes have been delivered. The Corporation's participation on the JSF program received additional support from the Government of Canada's announcement of 16 July, 2010, that the JSF F-35 aircraft has been selected for purchase by Canada. The Corporation has secured participation on each of these major civil and defence programs that are expected to provide accelerating production rates over the next several years and as such provide increased revenue for the Corporation.

Magellan continues to be active in the support of aerospace repair and overhaul markets as well as military customers both in Canada and in international markets. In addition to its traditional aerospace activities, the Corporation's long term goal to provide industrial power equipment is advancing as its first customer project in Ghana is both on schedule and on budget. Negotiations continue with the Ghanaian Power Authority regarding extensions to the project which, when concluded, will add to the overall project value.

The Corporation's results continue to reflect the benefits of investment in new technology, equipment, and knowledge across all operating sites. Operations are developing the manufacturing processes that will be required over the next several years as strategically important, higher level core products are introduced. Concurrently, non-core work is being moved out to local and emerging market sites. Business development activities continue to focus on increasing the level and complexity of core activity within the operating sites, and adding value to the Corporation's key customers.

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

Revenues

Expressed in thousands of dollars	Three month period ended September 30			Nine month period ended September 30		
	2010	2009	Change	2010	2009	Change
Canada	\$ 110,064	\$ 78,353	40.7%	\$ 312,604	\$ 247,934	26.2%
United States	45,635	48,854	(6.6)%	140,351	157,594	(10.9)%
United Kingdom	29,381	36,958	(20.5)%	91,490	115,248	(20.6)%
Total revenue	\$ 185,080	\$ 164,165	12.7%	\$ 544,445	\$ 520,776	4.6%

Consolidated revenues for the third quarter of 2010 were \$185.1 million, an increase of \$20.9 million or 12.7% over the third quarter of 2009. Increased revenues in Canada in the third quarter of 2010 in comparison to the same period in 2009 resulted largely from revenues recorded on the Ghana electric power generation project as well as increased volumes on the JSF program offset by decreased revenues in proprietary products. The decline of the U.S. dollar and the British Pound against the Canadian dollar, over the exchange rates prevailing in the third quarter of 2009, contributed, on a net basis, to



a decrease of \$10.3 million in revenues in the third quarter of 2010. In native currency, revenues in the United States were \$0.6 million lower than the third quarter of 2009 primarily as a result of delays experienced on a few programs. Revenues in the United Kingdom in the third quarter of 2010 decreased over revenues in the same period in 2009, resulting from decreased customer demand.

Gross Profit

Expressed in thousands of dollars	Three month period ended September 30			Nine month period ended September 30		
	2010	2009	Change	2010	2009	Change
Gross profit	\$ 23,659	\$ 21,388	10.6%	\$ 66,397	\$ 63,212	5.0%
Percentage of revenue	12.8%	13.0%		12.2%	12.1%	

Gross profit of \$23.7 million (12.8% of revenues) was reported for the third quarter of 2010 compared to \$21.4 million (13.0% of revenues) during the same period in 2009. Gross profit, as a percentage of revenues, decreased in part, as a result of the recognition in the third quarter of 2009 of investment tax credits earned in the first three quarters of 2009 in the amount of \$4.1 million compared to \$1.0 million earned and recognized in the third quarter of 2010. The weakening of the U.S. dollar and British Pound also had an impact on the gross margin in the third quarter of 2010 when compared to the third quarter of 2009. Had the U.S. dollar and the British Pound exchange rates versus the Canadian dollar in the third quarter of 2010 remained the same as in the third quarter of 2009, gross profit would have been approximately \$2.9 million higher for the third quarter of 2010.

Administrative and General Expenses

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2010	2009	2010	2009
Administrative and general expenses	\$ 9,567	\$ 9,982	\$ 29,133	\$ 32,783
Percentage of revenue	5.2%	6.1%	5.4%	6.3%

Administrative and general expenses were \$9.6 million (5.2% of revenues) in the third quarter of 2010 compared to \$10.0 million (6.1% of revenues) in the third quarter of 2009. Reduction in administrative and general expenses in the third quarter of 2010 resulted in part from the effect on translation of the weakening U.S. dollar and British Pound exchange rates against the Canadian dollar.

Other

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2010	2009	2010	2009
Foreign exchange loss (gain)	\$ 243	\$ (1,171)	\$ 863	\$ (6,673)
Plant and program closure recoveries	—	—	(820)	—
Loss on sale of capital assets	34	180	152	189
Other	\$ 277	\$ (991)	\$ 195	\$ (6,484)

Other expense of \$0.3 million in the third quarter of 2010 consisted of realized and unrealized foreign exchange losses. Other income in the third quarter of 2009 resulted from a foreign exchange gain of \$1.2 million.

Interest Expense

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2010	2009	2010	2009
Interest on bank indebtedness and long-term debt	\$ 3,567	\$ 4,331	\$ 11,214	\$ 10,544
Convertible debenture interest	1,008	1,010	2,997	2,796
Accretion charge for convertible debt	155	138	452	536
Discount on sale of accounts receivable	75	136	297	1,636
Total interest expense	\$ 4,805	\$ 5,615	\$ 14,960	\$ 15,512

Interest expense of \$4.8 million in the third quarter of 2010 was lower than the third quarter of 2009 amount of \$5.6 million. Interest on bank indebtedness and long-term debt decreased as principal amounts outstanding during the third quarter of 2010 were lower than those in the third quarter of 2009. Reduced interest rates on the long-term debt and lower interest rate spreads on bank indebtedness also contributed to the reduction in interest expense in the quarter when compared to the third quarter of 2009.

Provision for Income Taxes

Expressed in thousands of dollars	Three month period ended September 30		Nine month period ended September 30	
	2010	2009	2010	2009
(Recovery of) provision for current income taxes	\$ (417)	\$ (321)	\$ 575	\$ 81
Expense (recovery) of future income taxes	1,269	(3,653)	3,631	(2,708)
Total expense (recovery) of income taxes	\$ 852	\$ (3,974)	\$ 4,206	\$ (2,627)
Effective Tax Rate	9.1%	(58.6)%	19.0%	(12.3)%

The Corporation recorded an income tax expense of \$0.9 million for the third quarter of 2010, compared to an income tax recovery of \$4.0 million for the third quarter of 2009. The change in effective tax rates is a result of a changing mix of income across the different jurisdictions in which the Corporation operates. The recognition of future tax assets derived from temporary difference in the United Kingdom also contributed to the lower effective tax rate.

Selected Quarterly Financial Information

Expressed in millions of dollars	2010			2009			2008
	March 31	June 30	Sept 30	March 31	June 30	Sept 30	Dec 31
Revenues	177.9	181.5	185.1	179.3	177.3	164.2	165.8
Net Income	3.1	6.3	7.8	7.9	5.4	10.8	1.5
Net Income per common share							
Basic	0.15	0.35	0.43	0.41	0.27	0.57	0.09
Diluted	0.06	0.13	0.16	0.41	0.12	0.20	0.05

Revenue and net income reported in the quarterly information was impacted by the fluctuations in the Canadian Dollar exchange rate in comparison to the US dollar and British Pound. The US dollar/ Canadian dollar exchange rate in the first nine months of 2010 fluctuated reaching a low of 0.9928 and a high of 1.0846. During 2009 the US dollar relative to the Canadian dollar moved from an exchange rate of 1.2180 at the start of the year to 1.0510 by year's end. The British Pound/ Canadian dollar exchange rate in the first nine months of 2010 fluctuated reaching a low of 1.4894 and a high of 1.7208. During 2009, the British Pound relative to the Canadian dollar moved from an exchange rate of 1.7896 at the start of the year to 1.6918 by year's end. Had exchange rates remained at levels experienced in the first three quarters of 2009, reported revenues in 2010 would have been higher by \$25.6 million in the first quarter, \$22.1 million in the second quarter and \$10.3 million in the third quarter.



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, dividends on preference shares, 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 the Corporation's 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 of dollars	Three-month period ended September 30		Nine-month period ended September 30	
	2010	2009	2010	2009
Net income	\$ 7,838	\$ 10,756	\$ 17,263	\$ 24,028
Interest	4,805	5,615	14,960	15,512
Dividends on preference shares	320	—	640	—
Taxes	852	(3,974)	4,206	(2,627)
Stock based compensation	120	170	427	575
Depreciation and amortization	8,337	8,233	26,642	26,650
EBITDA	\$ 22,272	\$ 20,800	\$ 64,138	\$ 64,138

EBITDA for the third quarter of 2010 was \$22.3 million, compared to \$20.8 million in the third quarter of 2009. As previously discussed, increased gross profit and a reduction in administrative and general expenses resulted in increased EBITDA for the current quarter.

Liquidity and Capital Resources

Cash Flow from Operations

Expressed in thousands of dollars	Three-month period ended September 30		Nine-month period ended September 30	
	2010	2009	2010	2009
(Increase) decrease in accounts receivable	\$ (91)	\$ 8,302	\$ (9,739)	\$ (31,882)
(Increase) decrease in inventories	(12,931)	7,158	(2,828)	17,717
Decrease (increase) in prepaid expenses and other	18,392	1,806	27,994	(4,271)
Decrease in accounts payable	(18,499)	(11,676)	(26,661)	(28,789)
Changes to non-cash working capital balances	(13,129)	5,590	(11,234)	(47,225)
Cash provided (used in) by operating activities	\$ 2,705	\$ 11,855	\$ 32,106	\$ (5,473)

In the quarter ended September 30, 2010, the Corporation generated \$2.7 million of cash from its operations, compared to cash generated by operations of \$11.9 million in the third quarter of 2009. Cash was generated mainly by an increase in net income and through an increase in prepaid expenses and other offset by increased accounts receivable and decreased accounts payable. Accounts receivable increased as a result of the timing difference between when the Corporation recognizes revenue on the Ghana electric power generation project and when the progress payments are received. Decreased accounts payable reflects the reduction in advance payments received as revenue is recognized.



Investing Activities

Expressed in thousands of dollars	Three-month period ended September 30		Nine-month period ended September 30	
	2010	2009	2010	2009
Purchase of capital assets	(7,825)	(1,592)	(12,999)	(14,761)
Proceeds of disposals of capital assets	-	107	136	339
(Increase) in other assets	(1,935)	2,222	(8,597)	(47)
Cash (used in) provided by investing activities	\$ (9,760)	\$ 737	\$ (21,460)	\$ (14,469)

In the third quarter of 2010, the Corporation invested \$7.8 million in capital assets to upgrade and enhance its capabilities for current and future programs. In addition, the Corporation advanced \$1.4 million in deposits on capital equipment funded largely through government loans and grants.

Financing Activities

Expressed in thousands of dollars	Three-month period ended September 30		Nine-month period ended September 30	
	2010	2009	2010	2009
Increase (decrease) in bank indebtedness	\$ 4,587	\$ (8,221)	\$ (8,933)	\$ (10,845)
Decrease in long-term debt	(5,569)	(647)	(11,253)	(2,058)
Increase in long-term debt	889	-	6,086	15,000
Decrease in convertible debentures	-	-	-	(20,950)
Increase in convertible debentures	-	-	-	39,667
(Increase) decrease in long-term liabilities	(31)	(38)	40	(310)
Issue of Common Shares	-	-	-	8
Redemption of Preference shares	-	-	(4,000)	-
Dividends on Preference Shares	(320)	-	(720)	-
Cash (used in) provided by financing activities	\$ (444)	\$ (8,906)	\$ (18,780)	\$ 20,512

On March 26, 2010, the Corporation amended its operating credit facility with its existing lenders. Under the terms of the amended agreement, the maximum amount available under the operating credit facility was decreased to a Canadian dollar limit of \$105.0 million plus a US dollar limit of \$70.0 million, with a maturity date of May 21, 2011. 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 Board of the Corporation. On March 26, 2010 the annual standby guarantee fee provided by the Corporation in consideration for this guarantee was reduced from 1.35% to 1.15% (2009 – 1.35%) of the guaranteed amount.

The terms of the amended operating credit facility permit the Corporation to (i) repay the \$65.0 million secured subordinated loan from Edco Capital Corporation (the "Original Loan") in whole or in part and (ii) retract up to 20% (\$4 million) of the Corporation's 8% cumulative redeemable first preference shares series A (the "Preference Shares") on each of April 30 and October 31 (or the next business day if that day is not a business day) of each year starting with April 30, 2010, together with accrued and unpaid dividends on the shares to be retracted provided there is no current default or event of default under the operating credit facility and after the repayment of the Original Loan and the payment of the retraction amount the Corporation has at least \$25.0 million in availability under the operating credit facility. Any permitted retraction amount not used on any prior date can be carried forward to future retraction dates. As a result, subject to such limitation under the operating credit facility and to applicable laws, the Corporation will retract on each of April 30 and October 31, beginning April 30, 2010, any Preference Shares tendered for retraction up to the permitted percentage of Preference Shares.

During the three and nine month period ended September 30, 2010 the Corporation repaid \$5.0 million and \$9.0 million respectively of the Original Loan.

On April 30, 2010, the Corporation completed the retraction of approximately 20% or 399,994 of its initial 2,000,000 Preference Shares and on November 1, 2010, the retraction of a further 399,993 Preference shares was completed as was permissible under the amended operating credit facility. Effective as of the Retraction Date, the holders of these Preference Shares ceased to be holders of these Preference Shares and were entitled to receive the retraction price of \$10.00 for each Preference Share held plus accrued and unpaid dividends on the shares to be retracted. As at September 30, 2010, the Preference Shares have been reclassified from shareholders' equity to current liabilities (\$8.0 million) and long-term liabilities (\$8.0 million). Dividends accrued on the Preference Shares during the quarter have been reclassified from a charge to retained earnings to an expense on the income statement.



Share Data

As at October 31, 2010, the Corporation had 18,209,001 common shares outstanding, 1,600,006 outstanding First Preference Shares Series A convertible into 1,066,670 common shares and \$40.0 million convertible debentures convertible into 40,000,000 common shares. The dilutive weighted average number of common shares outstanding, resulting from the potential common shares issuable on the conversion of the convertible debentures, for the three and nine month periods ending September 30, 2010 was 58,209,001.

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.

The Corporation faces risks from downturns in the domestic and global economies

Market events and conditions in 2008 and 2009, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions; have caused significant volatility to commodity prices. These market conditions are expected to remain challenging in 2010 due to the slow pace of recovery in many economies. The Corporation cannot predict the depth or duration of downturns in the domestic and global economies nor the effects on markets that the Corporation serves, particularly the airline industry. The Corporation's ability to increase or maintain its revenues and operating results may be impaired as a result of negative general economic conditions. The current economic uncertainty renders estimates of future revenues and expenditures even more difficult than usual to formulate. The future direction of the overall domestic and global economies could have a significant impact on the Corporation's overall financial performance and impair the value of its Common Shares.

Weak capital markets reduce our financial flexibility and may result in less than optimal financing results.

As a result of the weakened global economic situation, the Corporation will have restricted access to capital and increased borrowing costs. Although Magellan's business and asset base have not changed, the lending capacity of all financial institutions has diminished and risk premiums have increased. As future capital expenditures will be financed out of cash generated from operations, borrowings and possible future equity sales, our ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the aerospace industry and Magellan's securities in particular.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, the Corporation's ability to make capital investments may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

Alternatively, the Corporation may need to issue additional Common Shares or other convertible securities from treasury at low prices to refinance existing debt or to finance the capital costs of significant projects or may wish to borrow to finance significant projects to accomplish Magellan's long-term objectives on less than optimal terms or in excess of its optional capital structure.

Based on current funds available and expected cash flow from operating activities, management believes that the Corporation has sufficient funds available to fund its projected capital expenditures. However, if cash flow from operating activities is lower than expected or capital costs for these projects exceed current estimates, or if the Corporation incurs major unanticipated expenses, it may be required to seek additional capital to maintain its capital expenditures at planned levels. Failure to obtain any financing necessary for the Corporation's capital expenditure plans may affect it in a materially adverse manner.

The Corporation's debt is significant and needs to be refinanced and such refinancing may not be available.

The Corporation and its subsidiaries have significant debt obligations. The degree to which this indebtedness could have consequences on the Corporation's prospects include the effect of such debts on the ability to obtain additional financing for working capital, capital expenditures or acquisitions, the portion of available cash flow that will need to be dedicated to repayment of principal and interest on indebtedness, thereby reducing funds available for expansion and operations, and the Corporation's vulnerability to economic downturn and its ability to withstand competitive pressure. 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 amended and restated its Bank Facility Agreement with its existing lender on March 26, 2010. Under the terms of the Bank Facility Agreement, the Corporation has an operating credit facility, expiring on May 21, 2011, 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 specified financial ratios. The Corporation's ability to meet the financial ratios can be affected by events beyond the Corporation's control, and there can be no assurance that the Corporation will be able to meet the ratios. There is no assurance that the Bank Facility Agreement will be renewed every year or that the terms of renewal will not be materially adverse to the Corporation. This credit facility is fully guaranteed by Mr. Edwards, a director and Chairman of the Board of the Corporation. There is also no assurance that Mr. Edward's guarantee, if required, will be available beyond the term of the current commitment which ends on May 21, 2011. There is no assurance that Magellan will be in compliance with its bank covenants at all times during the upcoming twelve months due to unforeseen events or circumstances, some of which are outlined in this "*Risks and Uncertainties*".

Factors that have an adverse impact on the aerospace industry may adversely affect the Corporation's results of operations.

The majority of the Corporation's gross profit and operating income is derived from the aerospace industry. The Corporation's aerospace operations are focused on engineering and manufacturing aircraft components on new aircraft, selling spare parts and performing repair and overhaul services on existing aircraft and aircraft components. Therefore, the Corporation's business is directly affected by economic factors and other trends that affect the Corporation's customers in the aerospace industry, including a possible decrease in outsourcing by aircraft operators and original equipment manufacturers ("OEMs"), decreased demand for air travel or projected market growth that may not materialize or be sustainable. When these economic and other factors adversely affect the aerospace industry, they tend to reduce the overall customer demand for the Corporation's products and services, which decreases the Corporation's operating income. Economic and other factors, both internal to the aerospace industry or general economic factors that might affect the aerospace industry may have an adverse impact on the Corporation's results of operations.

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.

A reduction in defence spending by the United States or other countries could result in a decrease in revenue.

The Corporation relies on sales to military customers particularly in the United States. A significant reduction in military expenditures by the United States or other countries with which the Corporation has contracts could materially adversely affect the Corporation's business and financial condition. The loss or significant reduction in government funding of a large program in which the Corporation participates could also materially adversely affect sales and earnings.

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

A portion of the Corporation's revenues and expenses are not currently denominated in Canadian dollars, 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 will impact the Corporation's results of operations and financial condition from period to period. In addition, such fluctuations affect the translation of the Corporation's results for purposes of its consolidated financial statements. The Corporation's activities to manage its currency exposure may not be successful. The following table demonstrates the change in the Canadian dollar in the third quarter of 2010 in comparison to the U.S dollar and the GBP.

	Beginning of Quarter	End of Quarter	% Change
USD/CAD	1.0646	1.0290	(3.3)%
GBP/CAD	1.5852	1.6198	2.2 %

The resulting foreign exchange gains or losses are included in net income or loss and other comprehensive income or loss in the period. The Corporation 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 Magellan's business, results of operations, and financial condition.

The agreements with labour unions representing certain of the Corporation's employees are subject to renewal.

The Corporation is party to collective bargaining agreements throughout its business, which are subject to expiration at various times in the future. 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 that could have a material adverse effect on its business.

For more information in relation to the risks inherent in Magellan's business, reference is made to the information under "Risks Inherent in Magellan's Business" in the Annual Information Form, which is filed on SEDAR at www.sedar.com.

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 judgement 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 judgement 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

Sections 1582, Business Combinations, 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests

In January 2009, the CICA issued Sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests".

Section 1582 will be converged with IFRS 3, "Business Combinations". Section 1602 will be converged with the requirements of IAS 27, "Consolidated and Separate Financial Statements", for non-controlling interests. Section 1601 carries forward the requirements of Section 1600, "Consolidated Financial Statements", other than those relating to non-controlling interests.

Section 1582 applies to acquisitions made from January 1, 2011 in which the acquirer obtains control of one or more businesses. The term "business" is more broadly defined than in the existing standard. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be "improbable", will be measured at fair value. Any interest

in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. A bargain purchase will result in recognition of a gain. Acquisition costs must be expensed.

Under Section 1602, any non-controlling interest will be recognized as a separate component of shareholders' equity. Net income will be calculated without deduction for the non-controlling interest. Rather, net income will be allocated between the controlling and non-controlling interests.

The Corporation has adopted these standards as of January 1, 2010 and the adoption of these standards did not have an impact on the Corporation's consolidated financial statements.

Future Changes in Accounting Policies

The Corporation will adopt the following accounting standards recently issued by the CICA:

Multiple Deliverable Revenue Arrangements

In January 2010, the CICA issued EIC-175, Multiple Deliverable Revenue Arrangements ("EIC-175"). EIC-175, which replaces EIC-142, Revenue Arrangements with Multiple Deliverables, addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. These new standards are effective for



the Corporation's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Corporation is assessing the impact of the new standards on its consolidated financial statements.

International Financial Reporting Standards

In February 2009, Canada's Accounting Standards Board ("AcSB") confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be converged with International Financial Reporting Standards ("IFRS") effective January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable to the Corporation for the first quarter of 2011 where current and comparative financial information will be prepared in accordance with IFRS.

IFRS Transition Plan

The Corporation commenced its IFRS conversion efforts during 2009. The transition project consists of four elements: planning and awareness raising; assessment; design; and implementation. Resources have been deployed and project management and governance practices are implemented to ensure a timely transition to IFRS. The progresses made to date are as follows:

Planning and awareness raising – As part of planning, the Corporation completed a high level assessment of the major differences between Canadian GAAP and IFRS. Key differences were identified which assisted in the development of the project plan as well as prioritization of issues that would have significant impact to the Corporation. With the assistance of external consultants, the Corporation has conducted sessions to raise awareness in its efforts to transition to IFRS. Throughout 2010, several training sessions were conducted at the business unit level in order to increase awareness and knowledge of the transition to IFRS. Training sessions will continue as IFRS accounting policies are developed and the conversion process continues. Investor relations are involved in the conversion project to ensure that the stakeholders' queries during the time leading up to the conversion are addressed. The Corporation will continue to provide updates on the project progress throughout the conversion period to allow stakeholders to assess the impact of the conversion on our financial performance.

Assessment and design – Detailed evaluation of the differences on recognition, measurement and disclosures between Canadian GAAP and IFRS was initiated in 2009 and continues in 2010. The impact to systems, processes, internal control over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P"), and other business activities have been incorporated into the detailed analysis. Efforts to design solutions for the transition to IFRS are ongoing in 2010. The Corporation is determining the changes that are necessary to information technology and data systems including how to accumulate the data necessary for the fiscal 2010 comparatives. As a result of the transition to IFRS, we anticipate that the adoption of IFRS accounting standards will have an impact on processes, procedures and controls due to the fact that IFRS requires more judgement with respect to various accounting treatments. Although impacts are anticipated, to date, we have not made changes nor have made any decisions to make changes that materially affect, or are reasonably likely to materially affect the Corporation's ICFR in fiscal 2010.

Implementation – During the implementation phase leading up to the transition date, new IFRS updates are monitored and any changes that are relevant to the Corporation are identified and addressed. The Corporation is continuing the activities related to selecting and finalizing IFRS 1 and accounting policy choices and approval of these choices by senior management and review by the Audit Committee of the Board of Directors will be completed during the fourth quarter of 2010. Implementation of the accounting policy choices and required modifications to internal procedures controls and systems will be made. This will translate into a training program that will include an accounting manual available to our employees and new internal financial reporting policies and controls, which will be monitored by management throughout the implementation phase which is expected to continue into the early part of 2011.

Results of the Detailed GAAP Assessment

While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of the transition to IFRS at the changeover date. The International Accounting Standard Board will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Corporation's financial results will only be measured once all the IFRS applicable at the conversion date are known. Preliminary analysis of some of the impacts of transition to IFRS on specific areas is detailed in the 2009 Management Discussion and Analysis. The preliminary analysis should not be regarded as a complete list of changes that will result from transition to IFRS. It is intended to highlight those areas the Corporation believes to be most significant; however, the analysis of possible changes is still in process and not all decisions have been made where choices of accounting policies are available.



The transition status is currently on track with the conversion schedule which calls for initial reporting under IFRS starting for the interim periods and the year ending December 31, 2011. There have been no significant modifications in key differences in accounting treatment and impacts as assessed in our 2009 Management Discussion and Analysis. Future disclosures will continue to report updated progress as well as any additional impacts identified on the Corporation's financial reporting and changes to systems and processes as they are determined.

Controls and Procedures

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, 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, 2010 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 and internal control over financial reporting to prevent all errors, misstatements or fraud. In addition, internal control over financial reporting that management has designed and established may be circumvented and rendered ineffective as a result of unauthorized acts of individuals through collusion or management override. A system of control, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that control objectives are met. Due to the inherent limitations in a system of control, there is no absolute assurance that all controls issues, which may result in errors, misstatements, or fraud, can be prevented or detected. The inherent limitations include, amongst other things: (i) management's assumptions and judgements could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of isolated errors; (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

While the general economic outlook for Western economies is not yet clear, global aerospace markets showed further signs of stabilization in the third quarter of 2010. The North American business and regional aircraft markets appear to have stabilized. Passenger airliner and defence production appears to be strengthening. There are a number of measures that indicate the industry is growing on both the global and local level. A number of airlines have returned to profitability in the passenger subsector, and increasingly in freight hauling. Recent consolidations are for strength rather than survival, and the marketplace appears supportive of increased fares and business travel. Pacific Rim and Asian carriers are leading growth, matching the strong economic growth in the region.

Demand for new aircraft in the civil airline sector remains stronger than previously expected, representing pent up demand in the developed world and new demand in emerging economies around the world. Demand is intensified by combined cost and green pressures that require lighter, cleaner and more economical aircraft and engines to replace current, aging equipment. Rate increases on a number of single aisle passenger models have been announced in the third quarter of 2010 extending to 2012. Decisions on retrofitting with an updated engine on the current single aisle A320 and B737 aircraft are yet to be finalized, although some guidance is expected by year end 2010. The decision is between retrofitting with an updated engine or launching new single aisle designs, and the issue in both cases is the degree to which either approach achieves the targeted improvement in operating and environmental performance. These developments are being closely monitored by the Corporation to determine how the Corporation could be impacted.

The sale of defence products has continued to be strong in North America and southern Asia, with defence cuts in the United States being primarily in the areas of consulting services and new information technology projects. Present military requirements demand more flexibility in aerospace capabilities, and this should attract new aircraft, engines and systems developed to enhance capabilities. Large new programs include the JSF program, the new United States Air Force aerial refuelling tanker program, a number of new helicopter programs for upgrade and replacement, and associated engine developments. Restoration of aircraft and helicopter fleets is also expected to continue over several years to compensate for heavy use over the past decade.



Additional Information and Continuous Disclosure

Updated information on the Corporation, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

Forward Looking Statements

This Management and Discussion Analysis contain 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 uncertainties and assumptions, which may cause actual results to be materially different from those expressed or implied. These forward looking statements can be identified by the words such as "anticipate", "continue", "estimate", "forecast", "may", "project", "could", "plan", "intend", "should", "believe" and similar words suggesting future events or future performance. In particular there are forward looking statements contained under the headings: "Overview" which outlines certain expectations for future operations; "International Financial Reporting Standards-IFRS Transition Plan" and Results of the detailed GAAP Assessment" which outlines certain expectations on conversion to IFRS; and "Outlook" which outlines certain expectations for the future. These statements assume the continuation of the current regulatory and legal environment; the continuation of trends for passenger airliner and defence production and are subject to the risks contained herein and outlined in our annual information form. The Corporation assumes no future obligation to update these forward-looking statements except as required by law.



MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

Expressed in thousands of dollars, except per share amounts	Three month period ended September 30		Nine month period ended September 30	
	2010	2009	2010	2009
Revenues	\$ 185,080	\$ 164,165	\$ 544,445	\$ 520,776
Cost of revenues [note 10]	161,421	142,777	478,048	457,564
Gross Profit	23,659	21,388	66,397	63,212
Administrative and general expenses	9,567	9,982	29,133	32,783
Other [note 16(a)]	277	(991)	195	(6,484)
Dividends on preference shares [note 5]	320	–	640	–
Interest	4,805	5,615	14,960	15,512
	14,969	14,606	44,928	41,811
Income before income taxes	8,690	6,782	21,469	21,401
Provision for (recovery of) income taxes [note 10]				
Current	(417)	(321)	575	81
Future	1,269	(3,653)	3,631	(2,708)
	852	(3,974)	4,206	(2,627)
Net income	\$ 7,838	\$ 10,756	\$ 17,263	\$ 24,028
Net income per share				
Basic	0.43	0.57	0.93	1.25
Diluted	0.16	0.20	0.35	0.59

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(unaudited)

Expressed in thousands of dollars amounts	Three month period ended September 30		Nine month period ended September 30	
	2010	2009	2010	2009
Retained earnings, beginning of the period	\$ 93,162	\$ 73,024	\$ 84,137	\$ 59,752
Dividends [note 5]	–	–	(400)	–
Net income	7,838	10,756	17,263	24,028
Retained earnings, end of the period	\$ 101,000	\$ 83,780	\$ 101,000	\$ 83,780

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

Expressed in thousands of dollars amounts	Three month period ended September 30		Nine month period ended September 30	
	2010	2009	2010	2009
Net income	\$ 7,838	\$ 10,756	\$ 17,263	\$ 24,028
Other comprehensive loss:				
Unrealized loss on translation of financial statements of self-sustaining foreign operations	(2,834)	(15,183)	(4,219)	(17,987)
Comprehensive income (loss)	\$ 5,004	\$ (4,427)	\$ 13,044	\$ 6,041

See accompanying notes



MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED BALANCE SHEETS
(unaudited)

	As at September 30 2010	As at December 31 2009
Expressed in thousands of dollars amounts		
ASSETS		
Current		
Cash	\$ 13,829	\$ 22,641
Accounts receivable	92,045	82,850
Inventories [note 3]	148,336	147,248
Prepaid expenses and other [note 16(b)]	10,323	38,458
Future income tax assets	3,379	3,958
Total current assets	267,912	295,155
Capital assets	246,951	254,700
Technology rights	26,580	29,158
Deferred development costs	54,286	59,510
Other assets [note 3]	34,231	24,909
Future income tax assets	17,883	17,186
Total long-term assets	379,931	385,463
Total assets	\$ 647,843	\$ 680,618
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 4]	\$ 130,450	\$ 140,590
Accounts payable and accrued charges [note 16(c)]	108,170	135,373
Preference shares [note 5]	8,000	-
Current portion of long-term debt [note 6]	57,706	2,321
Total current liabilities	304,326	278,284
Long-term debt	13,437	73,716
Convertible debentures	38,713	38,182
Future income tax liabilities	11,052	10,281
Preference shares [note 5]	8,000	-
Other long-term liabilities	8,841	9,803
Total long-term liabilities	80,043	131,982
Shareholders' equity		
Capital stock [notes 5 and 7]	214,440	234,389
Contributed surplus	5,135	4,708
Other paid in capital	13,565	13,565
Retained earnings	101,000	84,137
Accumulated other comprehensive loss [note 9]	(70,666)	(66,447)
Total shareholders' equity	263,474	270,352
Total liabilities and shareholders' equity	\$ 647,843	\$ 680,618
<i>See accompanying notes</i>		



MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three month period Ended September 30		Nine month period Ended September 30	
Expressed in thousands of dollars amounts	2010	2009	2010	2009
OPERATING ACTIVITIES				
Net income	\$ 7,838	\$ 10,756	\$ 17,263	\$ 24,028
Add (deduct) items not affecting cash				
Depreciation and amortization	8,337	8,233	26,642	26,650
Net loss on sale of capital asset	34	180	152	189
Employee future benefits	(1,095)	(5,555)	(2,758)	(3,734)
Deferred revenue	94	132	210	352
Stock based compensation	120	170	427	575
Accretion of convertible debentures	155	138	452	536
Future income taxes	351	(7,789)	952	(6,844)
	15,834	6,265	43,340	41,752
Net change in non-cash working capital items relating to operating activities	(13,129)	5,590	(11,234)	(47,225)
Cash provided by (used in) operating activities	2,705	11,855	32,106	(5,473)
INVESTING ACTIVITIES				
Purchase of capital assets	(7,825)	(1,592)	(12,999)	(14,761)
Proceeds from disposal of capital assets	—	107	136	339
Increase in other assets	(1,935)	2,222	(8,597)	(47)
Cash (used in) provided by investing activities	(9,760)	737	(21,460)	(14,469)
FINANCING ACTIVITIES				
Increase (decrease) in bank indebtedness	4,587	(8,221)	(8,933)	(10,845)
Decrease in long-term debt	(5,569)	(647)	(11,253)	(2,058)
Increase in long-term debt	889	—	6,086	15,000
Decrease in convertible debentures	—	—	—	(20,950)
Increase in convertible debentures	—	—	—	39,667
(Decrease) increase in long-term liabilities	(31)	(38)	40	(310)
Issuance of common shares	—	—	—	8
Redemption of preference shares	—	—	(4,000)	—
Dividends on preference shares	(320)	—	(720)	—
Cash (used in) provided by financing activities	(444)	(8,906)	(18,780)	20,512
Effect of exchange rate changes on cash	(329)	(389)	(678)	(257)
Net (decrease) increase in cash during the period	(7,828)	3,297	(8,812)	313
Cash, beginning of period	21,657	2,378	22,641	5,362
Cash, end of period	\$ 13,829	\$ 5,675	\$ 13,829	\$ 5,675

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, 2009.

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, 2010 and the results of operations and cash flows for the three month and nine month periods ended September 30, 2010 and 2009.

2. CHANGE IN ACCOUNTING POLICIES

On January 1, 2010, the Corporation adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

"Business Combinations", Section 1582, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard will impact the accounting treatment of future business combinations entered into after January 1, 2010.

"Consolidated Financial Statements", Section 1601, which, together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard had no impact on the Corporation's Consolidated Financial Statements.

"Non-controlling Interests", Section 1602, which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard had no impact on the Corporation's Consolidated Financial Statements.

The above CICA Handbook sections are converged with International Financial Reporting Standards ("IFRS"). The Corporation will be required to report its results in accordance with IFRS beginning in 2011. The Corporation is currently assessing the impact of the convergence of Canadian GAAP with IFRS on the Corporation's financial statements, results of operations, financial position and disclosures.

3. 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.



4. BANK INDEBTEDNESS

On March 26, 2010, 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 dollar limit of \$105,000 plus a US dollar limit of US\$70,000 (\$177,030 at September 30, 2010). Under the terms of the credit agreement, the operating credit facility expires on May 21, 2011 and is extendable for unlimited one-year periods subject to mutual consent of the syndicate of lenders and the Corporation. Bank indebtedness as at September 30, 2010 of \$130,450 [December 31, 2009 - \$140,590] is payable on demand and bears interest at the bankers' acceptance or LIBOR rates, plus 2.75% (3.48 % at September 30, 2010 [2009 – bankers' acceptance or LIBOR rates, plus 1.0% or 1.54%]). Included in the amount outstanding at September 30, 2010 is US\$41,390 [December 31, 2009 - US\$43,630]. At September 30, 2010, the Corporation had drawn \$133,643 under the operating credit facility, including letters of credit totalling \$3,193. 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 until May 21, 2011. On March 26, 2010 the annual standby guarantee fee provided by the Corporation in consideration for this guarantee was reduced from 1.35% to 1.15% (2009 – 1.35%) of the guaranteed amount.

The terms of the amended operating credit facility permit the Corporation to (i) repay the \$65,000 secured subordinated loan from Edco Capital Corporation (the "Original Loan") in whole or in part and (ii) retract up to 20% (\$4,000) of the Corporation's 8% cumulative redeemable first preference shares series A (the "Preference Shares") on each of April 30 and October 31 (or the next business day if that day is not a business day) of each year starting with April 30, 2010, together with accrued and unpaid dividends on the shares to be retracted provided there is no current default or event of default under the operating credit facility and after the repayment of the Original Loan and the payment of the retraction amount the Corporation has at least \$25,000 in availability under the operating credit facility. Any permitted retraction amount not used on any prior date can be carried forward to future retraction dates.

5. PREFERENCE SHARES

On April 30, 2010, the Corporation completed the retraction of approximately 20% or 399,994 of its 2,000,000 Preference Shares, for total consideration paid of \$4,000, as was permissible under the amended operating credit facility. Effective as of the Retraction Date, the holders of these Preference Shares ceased to be holders of these Preference Shares and were entitled to receive the retraction price of \$10.00 for each Preference Share held plus accrued and unpaid dividends on the shares to be retracted.

As at September 30, 2010, 1,600,006 Preference Shares were outstanding of which Preference Shares with a face value of \$8,000 have been reclassified from shareholders' equity to a current liability and a further \$8,000 of Preference Shares have been reclassified from shareholders' equity to a long-term liability. During the three and nine month periods ended September 30, 2010, the Corporation has reclassified the accrued dividends of \$320 and \$640 respectively on the preference shares from a charge to retained earnings to an expense on the income statement.

6. LONG-TERM DEBT

On March 26, 2010 the Original Loan was restated and extended to July 1, 2011 on the same terms and conditions as the Original Loan except that the interest rate will be reduced from 12% to 11% per annum in consideration of the payment of a one time extension fee of 1% of the principal amount of \$65,000. The Corporation was also granted the option to further extend the Original Loan on or before July 1, 2011, for a further period of one year maturing on July 1, 2012, on payment of an additional one time extension fee of 1% of the principal amount of the loan and on the condition the bank credit facility is renewed, for an additional 364 day period beginning May 21, 2011 on terms satisfactory to the Board and on the condition that there is no material change in the business, operations or capital of the Corporation. The Corporation has the right to prepay the Original Loan at any time without penalty. During the three and nine month periods ended September 30, 2010 the Corporation prepaid the Original Loan by \$5,000 and \$9,000 respectively. As at September 30, 2010 the principal amount outstanding was \$56,000.



7. CAPITAL STOCK

The following table summarizes information on share capital and related matters as at September 30, 2010:

	Outstanding	Exercisable
Common shares	18,209,001	
Common shares stock options	603,600	461,240

The weighted average number of common shares outstanding during the three and nine month periods ended September 30, 2010 was 18,209,001 [three and nine month periods ended September 30, 2009 – 18,209,001 and 18,207,509 respectively]. The dilutive weighted average number of common shares outstanding, resulting from the potential common shares of 40,000,000 issuable on the conversion of the convertible debentures, for the three and nine month periods ending September 30, 2010 was 58,209,001.

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. No such awards were granted in the three and nine month periods ended September 30, 2010 and September 30, 2009. The maximum number of options for common shares that remain to be granted under this plan is 1,069,741. 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 using the fair value method. Compensation expense recorded during the three and nine month periods ended September 30, 2010 was \$120 and \$427 respectively [three and nine month periods ended September 30, 2009 was \$170 and \$575 respectively].

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 Corporation recorded unrealized currency translation losses for the three and nine month periods ended September 30, 2010 of \$2,834 and \$4,219 respectively [three and nine month periods ended September 30, 2009 – loss of \$15,183 and \$17,987 respectively]. These losses are reflected in the consolidated balance sheet and had no impact on the net income for the period.

10. INCOME TAXES

The Corporation recorded an income tax provision of \$852 and \$4,206 respectively for the three and nine month periods ended September 30, 2010, compared to an income tax recovery of \$3,974 and \$2,627 for the three month and nine month periods ended September 30, 2009. During the nine months ended September 30, 2010, the Corporation estimated that there is reasonable assurance that a portion of the investment tax credits earned in the period will be realized and has recognized during the three and nine month periods investment tax credits of \$952 and \$2,682 respectively [three and nine month periods ended September 30, 2009 – \$4,136] as a reduction to cost of revenues.

11. FINANCIAL INSTRUMENTS

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

[a] 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 are derecognized or impaired.

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

	As at September 30, 2010	As at December 31, 2009
Held for trading ¹	\$ 13,829	\$ 22,641
Loans and receivables ²	92,204	83,282
Financial liabilities ³	364,476	390,182
Derivatives not accounted for as hedges ⁴	740	1,286

¹ Includes cash

² Includes accounts receivables and loan receivables

³ Includes bank indebtedness, accounts payable and accrued charges, preference shares, long-term debt, and the debt component of the convertible debentures

⁴ Included in prepaid expenses and other

[b] Fair Values

The Corporation has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgement 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.

Foreign exchange contracts

The Corporation has entered into foreign forward exchange contracts to mitigate future cash flow exposures in US dollars. Under these contracts the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in US dollars. During 2010, the Corporation entered into foreign exchange contracts as follows:

	Amount	Floor	Ceiling
Maturity – less than 1 year – US dollar	6,125	1.0202	1.1236
Maturity – less than 1 year – US dollar	6,125	1.0301	1.1111
Maturity – less than 1 year – US dollar	22,500	1.0354	1.1111

The fair values of the Corporation's forward foreign exchange contracts are based on the current market values of similar contracts with the same remaining duration as if the contract had been entered into on September 30, 2010.

The mark-to-market on these financial instruments as at September 30, 2010 was an unrealized gain of \$740, which has been recorded in other expense for the period.

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 \$67,453 at September 30, 2010.

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 \$39,403.



Preference Shares

The fair market value of the Corporation's Preference Shares, calculated by discounting the expected future cash flows at prevailing interest rates, is estimated at \$16,002.

As at September 30, 2010, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was \$71,143.

[c] Fair value hierarchy

The Corporation's financial assets and liabilities recorded at fair value on the consolidated balance sheet have been categorized into three categories based on a fair value hierarchy. Fair value of assets and liabilities included in Level I are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level II include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level III valuations are based on inputs that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the fair value of the financial instruments that are carried at fair value classified using the fair value hierarchy described above:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	Total
Financial Assets				
Forward foreign exchange contracts	\$ -	\$ 740	\$ -	\$ 740
Total	-	740	-	740

[d] 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 risk. 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 receivable 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, 2010:

Total trade accounts receivable	\$	81,040
Less: Allowance for doubtful accounts		(1,790)
Total trade accounts receivable, net		79,250
Of which:		
Not overdue	\$	75,267
Past due for more than one day but not more than three months		4,329
Past due for more than three months but not more than six months		176
Past due for more than six months but not more than one year		1,123
Past due for more than one year		145
Less: Allowance for doubtful accounts		(1,790)
Total trade accounts receivable, net		79,250

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.

The following table summarizes the contractual maturity of the Corporation's financial liabilities. The table includes both interest and principal cash flows.

	Due less than 1 year	Due between 1 and 3 years	Due between 4 and 5 years	Due after 5 years	Total
Bank indebtedness	\$130,450	\$ -	\$ -	\$ -	\$ 130,450
Long-term debt	63,226	8,381	1,812	6,501	79,920
Capital lease obligations	926	696	-	-	1,622
Equipment leases	870	575	15	-	1,460
Facility leases	1,332	2,923	1,838	374	6,467
Other long-term liabilities	1,751	6,061	103	2,632	10,547
Convertible debentures	2,000	46,000	-	-	48,000
Preference shares	8,000	8,000	-	-	16,000
Total	208,555	72,636	3,768	9,507	294,466

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 exposures") 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, 2010, fluctuations of +/- 1% would, everything else being equal, have an effect on net earnings and on other comprehensive income for the three month period ended September 30, 2010 of approximately +/- \$56 and \$1,200 respectively.



Interest rate risk

The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. At September 30, 2010, \$143,193 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 three month period ended September 30, 2010 by approximately +/- \$344.

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 debentures.

As at September 30, 2010, total managed capital was \$519,780, comprised of shareholders' equity of \$263,474 and interest-bearing debt of \$256,306. Included in interest bearing debt are the preference shares of \$16,000 and the debt component of the convertible debentures of \$38,713, where a component of the associated interest expense is a non-cash charge.

The Corporation manages its capital structure and makes adjustments to it in light of economic conditions, the risk characteristics of the underlying assets and the Corporation's working capital requirements. In order to maintain or adjust its capital structure, the Corporation, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares through the normal course issuer bid, pay dividends or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets. There were no changes in the Corporation's approach to capital management during the period.

The Corporation must adhere to covenants in its operating credit facility. As at September 30, 2010, the Corporation was in compliance with these covenants.

13. 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 month period ended September 30		Nine month period ended September 30	
	2010	2009	2010	2009
Current service cost	\$ 573	\$ 424	\$ 1,720	\$ 1,270
Interest cost on projected benefit obligations	1,588	1,643	4,762	4,944
Expected returns on plan assets	(1,743)	(1,565)	(5,229)	(4,703)
Amortization of net actuarial loss	321	219	964	657
Amortization of past service costs	153	170	459	518
Net benefit cost recognized	892	891	2,676	2,686

14. RELATED PARTY TRANSACTIONS

During the three and nine month periods ended September 30, 2010, the Corporation sold receivables to a corporation wholly owned by a common director in the amount of \$nil [2009 - \$nil and \$65,448], for a discount of \$nil [2009 - \$nil and \$860] representing an annualized interest rate of 7.5%. As at September 30, 2009, a reserve of \$nil was recorded. This securitization facility expired on December 31, 2009.



During the three and nine month periods ended September 30, 2010, the Corporation paid guarantee fees in the amount of \$511 and \$1,622 respectively [2009 - \$619 and \$1,966] to the Chairman of the Corporation and incurred interest of \$nil [2009 - \$nil and \$1,683] in relation to the \$50,000 loan from Edco Capital Corporation ("Edco"), a corporation which is controlled by the Chairman of the Corporation, which was refinanced on April 30, 2009. During the three and nine month periods ended September 30, 2010 the Corporation incurred interest of \$1,648 and \$5,524 respectively [2009 - \$1,985 and \$3,288] in relation to the \$65,000 Original Loan due on July 1, 2011 to Edco. At September 30, 2010, the Corporation owed Edco interest of \$822. During the three and nine month periods ended September 30, 2010 the Corporation prepaid the Original Loan by \$5,000 and \$9,000 respectively.

On April 30, 2009 the Chairman of the Corporation subscribed to \$40,000 of the New Convertible Debentures. Interest incurred during the three and nine month periods ended September 30, 2010 on the New Convertible Debentures was \$1,008 and \$2,997 respectively [2009 - \$1,008 and \$1,677].

15. 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:

	Capital assets			
	Canada	United States	United Kingdom	Total
September 30, 2010	\$ 114,687	\$ 103,926	\$ 28,338	\$ 246,951
December 31, 2009	115,116	110,054	29,530	254,700

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

					Three month period ended September 30			
					2010			
	Canada	US	UK	Total	Canada	US	UK	Total
Revenues								
Domestic	\$ 29,779	\$ 41,124	\$ 26,611	\$ 97,514	\$ 24,545	\$ 42,178	\$ 33,463	\$ 100,186
Export	80,285	4,511	2,770	87,566	53,808	6,676	3,495	63,979
Total revenues	110,064	45,635	29,381	185,080	78,353	48,854	36,958	164,165

					Nine month period ended September 30			
					2010			
	Canada	US	UK	Total	Canada	US	UK	Total
Revenues								
Domestic	\$ 76,263	\$ 121,826	\$ 84,534	\$ 282,623	\$ 89,000	\$ 133,254	\$ 101,799	\$ 324,053
Export	236,341	18,525	6,956	261,822	158,934	24,340	13,449	196,723
Total revenues	312,604	140,351	91,490	544,445	247,934	157,594	115,248	520,776



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

	Three month period		Nine month period	
	ended September 30		ended September 30	
	2010	2009	2010	2009
Major Customers				
Canadian operations				
- Number of customers	1	2	1	2
- Percentage of total Canadian revenue	34%	24%	25%	25%
US operations				
- Number of customers	3	1	1	2
- Percentage of total US revenue	63%	32%	39%	45%
UK operations				
- Number of customers	1	2	1	2
- Percentage of total UK revenue	77%	78%	76%	80%

16. SUPPLEMENTARY INFORMATION

- (a) Included in other expenses is a foreign exchange losses of \$243 and \$843 on the conversion of foreign currency denominated working capital balances and debt for the three and nine month periods ended September 30, 2010 respectively [three and nine month periods ended September 30, 2009, gains of \$1,171 and \$6,673 respectively].
- (b) Prepaid expenses and other include advance payments to suppliers and subcontractors in the amount of \$3,087 [December 31, 2009 - \$31,311].
- (c) Accounts payable and accrued charges include advance payments received from customers in the amount of \$17,959 [December 31, 2009 - \$50,197].

17. SUBSEQUENT EVENTS

On November 1, 2010, the Corporation completed the retraction of approximately 20% or 399,993 of the initial 2,000,000 Preference Shares, for total consideration paid of \$4,000, as was permissible under the amended operating credit facility. Effective as of the Retraction Date, the holders of these Preference Shares ceased to be holders of these Preference Shares and were entitled to receive the retraction price of \$10.00 for each Preference Share held plus accrued and unpaid dividends on the shares to be retracted.