MAGELLAN QUARTERLY REPORT

SEPTEMBER 30, 2012

MAGELLAN
AEROSPACE

MAGELLAN AEROSPACE

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") provides a review of activities, results of operations, and financial condition of Magellan Aerospace Corporation for the three and nine months ended September 30, 2012, in comparison with those for the three and nine months ended September 30, 2011. References to "Magellan" or "the Corporation" refer to Magellan Aerospace Corporation and its subsidiaries, as applicable. The following discussion should be read in conjunction with the unaudited interim consolidated financial statements, including the notes thereto, for the three months ended September 30, 2012, and the audited annual consolidated financial statements for the year ended December 31, 2011. The date of the MD&A is November 8, 2012. All financial references are in Canadian dollars unless otherwise noted.

The MD&A contains forward-looking information that represents the Corporation's internal projections, expectations, estimates or beliefs concerning, among other things, future operating results and various components thereof or the Corporation's future economic performance. These statements relate to future events or future performance. All statements other than statements of historical facts may be forward-looking statements. In particular and without limitation there are forward looking statements under the heading " Overview", "Business Updates", "Analysis of Operating Results", "Liquidity and Capital Resources", "Changes in Accounting Policies", and "Outlook". In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", and similar expressions. The projections, estimates and beliefs contained in such forward-looking statements are based on management's assumptions relating to the production performance of Magellan's assets and competition throughout the aerospace industry in 2012 and continuation of the current regulatory and tax regimes in the jurisdictions in which the Corporation operates, and necessarily involve known and unknown risks and uncertainties, including the business risks discussed in this MD&A, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Except as required by law, the Corporation does not undertake to update any forward-looking information in this document whether as to new information, future events or otherwise.

The MD&A presents certain non-IFRS financial measures to assist readers in understanding the Corporation's performance. Non-IFRS financial measures are measures that either exclude or include amounts that are not excluded or included in the most directly comparable measures calculated and presented in accordance with Generally Accepted Accounting Principles ("GAAP"). Throughout this discussion, reference is made to EBITDA (defined as net income before interest, income taxes, depreciation, amortization, dividends and stock based compensation), which the Corporation considers to be an indicative measure of operating performance and a metric to evaluate profitability. Reference is also made to gross profit which represents revenues less direct costs and expenses. Not included in the calculation of gross profit are administrative and general expenses, foreign exchange, gains or losses on the sale of assets, dividends, interest and income taxes. EBITDA and gross profit are not generally accepted earnings measures and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, the Corporation's EBITDA and gross profit may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA to net income (loss) reported in accordance with IFRS are included in this MD&A.

OVERVIEW

Magellan is a diversified supplier of components to the aerospace industry and in certain circumstances for power generation projects. Through its wholly owned subsidiaries, Magellan designs, engineers, and manufactures aeroengine and aerostructure components for aerospace markets, advanced products for military and space markets, and complementary specialty products. The Corporation also supports the aftermarket through supply of spare parts as well as performing repair and overhaul services and supplies in certain circumstances parts and equipment for power generation projects.

The Corporation's strategy has been to focus on several core competencies within the aerospace industry. These include precision machining of a wide variety of aerospace material, composites, complex high technology magnesium and aluminum alloy castings, repair and overhaul technologies and design of structures. The Corporation is now seeking to leverage these core competencies by achieving growth in applications where these abilities are critical in meeting customer needs.

BUSINESS UPDATE

The Corporation continues to focus on its core expertise to develop integrated solutions for its customers. A campaign is currently underway to develop existing and new aerostructures capabilities to expand Magellan's business for both metallic and composite structures. The new composite centre-of-excellence in Winnipeg and the UK operations are integral to this strategy.

Magellan's global growth strategy is to invest in opportunities that complement its businesses. The recent acquisition of John Huddleston Engineering Limited ("JHE") will strengthen and enhance Magellan's core manufacturing capabilities and further expand its UK operations, primarily in the aerostructures market.

Magellan is a recognized industry partner in the global JSF F-35 Lightning II aircraft program for which components and assemblies are being shipped in support of Low Rate Initial Production ("LRIP") requirements. In parallel with these efforts, Magellan is proceeding through qualification of their new composite centre-of-excellence production facility in Winnipeg. The JSF Program continues to achieve development and delivery milestones as measures of progress. The first aircraft of the 5th LRIP tranche is currently being assembled at Lockheed`s Fort Worth facility. This aircraft represents the 83rd aircraft to have been delivered to date on the program.

Magellan is also nearing the completion of the commissioning of a 132 megawatt electric power generation plant in the Republic of Ghana with a target date of the end of 2012. The work is being performed under contract with Canadian Commercial Corporation.

The diversity of the Corporation's markets and customer base is expected to assist the Corporation in managing and somewhat mitigating the effects of economic uncertainties.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2011 Annual Report available on www.sedar.com.

ANALYSIS OF OPERATING RESULTS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2012

The Corporation reported higher revenue in its aerospace segment and lower revenue in its power generation project segment in the third quarter of 2012 when compared to the third quarter of 2011. Gross profit and net income for the third quarter of 2012 were $21.0 million and $7.8 million, respectively, a decrease from the third quarter of 2011 gross profit of $22.5 million and from the third quarter of 2011 net income of $8.7 million.

Consolidated Revenue

Overall, the Corporation's revenues remained stable when compared to the third quarter of 2011.

	Three month period ended September 30			Nine month period ended September 30		
Expressed in thousands of dollars	**2012**	2011	Change	**2012**	2011	Change
Aerospace	**151,685**	149,033	1.8%	**480,777**	447,359	7.5%
Power Generation Project	**9,880**	12,610	(21.7)%	**37,241**	70,761	(47.4)%
Total revenues	**161,565**	161,643	0.0%	**518,018**	518,120	0.0%

Consolidated revenues for the third quarter ended September 30, 2012 remained consistent with $161.6 million in the third quarter of 2011. The acquisition of JHE, which was included in operations from September 1, 2012, contributed to increased revenues in the aerospace segment offset by the lower revenues earned in the power generation project segment. As the Corporation moves through 2012 and into 2013, revenue from the power generation project will continue to decrease on a year over year basis unless the Corporation receives further contracts in this area.

Aerospace Segment

Revenues for the Aerospace segment were as follows:

	Three month period ended September 30			Nine month period Ended September 30		
Expressed in thousands of dollars	**2012**	2011	Change	**2012**	2011	Change
Canada	**64,864**	67,878	(4.4)%	**212,642**	204,540	4.0%
United States	**49,560**	46,197	7.3%	**150,252**	140,224	7.2%
United Kingdom	**37,261**	34,958	6.6%	**117,883**	102,595	14.9%
Total revenues	**151,685**	149,033	1.8%	**480,777**	447,359	7.5%

Consolidated aerospace revenues for the third quarter of 2012 of $151.7 million were 1.8% higher than revenues of $149.0 million in the third quarter of 2011. Revenues in Canada in the third quarter of 2012 decreased 4.4% from the same period in 2011. The Corporation's revenue in the third quarter of 2012 was impacted as volumes declined in the defence sector. Revenues increased by 7.3% in the United States in the third quarter of 2012 in comparison to the third quarter of 2011, primarily due to volume increases on several of the Corporation's single and double aisle commercial aircraft programs and the movement of the stronger US dollar in comparison to the CDN dollar during the same periods in 2012 and 2011. The acquisition of JHE in the third quarter of 2012 contributed to the increase in revenues in the United Kingdom in the third quarter of 2012 over revenues in the same period in 2011.

Power Generation Project Segment

Revenues for the Power Generation Project segment were as follows:

	Three month period ended September 30			**Nine month period Ended September 30**		
Expressed in thousands of dollars	**2012**	2011	Change	**2012**	2011	Change
Power Generation Project	**9,880**	12,610	(21.7)%	**37,241**	70,761	(47.4)%
Total revenues	**9,880**	12,610	(21.7)%	**37,241**	70,761	(47.4)%

The Corporation's progress achieved on the Ghana electric power generation project in the third quarter of 2012 decreased in comparison to the progress made in the previous year's same quarter as the project approaches the anticipated commissioning date in the fourth quarter of 2012. As the Corporation moves through 2012 and into 2013, revenue from the Power Generation Project will decrease on a year over year basis unless the Corporation receives further contracts in this area.

Gross Profit

	Three month period ended September 30			**Nine month period Ended September 30**		
Expressed in thousands of dollars	**2012**	2011	Change	**2012**	2011	Change
Gross profit	**21,031**	22,449	(6.3)%	**70,043**	67,304	4.1%
Percentage of revenues	**13.0%**	13.9%		**13.5%**	13.0%	

Gross profit of $21.0 million (13.0% of revenues) was reported for the third quarter of 2012 compared to $22.4 million (13.9% of revenues) during the same period in 2011. Increased costs directly related to the introduction of new programs at the Corporation's Haverhill location dampened the gross profit in the most recent quarter of 2012 when compared to the same period in 2011.

Administrative and General Expenses

	Three month period ended September 30			**Nine month period Ended September 30**		
Expressed in thousands of dollars	**2012**	2011	Change	**2012**	2011	Change
Administrative and general expenses	**10,106**	8,811	14.7%	**29,255**	27,647	5.8%
Percentage of revenues	**6.3%**	5.4%		**5.7%**	5.3%	

Administrative and general expenses were $10.1 million (6.3% of revenues) in the third quarter of 2012 compared to $8.8 million (5.4% of revenues) in the third quarter of 2011. Increased administrative and general expenses include transaction costs associated with the acquisition of JHE as well as the consolidation of JHE administrative and general expenses from September 1, 2012.

Other

	Three month period ended September 30		**Nine month period Ended September 30**	
Expressed in thousands of dollars	**2012**	2011	**2012**	2011
Foreign exchange (gain) loss	**(327)**	(355)	**(364)**	38
Loss on disposal of property, plant and equipment	**67**	87	**78**	117
Total other	**(260)**	(268)	**(286)**	155

Other income of $0.3 in the third quarter of 2012 and 2011 consisted of realized and unrealized foreign exchange gains and losses on the disposal of property, plant and equipment.

Interest Expense

Expressed in thousands of dollars	Three month period ended September 30		Nine month period Ended September 30	
	2012	2011	**2012**	2011
Interest on bank indebtedness and long-term debt	**1,905**	1,949	**5,828**	7,359
Convertible debenture interest	**–**	1,006	**66**	2,992
Accretion charge for convertible debt, borrowings and long-term debt	**313**	389	**653**	779
Discount on sale of accounts receivable	**157**	145	**452**	489
Total interest expense	**2,375**	3,489	**6,999**	11,619

Interest expense of $2.4 million in the third quarter of 2012 was lower than the third quarter of 2011 amount of $3.5 million, as interest on bank indebtedness and long-term debt decreased as principal amounts outstanding during the third quarter of 2012 were lower than those in the third quarter of 2011. Interest expense on convertible debentures decreased as the full amount of the $40,000 principal amount outstanding at the end of the third quarter of 2011 was converted by the end of the second quarter of 2012.

Provision for Income Taxes

Expressed in thousands of dollars	Three month period ended September 30		Nine month period Ended September 30	
	2012	2011	**2012**	2011
Expense of current income taxes	**767**	1,111	**2,552**	1,136
Expense of deferred income taxes	**286**	657	**2,736**	5,671
Total expense of income taxes	**1,053**	1,768	**5,288**	6,807
Effective tax rate	**12.0%**	17.0%	**15.5%**	24.7%

The Corporation recorded an income tax expense of $1.1 million in the third quarter of 2012 as compared to an income tax expense of $1.8 million in the third quarter of 2011. The change in effective tax rates quarter over quarter is a result of a changing mix of income across the different jurisdictions in which the Corporation operates and the inclusion of $2.0 million as a reduction in deferred income tax, due to the recognition of previously unrecognized deferred tax assets, which will not be a recurring event in all future periods.

SELECTED QUARTERLY FINANCIAL INFORMATION

Expressed in millions of dollars, except per share amounts	2012			2011				2010
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Revenues	161.6	169.5	187.0	173.3	161.6	186.0	170.5	187.9
Income before income taxes	8.8	11.3	13.9	13.8	10.4	7.0	10.1	19.0
Net Income	7.8	9.2	11.8	16.7	8.6	4.9	7.2	15.4
Net Income per share								
Basic	0.13	0.16	0.21	0.90	0.47	0.27	0.40	0.85
Diluted	0.13	0.16	0.20	0.31	0.17	0.10	0.14	0.29
EBITDA	18.6	21.7	23.5	29.6	20.8	18.5	22.7	32.5

Revenues 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 third quarter of 2012 fluctuated reaching a low of 0.9675 and a high of 1.0209. During the third quarter of 2012, the British Pound relative to the Canadian dollar fluctuated reaching a low of 1.5513 and a high of 1.5954. Had exchange rates remained at levels experienced in the third quarter of 2011, reported revenues in the third quarter of 2012 would have been lower by $3.3 million. Net income for the fourth quarter of 2010 and 2011 of $15.4 million and $16.7 million respectively was higher than other quarterly net income disclosed in the table above. In the fourth quarter of each year the Corporation recognized a reversal of previous impairment losses against intangible assets relating to various civil aircraft programs. In addition a portion of previously unrecognized deferred tax assets were recognized in the fourth quarter of each year as the Corporation determined that it will be able to benefit from these assets.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

In addition to the primary measures of earnings and earnings per share (basic and diluted) in accordance with IFRS, the Corporation includes certain measures in this quarterly statement, 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 IFRS, but EBITDA is not a recognized measure under IFRS, 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 IFRS or as an alternative to cash provided by or used in operations.

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2012**	2011	**2012**	2011
Net income	**7,757**	8,649	**28,787**	20,766
Interest	**2,375**	3,489	**6,999**	11,619
Dividends on preference shares	**—**	—	**—**	310
Taxes	**1,053**	1,768	**5,288**	6,807
Stock-based compensation	**—**	(7)	**3**	50
Depreciation and amortization	**7,416**	6,891	**22,643**	22,424
EBITDA	**18,601**	20,790	**63,720**	61,976

EBITDA for the third quarter of 2012 was $18.6 million, compared to $20.8 million in the third quarter of 2011. As previously discussed, increased administrative and general expenses and decreased gross profits resulted in decreased EBITDA for the current quarter.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation's liquidity needs can be met through a variety of sources including cash on hand, cash provided by operations, short-term borrowings from its credit facility and accounts receivable securitization program, and long-term debt and equity capacity. Principal uses of cash are for operational requirements and capital expenditures. Based on current funds available and expected cash flow from operating activities, management believes that the Corporation has sufficient funds available to meet its liquidity requirements at any point in time. However, if cash from operating activities is lower than expected or capital projects exceed current estimates, or if the Corporation incurs major unanticipated expenses, it may be required to seek additional capital in the form of debt or equity or a combination of both.

Cash Flow from Operations

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2012**	2011	**2012**	2011
Decrease (increase) in accounts receivable	**9,725**	10,055	**(12,741)**	(8,448)
(Increase) decrease in inventories	**(9,526)**	(2,132)	**(25,149)**	26,456
(Increase) decrease in prepaid expenses and other	**(1,415)**	8,399	**(2,384)**	2,747
(Decrease) increase in accounts payable, accrued liabilities and provisions	**(6,499)**	(26,579)	**8,119**	(31,607)
Changes to non-cash working capital balances	**(7,715)**	(10,257)	**(32,155)**	(10,852)
Cash provided by operating activities	**4,536**	1,062	**13,326**	29,586

In the quarter ended September 30, 2012, the Corporation generated $4.5 million of cash from its operations, compared to $1.1 million in the third quarter of 2011. Decreased accounts receivable offset by increased inventories and decreased accounts payable, accrued liabilities and provisions resulted in the increase of cash provided by operating activities.

Investing Activities

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2012**	2011	**2012**	2011
Acquisition of JHE	**(13,641)**	—	**(13,641)**	—
Purchase of property, plant and equipment	**(10,143)**	(11,567)	**(22,639)**	(25,837)
Proceeds of disposals of property plant and equipment	**25**	210	**67**	346
Increase in intangibles and other assets	**(1,438)**	(89)	**(9,550)**	(7,012)
Cash used in investing activities	**(25,197)**	(11,446)	**(45,763)**	(32,503)

In the third quarter of 2012, the Corporation invested $13.6 million, net of cash acquired, in an acquisition and $10.1 million in property, plant and equipment to upgrade and enhance capabilities for current and future programs.

Financing Activities

	Three month period ended September 30		Nine month period ended September 30	
Expressed in thousands of dollars	**2012**	2011	**2012**	2011
Increase in bank indebtedness	**14,472**	986	**10,569**	9,796
Increase in debt due within one year	**19**	2,327	**17,521**	9,108
Decrease in long-term debt	**(1,575)**	(5,916)	**(7,433)**	(14,284)
Increase in long-term debt	—	3,220	—	5,209
Increase (decrease) in long-term liabilities and provisions	**175**	1,203	**333**	(255)
Increase in borrowings	**1,460**	1,420	**2,462**	3,038
Redemption of preference shares	—	—	—	(12,000)
Cash provided by financing activities	**14,551**	3,240	**23,452**	612

In 2011 the Corporation amended its credit agreement with its existing lenders and extended the loan [originally $65.0 million] due on July 1, 2011 (the “Original Loan”) to Edco Capital Corporation (“Edco”), which is wholly owned by the Chairman of the Board of the Corporation, in order to provide loan facilities for a two year period. Under the terms of the amended operating credit agreement, the Corporation and the lenders have agreed that the maximum available under the operating credit facility was amended to a Canadian dollar limit of $125.0 million plus a US dollar limit of $50.0 million [previously a Canadian dollar limit of $105.0 million plus a US dollar limit of $70.0 million] and the maturity date was extended to April 29, 2013 and continued to be fully guaranteed until April 29, 2013 by the Chairman of the Board of the Corporation, in consideration of the payment by the Corporation of an annual fee payable monthly equal to 0.63% [previously 1.15%] of the gross amount of the operating credit facility. The operating credit facility is extendible for unlimited future one year renewal periods, subject to mutual consent of the syndicate of lenders and the Corporation.

The terms of the amended operating credit facility permit the Corporation to (i) repay, in whole or in part, the Original Loan outstanding from Edco and (ii) retract all [approximately $12.0 million] of the Corporation’s 8.0% Cumulative Redeemable First Preference Shares Series A (the “Preference Shares) on or after April 30, 2011, together with payment of all 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 loan and the payment of the retraction amount the Corporation has at least $25.0 million in availability under the operating credit facility. As a result, the Corporation retracted all the remaining Preference Shares during the third quarter of 2011 in the amount of $12.0 million.

The extension and restatement of the Original Loan [outstanding as at September 30, 2012 in the principal amount of $30.0 million] resulted in a decrease in the interest rate on the Original Loan from 11% per annum to 7.5% per annum commencing July 1, 2011 and the extension of the loan to July 1, 2013 in consideration of the payment on July 1, 2011 of a fee to Edco equal to 1% of the principal amount outstanding on such date. The Corporation has the right to repay the secured subordinated loan at any time without penalty.

On December 31, 2011, the Chairman of the Board of the Corporation exercised his conversion rights under the debenture agreement and $38.0 million principal amount of the 10% convertible debentures (“Convertible Debentures”), the entire amount then held by the Chairman, were converted into 38,000,000 common shares of the Corporation. On April 30, 2012, the remaining $2.0 million principal amount of the Convertible Debentures were exercised and converted into 2,000,000 common shares.

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance of financial condition of the Corporation.

TRANSACTIONS WITH RELATED PARTIES

During the three month period ended September 30, 2012, the Corporation paid guarantee fees in the amount of $275 to the Chairman of the Board of the Corporation. During the three month period ended September 30, 2012, the Corporation incurred interest of $566 in relation to the Original Loan due to Edco, a corporation which is controlled by the Chairman of the Board of the Corporation which is due on July 1, 2013. At September 30, 2012, the Corporation owed Edco interest of $183.

DERIVATIVE CONTRACTS

The Corporation has entered into foreign exchange forward 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. As at September 30, 2012 the Corporation had foreign exchange contracts outstanding as follows:

Forward exchange collars	Amount	Floor	Ceiling
Maturity – less than 1 year – US dollar	1,700	1.0000	1.1111

Foreign exchange forward contracts	Amount	Rate
Maturity – less than 1 year – US dollar	3,400	1.0400

The fair values of the Corporation's foreign exchange forward 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, 2012.

The mark-to-market on these financial instruments as at September 30, 2012 was an unrecognized gain of $0.2 million which has been recorded in other expenses in the period.

SHARE DATA

As at October 31, 2012, the Corporation had 58,209,001 common shares outstanding. 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 nine month period ending September 30, 2012 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 help identify and manage significant operational and financial risks.

For more information in relation to the risks inherent in Magellan's business, reference is made to the information under "Risk Factors" in the Corporation's Management's Discussion and Analysis for the year ended December 31, 2011 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2011, which has been filed with SEDAR (www.sedar.com).

CHANGES IN ACCOUNTING POLICIES

On January 1, 2012, the Corporation adopted revised *IAS 12, Income Taxes*. The revised standard was amended in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The adoption of the standard did not have a material impact on the condensed consolidated interim financial statements.

Recent accounting pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended September 30, 2012, and have not been applied in preparing these unaudited interim consolidated financial statements. The following standards and interpretations have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

International Accounting Standards		Effective Date
IFRS 9 - Financial Instruments	In November 2009, as part of the International Accounting Standards Board's (IASB) project to replace International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities.	January 1, 2015
IFRS 10 - Consolidation	IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.	January 1, 2013
IFRS 11 – Joint Arrangements	IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions.*	January 1, 2013
IFRS 12 - Disclosure of Interests in Other Entities	IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.	January 1, 2013
IFRS 13 – Fair Value Measurement	IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.	January 1, 2013
IAS 27 – Separate Financial Statements	As a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	January 1, 2013
IAS 28 – Investments in Associates and Joint Ventures	As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.	January 1, 2013
IAS 1 – Presentation of Financial Statements	The IASB amended IAS 1 with a new requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss.	January 1, 2013
IAS 19 – Employee Benefits	A number of amendments have been made to IAS 19, which included eliminating the use of the "corridor" approach and requiring remeasurements to be presented in OCI. The standard also includes amendments related to termination benefits as well as enhanced disclosures.	January 1, 2013

The extent of the impact of adoption of these standards and interpretations on the consolidated financial statements of the Corporation has not been determined.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In the 2011 annual audited consolidated financial statements and management's discussion and analysis, the Corporation identified the accounting policies and estimates that are critical to the understanding of the business and results of operations. Please refer to note 2 to the unaudited interim condensed consolidated financial statements for the three and nine month period ended September 30, 2012 for a discussion regarding the adoption of new accounting standards.

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, 2012 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

The commercial aircraft segment continued to strengthen in 2012 with Boeing and Airbus delivering 658 aircraft in the first half of 2012 compared to 558 in the first half of 2011. Similarly, new sales orders for Boeing and Airbus rose to 971 aircraft which will be the second highest levels since 2007. While some future aircraft deliveries are being deferred due to current airline constraints, backlogs remain at 6 to 7 years reflecting the need for newer, more fuel efficient aircraft. Single aisle build rates for both Boeing and Airbus continue to increase. As well, Boeing has confirmed their B787 production plan will move to a rate of 10 aircraft per month by the end of 2013, from current levels of five aircraft per month.

Global reductions in defence spending continue to impact demand for products in the defence sector. European defence firm revenues have declined by 4.5% whereas the US industry has remained flat year-to-date. US defence industry outlook remains cautionary until the US elections and sequestration are concluded.

In the last report, the business jet market was showing signs of improved health due to the reduced number of pre-owned aircraft available for sale as a percentage of the total in-service fleet. Today it appears the business jet market may have reached the turning point. Predictions are that this segment could see growth of 9% in 2013, with the greatest growth expected to come from the large to medium cabin jets. Light jet deliveries are expected to grow at a slower rate.

Regional jet markets appear to be in position to enter a replacement cycle. The existing fleet, comprised 49% of the 35 to 50 seat configurations, averages 11 years in service and consists predominantly of the smaller Bombardier CRJ100/200 and Embraer ERJ135/140 aircraft. As these are no longer manufactured, airlines will need to replace fleets with turboprops or larger regionals. The resulting demand to fill these needs creates a potential for sizeable regional jet orders from major US airline operators.

Continued strength in the global helicopter market is dependent upon recovery of the economy. The military segment, which is the largest in the helicopter market, is contending with the same defence budget constraints discussed above. The civil market remains challenged by a lagging economic recovery. Manufacturers are looking to Asia and Latin America where replacement rates remain the highest of the market.

ADDITIONAL INFORMATION

Additional information relating to Magellan Aerospace Corporation, including the Corporation's annual information form, can be found on the SEDAR web site at www.sedar.com.

FORWARD LOOKING STATEMENTS

This Management's Discussion and 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 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

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(unaudited) (expressed in thousands of Canadian dollars, except per share amounts)	Notes	Three month period ended September 30 2012	2011	Nine month period ended September 30 2012	2011
Revenues	13	**161,565**	161,643	**518,018**	518,120
Cost of revenues		**140,534**	139,194	**447,975**	450,816
Gross profit		**21,031**	22,449	**70,043**	67,304
Administrative and general expenses		**10,106**	8,811	**29,255**	27,647
Other		**(260)**	(268)	**(286)**	155
Dividends on preference shares		**—**	—	**—**	310
		11,185	13,906	**41,074**	39,192
Interest		**2,375**	3,489	**6,999**	11,619
Income before income taxes		**8,810**	10,417	**34,075**	27,573
Income taxes					
Current	8	**767**	1,111	**2,552**	1,136
Deferred	8	**286**	657	**2,736**	5,671
		1,053	1,768	**5,288**	6,807
Net income		**7,757**	8,649	**28,787**	20,766
Other comprehensive (loss) income					
Foreign currency translation	10	**(4,519)**	13,137	**(3,859)**	9,750
Comprehensive income		**3,238**	21,786	**24,928**	30,516
Net income per share					
Basic	9	**0.13**	0.47	**0.50**	1.14
Diluted	9	**0.13**	0.17	**0.50**	0.42

See accompanying notes to the condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited) (expressed in thousands of Canadian dollars)	Notes	September 30 2012	December 31 2011
Current assets			
Cash		**17,104**	26,520
Trade and other receivables	11	**125,081**	106,480
Inventories		**154,209**	127,473
Prepaid expenses and other		**8,351**	5,326
		304,745	265,799
Non-current assets			
Property, plant and equipment	4	**301,802**	289,744
Investment properties		**2,911**	3,041
Intangible assets	5	**63,306**	66,134
Other assets		**16,265**	8,660
Deferred tax assets		**33,061**	28,360
		417,345	395,939
Total assets		**722,090**	661,738
Current liabilities			
Bank indebtedness	6	**130,590**	—
Accounts payable and accrued liabilities and provisions		**118,056**	106,022
Debt due within one year	7	**58,675**	12,513
		307,321	118,535
Non-current liabilities			
Bank indebtedness	6	**—**	120,674
Long-term debt	7	**45,739**	81,768
Borrowings subject to specific conditions		**20,410**	18,847
Other long-term liabilities and provisions		**26,405**	29,131
Deferred tax liabilities		**12,589**	10,088
		105,143	260,508
Equity			
Share capital	9	**254,440**	252,440
Contributed surplus		**2,044**	2,041
Other paid in capital		**13,565**	13,565
Retained earnings		**49,679**	20,892
Accumulated other comprehensive loss	10	**(10,102)**	(6,243)
		309,626	282,695
Total liabilities and equity		**722,090**	661,738

See accompanying notes to the condensed consolidated interim financial statements

MAGELLAN AEROSPACE

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(unaudited) (expressed in thousands of Canadian dollars)	Share capital	Contributed surplus	Other paid in capital	Retained earnings	Foreign currency translation	Total Equity
December 31, 2011	252,440	2,041	13,565	20,892	(6,243)	282,695
Net income for the period	—	—	—	28,787	—	28,787
Other comprehensive loss for the period	—	—	—	—	(3,859)	(3,859)
Stock-based compensation	—	3	—	—	—	3
Convertible debentures	2,000	—	—	—	—	2,000
September 30, 2012	254,440	2,044	13,565	49,679	(10,102)	309,626

December 31, 2010	214,440	1,973	13,565	1,009	(10,392)	220,595
Net income for the period	—	—	—	20,766	—	20,766
Other comprehensive gain for the period	—	—	—	—	9,750	9,750
Stock-based compensation	—	50	—	—	—	50
September 30, 2011	214,440	2,023	13,565	21,775	(642)	251,161

See accompanying notes to the condensed consolidated interim financial statements

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

(unaudited) (expressed in thousands of Canadian dollars)	Notes	Three month period ended September 30 **2012**	2011	Nine month period ended September 30 **2012**	2011
Cash flow from operating activities					
Net income		**7,757**	8,649	**28,787**	20,766
Amortization/depreciation of intangible assets and property, plant and equipment		**7,416**	6,891	**22,643**	22,424
Loss on disposal of property, plant and equipment		**67**	129	**78**	159
Impairment reversal	5	**—**	—	**(1,543)**	—
Decrease in defined benefit plans		**(1,649)**	(2,183)	**(3,176)**	(3,415)
Stock-based compensation			(7)	**3**	50
Accretion		**313**	198	**653**	589
Deferred taxes		**(1,653)**	(2,358)	**(1,964)**	(135)
Decrease in working capital		**(7,715)**	(10,257)	**(32,155)**	(10,852)
Net cash provided by operating activities		**4,536**	1,062	**13,326**	29,586
Cash flow from investing activities					
Acquisition of JHE	3	**(13,641)**	—	**(13,641)**	—
Purchase of property, plant and equipment	4	**(10,143)**	(11,567)	**(22,639)**	(25,837)
Proceeds from disposal of property, plant and equipment		**25**	210	**67**	346
Increase in other assets		**(1,438)**	(89)	**(9,550)**	(7,012)
Net cash used in investing activities		**(25,197)**	(11,446)	**(45,763)**	(32,503)
Cash flow from financing activities					
Increase in bank indebtedness	6	**14,472**	986	**10,569**	9,796
Increase in debt due within one year		**19**	2,327	**17,521**	9,108
Decrease in long-term debt	7	**(1,575)**	(5,916)	**(7,433)**	(14,284)
Increase in long-term debt	7	**—**	3,220	**—**	5,209
Increase (decrease) in long-term liabilities and provisions		**175**	1,203	**333**	(255)
Increase in borrowings		**1,460**	1,420	**2,462**	3,038
Redemption of preference shares		**—**	—	**—**	(12,000)
Net cash provided by financing activities		**14,551**	3,240	**23,452**	612
Decrease in cash during the period		**(6,110)**	(7,144)	**(8,985)**	(2,305)
Cash at beginning of the period		**23,756**	29,207	**26,520**	24,952
Effect of exchange rate differences		**(542)**	1,835	**(431)**	1,251
Cash at end of the period		**17,104**	23,898	**17,104**	23,898

See accompanying notes to the condensed consolidated interim financial statements

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Magellan Aerospace Corporation (the "Corporation") is a publicly listed company incorporated in Ontario, Canada under the Ontario Business Corporations Act and its shares are listed on the Toronto Stock Exchange. The registered and head office of the Corporation is located at 3160 Derry Road East, Mississauga, Ontario, Canada, L4T 1A9.

The Corporation is a diversified supplier of components to the aerospace industry and in certain circumstances for power generation projects. Through its wholly owned subsidiaries, Magellan designs, engineers, and manufactures aeroengine and aerostructure components for aerospace markets, advanced products for military and space markets, and complementary specialty products. The Corporation also supports the aftermarket through supply of spare parts as well as performing repair and overhaul services and supplies in certain circumstances parts and equipment for power generation projects.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance and basis of presentation

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") and using the same accounting policies and methods as were used for the Corporation's consolidated financial statements and the notes thereto for the year ended December 31, 2011, except for the any new accounting pronouncements which have been adopted.

These condensed consolidated interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the Corporation's annual financial statements for the year ended December 31, 2011, which are available at www.sedar.com and on the Corporation's website at www.magellan.aero.

The timely preparation of the condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the condensed consolidated interim financial statements.

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors of the Corporation on November 8, 2012.

(b) New standards, amendments and interpretations adopted by the Corporation

On January 1, 2012, the Corporation adopted revised IAS 12, Income Taxes. The revised standard was amended in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The adoption of the standard did not have a material impact on the condensed consolidated interim financial statements.

3. BUSINESS COMBINATION

On August 31, 2012, the Corporation purchased all of the issued and outstanding shares of the capital stock of John Huddleston Engineering Limited ("JHE"), a leading European supplier of precision machined aerospace components with facilities in Great Britain, Northern Ireland and Poland. The acquisition allows the Corporation to strengthen and enhance its core manufacturing capabilities and further expand its European operations.

The total consideration paid to the seller at closing was $15,671 in cash, or $13,641 net of cash acquired of $2,030.

Accounting guidance requires that identifiable assets acquired and liabilities assumed be reported at fair value as of the acquisition date of a business combination. The fair value of the assets acquired and liabilities assumed remain subject to completion. The purchase price allocation for this acquisition is preliminary and adjustments to the allocations will occur as a result of obtaining more information regarding asset valuations. Material adjustments, if any, to provisional amounts in subsequent periods, will be reflected retrospectively as required.

The following table presents the preliminary allocation of purchase price related to the business as of the date of the acquisition:

	Amount
Current assets	10,757
Non-current assets	9,900
Current liabilities	(6,624)
Non-current liabilities	(314)
Deferred tax liabilities	(78)
Fair value of the net assets acquired, excluding cash position at acquisition	13,641
Cash in subsidiary acquired	2,030
Total purchase consideration, settled in cash[1]	15,671

[1] Total purchase consideration of $15,671 includes an amount of $9,212 paid to former shareholder of JHE to repay debt.

The Corporation incurred acquisition-related costs of $245 relating to external legal fees, consulting fees and due diligence costs that are included in administration and general expenses.

The amounts of JHE's revenue and net income included in the Corporation's condensed consolidated interim statements of comprehensive income for the three months ended September 30, 2012 was $1,717 and $261, respectively. If the acquisition had occurred on January 1, 2012, management estimates that consolidated revenue would have been approximately $535,478 and consolidated net income would have been approximately $29,606 for the nine months ended September 30, 2012. In determining these amounts, management has assumed the fair value adjustments which arose on the date of acquisition, would have been the same as if the acquisition would have occurred on January 1, 2012. This pro forma information is for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated at that time, nor is it intended to be a projection of future results.

4. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Tooling	Total
Cost					
At December 31, 2011	12,831	111,407	356,198	42,515	522,951
Additions	–	1,044	20,075	1,199	22,318
Acquisition of JHE *[note 3]*	–	2,964	6,918	–	9,882
Disposals and other	–	(35)	(1,285)	–	(1,320)
Foreign currency translation	(167)	(872)	(4,817)	(1,198)	(7,054)
At September 30, 2012	12,664	114,508	377,089	42,516	546,777
Accumulated depreciation and impairment					
At December 31, 2011	–	(29,858)	(171,106)	(32,243)	(233,207)
Depreciation	–	(2,413)	(11,918)	(2,017)	(16,348)
Disposal and other	–	8	794	–	802
Foreign currency translation	–	218	2,602	958	3,778
At September 30, 2012	–	(32,045)	(179,628)	(33,302)	(244,975)
Net book value					
At September 30, 2012	12,664	82,463	197,461	9,214	301,802
At December 31, 2011	12,831	81,549	185,092	10,272	289,744

5. INTANGIBLE ASSETS

At the end of each reporting period, the Corporation assesses whether there are events or circumstances indicating that (i) an asset may be impaired or (ii) an impairment loss recognized in prior periods may no longer exist or may have decreased. Such events or circumstances notably include material adverse or positive changes which in the long-term impact the economic environment (commercial prospects, procurement sources, index or cost movements, etc.) of the Corporation's assumptions or objectives (medium-term plan, profitability analyses, market share, backlog, regulations, etc.). The main assumptions used, at September 30, 2012, to determine the recoverable amount of intangible assets relating to programs, products and product families were consistent with those disclosed in notes to the consolidated financial statements for the year ended December 31, 2011.

As a result of the impairment test performed in the second quarter of 2012, the Corporation recognized a reversal of a previous impairment loss of $1,543 against development costs relating to a civil aircraft program as the Corporation was able to obtain an offer with more favourable contract terms. The impairment reversal was treated a reduction against recurring costs of revenues.

6. BANK INDEBTEDNESS

During 2011, the Corporation amended 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 $125,000 plus a US dollar limit of US$50,000 [$174,160 at September 30, 2012]. Under the terms of the amended credit agreement, the operating credit facility expires on April 29, 2013 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, 2012 of $130,590 [December 31, 2011 - $120,674] bears interest at the bankers' acceptance or LIBOR rates, plus 1.50% [2.44% at September 30, 2012 (2011 – bankers' acceptance or LIBOR rates plus 1.50% or 2.39%)]. Included in the amount outstanding at September 30, 2012 is US$27,933 [December 31, 2011 - US$26,515]. At September 30, 2012, the Corporation had drawn $133,230 under the operating credit facility, including letters of credit totalling $2,640 such that $40,930 was unused and available. A fixed and floating charge debenture on accounts receivable, inventories and property, plant and equipment 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. LONG–TERM DEBT

During 2011, the $65,000 loan due on July 1, 2011 (the "Original Loan") to Edco Capital Corporation ("Edco") was restated and extended to July 1, 2013 on the same terms and conditions except that the interest rate was reduced from 11% to 7.5% per annum in consideration of the payment of a one-time extension fee of 1% of the principal amount outstanding as of July 1, 2011. The Corporation has the right to prepay the Original Loan at any time without penalty. During the nine month period ended September 30, 2012, the Corporation prepaid the Original Loan by $3,500 [nine month period ended September 30, 2011 - $11,500]. As at September 30, 2012, the principal amount outstanding was $30,000.

On December 31, 2011, the Chairman of the Board of the Corporation exercised his conversion rights under the debenture agreement and $38,000 principal amount of the 10% convertible secured subordinated debentures (the "Convertible Debentures"), the entire amount of the Convertible Debentures then held by the Chairman, were converted into 38,000,000 common shares of the Corporation. On April 30, 2012, the remaining $2,000 of the Convertible Debentures were converted into 2,000,000 common shares of the Corporation.

8. TAXATION

The Corporation's tax expense is calculated by using the rates applicable in each of the tax jurisdictions that the Corporation operates in, adjusted for the main permanent differences identified.

The effective tax rate for the three month and nine month period ended September 30, 2012 was 12.0% and 15.5% respectively [17.0% and 24.7% respectively for the three and nine month period ended September 30, 2011]. The difference between the effective tax rate and the standard tax rate is primarily attributable to the impact of recognizing investment tax credits during the period.

9. SHARE CAPITAL

The authorized capital of the Corporation consists of an unlimited number of Preference Shares, issuable in series, and an unlimited number of common shares, with no par value.

Common shares

	Number	Amount
Issued and fully paid:		
At December 31, 2011	56,209,001	252,440
Issued upon conversion of convertible debentures [Note 7]	2,000,000	2,000
At September 30, 2012	58,209,001	254,440

Net income per share

	Three month period ended September 30					
			2012			2011
	Amount	Weighted average no. of shares	Per share amount ($)	Amount	Weighted average no. of shares	Per share amount ($)
Basic net income per share	7,757	58,209	0.13	8,649	18,209	0.47
Effect of dilutive securities:						
Convertible debentures	–	–	–	1,210	40,000	(0.30)
At September 30	7,757	58,209	0.13	9,859	58,209	0.17

Net income per share

	Nine month period ended September 30					
			2012			2011
	Amount	Weighted average no. of shares	Per share amount ($)	Amount	Weighted average no. of shares	Per share amount ($)
Basic net income per share	28,787	57,333	0.50	20,766	18,209	1.14
Effect of dilutive securities:						
Convertible debentures	80	876	–	3,587	40,000	(0.72)
At September 30	28,867	58,209	0.50	24,353	58,209	0.42

10. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (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 foreign operations. The Corporation recorded unrealized currency translation losses for the three and nine month period ended September 30, 2012 of $4,519 and $3,859 respectively [three and nine month period ended September 30, 2011 – translation gains of $13,137 and $9,750 respectively]. These losses are reflected in the consolidated statement of financial position and had no impact on net income for the period.

11. FINANCIAL INSTRUMENTS

Categories of financial instruments

Under IFRS, financial instruments are classified into one of the following four categories: financial assets at fair value through profit or loss, loans and receivables, financial liabilities at fair value through profit or loss, and other financial liabilities at amortized cost.

All financial instruments, including derivatives, are included on the consolidated statement of financial position, which are measured at fair value except for loans and receivables and other financial liabilities, which are measured at amortized cost. Held for trading financial investments are subsequently measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instruments are derecognized or impaired.

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

	Fair value through profit or loss: Held for trading[1]	Loans and receivables[2]	Total financial assets	Other financial liabilities (at amortized cost)[3]	Total financial liabilities
September 30, 2012	17,323	125,081	142,404	375,972	375,972
December 31, 2011	27,028	106,480	133,508	342,250	342,250

[1] Includes cash and forward foreign exchange contracts included in prepaid expenses and other
[2] Includes accounts receivables and loan receivables
[3] Includes bank indebtedness, accounts payable and accrued liabilities, provisions, long-term debt, borrowings subject to specific conditions, the debt component of the convertible debentures and accounts receivable securitization transactions

The Corporation has exposure to the following risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk

This note presents information about the Corporation's risks to each of the above risks, its objectives, policies and processes for measuring and managing risk.

Market Risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Corporation's income or the value of its holdings of 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.

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 currency risk, interest rate risk, credit risk and liquidity risk. Where material, these risks are reviewed and monitored by the Board of Directors.

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, 2012, 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, 2012 of approximately +/- $36 and $1,226 respectively.

Interest rate risk
The Corporation is exposed to interest rate risk in its floating rate bank indebtedness. At September 30, 2012, $178,407 of the Corporation's total debt portfolio is subject to movements in floating interest rates. In addition, 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, 2012 by approximately +/- $453.

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 trade accounts receivable as at September 30, 2012:

Total trade accounts receivable	98,620
Less: Allowance for doubtful accounts	(1,737)
Total trade accounts receivable, net	96,883

The aging of the gross trade accounts receivables at each reporting date was as follows:

	Current	Less than 90 days	91-181 days	182-365 days	More than 365 days	Total
September 30, 2012	89,273	7,397	923	208	819	98,620
December 31, 2011	74,119	4,780	360	67	1,266	80,592

Derecognition of financial assets
As at September 30, 2012, accounts receivables include receivables sold and financed through securitization transactions of $23,413 which do not meet the IAS 39 derecognition requirements. These receivables are recognized as such in the financial statements even though they have been legally sold; a corresponding financial liability is recorded in the consolidated statement of financial position under Debt due within one year.

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.

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

	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total
Bank indebtedness	130,590	—	—	—	—	—	130,590
Long-term debt[1]	58,831	5,638	5,508	5,036	4,830	26,482	106,325
Equipment leases	225	163	116	77	31	3	615
Facility leases	1,606	1,562	1,538	1,446	1,322	5,535	13,009
Other long-term liabilities	1,076	149	149	149	73	1,473	3,069
Borrowings subject to specific conditions	920	477	667	772	826	17,668	21,330
	193,248	7,989	7,978	7,480	7,082	51,161	274,938
Interest payments	3,265	1,369	1,193	1,057	939	5,592	13,415
Total	196,513	9,358	9,171	8,537	8,021	56,753	288,353

[1] The amounts drawn on the Corporation's accounts receivable securitization program are included in the long-term debt in the Year 1 category

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 as follows:

Cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities
Due to the short period to maturity of these instruments, the carrying values as presented in the consolidated statement of financial positions 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. The Corporation has foreign exchange contracts outstanding as follows:

Foreign exchange collars	Amount	Floor	Ceiling
Maturity – less than 1 year – US dollar	1,700	1.0000	1.1111

Foreign exchange forward contracts	Amount	Ceiling
Maturity – less than 1 year – US dollar	3,400	1.0400

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, 2012.

The mark-to-market on these financial instruments as at September 30, 2012 was an unrealized gain of $219, 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 $80,877 at September 30, 2012.

Collateral
As at September 30, 2012, the carrying amount of the financial assets that the Corporation has pledged as collateral for its long-term debt facilities was $141,255.

Fair value hierarchy
The Corporation's financial assets and liabilities recorded at fair value on the consolidated statement of financial position 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	–	219	–	219

12. RELATED PARTY TRANSACTIONS

During the three and nine month period ended September 30, 2012, the Corporation paid guarantee fees in the amount of $275 and $827 respectively [three and nine month period ended September 30, 2011 - $274 and $1,122 respectively] to the Chairman of the Board of the Corporation. During the three and nine month period ended September 30, 2012, the Corporation incurred interest of $566 and $1,760 respectively [three and nine month period ended September 30, 2011 - $728 and $3,112 respectively] in relation to the Original Loan due to Edco, a corporation which is controlled by the Chairman of the Board of the Corporation which is due on July 1, 2013. At September 30, 2012, the Corporation owed Edco interest of $183 [December 31, 2011 - $214].

On April 30, 2009, the Chairman of the Board of the Corporation subscribed to $40,000 of the Convertible Debentures. On December 31, 2011, the Chairman of the Board of the Corporation exercised his conversion rights under the debenture agreement and $38,000 principal amount of the Convertible Debentures, the entire amount of the Convertible Debentures then held by the Chairman, were converted into 38,000,000 common shares of the Corporation. Interest incurred during the three and nine month period ended September 30, 2012 was $nil and $66 respectively [three and nine month period ended September 30, 2011 - $1,005 and $2,992 respectively].

13. SEGMENTED INFORMATION

Based on the nature of the Corporation's markets, two main operating segments were identified: Aerospace and Power Generation Project. The Aerospace segment includes the design, development, manufacture, repair and overhaul and sale of systems and components for military and civil aviation, while the Power Generation Project segment includes the supply of gas turbine power generation units. Revenues in the Power Generation Project segment arise solely from the power generation project in Ghana and the revenue is included in Canada export revenue.

The Corporation evaluated the performance of its operating segments primarily based on income before interest expense and income tax expense.

The Corporation accounts for intersegment and related party sales and transfers, if any, at the exchange amount.

The Corporation's primary sources of revenue are as follows:

	Three month period ended September 30		Nine month period ended September 30	
	2012	2011	2012	2011
Sale of goods	126,485	117,820	392,229	347,856
Construction contracts	12,198	18,494	49,230	93,521
Services	22,882	25,329	76,559	76,743
	161,565	161,643	518,018	518,120

The aggregate amount of revenue recognized to date for construction contracts in progress at September 30, 2012 was $258,794 [December 31, 2011 - $227,895]. Advance payments received for construction contracts in progress at September 30, 2012 was $10,410 [December 31, 2011 - $4,240]. Retention in connection with construction contracts at September 30, 2012 was $983 [December 31, 2011 - $1,017]. Advance payments and retentions are included in accounts payable, accrued liabilities and provisions.

Segmented information consists of the following:

Activity segments:

						Three months ended September 30
			2012			2011
	Aerospace	Power Generation Project	Total	Aerospace	Power Generation Project	Total
Revenues	151,685	9,880	161,565	149,033	12,610	161,643
Income before interest and income taxes	10,780	405	11,185	13,125	781	13,906
Interest expense			2,375			3,489
Income before income taxes			8,810			10,417
Total assets	696,682	25,408	722,090	644,853	22,855	667,708
Total liabilities	401,054	11,410	412,464	406,721	9,826	416,547
Additions to property, plant and equipment	10,143	—	10,143	11,567	—	11,567
Depreciation and amortization	7,416	—	7,416	6,619	272	6,891

						Nine months ended September 30
			2012			2011
	Aerospace	Power Generation Project	Total	Aerospace	Power Generation Project	Total
Revenues	480,777	37,241	518,018	447,359	70,761	518,120
Income before interest and income taxes	40,377	697	41,074	34,250	4,942	39,192
Interest expense			6,999			11,619
Income before income taxes			34,075			27,573
Total assets	696,682	25,408	722,090	644,853	22,855	667,708
Total liabilities	401,054	11,410	412,464	406,721	9,826	416,547
Additions to property, plant and equipment	22,639	—	22,639	25,837	—	25,837
Depreciation and amortization	22,643	—	22,643	21,075	1,349	22,424

Geographic segments:

								Three month period ended September 30
				2012				2011
	Canada	United States	United Kingdom	Total	Canada	United States	United Kingdom	Total
Revenue	74,744	49,560	37,261	161,565	80,488	46,197	34,958	161,643
Export revenue[1]	53,585	12,259	2,215	68,059	52,924	9,000	2,619	64,543

								Nine month period ended September 30
				2012				2011
	Canada	United States	United Kingdom	Total	Canada	United States	United Kingdom	Total
Revenue	249,883	150,252	117,883	518,018	275,301	140,224	102,595	518,120
Export revenue[1]	183,180	35,224	5,397	223,801	192,026	25,460	9,815	227,301

[1]Export revenue is attributed to countries based on the location of the customers

	September 30, 2012				December 31, 2011			
	Canada	United States	United Kingdom	Total	Canada	United States	United Kingdom	Total
Property, plant and equipment and intangible assets	200,603	116,761	47,744	365,108	201,586	121,030	33,262	355,878

The major customers for the Corporation are as follows:

	Three month period ended September 30		Nine month period ended September 30	
	2012	2011	2012	2011
Major customers				
Canadian operations				
- Number of customers	3	3	3	2
- Percentage of total Canadian revenue	43%	38%	38%	36%
US operations				
- Number of customers	2	1	1	1
- Percentage of total US revenue	50%	35%	39%	40%
UK operations				
- Number of customers	2	1	2	1
- Percentage of total UK revenue	88%	74%	90%	71%

14. 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.

Total managed capital as at September 30, 2012 of $544,630 is comprised of shareholders' equity of $309,626 and interest-bearing debt of $235,004.

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.

15. CONTINGENT LIABILITES AND COMMITMENTS

In the ordinary course of business activities, the Corporation may be contingently liable for litigation and claims with, among other, customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although, it is not possible to accurately estimate the extent of the potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Corporation.

At September 30, 2012 capital commitments in respect of purchase of property, plant and equipment totalled $13,143, all of which had been ordered. There were no other material capital commitments at the end of the period.