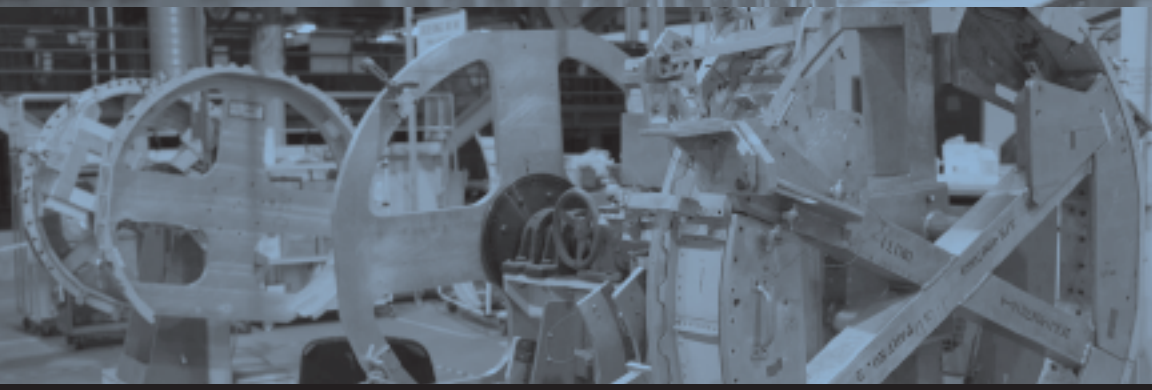


2007

AVCORP **Q3**

ABOUT AVCORP INDUSTRIES INC. **Avcorp designs and builds major airframe structures for some of the world's leading aircraft companies, including Boeing, Bombardier, and Cessna. With 50 years of experience, more than 650 skilled employees and a 300,000 square foot facility near Vancouver, Canada, the Company's depth and breadth of capabilities are unique in the aerospace industry for a company of its size. Avcorp is a Canadian public company traded on the Toronto Stock Exchange (TSX:AVP).**

MANAGEMENT DISCUSSION & ANALYSIS

This Management Discussion and Analysis has been prepared as of November 1, 2007 and should be read in conjunction with the Company's unaudited interim financial statements and notes thereto for the three and nine month periods ended September 30, 2007 and with the audited financial statements and notes thereto for the year ended December 31, 2006.

DESCRIPTION OF BUSINESS

Avcorp Industries Inc. (the Company) is an important supplier of subcontract design, fabrication and assembly services to major aircraft manufacturers. Management is dedicated to creating positive economic value added for shareholders while satisfying all other stakeholders. We are doing so by improving productivity, enhancing organizational capabilities and ensuring that growth opportunities have a positive impact on the bottom line.

FINANCIAL OVERVIEW

Quarterly Results

The following table provides selected quarterly financial information for the eight most recent fiscal quarters to September 30, 2007.

QUARTERLY RESULTS
unaudited, prepared in accordance with Canadian GAAP, expressed in thousands of Canadian dollars except per share amounts

	2007			2006				2005
FOR THE THREE MONTHS ENDED	SEP 30	JUN 30	MAR 31	DEC 31	SEP 30	JUN 30	MAR 31	DEC 31
Revenue	**$26,696**	**29,352**	**27,357**	25,944	25,199	25,874	26,833	22,279
EBITDA[1,2]	**1,500**	**2,308**	**1,629**	1,642	1,935	1,700	1,726	(644)
Net Income (loss)	**32**	**817**	**375**	365	698	265	122	(5,059)
EBITDA per share[1,2]								
Basic	**0.05**	**0.08**	**0.06**	0.06	0.08	0.07	0.08	(0.03)
Diluted	**0.04**	**0.07**	**0.05**	0.05	0.07	0.07	0.07	(0.03)
Net Income (loss) per share								
Basic	**0.00**	**0.03**	**0.01**	0.01	0.03	0.01	0.01	(0.24)
Diluted	**0.00**	**0.02**	**0.01**	0.01	0.03	0.01	0.01	(0.24)
Long-term debt	**6,419**	**5,064**	**5,041**	4,957	5,387	11,973	7,311	7,338

[1] EBITDA = earnings before interest, taxes, depreciation and amortization
[2] EBITDA is not a recognized term under GAAP

Three Months ended September 30, 2007 and 2006 Results Overview

During the quarter ended September 30, 2007, the Company recorded earnings from operations of $628,000 on $26,696,000 revenue, as compared to $1,097,000 from $25,199,000 revenue for the same quarter of the preceding year, and net income for the quarter of $32,000 (September 30, 2006: $698,000). The third quarter of 2007 saw a 6% increase in revenue over the same quarter in 2006. During this period the Company delivered 229 major structures to its customers, a 19% increase over the 192 units which were delivered during the same quarter 2006. The strengthening of the Canadian dollar as compared to the US dollar, relative to the rates of exchange in effect during the third quarter of 2006, has adversely reduced revenues by $1,281,000 and beneficially reduced costs of US dollar bought-in goods by $285,000; the full benefit of cost reductions has not yet flowed through cost of sales for parts and materials purchased earlier in the year using US dollars. A selling price reduction on a certain program commenced January 1, 2007. The price reduction had the effect of lowering gross margin by $251,000 during the third quarter. The impact of this program's selling price reduction coupled with the strengthening of the Canadian dollar has caused the company to increase its provision for loss making contracts by $229,000 for the quarter (September 30, 2006: $Nil).

On a year-to-date basis the Company generated $1,224,000 net income from $83,405,000 revenue, as compared to $1,085,000 net income from $77,906,000 revenue for the same period in 2006. Income from unrealized derivative gains amounted to $6,000 for the quarter ended September 30, 2007 (September 30, 2006: $Nil) and $697,000 for the nine-month period ended September 30, 2007 (year-to-date September 30, 2006: $Nil). Cash flows from operating activities provided $1,429,000 of cash, as compared to $341,000 during the same quarter last year. During the first three quarters 2007 and 2006, the Company generated cash flows from operating activities in the amount of $3,693,000 and $2,605,000 respectively. The Company has a working capital surplus of $10,706,000 as at September 30, 2007 (December 31, 2006: $9,640,000) and an accumulated deficit of $50,065,000 at September 30, 2007 (December 31, 2006: $50,565,000).

On March 30, 2007, the following changes were made to the terms and security of the Company's operating line of credit:

- increase of the operating line of credit to $12,000,000;
- interest at prime plus 0.375%, 0.50%, 0.675%, or 0.75% determined on a quarterly basis according to specific measures of the ratio of debt to tangible net worth;
- foreign-forward-exchange facility having a notional risk for credit purposes of $3,528,000 to purchase foreign-forward-exchange contracts for major currencies up to an aggregate $3,528,000, with a maximum maturity of 12 months; and
- release of the guarantee of the indebtedness of the Company by a Canadian financial institution.

Subsequent to September 30, 2007, the following further changes were made to the terms of the Company's operating line of credit:

- increase of the operating line of credit to $15,000,000; and
- increase in margining capacity.

At September 30, 2007, the Company had utilized $10,947,000 of this facility (December 31, 2006: $5,564,000).

During the nine months ended September 30, 2007, holders of preferred shares converted 378,200 preferred shares resulting in 821,800 preferred shares remaining having a $7,672,000 book value. The conversion of these preferred shares entitled the holders to 2,439,241 common shares at $1.55 per common share.

During the quarter ended to September 30, 2007, the Company entered into a placement of 840,000 units at $2.20 per unit; 287,500 units were subscribed for by insiders of the Company. Each unit consists of one share and one warrant, where one warrant entitles the holder the right to purchase one additional share at $2.40 per share for a 24-month period from the closing date.

Gross proceeds from the placement amount to $1,848,000. The net proceeds of the financing will be used for working capital.

Subsequent to the quarter ended September 30, 2007, the Company concluded the agreement to acquire the shares of Comtek Advanced Structures Ltd (Comtek). This will add ongoing operations and expertise in the design and competitive manufacture of advanced composite aerostructures, plus provide access to new aerospace markets for the Company. Closing is scheduled for December 31, 2007.

With reference to a previous announcement made March 7, 2007, for the purchase of a machining business in British Columbia, the Company has decided not to proceed with this acquisition focusing instead on investing in its own machining capabilities.

As at September 30, 2007 the Company was not in compliance with its debt servicing covenant associated with the convertible debenture held by Export Development Canada (note 6a to the financial statements). The Company has obtained a waiver from the debenture holder for this non-compliance.

Management believes that the financing activities undertaken and the ongoing efforts to reduce costs and improve productivity and working capital usage make the use of the going concern basis appropriate; however, there can be no assurance that the Company will be successful with all initiatives.

While these financial statements have been prepared using Canadian generally accepted accounting principles (GAAP) applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations, in the event that the Company is unable to maintain its ongoing cost and productivity improvements, and or obtain additional financing if required, and without the continued support of significant shareholders (note 13 to the financial statements), there may be uncertainty about the Company's ability to continue as a going concern.

The financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported revenues and expenses, and balance sheet classifications used that would be necessary if the going concern assumption were not appropriate; such adjustments could be material.

Revenue

Revenue for the quarter ended September 30, 2007 was $26,696,000 (September 30, 2006: $25,199,000). Revenues from the Company's customers are as follows:

REVENUE DISTRIBUTION
unaudited, prepared in accordance with Canadian GAAP, expressed in thousands of Canadian dollars

	THREE MONTHS ENDED SEPTEMBER 30				NINE MONTHS ENDED SEPTEMBER 30			
	2007		2006		**2007**		2006	
	REVENUE	% OF TOTAL	REVENUE	% OF TOTAL	REVENUE	% OF TOTAL	REVENUE	% OF TOTAL
Boeing	$ 5,187	19.4	$ 5,761	22.9	$15,100	18.1	$15,801	20.3
Bombardier	5,993	22.4	4,815	19.1	17,652	21.2	17,561	22.5
Cessna	13,037	48.8	13,313	52.8	43,510	52.2	41,294	53.0
Other	2,479	9.4	1,310	5.2	7,143	8.5	3,250	4.2
Total	26,696	100.0	25,199	100.0	83,405	100.0	77,906	100.0

The strengthening of the Canadian dollar as compared to the US dollar, relative to rates of exchange in effect during the third quarter 2006, has caused revenues to reduce by $1,281,000 during the quarter.

Deliveries to Cessna Aircraft Company (Cessna) increased by 15% to 69 major structures in the third quarter 2007, relative to the same quarter in 2006. However, a selling price reduction on a certain program, coupled with the strengthening in the Canadian dollar, caused revenues to decrease by 2% relative to the same quarter in 2006. The primary sources of revenue from Cessna are from deliveries of components for the Citation Sovereign business jet and the Citation CJ3 business jet. A continuation of the current production rates for components of Citation Sovereign and the Citation CJ3 is expected for the remainder of 2007.

Deliveries to Boeing Commercial Airplane Group (Boeing) of smaller discrete parts have decreased from the same quarter preceding year, while shipments of larger assemblies for the 737 aircraft have increased. The primary source of revenue from Boeing is from the 737 aircraft. The Company continues to work towards obtaining additional new contracts supporting 737, 747, 767, 777 and 787 commercial jet programs.

Sales to Bombardier Aerospace (Bombardier) during the current quarter were 24% higher than the quarter ended September 30, 2006. The Company saw an increase in Bombardier sales from regional jet product lines, offset by a reduction in sales to Bombardier for the CL605 business jet components. An increase in the scope of work performed for two aircraft also augmented revenues for this quarter relative to the same quarter last year. It is expected that revenue from Bombardier will increase during the fourth quarter, following on from Bombardier's summer shut-down which occurred during the third quarter. The Company's primary source of revenues from Bombardier in 2007 will continue to be from components on the CL605 business jet and the CRJ700/900 Series regional jet.

Sales from other customers continued to grow in the third quarter 2007, as compared to the quarter ended September 30, 2006, primarily as a result of increased deliveries of Boeing 757 commercial jet wing adapter plugs. Deliveries of these components are expected to continue to increase through the remainder of the year.

In 2007, it is anticipated that revenues from Cessna business jet programs will increase to 55% of total revenue, while revenue from Bombardier business and regional jet programs and Boeing commercial jet products will decrease to 19% and 16%, respectively. The Company is working towards increasing revenues from other customers in 2007.

Gross Profit

Gross profit (revenue less cost of sales) for the quarter ended September 30, 2007 was 13.3% of revenue as compared to 14.8% of revenue for the quarter ended September 30, 2006.

The strengthening of the Canadian dollar against the US dollar, relative to rates of exchange in effect during the third quarter 2006, has caused a $1,281,000 reduction in revenues and an estimated benefit of $285,000 in reduction of cost of sales, thereby reducing gross margin for the quarter by $996,000 as compared to the same quarter in 2006.

A selling price reduction on a certain Cessna program commenced on January 1, 2007. The price reduction had the effect of lowering gross margin by $251,000 during the third quarter relative to the same quarter in 2006. A year on year 15% reduction in this program's production hours has partially mitigated the impact of its reduced revenues.

While the strengthening of the Canadian dollar relative to the US dollar has decreased revenues, the full benefit of a stronger Canadian dollar has not yet flowed through cost of sales for parts bought earlier in the year using US dollars.

While material costs have remained flat, assembly labour hours have decreased as operating improvements continue to take effect. However, operational performance improvements have been slightly diminished as the Company continues to incur high levels of workforce overtime.

Administration and General Expenses

As a percentage of revenue, administration and general expenses increased from 7.5% for the quarter ended September 30, 2006 to 9.3% for the same quarter this year. Administrative and general expenses have increased for the quarter ended September 30, 2007, relative to the same quarter last year primarily due to staffing increases in the Company's business support departments.

Foreign Exchange Gain

The Company recorded a $298,000 foreign exchange gain during the third quarter 2007 (September 30, 2006: $39,000) as a result of holding foreign-currency-denominated receivables, payables and debt.

Other Income

The Company uses derivative financial instruments to reduce its exposure to foreign currency and price risk associated with its revenues and costs of certain procured items.

SALES CONTRACTS

A number of the Company's sales contracts have a price adjustment clause where the final sales price is determined by certain indices in a period prior to the date of sale. As a result, the final sales price will change as these underlying indices change. This price adjustment clause is an embedded derivative that is recorded at fair value, with changes in fair value recorded in other income or expenses until the date of sale. As at September 30, 2007, the Company has $73,160,000 (December 31, 2006: $30,535,000) of firmly committed orders that include price adjustment clauses of this nature. A loss of $7,000 has been recorded in unrealized derivative gains for the three months ended September 30, 2007 (year-to-date September 30, 2007: $20,000 gain) as a result of the change in the fair value of the underlying embedded derivatives.

PURCHASE CONTRACTS

A number of the Company's purchase contracts have a price adjustment clause where the final purchase price is determined by certain indices in a period prior to the date of purchase. As a result, the final purchase price will change as these underlying indices change. This price adjustment clause is an embedded derivative that is recorded at fair value, with changes in fair value recorded in other income or expenses until the date of purchase. As at September 30, 2007, the Company has $408,000 (December 31, 2006: $1,856,000) of firmly committed purchases that include price adjustments clauses of this nature. A gain of $2,000 has been recorded in unrealized derivative gains for the three months ended September 30, 2007 (year-to-date September 30, 2007: $4,000) as a result of the change in the fair value of the underlying embedded derivatives.

FOREIGN EXCHANGE FORWARD CONTRACTS

Foreign exchange exposure to US dollar sales, purchases, and related receivables and payables is in part managed by the use of foreign-exchange-forward contracts. On January 4, 2007, the Company entered into a 12-month USD$12,000,000 foreign-exchange-forward contract with the provider of its operating line of credit of which a four-month USD$4,000,000 foreign exchange forward contract remains as at September 30, 2007. The Company has marked to market its unrealized foreign-exchange-forward contracts as at September 30, 2007 and recorded a gain of $11,000 in unrealized derivative gains during the quarter ended September 30, 2007 (year-to-date September 30, 2007: $673,000).

All other financial instruments have been recorded at cost or amortized cost, subject to impairment reviews, such as the investment in Eclipse Aviation Corporation.

Earnings Before Interest, Taxes, Depreciation & Amortization
Earnings before interest, income taxes, depreciation and amortization (EBITDA) were $1,500,000 for the quarter ended September 30, 2007 compared to $1,935,000 for the quarter ended September 30, 2006. The decrease in EBITDA, relative to the same quarter in the previous year, is primarily attributable to the adverse impact of the strengthening Canadian dollar on gross margins.

EBITDA
unaudited, prepared in accordance with Canadian GAAP, expressed in thousands of Canadian dollars

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2007	2006	**2007**	2006
Income for the period	**$ 32**	$ 698	**$ 1,224**	$ 1,085
Interest expense and financing charges	**609**	399	**1,546**	1,659
Income tax expense	**–**	–	**–**	–
Depreciation	**757**	778	**2,302**	2,377
Amortization	**102**	60	**365**	240
	1,500	1,935	**5,437**	5,361

EBITDA is a term, which does not have a standardized meaning under Canadian generally accepted accounting principles (GAAP).

Interest and Financing Charges
Total interest and financing charges on both short- and long-term debt, some to related parties, for the quarter ended September 30, 2007 was $609,000 as compared to $399,000 for the same quarter in the previous year.

Income Taxes
The Company has not incurred a tax expense during the current quarter (September 30, 2006: $Nil).

Income
Income for the quarter ended September 30, 2007 was $32,000 compared to $698,000 for the quarter ended September 30, 2006. The reduction in income over that of the previous quarter resulted from various factors discussed above.

Liquidity and Capital Resources
The Company ended the third quarter with bank operating line utilization of $10,947,000 compared to $5,564,000 as at December 31, 2006.

CASH FLOWS FROM OPERATING ACTIVITIES
Cash provided from operating activities, before consideration of changes in non-cash items relating to operating activities, was $1,429,000 for the quarter ended September 30, 2007 compared to cash provided of $341,000 for the same quarter last year.

Non-cash operating assets and liabilities utilized $3,854,000 cash during the current quarter, as continued prompt payments are made to vendors in order to mitigate the risk of supply chain disruptions, compared to a utilization of $2,294,000 during the same quarter last year.

CASH FLOWS FROM INVESTING ACTIVITIES

During the quarter, the Company purchased capital assets, totaling $681,000 as compared to $514,000 during the quarter ended September 30, 2006. The purchases consisted of manufacturing equipment to augment capacity, capability, and increase operating efficiencies; and a continued upgrading of the information technology infrastructure. Additionally, the Company invested $210,000 (September 30, 2006: $165,000) in improving the production efficiencies of various program lines.

On May 31, 2007, the Company entered into a $2,000,000 convertible loan agreement with Comtek Advanced Structures Ltd (Comtek) with which it is finalizing its acquisition. Upon the December 31, 2007 closing date for the acquisition, the outstanding principal and all accrued but unpaid interest to an aggregate of $1,500,000 will be converted into shares of the acquired company. During the quarter ended September 30, 2007, the Company advanced Comtek a further $450,000 bringing the total principal advanced to $1,250,000. $11,000 of interest income was accrued for the quarter (September 30, 2006: $Nil).

CASH FLOWS FROM FINANCING ACTIVITIES

The Company finances working capital through a combination of bank debt and other financial instruments.

On March 30, 2007, the following changes were made to the terms and security of the Company's operating line of credit:

- **increase of the operating line of credit to $12,000,000;**
- **interest at prime plus 0.375%, 0.50%, 0.675%, or 0.75% determined on a quarterly basis according to specific measures of the ratio of debt to tangible net worth;**
- **foreign-forward-exchange facility having a notional risk for credit purposes of $3,528,000 to purchase foreign-forward-exchange contracts for major currencies up to an aggregate $3,528,000, with a maximum maturity of 12 months; and**
- **release of the guarantee of the indebtedness of the Company by a Canadian financial institution.**

Subsequent to September 30, 2007, the following further changes were made to the terms of the Company's operating line of credit:

- **increase of the operating line of credit to $15,000,000; and**
- **increase in margining capacity.**

The Company obtained $1,903,000 in long-term financing, for its equipment purchases, primarily in the form of sale-leaseback contracts.

In addition to $156,000 debenture principal and interest repayments during the third quarter 2007, the Company repaid $529,000 of current and long-term debt consisting of $337,000 in equipment financing and $192,000 in royalty payments.

The Company issued 840,000 common shares during the quarter ended September 30, 2007 for cash proceeds of $1,848,000 (note 7 to the financial statements). The cost of issuing the capital stock during the third quarter 2007 was $59,000.

Dividends paid on the preferred shares issued on July 10, 2006 amounted to $199,000 for the quarter ended September 30, 2007 (September 30, 2006: $246,000).

The Company's ratio for current assets to current liabilities, declined marginally from 1.48:1 at December 31, 2006 to 1.45:1 at September 30, 2007.

Contractual Obligations

PAYMENTS DUE BY PERIOD
unaudited, prepared in accordance with Canadian GAAP, expressed in thousands of Canadian dollars

	TOTAL	2007	2008 - 2010	2011 - 2 012	POST 2012
Convertible debentures	$ 4,597	$ 100	$ 4,497	$ –	$ –
Capital lease obligation	2,880	169	1,927	784	–
Purchase obligation[1,2]	22,380	502	4,871	4,334	12,673
Other long-term obligations[3]	332	–	332	–	–
Total contractual obligations	30,189	771	11,627	5,118	12,673

[1] Purchase obligations include payments for the Company's property lease.
[2] During 2003, the Company entered into a 15-year leaseback agreement with the purchaser of its property. As part of the consideration from the sale of the property, the Company received a $1,500,000 rent credit to be applied to rent in 2008 should the Company meet certain conditions.
[3] Fees payable as consideration for a performance guarantee have been excluded, as their continuance is subject to annual review (note 13 to the financial statements).

The Company does not have any financial commitments beyond what has been outlined in the above table and footnotes. The Company expects that repayment of contractual obligations will come from funds generated by operations and utilization of the bank operating line of credit.

The Company does not have any off-balance sheet liabilities or transactions that are not recorded or disclosed in the financial statements.

Capital Stock

The Company is authorized to issue an unlimited number of common shares as well as an unlimited number of first preferred and second preferred shares, issuable in series, the terms of which will be determined by the Company's directors at the time of creation of each series. There were 31,345,266 common shares issued and 329,555 reserved at September 30, 2007. The book value of common shares issued and outstanding as at September 30, 2007 was $63,823,000.

As at November 1, 2007, there were 31,345,266 common shares, 821,800 preference shares, 1,715,000 warrants and 939,667 options issued and outstanding.

Recent Accounting Pronouncements

These financial statements for the quarter ended September 30, 2007 have been prepared using accounting policies consistent with the audited financial statements for the year ended December 31, 2006 except for the following.

Effective January 1, 2007, the Company adopted the Canadian Accounting Standards Board accounting standards dealing with the recognition, measurements and disclosure of financial instruments, hedges and comprehensive income. These new standards are as follows:

FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

This standard prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based measures are used. It also specifies how financial instrument gains and losses are to be presented (note 3 to the financial statements).

HEDGES

This standard establishes when and how hedge accounting may be applied. Specifically, hedge accounting may be applied only when gains, losses, revenues and expenses on a hedging item would otherwise be recognized in net income in a different period than gains, losses, revenues and expenses are recognized on the hedged item. The Company has also determined that the derivative instruments put in place (note 3c to the financial statements) do not meet the requirements to qualify them as hedges. Accordingly, such instruments that do not qualify for hedge accounting are required to be marked-to-market with changes in their fair value recognized as unrealized gains and losses in the statement of operations, in the period in which they occur.

COMPREHENSIVE INCOME

This standard provides guidance for the reporting and presentation of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources. Examples of some items that would be included in other comprehensive income are changes in the fair value of available for sale assets and the effective portion of the change in fair value cash flow hedging instruments. Adoption of this new standard did not result in any amounts being recorded in comprehensive income.

Effective January 1, 2007, the Company adopted the revised "Accounting Changes" generally accepted accounting policy, which requires that:

- **a voluntary change in accounting principles can be made if, and only if, the changes result in more reliable and relevant information;**
- **changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change; and**
- **for changes in estimates, the nature and amount of the change should be disclosed.**

The Company has not made any voluntary change in accounting principles since the adoption of the revised standard.

OPERATIONS OVERVIEW

Delivery and Quality Performance

Deliveries for the third quarter were at planned levels for Cessna, Bombardier and Boeing programs with the following exceptions.

Difficulties encountered in continuing to secure a supply of parts for a program which will be terminated during the first quarter 2008 have caused deliveries for this program to fall behind schedule. The Company is managing this by expediting parts from the vendors and within its own production facility.

Quality and schedule problems from a specific supplier have caused deliveries on another customer program to fall behind plan. The Company and its customer are both actively involved with the supplier in correcting this issue.

All other program deliveries were on schedule or not impacting customer requirements.

Order Backlog

The Company operates with "general terms agreements" with its customers. These agreements are typically for five years or longer. In January 2006, the Company extended its Boeing contracts by five years through to December 2011. The Bombardier and Cessna agreements extend for the life of the programs. With the exception of the Bombardier CRJ700/900 program for which Bombardier has imposed a termination for convenience, which will end the contract in January 2008.

The Company defines order backlog as the value of purchase orders it expects to receive from these contracts based on manufacturers' projections and current degrees of exclusivity. The order backlog as at September 30, 2007 was $317 million, compared to $339 million as at June 30, 2007. The changes in order backlog are as follows:

- $13 million increase in order backlog primarily due to production rate increases to various existing programs;
- $8 million decrease in order backlog as a result of the strengthening of the Canadian dollar relative to the US dollar; and
- $27 million decrease in order backlog from revenues recorded during the third quarter of 2007.

During the third quarter 2006, the Company signed a letter of intent with BAE Systems to provide low-rate initial production of outboard wings for the aircraft carrier variant of the F-35 aircraft. The expected shipments over a ten-year period, commencing in 2010, will add approximately $150 million to the order backlog when purchase orders are received.

Order backlog size is affected by changes in foreign exchange rates. Please refer to comments on currency risk.

Supply Chain Savings

Vendor delivery and quality performance met targeted levels during the quarter. Raw material aluminum plate delivery risk was mitigated by revised inventory levels and through dual sourcing key commodities. Several key machining vendors continued to experience capacity issues which had an impact on internal assembly start dates during the fourth quarter. It is expected that these conditions will continue into the first quarter of 2008. Hardware savings resulting from a long-term purchase contract were at planned levels, although general industry hardware pricing will place cost pressures on 2008 pricing. The securing of additional long-term contracts with key suppliers continues.

Working Capital Utilization

Working capital, defined as cash plus accounts receivable and inventories less current bank financing and accounts payable, has decreased during the quarter (September 30, 2007: $7,976,000; December 31, 2006: $8,726,000). It should be noted that this is a non-GAAP measure. Total current assets less total current liabilities has increased from a surplus of $9,640,000 at December 31, 2006 to a surplus of $10,706,000 at September 30, 2007.

Financial Resources

The Company has invested in its chosen strategies of organic growth, lean manufacturing and strategic sourcing. Management believes that the significant investments necessary to better position the Company in the aerospace industry have been made, and that those investments along with the expected continued financial support of shareholders and lenders has positioned the Company to be able to face and mitigate risks associated with the business.

Non-Financial Resources

The Company's non-financial resources relate to the Company's human resources, operating equipment, systems, technologies and processes. The Company does not have any extended enterprise relationships such as special purpose entities or joint ventures.

HUMAN RESOURCES

The Company has the appropriate human resources at all levels of the organization. The board of directors has considerable aerospace industry, investment, and financial expertise. The management team is experienced in the industry and in all aspects of operations. Employees have appropriate qualifications and experience to perform their duties and the Company provides ongoing training and opportunities for employee growth.

The number of employees at September 30, 2007 was 671 (December 31, 2006: 658). The increase in the number of employees relative to the same quarter last year is attributable to the staffing for a New Product Introduction (NPI) team, improvement projects, and rate increases on existing programs. The Company is adjusting its head count to meet current production schedules, and will hire to address current and future schedule requirements and attrition. The Company's compensation system consists of wages and salaries, benefit programs, and stock options (note 9 to the financial statements). Management is reviewing a 2007 gainsharing proposal for hourly and staff employees, and the Compensation and Nominating Committee of the board of directors will consider a proposal to establish a management incentive plan for 2007 and onwards. The Company continually reviews its compensation practices to ensure it can attract and retain employees with the necessary skills and experience.

EQUIPMENT, SYSTEMS, TECHNOLOGIES AND PROCESSES

A number of internal projects are underway, with the aim of further increasing productivity to desired levels. With the establishment of a New Product Introduction team along with formal NPI processes, the Company is readying itself to take on the growth expected from new contracts, with the goal of doing it right the first time.

Technology upgrades in high-speed machining are continuing throughout 2007. Non-destructive (ultrasonic) testing equipment has been purchased and is fully operational. This investment allows the Company to further augment its quality assurance systems, bring currently outsourced work in-house thereby reducing costs, and satisfy customer requirements.

Given the capacity constraints in the supply chain market for machined parts during 2006 and into 2007, the Company will also be investing in additional capacity where it has been demonstrated that there is a chronic shortage of reliable supply. Bringing additional currently-outsourced work in house will help lower costs by reducing shortages and capturing margin currently in supplier prices.

Information technology assets have been consistently upgraded and further deployed, increasing reliability and utility. Viruses and/or worms or other outages minimally affected the Company's systems.

Proposed Business Acquisition

On March 6, 2007, the Company entered into a preliminary agreement to acquire all of the shares of a machining business. The agreement was subject to completion of due diligence and a definitive agreement by May 15, 2007, with closing scheduled for June 30, 2007. Closing was not completed as the Company has decided not to proceed with this acquisition focusing instead on investing in its own machining capabilities.

On April 2, 2007, the Company entered into a preliminary agreement to acquire all of the shares of a composite aerostructures manufacturing business.

As part of the agreement, the Company is to invest $1,500,000 into the composite business, Comtek Advanced Structures Ltd (Comtek), of which up to $200,000 will be in shares of the Company at a deemed value of $2.85 per share, with the $1,300,000 balance payable in cash.

A majority of the principals of Comtek will remain and have agreed to assign their shares to the Company for 500,000 Company warrants, exercisable over a three-year period from closing, at an exercise price of $2.75 in year 1, $3.20 in year 2, and $3.70 in year 3. In addition, the Company has agreed to pay to the principal shareholders of Comtek one-third of the composites business EBITDA for the year ending December 31, 2010, which is payable two-thirds in cash and one-third in the Company shares at the then current market price. The transaction has been negotiated at arm's length.

On May 31, 2007, the Company entered into a $2,000,000 convertible loan agreement with Comtek. Upon the planned December 31, 2007 closing date for the acquisition, the outstanding principal and all accrued but unpaid interest to an aggregate of $1,500,000 may be converted into shares of the acquired company. All the remaining amounts outstanding as at the closing date will bear interest and will be repayable 12 months following initial advance under the convertible loan.

Subsequent to the quarter ended September 30, 2007, the Company concluded the agreement to acquire the shares of Comtek. This will add ongoing operations and expertise in the design and competitive manufacture of advanced composite aerostructures, plus provide access to new aerospace markets for the Company. Closing is scheduled for December 31, 2007.

Risk Assessment

The principal risks that the Company faces are summarized as follows:

- significant increases in material costs, primarily aluminum plate and titanium, and subcontractor costs, without equivalent price protection in customer contracts;
- reduction in production rates of aircraft manufacturers and delays in program introduction;
- actions by competitors;
- potential failure to achieve cost-reduction objectives relative to revenue growth; and
- the trend to greater use of composite material in primary structures in each new generation of aircraft.

The Company's view is that, with its financial structure, acquisitioning of a composite manufacturer and strategic plan in place, the Company is in a position to face and mitigate these risks.

Procured Materials and Parts

The Company is continuing its efforts to utilize its customer relationships to reduce or minimize the increase in cost of bought-in materials and parts as well as ensure delivery commitments. Delivery delays on raw materials, in particular aluminum plate have been partially mitigated by dual sourcing and increased inventory levels.

AIRCRAFT PRODUCTION RATES

The following industry and program trends impact the Company.

- Industry research indicates that the aerostructures market for commercial aircraft, business jets, as well as defence aircraft, will continue to grow through 2010.
- Boeing is increasing the rates on the 737 and 777 programs, while giving the 747 program renewed life with the introduction of the 747-8.
- The production rate on the 757-200 wing adapter plug for winglet retrofits increased through 2006, tripled in 2007 and will continue at slightly lower levels through 2008.
- Bombardier CRJ200 regional jet and the Challenger 605 business jet aircraft production rates are forecasted to increase in 2008; while the CRJ700/900 program will end in January 2008.
- Cessna Citation Sovereign and CJ3 business jet rates have increased significantly through 2007, with continued solid demand and increased order backlogs into 2008 and 2009.

COMPETITORS

The long-term trend is to more intense competition from larger entities in Asia and Europe, while original equipment manufacturers continue to increase the size and amount of outsourced components.

The Company continues to examine opportunities for mergers or acquisitions that would improve competitiveness and acquire vertical strengths or additional strategic capabilities.

COST REDUCTIONS

Approximately 49% of the Company's cost of sales is related to labour and overhead and 51% related to procurement of raw materials and finished parts. The Company's wage rates are generally lower than its Western European and US competitors and higher than those in Asia, Eastern Europe and Mexico. The Company has achieved labour cost certainty via a four-year collective agreement with its labour force expiring in 2009.

The Company continues to focus on cost reductions for direct labour, material and overhead. These reductions will be achieved through head count and overtime limitations as negotiated in the collective labour agreement, continued negotiation of long term agreements for 50% of the key suppliers, increased plant capacity augmented by technological improvements, and continued focus on cost targets at all levels of the organization.

OUTLOOK

The Company's backlog increased by $13 million in the third quarter of 2007 primarily as a result of increased sales of products for Bombardier business jets and new orders with Boeing Integrated Defense Systems for Chinook CH-47 helicopter components. Cessna continues to be the Company's largest customer. Overall, revenue in 2007 is expected to increase over 2006 to approximately $110,000,000. The lowered forecast from previous quarters is due to the strengthening of the Canadian dollar relative to the US dollar.

TRANSACTIONS WITH RELATED PARTIES

During the year ended December 31, 2005, the Company entered into an agreement with a certain shareholder in consideration of mutual agreements with a Canadian chartered bank under which the shareholder guarantees the indebtedness of the Company to the Bank limited to $2,000,000. In connection with providing the limited guarantee on the operating line of credit, the Company will pay a 5% fee on the $2,000,000 limited guarantee calculated on a daily basis. Fees paid to a certain shareholder during the quarter ended September 30, 2007 amounted to $Nil (September 30, 2006: $17,000). Fees payable to a certain shareholder as at September 30, 2007 are $50,000 (September 30, 2006: $8,000). These fees are included in the Statements of Operations as interest expense and financing charges and amount to $25,000 for the quarter ended September 30, 2007 (September 30, 2006: $25,000).

On February 3, 2006, a performance guarantee was provided by certain shareholders on production contracts with a certain customer. Fees ranging to $20,000 per month were provided as consideration for the performance guarantee. Fees paid to certain shareholders during the quarter ended September 30, 2007 amounted to $Nil (September 30, 2006: $20,000). Fees payable to certain shareholders as at September 30, 2007 are $120,000 (September 30, 2006: $20,000). These fees are included in the Statements of Operations as cost of sales and amount to $60,000 for the quarter ended September 30, 2007 (September 30, 2006: $67,000).

The Company had no demand loans outstanding as at September 30, 2007 (September 30, 2006: $Nil). During the second quarter of 2007, a certain shareholder advanced the Company $800,000 at 12% interest per annum, for the purpose of the Company extending a loan (note 4 to the financial statements) to Comtek Advanced Structures Ltd (Comtek) with which it is finalizing its acquisition (note 16 to the financial statements). The principal portion of the demand loan was repaid during the second quarter of 2007.

Total interest and fees charged on demand loans for the quarter ended September 30, 2007 were $Nil (September 30, 2006: $16,000). Interest and fees payable on the demand loans as at September 30, 2007 are $2,000 (September 30, 2006: $Nil). Interest and fees paid on the demand loans for the quarter are $Nil (September 30, 2006: $632,000).

On January 4, 2007, the Company entered into a 12-month USD$12,000,000 forward-foreign-exchange contract with its provider of the operating line of credit. Under the terms of this agreement, the Canadian chartered bank required a CAD$3,024,000 deposit be made on the Company's behalf by a significant shareholder, for a three-month period. The Company paid this significant shareholder a $15,000 fee for this transaction.

Other related-party transactions are disclosed elsewhere in these financial statements (notes 5 and 7 to the financial statements).

These transactions were conducted in the normal course of business and were accounted for at the exchange amount.

PROPOSED TRANSACTIONS

The Company continues to pursue merger and acquisition opportunities. The Company had entered into an agreement to acquire all of the shares of a machining business. The agreement was subject to completion of due diligence and a definitive agreement by May 15, 2007, with closing scheduled for June 30, 2007 (note 16 to the financial statements). Closing was not completed as the Company has decided not to proceed with this acquisition, focusing instead on investing in its own machining capabilities.

The Company has completed its agreement to acquire all of the shares of a composite aerostructures manufacturing business. The agreement is subject to completion of due diligence and regulatory approval. Subsequent to the quarter ended September 30, 2007, the Company concluded an agreement to acquire the shares of Comtek Advanced Structures Ltd (Comtek). This will add ongoing operations and expertise in the design and competitive manufacture of advanced composite aerostructures, plus provide access to new aerospace markets for the Company. Closing is scheduled for December 31, 2007 (note 16 to the financial statements).

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported revenues and expenses.

The critical accounting estimates the Company has made relate to the following.

- Unamortized development costs, net of related government assistance, which reflect the Company's investment in new programs and manufacturing process development, are recorded at $1,568,000 (December 31, 2006: $1,186,000). These costs are to be amortized over the number of units which management believes is a conservative estimate of deliveries for the programs to the customer. Development costs will be written off proportionately to any anticipated reduction in expected unit deliveries to the customer. No such reduction in deliveries exists at this time.

Furthermore, the Company will write off any amounts of development costs, which it estimates will not be recoverable from the recurring programs to which they relate. At this time, management estimates that all development costs are recoverable.

- An estimation is made of the useful life of equipment. Useful life is measured in terms of years or on a units of production basis.

Computer hardware and software	2 - 10 years
Machinery and equipment	10 - 15 years
Leasehold improvements	end of lease, 2018

- An estimation is made of the cost of the Company's stock-based compensation and other stock-based payments made in exchange for goods and services. The Company has adopted the Black-Scholes model for its fair value base method of accounting for stock options (note 9 to the financial statements). Option-pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options at the date of grant.

- In 2004, the value of the Company's investment in Series D Preferred stock of Eclipse Aviation Corporation was written down by $768,000 to its estimated recoverable value of $759,000. This estimation is based on management's review of Eclipse's financial results and forecasts. Should these forecasts significantly deteriorate; the Company will write down the investment further when management determines that there has been any further impairment in the value of the investment that is other than temporary.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Interest rate risk

Since August 18, 2005, the Company has been exposed to interest rate risk by its operating line of credit at an interest rate of bank prime plus 0.875% on the portion of $10,000,000 utilized. Commencing October 1, 2006, the Company is exposed to interest rate risk by its operating line of credit at a rate of bank prime plus 0.75%. As at March 30, 2007, the Company is exposed to interest rate risk on the utilized portion of its $12,000,000 operating line of credit at rates of bank prime plus 0.375%, 0.50%, 0.675% or 0.75% determined on a quarter basis according to specified measures of the ratio of debt to tangible net worth. The Company lowers interest rate costs by managing utilization of the operating line of credit to the lowest amount practical.

All of the Company's other financial instruments are at fixed rates.

Currency risk

The Company sells a significant proportion of its products in US dollars at prices which are often established well in advance of manufacture and shipment dates. In addition, the Company purchases a significant proportion of its raw materials in US dollars at prices, which are usually established at the order date. All of the Company's operations are based in Canada. As a result of this, the Company is exposed to currency risk to the extent that fluctuations in exchange rates are experienced.

The amount of foreign exchange gain recorded in the third quarter of 2007 was $298,000 (September 30, 2006: $39,000). In 2007, the Company expects its US dollar-based revenues to increase disproportionately to its US dollar based purchase of parts and materials. The Company is using derivative financial instruments to mitigate its exposure to currency risks in 2007 and into the first quarter 2008 (note 3 to the financial statements).

OTHER ITEMS

Disclosure Controls and Procedures, and Internal Controls over Financial Reporting

On a quarterly basis during 2007, an evaluation was carried out under the supervision of and with the participation of the Company's management, including the Chief Executive Officer, President and Vice President, Finance, of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer, President and the Vice President, Finance, concluded that the design and operation of these disclosure controls and procedures were effective as at September 30, 2007 to provide reasonable assurance that material information relating to the Company would be made known to them by others within the entity.

Under the supervision of and with the participation of the Company's management, including the Chief Executive Officer, President, and Vice President, Finance, internal controls and procedures have been designed to provide reasonable assurance which ensures the reliability of financial reporting. For the quarter ended September 30, 2007, no material changes to internal controls over financial reporting occurred which would adversely effect the Company's financial reporting.

FORWARD LOOKING STATEMENTS

This management discussion and analysis should be read in conjunction with the Company's audited financial statements. Certain statements in this report and other oral and written statements made by the Company from time to time are forward-looking statements, including those that discuss strategies, goals, outlook or other non historical matters; or projected revenues, income, returns or other financial measures. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements, including the following: (a) the extent to which the Company is able to achieve savings from its restructuring plans; (b) uncertainty in estimating the amount and timing of restructuring charges and related costs; (c) changes in worldwide economic and political conditions that impact interest and foreign exchange rates; (d) the occurrence of work stoppages and strikes at key facilities of the Company or the Company's customers or suppliers; (e) government funding and program approvals affecting products being developed or sold under government programs; (f) cost and delivery performance under various program and development contracts; (g) the adequacy of cost estimates for various customer care programs including servicing warranties; (h) the ability to control costs and successful implementation of various cost reduction programs; (i) the timing of certifications of new aircraft products; (j) the occurrence of further downturns in customer markets to which the Company products are sold or supplied or where the Company offers financing; (k) changes in aircraft delivery schedules or cancellation of orders; (l) the Company's ability to offset, through cost reductions, raw material price increases and pricing pressure brought by original equipment manufacturer customers; (m) the availability and cost of insurance; (n) the Company's ability to maintain portfolio credit quality; (o) the Company's access to debt financing at competitive rates; and (p) uncertainty in estimating contingent liabilities and establishing reserves tailored to address such contingencies.

REPORT OF MANAGEMENT

The accompanying financial statements of Avcorp Industries Inc. and all other information contained in the Management Discussion and Analysis are the responsibility of management. The financial statements were prepared in conformity with Canadian generally accepted accounting principles appropriate in the circumstances, in a manner consistent with the previous year, and include some amounts based on management's best judgments and estimates. The financial information contained elsewhere in this Management Report and Analysis is consistent with that in the financial statements.

Management is responsible for maintaining a system of internal accounting controls and procedures to provide reasonable assurance, within an appropriate cost/benefit relationship, that assets are safeguarded and that transactions are authorized, recorded and reported properly. Management believes that the Company's internal accounting controls provide reasonable assurance that assets are safeguarded against material loss from unauthorized use or disposition, and that the financial records are reliable for preparing financial statements and other data and maintaining accountability for assets.

ED MERLO
Vice President, Finance
and Corporate Secretary

MARK VAN ROOIJ
Chief Executive Officer

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

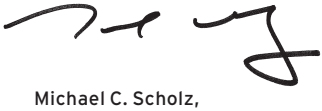
BALANCE SHEETS

as at September 30, 2007 and December 31, 2006
(unaudited, in thousands of Canadian dollars)

	SEPTEMBER 30, 2007	DECEMBER 31, 2006
ASSETS		
CURRENT ASSETS		
Accounts receivable	$ 11,786	$ 8,394
Inventories	18,303	19,421
Prepayments	2,204	1,611
Convertible loan receivable (note 4)	1,261	–
Other assets (note 3)	682	40
	34,236	29,466
Development costs	1,568	1,186
Property, plant and equipment	17,812	15,746
Investment	759	759
Prepaid rent	1,500	1,500
	55,875	48,657
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (note 5)	10,947	5,564
Accounts payable and accrued liabilities	11,166	13,525
Current portion of long-term debt (note 6)	1,417	737
	23,530	19,826
Deferred gain	512	548
Lease inducement	1,085	1,159
Deferred tooling revenues	2,899	3,434
Long-term debt (note 6)	6,419	4,957
	34,445	29,924
SHAREHOLDERS' EQUITY		
Capital stock (note 7)	61,425	55,600
Preferred shares (note 8)	7,672	11,454
Contributed surplus	2,398	2,244
Deficit (note 2)	(50,065)	(50,565)
	21,430	18,733
	55,875	48,657

Nature of operations and going concern (note 1)
Subsequent events (note 15)

Approved by the Board of Directors



Michael C. Scholz,
Chairman

The Hon. John D. Reynolds, PC
Committee Chair, Audit &
Corporate Governance Committee

STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME

For the three and nine months ended September 30, 2007 and September 30, 2006
(unaudited, in thousands of Canadian dollars, except number of shares and per share amounts)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2007	2006	**2007**	2006
Revenues	**$ 26,696**	$ 25,199	**$ 83,405**	$ 77,906
Cost of sales and expenses				
Cost of sales	**23,137**	21,467	**72,907**	67,128
Administrative and general expenses	**2,472**	1,896	**6,732**	5,698
Depreciation	**757**	778	**2,302**	2,377
Foreign exchange (gain) loss	**(298)**	(39)	**(598)**	(40)
	26,068	24,102	**81,343**	75,163
Income from operations	**628**	1,097	**2,062**	2,743
Interest expense and financing charges (note 11)	**(609)**	(399)	**(1,546)**	(1,658)
Interest income (note 4)	**7**	–	**11**	–
Unrealized derivative gain (loss) (note 3)	**6**	–	**697**	–
Income before income taxes	**32**	698	**1,224**	1,085
Income taxes	**–**	–	**–**	–
Income and other comprehensive income for the period	**32**	698	**1,224**	1,085
Basic earnings per common share	**0.00**	0.03	**0.04**	0.05
Basic weighted average number of shares outstanding (000's) (note 7d)	**30,870**	24,972	**29,111**	24,026
Diluted earnings per common share	**0.00**	0.03	**0.04**	0.04
Diluted weighted average number of shares outstanding (000's) (note 7d)	**36,816**	25,417	**34,248**	24,537

STATEMENTS OF DEFICIT

For the three months and nine months ended September 30, 2007 and September 30, 2006
(unaudited, in thousands of Canadian dollars)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2007	2006	**2007**	2006
Deficit – Beginning of period as previously reported	**$ (49,898)**	$ (51,142)	**$ (50,605)**	$ (51,529)
Adoption of financial instruments standards	**–**	–	**40**	–
Deficit – Beginning of period as restated	**(49,898)**	(51,142)	**(50,565)**	(51,529)
Income for the period	**32**	698	**1,224**	1,085
Preferred share dividends (note 8)	**(199)**	(246)	**(724)**	(246)
Deficit – End of period	**(50,065)**	(50,690)	**(50,065)**	(50,690)

STATEMENTS OF CASH FLOWS

For the three and nine months ended September 30, 2007 and September 30, 2006
(unaudited, in thousands of Canadian dollars)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2007	2006	**2007**	2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Income for the period	$ 32	$ 698	$ 1,224	$ 1,085
Items not affecting cash (note 12a)	1,397	(357)	2,469	1,520
	1,429	341	3,693	2,605
Change in non-cash items related to operating activities (note 12b)	(3,854)	(2,294)	(5,497)	(4,954)
	(2,425)	(1,953)	(1,804)	(2,349)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(681)	(514)	(3,483)	(857)
Payments relating to capitalized development costs	(210)	(165)	(747)	(882)
Advance on convertible loan receivable	(457)	–	(1,261)	–
Proceeds from sale of property, plant and equipment	–	–	15	21
	(1,348)	(679)	(5,476)	(1,718)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from bank indebtedness	965	(949)	5,383	(426)
Proceeds from current and long-term debt	1,903	–	2,761	490
Repayment of current and long-term debt	(685)	(3,350)	(2,164)	(5,645)
Issue of common shares (note 7)	1,848	88	2,091	2,821
Issue of preferred shares	–	7,635	–	7,635
Preferred share dividends (note 8)	(199)	(246)	(724)	(246)
Share issue expense	(59)	(546)	(67)	(562)
	3,773	2,632	7,280	4,067
Net change in cash and cash equivalents	–	–	–	–
Cash and cash equivalents - Beginning of period	–	–	–	–
Cash and cash equivalents - End of period	–	–	–	–
Interest paid	410	349	957	1,127

01. NATURE OF OPERATIONS AND GOING CONCERN

The Company is a Canadian-based manufacturer within the aerospace industry, and a single-source supplier for engineering design, manufacture and assembly of subassemblies and complete major structures for aircraft manufacturers.

During the quarter ended September 30, 2007, the Company recorded earnings from operations of $628,000 on $26,696,000 revenue, as compared to $1,097,000 from $25,199,000 revenue for the same quarter of the preceding year, and net income for the quarter of $32,000 (September 30, 2006: $698,000). The Company has a working capital surplus of $10,706,000 as at September 30, 2007 (December 31, 2006: $9,640,000) and an accumulated deficit of $50,065,000 at September 30, 2007 (December 31, 2006: $50,565,000).

As at September 30, 2007 the Company was not in compliance with its debt servicing covenant associated with the convertible debenture held by Export Development Canada (note 6a). The Company has obtained a waiver from the debenture holder for this non-compliance.

Management believes that the financing activities undertaken, and the ongoing efforts to reduce costs and improve productivity and working capital usage, make the use of the going concern basis appropriate; however, there can be no assurance that the Company will be successful with all initiatives.

While these financial statements have been prepared using Canadian generally accepted accounting principles (GAAP) applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations, in the event that the Company is unable to maintain its ongoing cost and productivity improvements, and/or obtain additional financing if required, and without the continued support of significant shareholders (notes 5 and 13), there may be uncertainty about the Company's ability to continue as a going concern.

These financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported revenues and expenses, and balance sheet classifications used that would be necessary if the going concern assumption were not appropriate; such adjustments could be material.

02. RECENT ACCOUNTING PRONOUNCEMENTS

These financial statements for the quarter ended September 30, 2007 have been prepared using accounting policies consistent with the audited financial statements for the year ended December 31, 2006 except for the following.

a) Effective January 1, 2007, the Company adopted the Canadian Accounting Standards Board accounting standards dealing with the recognition, measurements and disclosure of financial instruments, hedges and comprehensive income. These new standards are as follows.

Financial instruments – Recognition and measurement
This standard prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based measures are used. It also specifies how financial instrument gains and losses are to be presented (note 3).

Hedges
This standard establishes when and how hedge accounting may be applied. Specifically, hedge accounting may be applied only when gains, losses, revenues and expenses on a hedging item would otherwise be recognized in net income in a different period than gains, losses, revenues and expenses are recognized on the hedged item. The Company has also determined that the derivative instruments put in place (note 3c) do not meet the requirements to qualify them as hedges. Accordingly, such instruments that do not qualify for hedge accounting are required to be marked-to-market with changes in their fair value recognized as unrealized gains and losses in the statement of operations, in the period in which they occur.

Comprehensive Income
This standard provides guidance for the reporting and presentation of other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources. Examples of some items that would be included in other comprehensive income are changes in the fair value of available for sale assets and the effective portion of the change in fair value cash flow hedging instruments. Adoption of this new standard did not result in any amounts being recorded in comprehensive income.

b) The effect of these financial instruments, upon adoption of this new standard effective January 1, 2007, was a $40,000 reduction in deficit and a corresponding $40,000 increase in other assets.

c) Effective January 1, 2007, the Company adopted the revised "Accounting Changes" generally accepted accounting policy, which requires that:

- **a voluntary change in accounting principles can be made if, and only if, the changes result in more reliable and relevant information;**
- **changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change; and**
- **for changes in estimates, the nature and amount of the change should be disclosed.**

The Company has not made any voluntary change in accounting principles since the adoption of the revised standard.

03. FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to reduce its exposure to foreign currency and price risk associated with its revenues and costs of certain procured items.

a) Sales Contracts

A number of the Company's sales contracts have a price adjustment clause where the final sales price is determined by certain indices in a period prior to the date of sale. As a result, the final sales price will change as these underlying indices change. This price adjustment clause is an embedded derivative that is recorded at fair value, with changes in fair value recorded in other income or expenses until the date of sale. As at September 30, 2007, the Company has $73,160,000 (December 31, 2006: $30,535,000) of firmly committed orders that include price adjustment clauses of this nature. A loss of $7,000 has been recorded in unrealized derivative gains for the three months ended September 30, 2007 (year-to-date September 30, 2007: $20,000 gain) as a result of the change in the fair value of the underlying embedded derivatives.

b) Purchase Contracts

A number of the Company's purchase contracts have a price adjustment clause where the final purchase price is determined by certain indices in a period prior to the date of purchase. As a result, the final purchase price will change as these underlying indices change. This price adjustment clause is an embedded derivative that is recorded at fair value, with changes in fair value recorded in other income or expenses until the date of purchase. As at September 30, 2007, the Company has $408,000 (December 31, 2006: $1,856,000) of firmly committed purchases that include price adjustment clauses of this nature. A gain of $2,000 has been recorded in unrealized derivative gains for the three months ended September 30, 2007 (year-to-date September 30, 2007: $4,000) as a result of the change in the fair value of the underlying embedded derivatives.

c) Foreign Exchange Forward Contracts

Foreign exchange exposure to US dollar sales, purchases, and related receivables and payables is in part managed by the use of foreign-exchange-forward contracts. On January 4, 2007, the Company entered into a 12-month USD$12,000,000 foreign-exchange-forward contract with the provider of its operating line of credit of which a four-month USD$4,000,000 foreign exchange forward contract remains as at September 30, 2007. The Company has marked to market its unrealized foreign-exchange-forward contracts as at September 30, 2007 and recorded a gain of $11,000 in unrealized derivative gains during the quarter ended September 30, 2007 (year-to-date September 30, 2007: $673,000).

All other financial instruments have been recorded at cost or amortized cost, subject to impairment reviews, such as the investment in Eclipse Aviation Corporation.

d) Other Assets

Other assets are comprised of $9,000 inflation derivatives arising from the Company's sales and purchase contracts having price adjustment clauses within their terms, and $673,000 fair value derivatives arising from its foreign exchange forward contracts.

04. CONVERTIBLE LOAN RECEIVABLE

On April 2, 2007, the Company entered into an agreement to acquire all of the shares of Comtek Advanced Structures Ltd (Comtek) (note 16b).

On May 31, 2007, the Company entered into a $2,000,000 convertible loan agreement with the composite aerostructures manufacturing business with which it is finalizing its acquisition. Upon the planned December 31, 2007 closing date for the acquisition, the outstanding principal and all accrued but unpaid interest to an aggregate of $1,500,000 may be converted into shares of the acquired company. All the remaining amounts outstanding as at the closing date will bear interest as outlined below and will be repayable 12 months following initial advance under the convertible loan.

The terms and security of the convertible loan are as follows;

- principal sum of up to $2,000,000;
- interest at a Canadian chartered bank prime rate plus 1%;
- if the acquisition does not complete in accordance with the agreement for the purchase of Comtek, interest will accrue at prime rate plus 7%. Additionally, 30% of the aggregate principal amounts advanced will be payable three days after the date upon which the transaction does not complete; and
- security provided by the composite aerostructures business and certain of its shareholders is:
  - a $2,000,000 promissory note;
  - a general security agreement over property;
  - a guarantee from shareholders; and
  - a pledge of all of the company's shares owned by the guarantors.

During the quarter ended September 30, 2007, the Company advanced Comtek Advanced Structures Ltd (Comtek) a further $450,000 bringing the total principal advanced to $1,250,000. $11,000 of interest income was accrued as at September 30, 2007 (September 30, 2006: $Nil) (note 13 and 16b).

05. BANK INDEBTEDNESS

The Company has an operating line of credit with a Canadian chartered bank having interest at prime plus 0.75% per annum. The facility is due on demand. As a condition of obtaining this operating line of credit, the following security has been provided:

- general security agreement creating a first priority security interest in all present and after-acquired personal property of the Company and a floating charge over all of the Company's present and after-acquired real property;
- assignment/endorsements by the Company to the Bank of all risk insurance on all of the Company's real and personal property with the Bank as first loss payee;
- general assignment of book debts creating a first priority assignment of all the Company's debts and accounts;
- Section 427 Bank Act security creating a first priority charge on the Company's assets;
- guarantee of the indebtedness of the Company to the Bank executed by a Canadian financial institution limited to $2,500,000; as consideration for the guarantee, the Company will pay a 3% fee on $2,500,000 calculated on a daily basis;
- assignment and postponement by the shareholders of the Company of all present and future amounts outstanding to them by the Company;
- letter of undertaking from a shareholder of the Company, to raise sufficient equity in 2006 to finance the Company's ongoing tooling deferred costs, to ensure that the Company remains in compliance with the conditions of credit;

- guarantee of the indebtedness of the Company to the Bank, executed by a shareholder limited to $2,000,000; as consideration for the guarantee, the Company will pay the shareholder a 5% fee on $2,000,000 calculated on a daily basis (note 13); and
- priority and standstill agreements with all debenture holders or secured parties having an interest in the Company's property, granting the Bank priority over and postponing any security held by such parties so as to ensure the Bank has a first security interest in all of the Company's property, other than purchase money security interests restricted to the property financed thereby.

On March 30, 2007, the following changes were made to the terms and security of the Company's operating line of credit:
- increase of the operating line of credit from $10,000,000 to $12,000,000;
- interest at prime plus 0.375%, 0.50%, 0.675%, or 0.75% determined on a quarterly basis according to specific measures of the ratio of debt to tangible net worth;
- foreign forward exchange facility having a notional risk for credit purposes of $3,528,000 to purchase foreign forward exchange contracts for major currencies up to an aggregate $3,528,000, with a maximum maturity of 12 months; and
- release of the guarantee of the indebtedness of the Company by a Canadian financial institution.

Refer to note 15 for changes made to the Company's operating line of credit subsequent to September 30, 2007.

06. LONG-TERM DEBT

	SEPTEMBER 30, 2007	DECEMBER 31, 2006
Convertible debenture due December 2009 (a)	$ 4,624	$ 4,897
Convertible debentures due March 2008 (b)	–	12
Capital leases (d)	2,880	597
Accrued government royalties (e)	332	188
	7,836	5,694
Less: Current portion	1,417	737
	6,419	4,957

Convertible Debenture Due December 2009

a) During 1998, the Company issued an $8,000,000 convertible debenture; $3,000,000 of the convertible debenture was repaid prior to 2005. The remaining debenture is convertible at the option of the holder (Export Development Canada) into 329,555 shares at a conversion price of $13.95. The Company can require conversion of the full amount of the debenture in the event that the weighted average trading price of the Company's shares on the Toronto Stock Exchange is greater than 125% of the conversion price for 20 consecutive days.

The debenture was amended on June 27, 2006 to give effect to the following:
- the debenture bears interest at 7.0% commencing January 3, 2006;
- the amount of the debenture is increased from $5,000,000 to $5,197,000 to include outstanding interest due thereon; and
- principal repayments are payable in 14 quarterly installments of $100,000 commencing on June 30, 2006 with the final installment of $3,797,000 due and payable on December 31, 2009.

As at September 30, 2007 the Company was not in compliance with its debt servicing covenant associated with the convertible debenture. The Company has obtained a waiver from the debenture holder for this non-compliance.

Convertible Debentures Due March 2008

b) During 2004, the Company issued $7,000,000 of a series of secured subordinated debentures.

In previous years, the Company repaid $6,459,000 of principal outstanding on its series of secured subordinated debentures. The remaining $500,000 principal of the debentures was converted on December 22, 2006 at the $1.50 per common share conversion price. $12,000 accrued interest remained outstanding as at December 31, 2006, and was paid during the quarter ended March 31, 2007.

c) There are various equipment leases that have a weighted average interest rate of 7.07%. The leases are secured by way of a charge against specific assets. The leases are repayable in equal installments over periods up to 60 months. $1,528,000 of the leases are held in US dollars.

d) Royalties of $332,000 (December 31, 2006: $188,000) are payable to Technology Partnerships Canada.

07. CAPITAL STOCK

Authorized

The Company is authorized to issue an unlimited number of common shares as well as an unlimited number of first preferred and second preferred shares, issuable in series, the terms of which are determined by the directors at the time of creation of each series.

Common shares issued or reserved:

	NUMBER OF SHARES	AMOUNT
December 31, 2005	22,418,510	$ 49,626
Share issue (c)		
Cash	4,957,327	4,720
Non-cash	460,790	971
Issuance costs	–	(33)
	5,418,117	5,658
Transfer from contributed surplus on exercise of options and warrants	–	316
December 31, 2006	27,836,627	55,600
Share issue (b)		
Cash	1,069,398	2,091
Conversion from preferred shares	2,439,241	3,782
Issuance costs	–	(67)
	3,508,639	5,806
Transfer from contributed surplus on exercise of options and warrants	–	19
September 30, 2007	31,345,266	61,425

a) The Company has reserved a total of 329,555 common shares, the maximum number that may be exercised under the terms of the convertible debenture due December 2009 (note 6a).

b) During 2007, 3,058,639 common shares were issued from the following transactions.

Exercise of Warrants
i) **Holders of warrants exercised 50,000 share purchase warrants (issued on February 3, 2006 for a performance guarantee on certain production contracts) resulting in the issuance of 50,000 common shares at a $0.90 per share for gross proceeds of $45,000.**

Exercise of Options
ii) **Holders of options exercised a total of 179,398 share purchase options resulting in the issuance of 167,398 shares at $1.08 per share and 12,000 shares at $1.40 per share for total gross proceeds of $198,000.**

Common Share Issue
iii) **During the quarter ended to September 30, 2007, the Company entered into a placement of 840,000 units at $2.20 per unit; 287,500 units were subscribed for by insiders of the Company. Each unit consists of one share and one warrant, where one warrant entitles the holder the right to purchase one additional share at $2.40 per share for a 24-month period from the closing date.**

Preferred Share Conversion
iv) **Holders of preferred shares converted 378,200 preferred shares resulting in the issuance of 2,439,241 common shares at $1.55 per share.**

The costs of issuing the capital stock during 2007 amounted to $67,000 and were deducted from total proceeds of $2,091,000 to record $2,024,000 as capital stock. Proceeds from the equity financings have been used for general working capital purposes.

c) During 2006, 5,418,117 common shares were issued from the following transactions.

Exercise of Warrants
i) **Holders of warrants exercised a total of 5,150,516 share purchase warrants (issued on April 4, 2005 through a private placement, on February 3, 2006 for a performance guarantee on certain production contracts, and on October 27, 2005 through a private placement) resulting in the issuance of a total of 4,663,849 common shares at prices of $0.90, $1.00 and $1.05 for gross proceeds of $4,685,000.**

Exercise of Options
ii) **Holders of options exercised a total of 220,935 share purchase options resulting in the issuance of a total of 220,935 common shares at prices of $0.90, $1.08 and $1.40 per share for total gross proceeds of $236,000.**

Private Placement
iii) **Insiders of the Company purchased a total of 200,000 units at $1.35 per unit for gross proceeds of $270,000, resulting in the issuance of a total of 200,000 common shares and 200,000 share purchase warrants (where one warrant entitles the holder the right to purchase one additional share at $1.50 per share for a 24 month period ending November 3, 2008).**

Debenture Conversion
iv) **The holder of a convertible debenture due March 2008 (note 6b) converted a $500,000 debenture at $1.50 per common share resulting in the issuance of 333,333 common shares for gross proceeds of $Nil.**

The costs of issuing the capital stock during 2006 amounted to $33,000 and were deducted from total proceeds of $5,691,000 to record $5,658,000 as capital stock. $804,000 of the proceeds from the equity financings have been used for repayment of debt and interest, $167,000 for payment of fees, and the remainder for general working capital purposes.

d) Basic and Diluted Weighted Average Number of Common Shares (000's)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2007	2006	**2007**	2006
Weighted average shares outstanding	**30,870**	24,972	**29,111**	24,026
Effect of dilutive securities				
Incremental shares from share options and warrants	**1,749**	445	**1,212**	511
Shares issuable on conversion of preferred shares	**4,197**	–	**3,925**	–
Weighted average diluted shares outstanding	**36,816**	25,417	**34,248**	24,537

08. PREFERRED SHARES

On July 10, 2006, the Company issued 1,200,000 preferred shares at an issue price of $10.00 per preferred share. Gross proceeds from the 2006 issuance of preferred shares amounted to $12,000,000; $4,365,000 of the gross proceeds was used to retire debt (note 6b); the remaining $7,635,000 was used for general working capital purposes. The costs of issuing the preferred shares during 2006 amounted to $546,000 and were deducted from total proceeds.

The preferred shares provide for a 9.25% per annum dividend, payable quarterly in cash on the last day of September, December, March and June with the first dividend payable on September 30, 2006. Dividends paid during the quarter ended September 30, 2007 amounted to $199,000 (September 30, 2006: $246,000).

Each preferred share will be convertible at any time, without the payment of additional consideration, at the option of the holder, on the following basis:

- **Year 1: into 6.45 common shares, at a conversion price of $1.55 per common share;**
- **Year 2: into 5.71 common shares, at a conversion price of $1.75 per common share;**
- **Year 3: into 5.00 common shares, at a conversion price of $2.00 per common share;**
- **Year 4: into 4.26 common shares, at a conversion price of $2.35 per common share; and**
- **Thereafter: into 3.64 common shares, at a conversion price of $2.75 per common share.**

The conversion price will be subject to adjustment in certain circumstances pursuant to customary anti-dilution provisions.

From July 1, 2008 to June 30, 2011, the preferred shares will be redeemable at the option of the Company at issue price plus accrued and unpaid dividends, provided that the volume weighted average trading price of the common shares on the Toronto Stock Exchange, for at least 20 trading days in any consecutive 30-day period ending on the fifth trading day prior to the date on which the notice of redemption is given, exceeds 125% of the conversion price. From July 1, 2011, the Preferred Shares will be redeemable at issue price plus accrued and unpaid dividends.

The preferred shares will not be redeemable by the Corporation at any time prior to July 1, 2008.

At any time after June 30, 2011, the preferred shares will be redeemable in whole or in part at the option of the holder at the issue price plus all accrued and unpaid dividends thereon calculated to the date of redemption if:

- **any time after that date the current market price on the fifth day prior to such date is less than $2.75; or**
- **there is a change in control of the Company involving the acquisition of voting control or direction over 66-2/3% or more of the common shares.**

During the quarter ended September 30, 2007, holders of preferred shares converted 177,500 preferred shares resulting in 821,800 preferred shares remaining having a $7,672,000 book value (note 7b).

09. STOCK-BASED COMPENSATION

The Company records compensation expense for the fair value of the stock options granted under its incentive stock option plan using the Black-Scholes option pricing model. This model determines the fair value of stock options granted and amortizes it to earnings over the vesting period.

The fair value of 60,000 options granted during the quarter ended March 31, 2007 was $46,000. These options are exercisable at $1.85 each, with 30,000 options vesting on July 23, 2007 and 30,000 options vesting on January 23, 2008. All 60,000 options expire on October 21, 2008.

	2007	2006
Risk-free interest rate (%)	**4.19**	4.21
Dividend yield (%)	**0**	0
Expected lives (years)	**1.75**	1.70
Volatility (%)	**54.41**	64.87

The fair value of options expense, for options granted in current and prior periods, amortized to earnings during the quarter ended September 30, 2007 was $25,000 (September 30, 2006: $33,000) and $174,000 for the nine months ended September 30, 2007 (year-to-date September 30, 2006: $124,000).

The Black-Scholes option-pricing model used by the Company to calculate option values was developed to estimate the fair value of freely tradeable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable, single measure of the fair value of options granted by the Company.

10. DEFINED CONTRIBUTION PLAN

The total cost recognized and paid for the Company's defined contribution plan is as follows.

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2007	2006	2007	2006
Defined contribution plan	**$ 310**	$ 268	**$ 976**	$ 871

The Company's contribution to the plan is calculated on a percentage of employee wages. The range of percentages is 1.5% to 8.5%. The plan is available to all employees.

11. INTEREST EXPENSE AND FINANCING CHARGES

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2007	2006	**2007**	2006
Interest on capital leases	$ 58	$ 7	$ 85	$ 23
Interest on other long-term debt	83	21	253	347
Interest on short-term debt	468	371	1,208	1,288
Net interest expense	609	399	1,546	1,658

12. SUPPLEMENTARY CASH FLOW INFORMATION

a) Items not affecting cash:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2007	2006	**2007**	2006
Accrued interest net of government contributions	$ 363	$ (896)	$ 767	$ (521)
Deferred revenues	39	(274)	(535)	(645)
Depreciation	757	778	2,302	2,377
Development cost amortization	102	60	365	240
Fair value of warrants	–	66	–	199
Unrealized derivative gains	7	–	(642)	–
Stock-based compensation	25	33	174	124
Other items	104	(124)	38	(243)
	1,397	(357)	2,469	1,520

b) Changes in non-cash items:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2007	2006	**2007**	2006
Accounts receivable	$ (644)	$ 153	$ (3,392)	$ (767)
Inventories	244	(2,698)	860	(3,475)
Prepayments	(113)	(193)	(593)	295
Accounts payable and accrued liabilities	(3,341)	444	(2,372)	(1,007)
	(3,854)	(2,294)	(5,497)	(4,954)

c) Non-cash financing and investing activities:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2007	2006	**2007**	2006
Assets acquired under capital leases	$ 320	$ –	$ 901	$ –
Conversion of preferred shares	1,775	–	3,782	–

13. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2005, the Company entered into an agreement with a certain shareholder in consideration of mutual agreements with a Canadian chartered bank under which the shareholder guarantees the indebtedness of the Company to the Bank limited to $2,000,000. In connection with providing the limited guarantee on the operating line of credit, the Company will pay a 5% fee on the $2,000,000 limited guarantee calculated on a daily basis. Fees paid to a certain shareholder during the quarter ended September 30, 2007 amounted to $Nil (September 30, 2006: $17,000). Fees payable to a certain shareholder as at September 30, 2007 are $50,000 (September 30, 2006: $8,000). These fees are included in the Statements of Operations as interest expense and financing charges and amount to $25,000 for the quarter ended September 30, 2007 (September 30, 2006: $25,000).

On February 3, 2006, a performance guarantee was provided by certain shareholders on production contracts with a certain customer. Fees ranging to $20,000 per month were provided as consideration for the performance guarantee. Fees paid to certain shareholders during the quarter ended September 30, 2007 amounted to $Nil (September 30, 2006: $20,000). Fees payable to certain shareholders as at September 30, 2007 are $120,000 (September 30, 2006: $20,000). These fees are included in the Statements of Operations as cost of sales and amount to $60,000 for the quarter ended September 30, 2007 (September 30, 2006: $67,000).

The Company had no demand loans outstanding as at September 30, 2007 (September 30, 2006: $Nil). During the second quarter of 2007, a certain shareholder advanced the Company $800,000 at 12% interest per annum, for the purpose of the Company extending a loan (note 4) to Comtek with which it is finalizing its acquisition (note 16b). The principal portion of the demand loan was repaid during the second quarter of 2007.

Total interest and fees charged on demand loans for the quarter ended September 30, 2007 were $Nil (September 30, 2006: $16,000). Interest and fees payable on the demand loans as at September 30, 2007 are $2,000 (September 30, 2006: $Nil). Interest and fees paid on the demand loans for the quarter are $Nil (September 30, 2006: $632,000).

On January 4, 2007, the Company entered into a 12-month USD$12,000,000 forward foreign exchange contract with its provider of the operating line of credit. Under the terms of this agreement, the Canadian chartered bank required a CAD$3,024,000 deposit be made on the Company's behalf by a significant shareholder, for a three-month period. The Company paid this significant shareholder a $15,000 fee for this transaction.

Other related-party transactions are disclosed elsewhere in these financial statements (notes 5 and 7).

These transactions were conducted in the normal course of business and were accounted for at the exchange amount.

14. ECONOMIC DEPENDENCE AND SEGMENTED INFORMATION

a) Sales to three major customers, which comprise several programs and contracts, accounted for approximately 90.6% (September 30, 2006: 94.8%) of sales.

	THREE MONTHS ENDED SEPTEMBER 30				NINE MONTHS ENDED SEPTEMBER 30			
	2007		2006		**2007**		2006	
	REVENUE	% OF TOTAL	REVENUE	% OF TOTAL	REVENUE	% OF TOTAL	REVENUE	% OF TOTAL
Boeing	$ 5,187	19.4	$ 5,761	22.9	$15,100	18.1	$15,801	20.3
Bombardier	5,993	22.4	4,815	19.1	17,652	21.2	17,561	22.5
Cessna	13,037	48.8	13,313	52.8	43,510	52.2	41,294	53.0
Other	2,479	9.4	1,310	5.2	7,143	8.5	3,250	4.2
Total	26,696	100.0	25,199	100.0	83,405	100.0	77,906	100.0

b) The Company operates in one industry that involves the manufacture and sale of aerospace products. As a result, the Company has only one operating segment. All of the Company's operations and assets are in Canada.

15. SUBSEQUENT EVENTS

Subsequent to September 30, 2007, the following changes were made to the terms of the Company's operating line of credit:

- **increase of the operating line of credit to $15,000,000; and**
- **increase in margining capacity.**

16. BUSINESS ACQUISITIONS

a) On March 6, 2007, the Company entered into an agreement to acquire all of the shares of a machining business. The agreement was subject to completion of due diligence and a definitive agreement by May 15, 2007, with closing scheduled for June 30, 2007. Closing was not completed as the Company has decided not to proceed with this acquisition focusing instead on investing in its own machining capabilities.

b) On April 2, 2007, the Company entered into an agreement to acquire all of the shares of a composite aerostructures manufacturing business.

As part of the agreement, the Company is to invest $1,500,000 into the composite business, Comtek Advanced Structures Ltd (Comtek), of which up to $200,000 will be in shares of the Company at a deemed value of $2.85 per share, with the $1,300,000 balance payable in cash.

A majority of the principals of Comtek will remain and have agreed to assign their shares to the Company for 500,000 Company warrants, exercisable over a three-year period from closing, at an exercise price of $2.75 in year 1, $3.20 in year 2, and $3.70 in year 3. In addition, the Company has agreed to pay to the principal shareholders of Comtek one-third of the composites business EBITDA for the year ending December 31, 2010, which is payable two-thirds in cash and one-third in the Company shares at the then current market price. The transaction has been negotiated at arm's length.

Subsequent to the quarter ended September 30, 2007, the Company concluded the agreement to acquire the shares of Comtek. This will add ongoing operations and expertise in the design and competitive manufacture of advanced composite aerostructures, plus provide access to new aerospace markets for the Company. Closing is scheduled for December 31, 2007.

On October 31, 2007, the Company advanced Comtek a further $600,000 under its convertible loan agreement (note 4).

BOARD OF DIRECTORS AND OFFICERS

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Calgary, Alberta

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The Hon. John Reynolds, PC [1*]
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Gibsons, British Columbia

Mark van Rooij [3]
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Chief Executive Officer
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Paul Meringer
Vice President, Procurement
Richmond, British Columbia

Renae Reiter
Vice President, Fabrication
Surrey, British Columbia

Amandeep Kaler
Vice President, Assembly
Surrey, British Columbia

[1] Member of the Audit and Corporate Governance Committee
[2] Member of the Compensation and Nominating Committee
[3] Member of the Executive Committee
[*] Designates the Committee Chair

DIRECTORY

Bank
HSBC Bank Canada
Vancouver, British Columbia

Legal Counsel
Lang Michener LLP
Barristers & Solicitors
Vancouver, British Columbia

Registrar and Transfer Agent
CIBC Mellon Trust Company
Vancouver, British Columbia

Auditors
PricewaterhouseCoopers LLP
Chartered Accountants
Vancouver, British Columbia

Shares Listed
Toronto Stock Exchange
Symbol AVP

Annual General Meeting
Thursday, May 22, 2008 at 2:00pm
at Avcorp Industries Inc.
10025 River Way, Delta, BC

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