



Management's Discussion and Analysis

In the second quarter of 2010, the Corporation improved on its performance over the second quarter of 2009 in each of revenue, gross profit, net income and net income per share. Revenue and gross profit for the six month period ended June 30 2010 were also modestly ahead of those of the same period in 2009.

International projects to field new aircraft and engines in both the civil and defence aircraft and defence products demonstrated critical progress, during the second quarter of 2010, towards full scale production. The Boeing 787 program followed up its first flight in the fourth quarter of 2009 with successful tests of critical safety elements of the aircraft, and has accomplished a series of steps toward certification of the aircraft. The Airbus 350XWB program has made progress towards finalizing design, configuration, and production plans to meet re-scheduled first flights in 2012. The F-35 Joint Strike Fighter ("JSF") program has demonstrated a number of key successes in its test flying, and has established a revised low rate initial production plan that will bring the program to full scale production only 13 months beyond original planning dates. The Corporation's participation on the JSF program received additional support from the Government of Canada's announcement of 16 July, 2010, that the JSF F-35 aircraft has been selected for purchase by Canada. The Corporation has secured participation on each of these major programs. This will provide accelerating production rates over the next several years. In addition, the Corporation has specific repair, overhaul or spare parts participation in both civil and defence sectors.

The Corporation continues to achieve improved execution as new technology, equipment, and knowledge is generated across all operating sites. Operations are progressing towards the manufacturing and support of higher level core products, and moving out non-core work to local and emerging market sites. Business development and capture activities continue to focus on increasing the level of core activity within the operating sites, and adding value to the Corporation's key customers.

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

Revenues

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2010	2009	Change	2010	2009	Change
Canada	\$ 103,756	\$ 85,589	21.2%	\$ 202,540	\$ 169,581	19.4%
United States	48,650	54,167	(10.2)%	94,716	108,740	(12.9)%
United Kingdom	29,057	37,567	(22.7)%	62,109	78,290	(20.7)%
Total revenue	\$ 181,463	\$ 177,323	2.3%	\$ 359,365	\$ 356,611	0.8%

Consolidated revenues for the second quarter of 2010 were \$181.5 million, an increase of \$4.1 million or 2.3% over the second quarter of 2009. Increased revenues in Canada in the second quarter of 2010 in comparison to the same period in 2009 resulted from revenues recorded on the Ghana electric power generation project as well as increased volumes on the JSF program. The decline of the U.S. dollar and the British Pound against the Canadian dollar, over the exchange rates prevailing in the second quarter of 2009, contributed, on a net basis, to a decrease of \$22.1 million in revenues in the second quarter of 2010. In native currency, revenues in the United States increased over the second quarter of 2009 primarily as a result of increased volumes on new programs. Revenues in the United Kingdom in the second quarter of 2010 decreased over revenues in the same period in 2009, resulting from decreased customer demand.



Gross Profit

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2010	2009	Change	2010	2009	Change
Gross profit	\$ 22,310	\$ 20,120	10.9%	\$ 42,738	\$ 41,824	2.2%
Percentage of revenue	12.3%	11.3%		11.9%	11.7%	

Gross profit of \$22.3 million (12.3% of revenues) was reported for the second quarter of 2010 compared to \$20.1 million (11.3% of revenues) during the same period in 2009. Gross profit, as a percentage of revenues, increased in part, as a result of favourable product mix and the recognition of investment tax credits earned in the quarter in the amount of \$1.4 million. Offsetting the increased margins realized in the second quarter of 2010 over the second quarter of 2009 was the weakening of the U.S. dollar and British Pound. Had the U.S. dollar and the British Pound exchange rates versus the Canadian dollar in the second quarter of 2010 remained the same as in the second quarter of 2009, gross profit would have been approximately \$6.6 million higher for the second quarter of 2010.

Administrative and General Expenses

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2010	2009	2010	2009
Administrative and general expenses	\$ 9,877	\$ 12,035	\$ 19,566	\$ 22,801
Percentage of revenue	5.4%	6.8%	5.4%	6.4%

Administrative and general expenses were \$9.9 million (5.4% of revenues) in the second quarter of 2010 compared to \$12.0 million (6.8% of revenues) in the second quarter of 2009. Reduction in administrative and general expenses in the second quarter of 2010 resulted from the absence of a one-time charge of \$0.6 million incurred in the second quarter of 2009 for a bad debt provision and the effect on translation of the weakening U.S. dollar and the British Pound exchange rates against the Canadian dollar.

Other

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2010	2009	2010	2009
Foreign exchange (gain) loss	\$ (865)	\$ (3,529)	\$ 620	\$ (5,502)
Plant and program closure recoveries	(820)	—	(820)	—
Loss on sale of capital assets	121	—	118	9
Other	\$ (1,564)	\$ (3,529)	\$ (82)	\$ (5,493)

Other income of \$1.6 million in the second quarter of 2010 consisted of realized and unrealized foreign exchange gains (largely on the Corporation's currency contracts) and a reversal of a portion of a provision that was recorded for a pension obligation on a pension plan that is in the process of being wound-up. Other income in the second quarter of 2009 resulted from a foreign exchange gain of \$3.5 million.

Interest Expense

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2010	2009	2010	2009
Interest on bank indebtedness and long-term debt	\$ 3,652	\$ 3,219	\$ 7,647	\$ 6,213
Convertible debenture interest	1,003	1,350	1,989	1,786
Accretion charge for convertible debt	151	330	297	398
Discount on sale of accounts receivable	89	723	222	1,500
Total interest expense	\$ 4,895	\$ 5,622	\$ 10,155	\$ 9,897

Interest expense of \$4.9 million in the second quarter of 2010 was lower than the second quarter of 2009 amount of \$5.6 million. Convertible debenture interest and the accretion expense in relation to the convertible debentures were lower in



the second quarter of 2010 than the comparative quarter in 2009 due to the premium paid in the second quarter of 2009 on the redemption of the convertible debentures on April 30, 2009. Lower discount expense on the sale of accounts receivable resulted from decreased amounts of accounts receivables sold in the second quarter of 2010 when compared to the same quarter of 2009. Higher interest rate spreads on bank indebtedness in the second quarter of 2010 when compared to the same quarter of 2009 resulted in higher interest charges.

Provision for Income Taxes

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2010	2009	2010	2009
Provision for current income taxes	\$ 1,234	\$ 233	\$ 992	\$ 402
Expense of future income taxes	1,219	410	2,362	945
Total expense of income taxes	\$ 2,453	\$ 643	\$ 3,354	\$ 1,347
Effective Tax Rate	27.9%	10.7%	26.2%	9.2%

The Corporation recorded an income tax expense of \$2.5 million for the second quarter of 2010, compared to an income tax expense of \$0.6 million for the second quarter of 2009. The change in effective tax rates is a result of a changing mix of income across the different jurisdictions in which the Corporation operates. The reduction of future tax assets derived from temporary differences in Canada also contributed to the higher effective tax rate.

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

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

Expressed in thousands of dollars	Three-month period ended June 30		Six-month period ended June 30	
	2010	2009	2010	2009
Net income	\$ 6,329	\$ 5,349	\$ 9,425	\$ 13,272
Interest	4,895	5,622	10,155	9,897
Dividends on preference shares	320	–	320	–
Taxes	2,453	643	3,354	1,347
Stock based compensation	137	173	307	405
Depreciation and amortization	9,383	9,118	18,305	18,417
EBITDA	\$ 23,517	\$ 20,905	\$ 41,866	\$ 43,338

EBITDA for the second quarter of 2010 was \$23.5 million, compared to \$20.9 million in the second quarter of 2009. As previously discussed, increased gross profit and a reduction in administrative and general expenses resulted in increased EBITDA for the current quarter.

Liquidity and Capital Resources

Cash Flow from Operations

Expressed in thousands of dollars	Three-month period ended June 30		Six-month period ended June 30	
	2010	2009	2010	2009
Increase in accounts receivable	\$ (2,032)	\$ (20,168)	\$ (9,648)	\$ (40,184)
Decrease in inventories	5,880	7,729	10,103	10,559
(Increase) decrease in prepaid expenses and other	(3,136)	(6,475)	9,602	(6,077)
Increase (decrease) in accounts payable	1,215	(4,558)	(8,162)	(17,113)
Changes to non-cash working capital balances	1,927	(23,472)	1,895	(52,815)
Cash provided (used in) by operating activities	\$ 16,904	\$ (6,268)	\$ 29,401	\$ (17,328)

In the quarter ended June 30, 2010, the Corporation generated \$16.9 million of cash from its operations, compared to cash used by operations of \$6.3 million in the second quarter of 2009. Cash was generated mainly by an increase in net income and through the decrease in inventory offset by increases in accounts receivable and prepaid expenses and decreased accounts payable.

Investing Activities

Expressed in thousands of dollars	Three-month period ended June 30		Six-month period ended June 30	
	2010	2009	2010	2009
Purchase of capital assets	(2,849)	(7,824)	(5,174)	(13,169)
Proceeds of disposals of capital assets	35	88	136	232
(Increase) in other assets	(4,200)	(1,821)	(6,662)	(2,269)
Cash used in investing activities	\$ (7,014)	\$ (9,557)	\$ (11,700)	\$ (15,206)

In the second quarter of 2010, the Corporation invested \$2.9 million in capital assets to upgrade and enhance its capabilities for current and future programs. In addition, the Corporation advanced \$4.0 million in deposits on capital equipment funded largely through government loans and grants.

Financing Activities

Expressed in thousands of dollars	Three-month period ended June 30		Six-month period ended June 30	
	2010	2009	2010	2009
Decrease in bank indebtedness	\$ (5,522)	\$ (16,666)	\$ (13,520)	\$ (2,624)
Decrease in long-term debt	(4,632)	(864)	(5,684)	(1,411)
Increase in long-term debt	5,197	15,000	5,197	15,000
Decrease in convertible debentures	-	(20,950)	-	(20,950)
Increase in convertible debentures	-	39,667	-	39,667
(Increase) decrease in long-term liabilities	24	(172)	71	(272)
Issue of Common Shares	-	-	-	8
Redemption of Preference shares	(4,000)	-	(4,000)	-
Dividends on Preference Shares	-	-	(400)	-
Cash (used in) provided by financing activities	\$ (8,933)	\$ 16,015	\$ (18,336)	\$ 29,418

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

The terms of the amended operating credit facility permit the Corporation to (i) repay the \$65.0 million secured subordinated loan from Edco Capital Corporation (the "Original Loan") in whole or in part and (ii) retract up to 20% (\$4 million) of the Corporation's 8% cumulative redeemable first preference shares series A (the "Preference Shares") on each



of April 30 and October 31 (or the next business day if that day is not a business day) of each year starting with April 30, 2010, together with accrued and unpaid dividends on the shares to be retracted provided there is no current default or event of default under the operating credit facility and after the repayment of the Original Loan and the payment of the retraction amount the Corporation has at least \$25.0 million in availability under the operating credit facility. Any permitted retraction amount not used on any prior date can be carried forward to future retraction dates. As a result, subject to such limitation under the operating credit facility and to applicable laws, the Corporation will retract on each of April 30 and October 31, beginning April 30, 2010, any Preference Shares tendered for retraction up to the permitted percentage of Preference Shares.

During the second quarter of 2010 the Corporation repaid \$4.0 million of the Original Loan.

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

Share Data

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

Risks and Uncertainties

The Corporation manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without hindering the ability to maximize returns. Management has procedures to identify and manage significant operational and financial risks.

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

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

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

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



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

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

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

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

The Corporation and its subsidiaries have significant debt obligations. The degree to which this indebtedness could have consequences on the Corporation's prospects include the effect of such debts on the ability to obtain additional financing for working capital, capital expenditures or acquisitions, the portion of available cash flow that will need to be dedicated to repayment of principal and interest on indebtedness, thereby reducing funds available for expansion and operations, and the Corporation's vulnerability to economic downturn and its ability to withstand competitive pressure. If the Corporation is unable to meet its debt obligations, it may need to consider refinancing or adopting alternative strategies to reduce or delay capital expenditures, selling assets or seeking additional equity capital.

The Corporation amended and restated its Bank Facility Agreement with its existing lender on March 26, 2010. Under the terms of the Bank Facility Agreement, the Corporation has an operating credit facility, expiring on May 21, 2011, and extendable for unlimited one-year periods by agreement of the Corporation and the lenders. The Corporation's Bank Facility Agreement also requires the Corporation to maintain specified financial ratios. The Corporation's ability to meet the financial ratios can be affected by events beyond the Corporation's control, and there can be no assurance that the Corporation will be able to meet the ratios. There is no assurance that the Bank Facility Agreement will be renewed every year or that the terms of renewal will not be materially adverse to the Corporation. This credit facility is fully guaranteed by Mr. Edwards, a director and Chairman of the Board of the Corporation. There is also no assurance that Mr. Edward's guarantee, if required, will be available beyond the term of the current commitment which ends on May 21, 2011. There is no assurance that Magellan will be in compliance with its bank covenants at all times during the upcoming twelve months due to unforeseen events or circumstances, some of which are outlined in this "*Risks and Uncertainties*".

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

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

Cancellations, reductions or delays in customer orders may adversely affect the Corporation's results of operations.

The Corporation's overall operating results are affected by many factors, including the timing of orders from large customers and the timing of expenditures to manufacture parts and purchase inventory in anticipation of future sales of products and services. A large portion of the Corporation's operating expenses is relatively fixed. Because several of the Corporation's operating locations typically do not obtain long-term purchase orders or commitments from customers, the



Corporation must anticipate the future volume of orders based upon the historic purchasing patterns of customers and upon discussions with customers as to their anticipated future requirements. These historic patterns may be disrupted by many factors, including changing economic conditions, inventory adjustments, work stoppages or labour disruptions. Cancellations, reductions or delays in orders by a customer or group of customers could have a material adverse effect on the Corporation's business, financial condition and results of operations.

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

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

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

A portion of the Corporation's revenues and expenses are not currently denominated in Canadian dollars, and it is expected that some revenues and expenses will continue to be based in currencies other than the Canadian dollar. Therefore, fluctuations in the Canadian dollar exchange rate will impact the Corporation's results of operations and financial condition from period to period. In addition, such fluctuations affect the translation of the Corporation's results for purposes of its consolidated financial statements. The Corporation's activities to manage its currency exposure may not be successful. The following table demonstrates the change in the Canadian dollar in the second quarter of 2010 in comparison to the U.S dollar and the GBP.

	Beginning of Quarter	End of Quarter	% Change
USD/CAD	1.0158	1.0646	4.8%
GBP/CAD	1.5422	1.5852	2.7%

The resulting foreign exchange gains or losses are included in net income or loss and other comprehensive income or loss in the period. The Corporation cannot predict the effect of foreign exchange losses in the future; however, if significant foreign exchange losses are experienced, they could have a material adverse effect on Magellan's business, results of operations, and financial condition.

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

The Corporation is party to collective bargaining agreements throughout its business, which are subject to expiration at various times in the future. If the Corporation is unable to renew all agreements as they become subject to renegotiation from time to time, it could result in work stoppages and other labour disturbances that could have a material adverse effect on its business.

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

Critical Accounting Estimates

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

Inventories

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



loss provision on this contract. The amount of such provision, if any, cannot be reasonably estimated until such amendments are finalized.

Asset Impairment

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

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

Income Taxes

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

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

Foreign Currency Translation

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

Changes in Accounting Policies

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

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

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

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



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

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

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

Future Changes in Accounting Policies

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

Multiple Deliverable Revenue Arrangements

In January 2010, the CICA issued EIC-175, Multiple Deliverable Revenue Arrangements ("EIC-175"). EIC-175, which replaces EIC-142, Revenue Arrangements with Multiple Deliverables, addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. These new standards are effective for the Corporation's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Corporation is assessing the impact of the new standards on its consolidated financial statements.

International Financial Reporting Standards

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

IFRS Transition Plan

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

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

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



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

Results of the Detailed GAAP Assessment

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

The transition status is currently on track with the conversion schedule which calls for initial reporting under IFRS starting for the interim periods and the year ending December 31, 2011. Future disclosures will continue to report updated progress as well as any additional impacts identified on the Corporation's financial reporting and changes to systems and processes as they are determined.

Controls and Procedures

Based on the current Canadian Securities Administrators (the "CSA") rules under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at June 30, 2010 that they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting.

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

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

Outlook

The economic outlook for the global aerospace market showed additional signs of stabilization in the second quarter of 2010 and a return to growth in most sectors and geographic regions. Generally, the North American aerospace market ranges from stable business and regional aircraft to growing airliner production and strong defence production. Isolated problem areas and weak economic growth across certain areas in the United States and Europe pose risks to this growth. However, there are a number of measures that indicate on both the global and local level that the industry is growing. Many airlines have returned to profitability in the passenger subsector, and increasingly in freight hauling. They are consolidating for strength rather than survival, and the marketplace is supportive of those who are seen to provide value,



whether through price or service. Globally, soft spots remain, but on balance, the large global airlines are leading the growth.

As there is a strong link between the health of economies and the health of airlines, the growth in the global passenger and freight activity is encouraging, and more so for the manufacturing industries that depend on this growth. Demand for new aircraft in the civil airline sector remains stronger than previously expected, fed variously by pent up demand in the developed world, and strong new demand in emerging economies around the world. Growth is intensified by the ecological pressures that require lighter, cleaner and more economical aircraft and engines. Production increases have already been announced in 2010, for implementation in late 2010 and 2011. Further rate increases have been announced in the third quarter of 2010 extending to 2012. Order rates are also returning to more traditional levels, following slowness during the global economic crisis.

Defence has continued to be strong in North America and southern Asia, and will continue to expand in the aerospace sector as present military requirements demand more flexibility in aerospace capabilities. This trend should expand globally through the attraction of new aircraft, engines and systems developed to enhance capabilities. Restoration and upgrade of utility aircraft and helicopters to replenish resources after heavy use over the past decade is opening opportunities in these areas. Large new programs include the JSF program, the new United States Air Force aerial refuelling tanker program, a number of new helicopter programs of upgrade and replacement, and associated engine developments

Additional Information and Continuous Disclosure

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

Forward Looking Statements

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

August 16, 2010