MAGELLAN
AEROSPACE CORPORATION

Magellan Aerospace Corporation
First Quarter Report
March 31, 2006

Magellan Aerospace Corporation (the "Corporation" or "Magellan") is listed on the Toronto Stock Exchange under the symbol MAL. The Corporation is a diversified supplier of components to the aerospace industry. Through its network of facilities throughout North America and the United Kingdom, Magellan supplies leading aircraft manufacturers, airlines and defence agencies throughout the world.

Financial Results

On May 11, 2006, the Corporation released its financial results for the first quarter of 2006. The results are summarized as follows:

	Three-months ended March 31		
(Expressed in thousands, except per share amounts)	**2006**	**2005**	**Change**
Revenues	$ 137,022	$ 144,941	-5.5%
Net loss	$ (658)	$ (1,679)	-
Net loss per share	$ (0.01)	$ (0.02)	-
EBITDA*	$ 9,718	$ 8,881	9.4 %
EBITDA* per share	$ 0.11	$ 0.10	10.0 %

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

***The Corporation has included certain measures in this quarterly statement, including EBITDA, the terms for which are not defined under Canadian generally accepted accounting principles. The Corporation defines EBITDA as earnings before interest, taxes and depreciation and amortization. The Corporation has included these measures, including EBITDA, because it believes this information is used by certain investors to assess financial performance and EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Corporation's principal business activities prior to consideration of how these activities are financed and how the results are taxed in various jurisdictions. Although the Corporation believes these measures are used by certain investors (and the Corporation has included them for this reason), these measures are unlikely to be comparable to similarly titled measures used by other companies.**

Management's Discussion and Analysis

First quarter 2006 results for Magellan Aerospace Corporation showed a continuing path of operational improvement, hidden to some degree by costs associated with the intake of new work packages, and modest financial gains under continued pressure from the high Canadian dollar. Magellan's management focus during the first quarter of 2006 was in three key areas: supporting the intake of new work announced in 2005; negotiating improved pricing to meet increased material costs and restore margins; and improving operating efficiencies at production facilities by consolidating activities and improving technology. Results of these activities will materialize over the course of 2006 and beyond. Concurrently, extensive activity was devoted to the capture of additional workload for new programs, including the newest aircraft from both Airbus and Boeing, and advanced defence programs in the United States and Europe. Modules for the GE F414 engine, the power plant of the Boeing F18E/F aircraft, continued with strong deliveries, increased quantities of key parts for the Lockheed F22 aircraft were brought into production, and work continued on the limited quantities required for the development stage of the new Lockheed Joint Strike Fighter F35 aircraft in preparation of first flights later in 2006. While regional jet markets remain weak, the ongoing strong business jet market offsets to a large degree this for Magellan as it continues to deliver components for both segments.

Revenues

	Three-months ended March 31		
(Expressed in thousands)	2006	2005	Change
Canada	$ 65,266	$ 73,120	-10.7 %
United States	43,896	43,566	0.8 %
United Kingdom	27,860	28,255	-1.4 %
Total Revenue	$ 137,022	$ 144,941	-5.5 %

Revenues for the first quarter of 2006 were $137.0 million, a decrease of $7.9 million or 5.5% over the same period in 2005. Revenues were lower in the first quarter of 2006 compared to the same period last year by approximately $9.5 million because of changing foreign exchange rates and by $7.1 million because of contracts that ended with the final shutdown of the Corporation's Fort Erie location. After adjusting for these two factors, revenues grew by approximately 6.4%, year over year, which is reflective of increased demand within the aerospace industry.

Gross Profit

	Three-months ended March 31		
(Expressed in thousands)	2006	2005	Change
Gross profit	$ 14,314	$ 14,455	-0.1 %
Percentage of revenue	10.4 %	10.0 %	

Gross profit for the first quarter of 2006 was $14.3 million or 10.4% of revenues, compared to $14.5 million or 10.0% of revenues in the same period of last year. Gross profit, as a percentage of sales, improved in the first quarter of 2006 compared to the first quarter of 2005, due to improvements in operating efficiencies, but were negatively impacted by the continued strengthening of the Canadian dollar, as well as higher costs for raw materials. Management expects that further improvements to efficiencies will occur as volumes increase over the balance of 2006.

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Administrative and General Expenses

(Expressed in thousands)	Three-months ended March 31 2006	Three-months ended March 31 2005	Change	% Change
Administrative and general expenses	$ 10,268	$ 10,923	$ (655)	-6.0%
Foreign exchange (gain) loss	(282)	312	(594)	-190.4%
Total administrative and general expenses	$ 9,986	$ 11,235	$ (1,249)	-11.1%
Percentage of revenue	7.3%	7.8 %		

Total administrative and general expenses were $10.0 million in the first quarter of 2006. Included in total administration and general expenses is a foreign exchange gain of $0.3. Without this item, administrative and general expenses were $10.3 million (or 7.5% of revenues) in the first quarter of 2006 compared to $10.9 million (or 7.5% of revenues) in the same period in 2005.

Interest Expense

(Expressed in thousands)	Three-months ended March 31 2006	Three-months ended March 31 2005	Change	% Change
Interest on bank indebtedness and long-term debt	$ 2,024	$ 3,361	$ (1,337)	-39.8%
Convertible debenture interest	1,488	1,488	-	-
Accretion charge for convertible debt	573	460	113	24.6%
Discount on sale of accounts receivable	910	494	416	84.2%
Total interest expense	$ 4,995	$ 5,803	$ (808)	-13.9%

Interest on bank indebtedness and long-term debt decreased in 2006 compared to the same period in 2005 due to lower interest rates under the Corporation's credit facility. Discount on the sale of accounts receivable rose as a higher amount of receivables were sold at higher discount rates.

Provision for (Recovery of) Income Taxes

(Expressed in thousands)	Three-months ended March 31 2006	Three-months ended March 31 2005	Change	% Change
Provision for current income taxes	$ 92	$ 125	$ (33)	-26.4%
(Recovery of) future income taxes	(101)	(1,029)	928	90.2%
Total (recovery of) income taxes	$ (9)	$ (904)	$ 895	99.0%
Effective Tax Rate	1.4 %	35.0 %		

The effective rate of recovery of income taxes was 1.4% in the first quarter of 2006, due to non-deductible, non-cash charges for stock option expenses and non-cash interest charges on the Corporation's convertible debentures. These non-deductible items have a large impact while Magellan operates near breakeven levels.

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

(Expressed in thousands)	Three-months ended March 31 2006	Three-months ended March 31 2005	Change
Net loss	$ (658)	$ (1,679)	$ 1,021
Interest	4,995	5,803	(808)
Taxes	(9)	(904)	895
Depreciation and amortization	5,390	5,661	(271)
EBITDA	$ 9,718	$ 8,881	$ 837

Cash Flow from Operating Activities

(Expressed in thousands)	Three-months ended March 31 2006	Three-months ended March 31 2005	Change
Increase in accounts receivable	$ (4,563)	$ (21,901)	$ 17,338
Increase in inventories	(15,957)	(4,293)	(11,664)
Increase in prepaid expenses and other	(2,727)	(84)	(2,643)
Increase in accounts payable	10,710	153	10,557
Net change in non-cash working capital items	$ (12,537)	$ (26,125)	$ 13,588
Cash used in operating activities	$ (7,153)	$ (22,652)	$ 15,499

In the first quarter of 2006, the Corporation used $7.2 million of cash from operations, compared to using $22.7 million of cash in the same period of 2005. Increases in accounts receivable, inventories and prepaid expenses were partially offset by an increase in accounts payable. Inventories increased in part due to a number of delayed shipments, as well as a general increase in raw materials and work-in-process which reflects increased demand in the aerospace industry. The Corporation expects to recover on delayed shipments within the next two quarters.

Cash Flow from Investing Activities

(Expressed in thousands)	Three-months ended March 31 2006	Three-months ended March 31 2005	Change
Purchase of capital assets	$ (3,059)	$ (3,457)	$ 398
Proceeds from disposals of capital assets	96	531	(435)
Increase in other assets	(878)	(271)	(607)
Cash used in investing activities	$ (3,841)	$ (3,197)	$ (644)

The Corporation invested $3.1 million in new equipment and improvements to its facilities to improve manufacturing capacity and enhance its capabilities. Other assets increased due to increases in certain long-term receivables.

Cash Flow from Financing Activities

(Expressed in thousands)	Three-months ended March 31 2006	Three-months ended March 31 2005	Change
Increase in bank indebtedness	$ 8,720	$ 27,635	$ (18,915)
Repayment of long-term debt	(117)	(4,440)	4,323
Increase (decrease) in long-term liabilities	75	(1,048)	1,123
Issue of Common Shares	14	27	(13)
Cash provided by financing activities	$ 8,692	$ 22,174	$ (13,482)

The Corporation has an operating credit facility with a maximum credit limit of $155.0 million. Amounts drawn under this facility bear interest at the bankers' acceptance or LIBOR rates plus 1.0% expiring on May 26, 2006 and extendable to May 26, 2007. On May 2, 2006, the Corporation extended the operating credit facility with its existing lenders, and amended the agreement to reduce interest costs to bankers' acceptance or LIBOR rates plus 0.875% as well as providing for unlimited one-year renewal options. The credit facility is fully guaranteed by N. Murray Edwards, Chairman of the Board of Directors. An annual fee of $155,000 (0.1% of the maximum credit facility) is paid in consideration for the guarantee.

Outlook

The appreciation of the Canadian dollar, which had slowed in 2005 and the first quarter of 2006 has increased dramatically in April and May of 2006 and will have a significant impact on upcoming earnings if this trend does not reverse. Management is evaluating all options including reducing Canadian dollar denominated expenses to realign the business to operate effectively in this new environment.

Civil aircraft orders in the first quarter of 2006, which experienced a record year in 2005, continued at a brisk rate in the first quarter of 2006. Airlines in the Middle East and Asia are reporting strong profits, while most North American airlines range from profitable to readying for emergence from bankruptcy protection. Key defence programs are progressing on schedule, with the F18 and F22 aircraft in full-scale production, and the F35 aircraft proceeding through development to production later this decade. High operational activity rates for aircraft and helicopters are enabling a strong aftermarket demand. Despite a challenging first quarter of 2006, Magellan's performance is expected to meet or exceed our 2006 plan, which will enable the necessary re-investment to support growth.

On behalf of the Board

N. Murray Edwards
Chairman
May 11, 2006

Richard A. Neill
President and Chief Executive Officer

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CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(un-audited)

(Expressed in thousands of dollars, except per share amounts)

	Three-months ended March 31 2006	2005
Revenues	$ 137,022	$ 144,941
Cost of revenues	122,708	130,486
Gross profit	14,314	14,455
Administrative and general expenses	9,986	11,235
Interest	4,995	5,803
	14,981	17,038
Loss before income taxes	(667)	(2,583)
Provision for (recovery of) income taxes		
- Current	92	125
- Future	(101)	(1,029)
	(9)	(904)
Net loss for the period	(658)	(1,679)
Retained earnings, beginning of period	107,019	115,105
Net loss for the period	(658)	(1,679)
Retained earnings, end of period	$ 106,361	$ 113,426
Loss per share		
Basic	$ (0.01)	$ (0.02)
Diluted	$ (0.01)	$ (0.02)

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CONSOLIDATED BALANCE SHEETS

(un-audited)

(Expressed in thousands of dollars)

	As at March 31 2006	As at December 31 2005
ASSETS		
Current		
Cash	$ 5,102	$ 7,426
Accounts receivable	67,784	62,862
Inventories	285,362	268,590
Prepaid expenses and other	12,153	9,343
Future income tax assets	4,066	3,518
Total current assets	374,467	351,739
Capital assets	262,297	264,899
Other	48,242	46,467
Future income tax assets	50,187	50,752
Total assets	$ 735,193	$ 713,857
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (note 3)	$ 122,969	$ 113,824
Accounts payable and accrued charges	134,144	122,978
Current portion of long-term debt	2,467	2,201
Total current liabilities	259,580	239,003
Long-term debt	9,246	9,608
Future income tax liabilities	77,907	77,301
Convertible debentures	65,714	65,141
Other long-term liabilities	14,596	15,061
Total liabilities	427,043	406,114
Shareholders' equity		
Capital stock (note 4)	234,073	234,058
Contributed surplus	1,034	854
Other paid-in capital	11,100	11,100
Retained earnings	106,361	107,019
Foreign exchange translation (note 7)	(44,418)	(45,288)
Total shareholders' equity	308,150	307,743
Total liabilities and shareholders' equity	$ 735,193	$ 713,857

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(un-audited)

(Expressed in thousands of dollars)	Three-months ended March 31 2006	Three-months ended March 31 2005
OPERATING ACTIVITIES		
Loss for the period	$ (658)	$ (1,679)
Add (deduct) items not affecting cash		
Depreciation and amortization	5,390	5,661
Stock option charge	180	60
Accretion of convertible debentures	573	460
Future income taxes recoveries	(101)	(1,029)
	5,384	3,473
Net change in non-cash working capital items relating to operating activities	(12,537)	(26,125)
Cash used by operating activities	(7,153)	(22,652)
INVESTING ACTIVITIES		
Purchase of capital assets	(3,059)	(3,457)
Proceeds from disposal of capital assets	96	531
Increase in other assets	(878)	(271)
Cash used in investing activities	(3,841)	(3,197)
FINANCING ACTIVITIES		
Increase in bank indebtedness	8,720	27,635
Repayment of long-term debt	(117)	(4,440)
Increase (decrease) in long-term liabilities	75	(1,048)
Issue of Common Shares	14	27
Cash provided by financing activities	8,692	22,174
Effect of exchange rate changes on cash	(22)	(178)
Decrease in cash	(2,324)	(3,853)
Cash, beginning of period	7,426	9,048
Cash, end of period	$ 5,102	$ 5,195

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

1. ACCOUNTING POLICIES

Basis of presentation

The accompanying un-audited consolidated financial statements have been prepared by the Corporation in accordance with accounting principles generally accepted in Canada on a basis consistent with those followed in the most recent audited consolidated financial statements. These un-audited consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes included in the Corporation's Annual Report for the year ended December 31, 2005. The Corporation's external auditors have not reviewed these financial statements.

2. INVENTORIES

The Corporation is in negotiations with one of its customers over amendments to pricing with respect to an existing long-term contract. While it is probable that the Corporation will be successful in its negotiations, the final result is not determinable at the present time. 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.

3. BANK INDEBTEDNESS

Bank indebtedness of $122,969 [December 31, 2005 - $113,824] is payable on demand and bears interest at the bankers' acceptance or LIBOR rates, plus 1.0% [5.1% at March 31, 2006]. Included in the amount outstanding at March 31, 2006 is US$75,108 [December 31, 2005 - US$71,000]. At March 31, 2006, the Corporation had drawn $122,969 under the operating credit and had issued letters of credit totalling $2,018 such that $30,013 was unused and available. A fixed and floating charge debenture on accounts receivable, inventories and capital assets is pledged as collateral for the operating loan and the term bank loan. The credit facility is fully guaranteed by the Chairman of the Board of Directors. An annual fee of $155 is paid in consideration for the guarantee.

4. CAPITAL STOCK

The following table summarizes information on share capital and related matters as at March 31, 2006:

	Outstanding	**Exercisable**
Common Shares	90,797,288	
Common Share stock options	4,449,400	214,200
Preference Shares	2,000,000	

The weighted average number of Common Shares outstanding during the three-month period ended March 31, 2006 was 90,794,805.

5. STOCK-BASED COMPENSATION PLAN

The Corporation has an incentive stock option plan, which provides for the granting of options for the benefit of employees and directors. The maximum number of options for Common Shares that remain to be granted under this plan is 901,303. Options are granted at an exercise price that will be the market price of the Corporation's Common Shares at the time of granting. Options normally have a life of five years with vesting at 20% at the end of the first, second, third, fourth and fifth years from the date of the grant. In addition, certain business unit income tests must be met in order for the option holder's entitlement to fully vest.

The Corporation accounts for stock options issued after January 1, 2003 using the fair value method. Compensation expense recorded during the three-month period ended March 31, 2006 was $180 [March 31, 2005 - $60]. In the three-month period ended March 31, 2006, there were 1,514,000 stock options granted at an exercise price of $3.08. The fair value of these options was $1.13.

The fair value of stock options is estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

Risk-free interest rate	4.0 %
Expected volatility	30 %
Expected average life of options	4 years
Expected dividend yield	0 %

The Black-Scholes option pricing model used by the Corporation to determine fair values was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. The Corporation's employee stock options are not transferable, cannot be traded and are subject to vesting restrictions and exercise restrictions under the Corporation's blackout policy, which would tend to reduce the fair value of the Corporation's stock options. Changes to the subjective input assumptions used in the model can cause a significant variation in the estimate of the fair value of the options

6. SEGMENTED INFORMATION

The Corporation is organized and managed as a single business segment, being aerospace, and the Corporation is viewed as a single operating segment by the chief operating decision maker for the purposes of resource allocations and assessing performance.

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

	As at March 31, 2006				**As at December 31, 2005**			
	Canada	**US**	**UK**	**Total**	**Canada**	**US**	**UK**	**Total**
Capital assets	$ 123,949	$ 125,068	$ 13,280	$ 262,297	$ 126,181	$ 125,783	$ 12,935	$ 264,899

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

	Three months ended March 31							
	2006				**2005**			
	Canada	**US**	**UK**	**Total**	**Canada**	**US**	**UK**	**Total**
Revenue								
Domestic	$ 23,333	$ 35,280	$ 26,795	$ 85,408	$ 25,357	$ 34,987	$ 26,715	$ 87,059
Export	41,933	8,616	1,065	$ 51,614	47,763	8,579	1,540	57,882
Total revenue	$ 65,266	$ 43,896	$ 27,860	$ 137,022	$ 73,120	$ 43,566	$ 28,255	$ 144,941

The major customers for the Corporation for the three-month period ended March 31 are as follows:

	Three-months ended March 31	
	2006	**2005**
Major Customers		
Canadian operations		
- Number of customers	4	3
- Percentage of total Canadian revenue	47 %	32 %
US operations		
- Number of customers	3	3
- Percentage of total US revenue	60 %	55 %
UK operations		
- Number of customers	1	1
- Percentage of total UK revenue	85 %	77 %

7. FOREIGN EXCHANGE TRANSLATION

Unrealized translation adjustments, which arise on the translation to Canadian dollars of assets and liabilities of the Corporation's self–sustaining foreign operations, resulted in unrealized currency translation gain of $870 for the three-month period ended March 31, 2006 [March 31, 2005 - $215], which is reflected as foreign exchange translation on the consolidated balance sheets and has no impact on net income.

8. SUPPLEMENTARY INFORMATION

Foreign exchange gain on the conversion of foreign currency denominated working capital balances and debt for the three-month period ended March 31, 2006 was $282 [March 31, 2005 – loss of $312].

For additional information contact:

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