MAGELLAN
AEROSPACE CORPORATION

Magellan Aerospace Corporation
Second Quarter Report
June 30, 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 August 14, 2006, the Corporation released its financial results for the second quarter of 2006. The results are summarized as follows:

	Three-months ended June 30			Six-months ended June 30		
(Expressed in thousands, except per share amounts)	**2006**	**2005**	**Change**	**2006**	**2005**	**Change**
Revenues	$ 149,977	$ 146,166	2.6%	$ 286,999	$ 291,106	-1.4%
Net loss	$ (5,666)	$ (289)	-	$ (6,324)	$ (1,968)	-
Net loss per share	$ (0.07)	$ (0.00)	-	$ (0.08)	$ (0.02)	-
EBITDA*	$ 9,340	$ 11,026	-15.3%	$ 19,059	$ 19,625	-2.9%
EBITDA* per share	$ 0.10	$ 0.12	-16.7%	$ 0.21	$ 0.22	-4.5%

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

Results for the second quarter of 2006 are reflective of the difficult environment in which the Corporation is operating. Improvements in many of its underlying operations are being made, but rising commodity prices and the impact of strengthening Canadian dollar has more than offset these efficiencies. Investments and activities designed to improve processes at the Corporation's North American casting facilities as well as its manufacturing facilities in the United Kingdom have increased throughput at these facilities, and are expected to improve profitability in the next six to twelve months.

The Corporation has undertaken a plan of rationalization and modernization of its facilities in New York City. Over the next six months, the Corporation will pursue the option of selling the surplus real estate. In order to prepare the surplus real estate for sale, machinery and equipment will be disposed of for minimal proceeds. Accordingly, a non-cash amortization charge of $5.3 million ($0.04 per share on an after tax basis) has been recorded in the financial statements.

Conditions in the commercial aerospace sector, which has the most significant influence on the Corporation's operations, continue to improve slowly. Many airlines are reporting steadily increasing load factors, and several airlines in the United States have begun to report operating profits after several years of operating losses, in spite of record high fuel prices. Airlines outside of the United States are faring better, and orders for new aircraft are coming from these areas in significant numbers.

Demand for aerospace components continues to increase in the commercial and business jet sectors, as the prime manufacturers increase the build rates for their products. Demand is steady within the defence sector, with many new opportunities being presented to the Corporation for work on the Joint Strike Fighter Program. Other new defence procurement in Canada, the United States and the United Kingdom offer additional openings for new business.

Recently announced delays by Airbus on its A380 aircraft program, and a redesign effort on its new A350 candidate aircraft for the mid-size, long-range civil airliner market will have an impact on Magellan's revenues, as Magellan supplies engine, wing and undercarriage components for the A380 aircraft and engineering services on the A350.

Revenues

	Three-months ended June 30			Six-months ended June 30		
(Expressed in thousands)	**2006**	**2005**	**Change**	**2006**	**2005**	**Change**
Canada	$ 72,285	$ 71,865	0.6 %	$ 137,203	$ 144,984	-5.4 %
United States	48,985	45,405	7.9 %	93,229	88,971	4.8 %
United Kingdom	28,707	28,896	-0.7 %	56,567	57,151	-1.0 %
Total Revenue	$ 149,977	$ 146,166	2.6 %	$ 286,999	$ 291,106	-1.4 %

Consolidated revenues for the second quarter of 2006 were $150.0 million, an increase of $3.8 million, or 2.6%, from the second quarter of 2005. Volumes of underlying shipments increased across all divisions, however the strengthening of the Canadian dollar again muted the impact on reported revenues, because significant amounts of revenue are denominated in United States dollars. Had exchange rates experienced in the second quarter of 2005 been in effect in the second quarter of 2006, reported revenues would have been higher by approximately $13.9 million ($5.0 million in Canada, $5.3 million in the United States and $3.6 million in the United Kingdom) and quarter over quarter growth would have been approximately 12.0%. Demand for aerospace components has been strong, especially in the commercial sector, as prime manufacturers increase build rates for aircraft and engines.

Revenues generated by commercial product sales in the second quarter of 2006 represented 66.8% (64.8% in 2005) of total revenues while defence product sales comprised the remaining 33.2% (35.2% in 2005) of revenues.

Gross Profit

(Expressed in thousands)	Three-months ended June 30			Six-months ended June 30		
	2006	**2005**	**Change**	**2006**	**2005**	**Change**
Gross profit	$ 13,132	$ 14,954	-12.2 %	$ 27,428	$ 29,408	-6.7 %
Percentage of revenue	8.8 %	10.2 %		9.6 %	10.1 %	

Gross profits of $13.1 million (8.8% of revenues) were reported for the second quarter of 2006 compared to $15.0 million (10.2% of revenues) during the same period in 2005. Gross profits, as a percentage of revenue, declined due to the strengthening Canadian dollar, increasing material prices, and additional costs associated with increasing manufacturing rates. The impact of the strengthening Canadian dollar in the second quarter of 2006, when measured against foreign exchange rates experienced in the second quarter of 2005 was approximately $2.6 million. Magellan has responded by increasing prices where permitted to reflect higher material costs and the stronger Canadian dollar, and is adjusting its manufacturing processes to accommodate the higher rates more effectively.

Administrative and General Expenses

(Expressed in thousands)	Three-months ended June 30		Six-months ended June 30	
	2006	**2005**	**2006**	**2005**
Administrative and general expenses	$ 10,007	$ 11,368	$ 20,256	$ 22,010
Gain on sale of capital assets	-	(1,723)	-	(1,442)
Foreign exchange loss / (gain)	-	452	(282)	764
Total administrative and general expenses	$ 10,007	$ 10,097	$ 19,974	$ 21,332
Percentage of revenue	6.7%	6.9%	7.0%	7.3%

Administrative and general expenses were $10.0 million, or 6.7% of revenues in the second quarter of 2006 compared to $10.1 million, or 6.9% of revenues in the same period of 2005. After adjusting for a gain on the disposal of capital assets in the second quarter of 2005, administrative and general expenses have decreased approximately 12.0% in the second quarter of 2006 compared to the same period in 2005 despite increased revenues.

Interest Expense

(Expressed in thousands)	Three-months ended June 30		Six-months ended June 30	
	2006	**2005**	**2006**	**2005**
Interest on bank indebtedness and long-term debt	$ 3,015	$ 3,024	$ 5,040	$ 6,384
Convertible debenture interest	1,462	1,487	2,950	2,975
Accretion charge for convertible debt	573	460	1,146	920
Discount on sale of accounts receivable	1,027	357	1,937	851
Total interest expense	$ 6,077	$ 5,328	$ 11,073	$ 11,130

Interest expense in the second quarter of 2006 was $6.1 million, $0.8 million higher than the second quarter of 2005, due to higher discounts on sales of accounts receivable. Discounts on sale of accounts receivable increased due to an increase in the amount of accounts receivable sold as well as higher discount rates (which are based on BA's and LIBOR) being incurred.

Provision for (Recovery of) Income Taxes

(Expressed in thousands)	Three-months ended June 30 2006	Three-months ended June 30 2005	Six-months ended June 30 2006	Six-months ended June 30 2005
Provision for current income taxes	$ 90	$ 140	$ 182	$ 265
Recovery of future income taxes	(2,677)	(322)	(2,778)	(1,351)
Total recovery of income taxes	$ (2,587)	$ (182)	$ (2,596)	$ (1,086)
Effective Tax Rate	31.3 %	38.6 %	29.1 %	35.6 %

There was a recovery of income taxes of $2.6 million for the second quarter of 2006, compared to an income tax recovery of $0.2 million for the second quarter of 2005. The change in effective tax rates is a result of a changing mix of income across the different jurisdictions in which Magellan operates.

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

(Expressed in thousands)	Three-months ended June 30 2006	Three-months ended June 30 2005	Six-months ended June 30 2006	Six-months ended June 30 2005
Net loss	$ (5,666)	$ (289)	$ (6,324)	$ (1,968)
Interest	6,077	5,328	11,073	11,130
Taxes	(2,587)	(182)	(2,596)	(1,086)
Amortization charge	5,301	-	5,301	-
Depreciation and amortization	6,215	6,169	11,605	11,549
EBITDA	$ 9,340	$ 11,026	$ 19,059	$ 19,625

EBITDA for the second quarter of 2006 was $9.3 million, a decrease of $1.7 million from the second quarter of 2005, due to a decrease in pre-tax income due to lower margins as discussed previously and higher interest costs offset by lower administrative expenses.

Liquidity and Capital Resources

Cash Flow from Operations

(Expressed in thousands)	Three-months ended June 30 2006	Three-months ended June 30 2005	Six-months ended June 30 2006	Six-months ended June 30 2005
Decrease (increase) in accounts receivable	$ 5,099	$ (4,974)	$ 536	$ (26,893)
Increase in inventories	(3,429)	(3,329)	(19,386)	(7,608)
Decrease (increase) in prepaid expenses and other	898	(322)	(1,829)	(402)
(Decrease) increase in accounts payable	(2,932)	(2,542)	8,178	(2,389)
Changes to non-cash working capital balances	$ (364)	$ (11,167)	$ (12,501)	$ (37,292)
Cash provided by (used in) operating activities	$ 3,637	$ (6,682)	$ (3,116)	$ (29,334)

In the quarter ended June 30, 2006, the Corporation generated $3.6 million of cash in its operations, compared to a use of $6.7 million in operations in the second quarter of 2005. Cash was generated due to lower accounts receivable and prepaid expenses, offset by increases to inventory and lower accounts payable balances. Inventories rose in response to increasing demand from the Corporation's customers.

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Investing Activities

(Expressed in thousands)	Three-months ended June 30 2006	Three-months ended June 30 2005	Six-months ended June 30 2006	Six-months ended June 30 2005
Purchase of capital assets	$ (11,084)	$ (3,492)	$ (14,143)	$ (6,949)
Proceeds of disposals of capital assets	239	3,192	335	3,723
Increase in other assets	(1,711)	(510)	(2,589)	(781)
Cash used in investing activities	$ (12,556)	$ (810)	$ (16,397)	$ (4,007)

In the second quarter of 2006, the Corporation invested $11.1 million in capital assets to upgrade its facilities and enhance its capabilities. This amount includes $4.3 million for real estate in the United Kingdom acquired on exercise of an option obtained in the acquisition of assets from Moores (Wallisdown) Limited in April, 2004. Proceeds of $0.2 million were received in the second quarter of 2006 on the sale of machinery and equipment.

Financing Activities

(Expressed in thousands)	Three-months ended June 30 2006	Three-months ended June 30 2005	Six-months ended June 30 2006	Six-months ended June 30 2005
Increase in bank indebtedness	$ 11,758	$ 35,006	$ 20,478	$ 62,641
Increase / (repayment) of long-term debt	4,689	(43,372)	4,572	(47,812)
Decrease in long-term liabilities	(8,112)	(7,106)	(8,037)	(8,154)
Issue of Common Shares	12	15	26	42
Issue of Preference Shares	-	19,925	-	19,925
Dividends on Preference Shares	(400)	-	(800)	-
Cash provided by financing activities	$ 7,947	$ 4,468	$ 16,239	$ 26,642

The Corporation renewed its bank credit agreement with its existing lenders on May 2, 2006. Under the terms of the renewed agreement, Magellan will have an operating credit facility, expiring on May 26, 2007, and extendable for unlimited one-year renewal options, with a maximum credit facility of $155.0 million. Amounts drawn under this facility bear interest at the bankers' acceptance or LIBOR rates plus 0.875 percent. The credit facility is fully guaranteed by N. Murray Edwards, Chairman of the Board of Directors.

Outlook

With continuing demand for commercial and business jet aircraft, as well as several new defence opportunities, the Corporation is modifying its operations to improve profitability and participate in the long-term growth of the aerospace industry. Changes include increasing investment in new equipment to boost productivity and efficiency and increase capacity at several operating locations, to meet future demand from increased rates on current aircraft and engine build programs, as well as position the Corporation to provide supply on major new programs under development such as the Boeing 787 Dreamliner, the A350 XWB, and the Joint Strike Fighter.

On behalf of the Board

N. Murray Edwards
Chairman
August 11, 2006

Richard A. Neill
President and Chief Executive Officer