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.**

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## 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.

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**Gross Profit**

| (Expressed in thousands) | Three-months ended June 30 2006 | Three-months ended June 30 2005 | Change | Six-months ended June 30 2006 | Six-months ended June 30 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 2006 | Three-months ended June 30 2005 | Six-months ended June 30 2006 | Six-months ended June 30 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 2006 | Three-months ended June 30 2005 | Six-months ended June 30 2006 | Six-months ended June 30 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.

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**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**

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## MAGELLAN AEROSPACE CORPORATION

### CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

**(unaudited)**

| *(Expressed in thousands of dollars, except per share amounts)* | Three-months ended June 30 2006 | Three-months ended June 30 2005 | Six-months ended June 30 2006 | Six-months ended June 30 2005 |
|---|---|---|---|---|
| Revenues | $ 149,977 | $ 146,166 | $ 286,999 | $ 291,106 |
| Cost of revenues | 136,845 | 131,212 | 259,571 | 261,698 |
| Gross profit | 13,132 | 14,954 | 27,428 | 29,408 |
| Administrative and general expenses | 10,007 | 10,097 | 19,974 | 21,332 |
| Amortization charge (note 2) | 5,301 | - | 5,301 | - |
| Interest | 6,077 | 5,328 | 11,073 | 11,130 |
| | 21,385 | 15,425 | 36,348 | 32,462 |
| Loss before income taxes | (8,253) | (471) | (8,920) | (3,054) |
| Provision for (recovery of) income taxes | | | | |
| - Current | 90 | 140 | 182 | 265 |
| - Future | (2,677) | (322) | (2,778) | (1,351) |
| | (2,587) | (182) | (2,596) | (1,086) |
| **Net loss for the period** | (5,666) | (289) | (6,324) | (1,968) |
| Retained earnings, beginning of the period | 105,961 | 113,426 | 107,019 | 115,105 |
| Dividends | (400) | - | (800) | - |
| Net loss for the period | (5,666) | (289) | (6,324) | (1,968) |
| Retained earnings, end of period | $ 99,895 | $ 113,137 | $ 99,895 | $ 113,137 |
| **Loss per share** | | | | |
| Basic | $ (0.07) | $ (0.00) | $ (0.08) | $ (0.02) |
| Diluted | $ (0.07) | $ (0.00) | $ (0.08) | $ (0.02) |

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## MAGELLAN AEROSPACE CORPORATION

### CONSOLIDATED BALANCE SHEETS

**(unaudited)**
*(Expressed in thousands of dollars)*

| | As at June 30 2006 | As at December 31 2005 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | $ 3,793 | $ 7,426 |
| Accounts receivable | 62,000 | 62,862 |
| Inventories (note 3) | 283,735 | 268,590 |
| Prepaid expenses and other | 11,147 | 9,343 |
| Future income tax assets | 4,559 | 3,518 |
| **Total current assets** | 365,234 | 351,739 |
| Capital assets | 254,948 | 264,899 |
| Other | 48,835 | 46,467 |
| Future income tax assets | 49,666 | 50,752 |
| **Total assets** | $ 718,683 | $ 713,857 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Bank indebtedness (note 4) | $ 130,729 | $ 113,824 |
| Accounts payable and accrued charges | 130,542 | 122,978 |
| Current portion of long-term debt | 2,561 | 2,201 |
| **Total current liabilities** | 263,832 | 239,003 |
| Long-term debt | 13,921 | 9,608 |
| Future income tax liabilities | 74,370 | 77,301 |
| Convertible debentures | 66,287 | 65,141 |
| Other long-term liabilities | 3,563 | 15,061 |
| **Total liabilities** | 421,973 | 406,114 |
| **Shareholders' equity** | | |
| Capital stock (note 5) | 234,084 | 234,058 |
| Contributed surplus | 1,289 | 854 |
| Other paid in capital | 11,100 | 11,100 |
| Retained earnings | 99,895 | 107,019 |
| Foreign exchange translation (note 8) | (49,658) | (45,288) |
| **Total shareholders' equity** | 296,710 | 307,743 |
| **Total liabilities and shareholders' equity** | $ 718,683 | $ 713,857 |

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**MAGELLAN AEROSPACE CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| (unaudited) | Three-months ended June 30 | | Six-months ended June 30 | |
|---|---|---|---|---|
| *(Expressed in thousands of dollars)* | **2006** | **2005** | **2006** | **2005** |
| **OPERATING ACTIVITIES** | | | | |
| Loss for the period | $ (5,666) | $ (289) | $ (6,324) | $ (1,968) |
| Add (deduct) items not affecting cash | | | | |
| Depreciation and amortization | 6,215 | 6,169 | 11,605 | 11,549 |
| Gain on sale of capital assets | - | (1,723) | - | (1,442) |
| Amortization charge (note 2) | 5,301 | - | 5,301 | - |
| Stock option charge | 255 | 190 | 435 | 250 |
| Accretion of convertible debentures | 573 | 460 | 1,146 | 920 |
| Future income taxes recoveries | (2,677) | (322) | (2,778) | (1,351) |
| | 4,001 | 4,485 | 9,385 | 7,958 |
| Net change in non-cash working capital items relating to operating activities | (364) | (11,167) | (12,501) | (37,292) |
| **Cash provided by (used in) operating activities** | 3,637 | (6,682) | (3,116) | (29,334) |
| **INVESTING ACTIVITIES** | | | | |
| Purchase of capital assets | (11,084) | (3,492) | (14,143) | (6,949) |
| Proceeds from disposal 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) |
| **FINANCING ACTIVITIES** | | | | |
| 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 |
| **Effect of exchange rate changes on cash** | (337) | (22) | (359) | (200) |
| Decrease in cash | (1,309) | (3,046) | (3,633) | (6,899) |
| Cash, beginning of period | 5,102 | 5,195 | 7,426 | 9,048 |
| **Cash, end of period** | $ 3,793 | $ 2,149 | $ 3,793 | $ 2,149 |

**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 unaudited 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 unaudited 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. AMORTIZATION CHARGE

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.

## 3. INVENTORIES

The Corporation is currently negotiating 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 negotiations, the final result is not determinable at the present time. If the negotiations are not successful or the final terms vary from what the Corporation expects, the Corporation may be required to record a loss provision on this contract. The amount of such a provision, if any, cannot be reasonably estimated until such amendments are finalized.

## 4. BANK INDEBTEDNESS

Bank indebtedness as at June 30, 2006 of $130,729 [December 31, 2005 - $113,824] is payable on demand and bears interest at the bankers' acceptance or LIBOR rates, plus 0.875% [5.8% at June 30, 2006]. Included in the amount outstanding at June 30, 2006 is US$79,537 [December 31, 2005 - US$71,000]. At June 30, 2006, the Corporation had drawn $130,729 under the operating credit and had issued letters of credit totalling $1,993 such that $22,595 was unused and available. A fixed and floating charge debenture on certain of the Corporation's assets is pledged as collateral for the operating 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.

## 5. CAPITAL STOCK

The following table summarizes information on share capital and related matters as at June 30, 2006:

| | Outstanding | Exercisable |
|---|---|---|
| Common shares | 90,801,101 | |
| Common shares stock options | 4,334,900 | 413,850 |
| Preferred shares | 2,000,000 | |

The weighted average number of common shares outstanding during the three-month and six-month periods ended June 30, 2006 was 90,799,200 and 90,796,962 respectively.

## 6. 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 1,015,803. 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 20.0% 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 and six-month periods ended June 30, 2006 was $255 and $435 respectively [2005 - $190 and $250 respectively]. In the six-month period ended June 30, 2006, there were 1,514,000 stock options issued 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 | 3.1 % |
| Expected volatility | 35.0 % |
| Expected average life of options | 4 years |
| Expected dividend yield | 0.0 % |

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 black-out 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

For the stock options issued prior to January 1, 2003 the Corporation follows the intrinsic value method, which does not give rise to compensation expense. Under Canadian generally accepted accounting principles, the Corporation is required to disclose compensation expense as if the Corporation had elected to follow the fair value method for such options.

## 7. SEGMENTED INFORMATION

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

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

| | As at June 30, 2006 | | | | As at December 31, 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Canada** | **US** | **UK** | **Total** | **Canada** | **US** | **UK** | **Total** |
| **Capital assets** | $ 122,273 | $ 113,805 | $ 18,870 | $ 254,948 | $ 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:

| | Six-months ended June 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2006** | | | | **2005** | | | |
| | **Canada** | **US** | **UK** | **Total** | **Canada** | **US** | **UK** | **Total** |
| **Revenue** | | | | | | | | |
| Domestic | $ 49,335 | $ 75,985 | $ 52,921 | $ 178,241 | $ 51,064 | $ 71,582 | $ 54,377 | $ 177,023 |
| Export | 87,868 | 17,244 | 3,646 | 108,758 | 93,920 | 17,389 | 2,774 | 114,083 |
| **Total revenue** | $ 137,203 | $ 93,229 | $ 56,567 | $ 286,999 | $ 144,984 | $ 88,971 | $ 57,151 | $ 291,106 |

The major customers for the Corporation for the three-month and six-month periods ended June 30, 2006 are as follows:

| | Three-months ended June 30 | | Six-months ended June 30 | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| **Major Customers** | | | | |
| Canadian operations | | | | |
| - Number of customers | 3 | 2 | 4 | 2 |
| - Percentage of total Canadian revenue | 36 % | 25 % | 45 % | 24 % |
| US operations | | | | |
| - Number of customers | 3 | 3 | 3 | 3 |
| - Percentage of total US revenue | 56 % | 60 % | 59 % | 58 % |
| UK operations | | | | |
| - Number of customers | 1 | 1 | 1 | 1 |
| - Percentage of total UK revenue | 67 % | 77 % | 76 % | 62 % |

## 8. 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 losses of $5,240 and $4,370 for the three-month and six-month periods ended June 30, 2006 respectively [2005 – gains of $493 and $708], which is reflected as foreign exchange translation on the consolidated balance sheets and has no impact on net income.

## 9. SUPPLEMENTARY INFORMATION

Foreign exchange gain on the conversion of foreign currency denominated working capital balances and debt for the three-month and six-month periods ended June 30, 2006 was nil and $282 respectively [2005 – losses of $452 and $764].

**For additional information contact:**

Richard A. Neill
(905) 677-1889 ext. 230
President & Chief Executive Officer

John B. Dekker
(905) 677-1889 ext 224
Vice President Finance & Corporate Secretary