



Magellan Aerospace Corporation
Second Quarter Report
June 30, 2011

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 and in certain circumstances for power generation projects. 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 15, 2011, the Corporation released its financial results for the second quarter of 2011. All amounts are expressed in Canadian dollars unless otherwise indicated. The results are summarized as follows:

	Three month period ended June 30			Six month period ended June 30		
	2011	2010	Change	2011	2010	Change
Expressed in thousands of dollars, except per share amounts	\$	\$	%	\$	\$	%
Revenues	185,990	181,431	2.6%	356,477	359,048	(0.8)%
Gross Profit	21,096	23,223	(9.2)%	44,855	44,428	1.0%
Net Income	4,895	7,168	(31.8)%	12,117	10,955	10.6%
Net Income per Share – Diluted	0.10	0.14	(28.6)%	0.25	0.22	13.7%

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 except as required by law.

The Corporation has included certain measures in this quarterly statement, including EBITDA, the terms for which are not defined under International Financial Reporting Standards. The Corporation defines EBITDA as earnings before interest, dividends on preference shares, taxes, depreciation and amortization and non-cash charges. 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 may not be comparable to similarly titled measures used by other companies.



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides a review of activities, results of operations, and financial condition of Magellan Aerospace Corporation for the three and six months ended June 30, 2011, in comparison with those for the three months ended June 30, 2010. References to "Magellan" or "the Corporation" refer to Magellan Aerospace Corporation and its subsidiaries, as applicable. The following discussion should be read in conjunction with the unaudited interim consolidated financial statements, including the notes thereto, for the three and six months ended June 30, 2011, and the audited annual consolidated financial statements for the year ended December 31, 2010. The date of the MD&A is August 15, 2011.

OVERVIEW

Magellan is a diversified supplier of components to the aerospace industry and in certain circumstances for power generation projects. Through its wholly owned subsidiaries, Magellan designs, engineers, and manufactures aeroengine and aerostructure components for aerospace markets, advanced products for military and space markets, and complementary specialty products. The Corporation also supports the aftermarket through supply of spare parts as well as performing repair and overhaul services and supplies in certain circumstances parts and equipment for power generation projects.

The Corporation's strategy has been to focus on several core competencies within the aerospace industry. These include precision machining of a wide variety of aerospace material, composites, complex high technology magnesium and aluminum alloy castings, repair and overhaul technologies and design of structures. The Corporation is now seeking to leverage these core competencies by achieving growth in applications where these abilities are critical in meeting customer needs.

BUSINESS UPDATE

During the second quarter of 2011, the health of the global economy continued to be threatened by economic uncertainty driven in part by the continuing Middle East conflicts and more recently by the debt crisis situations in both Europe and the United States. Notwithstanding the potential dampening impact these situations could have on both the commercial airline and the defence sector, the airline industry continues to report higher load factors, revenue, and business travel. However, at the same time, reported profits in 2011 have been dampened by the higher cost of fuel. The Corporation has noted that leading Original Equipment Manufacturers ("OEM") in the commercial aerospace industry have announced their intent to continue their pursuit of production rate increases well into 2014. These increases are being forecasted in both single aisle and twin aisle aircraft. In the defence sector, spending authorizations in North and South America and Europe continue to be managed in a restrained and cautious manner while foreign military sales in emerging countries, specifically the Asian market, continue on the upswing.

The Corporation remains well positioned, with existing contracts, to benefit from the forecasted growth in the single aisle A320 and B737, and continues to look for opportunities to increase its support to both Airbus and Boeing in their re-engineering initiatives in this market. The Corporation remains positioned to support the B787 entry into service and the production rate increases that are anticipated. Magellan's involvement in the development and production of the new Airbus A350 twin-aisle further increases its participation in the commercial airline sector. In the defence sector, Magellan continues to benefit from the investment in the F-35 Program with the program now moving forward on plan through low rate production and test schedules. In support of this project, Magellan has invested in a new composite facility in Winnipeg which is expected to be operational by the end of 2011. Additionally, recent and anticipated foreign military sales for the F18 and F16 aircraft should benefit Magellan given the legacy support provided to these platforms for both aeroengine and aerostructure applications.

The global space market is growing in segments that include science and space exploration, defence, and media, which affect earth observation, communication, navigation, and entertainment. Magellan has been involved in various space activities for over four decades and has more recently established itself as a satellite developer, obtaining an important role within the Canadian space program over the past decade. With two complete satellites delivered, Magellan is presently under contract to design the satellite bus for Canada's RADARSAT Constellation Mission (RCM), with manufacturing and assembly of the three-satellite RCM constellation to commence in 2012.

The Corporation's operational focus has been formalized across all divisions with the emphasis on the implementation of a standard operating philosophy supported by a standardized efficient and cost effective manufacturing system. Non-core work continues to be moved out to local and emerging market sites, freeing capacity for new core program ramp-up.



Business development activities continue to focus on increasing the level and complexity of core activity within the operating sites and adding value to the Corporation's key customers.

During the second quarter of 2011, Magellan's Winnipeg location was affected by a work stoppage of union employees which has now been resolved and a new long term agreement with its employees has been ratified. This work stoppage negatively affected the Corporation's performance in the second quarter of 2011, although it is expected that the Winnipeg location will recover most of the resulting revenue shortfall in the quarter by year end. Of equal importance, critical customer requirements were met during the disruption.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2010 Annual Report available on www.sedar.com.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective, January 1, 2011, the Corporation began reporting its financial results in accordance with International Financial Reporting Standards ("IFRS"). Accordingly, these IFRS results and all future results will be reported under IFRS and prior period comparative amounts, including the opening statement of financial position at January 1, 2010, have been conformed to reflect results as if the Corporation had always prepared its financial statements using IFRS. Please see additional discussion regarding IFRS later in this MD&A.

ANALYSIS OF OPERATING RESULTS FOR THE SECOND QUARTER ENDED JUNE 30, 2011

The Corporation reported higher revenue in the second quarter of 2011 than the second quarter of 2010, reflecting lower revenue in the aerospace segment offset by substantially higher revenue in the power generation project segment. Gross profit and net income for the second quarter of 2011 were \$21.1 million and \$4.9 million, respectively, a decrease from the second quarter of 2010 gross profit of \$23.2 million and net income of \$7.2 million.

Consolidated Revenue

Overall, the Corporation's revenues increased when compared to the second quarter of 2010.

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2011	2010	Change	2011	2010	Change
Aerospace	\$ 143,711	\$ 157,860	(9.0)%	\$ 298,326	\$ 319,347	(6.6)%
Power Generation Project	42,279	23,571	79.4%	58,151	39,701	46.5%
Total revenues	185,990	181,431	2.6%	356,477	359,048	(0.8)%

Consolidated sales for the second quarter ended June 30, 2011 increased 2.6% to \$186.0 million from \$181.4 million in the second quarter of 2010, due mainly to increased revenues earned in the Power Generation Project segment partially offset by decreased revenues earned in the Aerospace segment. As the Corporation moves into late 2011 and 2012, revenue from the Power Generation Project will decrease on a year over year basis unless the Corporation receives further contracts in this area.

Aerospace Segment

Revenues for the Aerospace segment were as follows:

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2011	2010	Change	2011	2010	Change
Canada	\$ 64,293	\$ 80,153	(19.8)%	\$ 136,662	\$ 162,522	(16.0)%
United States	47,005	48,650	(3.4)%	94,027	94,716	(0.8)%
United Kingdom	32,413	29,057	11.6%	67,637	62,109	8.9%
Total revenues	143,711	157,860	(9.0)%	298,326	319,347	(6.6)%

Consolidated revenues for the second quarter of 2011 of \$143.7 million were 9.0% lower than revenues of \$157.9 million in the second quarter of 2010. Revenues in Canada in the second quarter of 2011 decreased 19.8% from the same period in 2010 as the Corporation was impacted by approximately \$12 million in delayed revenue due to a work stoppage at the Corporation's Winnipeg location as well as lower volumes experienced on certain product lines. In addition US denominated sales in Canada were negatively impacted by the decline of the US dollar against the Canadian dollar.



Decreased revenues in the United States in the second quarter of 2011 in comparison to the second quarter of 2010 resulted from the impact of the decline in the US dollar upon translation to Canadian dollar. In native currency US revenues increased in the second quarter of 2011 by 4.4% over revenues in the second quarter of 2010 as volumes on several of the Corporation's single aisle aircraft programs increased. Revenues in the United Kingdom in the second quarter of 2011 increased over revenues in the same period in 2010 as a result of higher volumes experienced on the Airbus statement of work

Power Generation Project Segment

Revenues for the Power Generation Project segment were as follows:

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2011	2010	Change	2011	2010	Change
Power Generation Project	\$ 42,279	\$ 23,571	79.4%	\$ 58,151	\$ 39,701	46.5%
Total revenues	42,279	23,571	79.4%	58,151	39,701	46.5%

Increased revenues in the second quarter of 2011 over the same period in 2010 represents the Corporation's progress made on the Ghana electric power generation project in the period in comparison to the progress made in the previous quarter. In addition, the Corporation recognized revenues earned in the second quarter of 2011 on additional work on the Ghana electric power generation project that is over and above the initial contract which in previous quarters were recorded in inventory. As the Corporation moves into late 2011 and 2012, revenue from the Power Generation Project will decrease on a year over year basis unless the Corporation receives further contracts in this area.

Gross Profit

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2011	2010	Change	2011	2010	Change
Gross profit	\$ 21,096	\$ 23,223	(9.2)%	\$ 44,855	\$ 44,428	1.0%
Percentage of revenues	11.4%	12.8%		12.6%	12.4%	

Gross profit of \$21.1 million (11.4% of revenues) was reported for the second quarter of 2011 compared to \$23.2 million (12.8% of revenues) during the same period in 2010. Gross profit, as a percentage of revenues, decreased over the same period in 2010 reflecting the impact of the lower US dollar against the Canadian dollar. Overall margins also decreased as a result of change in the mix of revenues between the Aerospace segment and the Power Generation Project segment.

Administrative and General Expenses

Expressed in thousands of dollars	Three month period ended June 30			Six month period ended June 30		
	2011	2010	Change	2011	2010	Change
Administrative and general expenses	\$ 9,593	\$ 9,859	(2.7)%	\$ 18,836	\$ 19,461	(3.3)%
Percentage of revenues	5.2%	5.5%		5.3%	5.5%	

Administrative and general expenses were \$9.6 million (5.2% of revenues) in the second quarter of 2011 compared to \$9.9 million (5.5% of revenues) in the second quarter of 2010.

Other

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2011	2010	2011	2010
Foreign exchange loss (gain)	\$ 514	\$ (865)	\$ 393	\$ 620
Plant and program closure recoveries	—	(820)	—	(820)
Loss on sale of PP&E	8	121	30	118
Other	522	(1,564)	423	(82)

Other expense of \$0.5 million in the second quarter of 2011 consisted of realized and unrealized foreign exchange losses. Other income in the second quarter of 2010 resulted from unrealized foreign exchange gains of \$0.9 million 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.

Interest Expense

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2011	2010	2011	2010
Interest on bank indebtedness and long-term debt	\$ 2,489	\$ 3,652	\$ 5,410	\$ 7,647
Convertible debenture interest	1,000	1,003	1,986	1,989
Accretion charge for convertible debt, borrowings and long-term debt	187	206	390	410
Discount on sale of accounts receivable	192	89	344	222
Total interest expense	3,868	4,950	8,130	10,268

Interest expense of \$3.9 million in the second quarter of 2011 was lower than the second quarter of 2010 amount of \$4.9 million. Interest on bank indebtedness and long-term debt decreased as principal amounts outstanding during the second quarter of 2011 were lower than those in the second quarter of 2010. Reduced interest rates on the long-term debt and lower interest rate spreads on bank indebtedness also contributed to the reduction in interest expense in the current quarter when compared to the second quarter of 2010.

Provision for Income Taxes

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2011	2010	2011	2010
Expense of current income taxes	\$ 2	\$ 1,234	\$ 25	\$ 992
Expense of future income taxes	2,146	1,256	5,014	2,514
Total expense of income taxes	2,148	2,490	5,039	3,506
Effective tax rate	30.5%	25.8%	29.4%	24.3%

The Corporation recorded an income tax expense of \$2.1 million for the second quarter of 2011, compared to an income tax expense of \$2.5 million for the second quarter of 2010. 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 recognition of future tax assets derived from temporary differences in Canada also contributed to the higher effective tax rate.

SELECTED QUARTERLY FINANCIAL INFORMATION

Expressed in millions of dollars	International Financial Reporting Standards						Previous Canadian GAAP	
	2011		2010		2009		2009	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
Revenues	\$ 186.0	\$ 170.5	\$ 187.9	\$ 184.7	\$ 181.4	\$ 177.6	\$ 165.8	\$ 164.2
Net Income	4.9	7.2	15.4	8.0	7.1	3.8	2.0	10.8
Net Income per Share								
Basic	0.27	0.40	0.85	0.44	0.39	0.21	0.09	0.57
Diluted	0.10	0.15	0.29	0.16	0.14	0.07	0.05	0.20

Revenues and net income reported in the quarterly information was impacted by the fluctuations in the Canadian Dollar exchange rate in comparison to the US dollar and British Pound. The US dollar/Canadian dollar exchange rate in the second quarter of 2011 fluctuated reaching a low of 0.9551 and a high of 0.9810. During the second quarter of 2011, the British Pound relative to the Canadian dollar fluctuated reaching a low of 1.5687 and a high of 1.5841. Had exchange rates remained at levels experienced in the second quarter of 2010, reported revenues in the second quarter of 2011 would have been higher by \$5.3 million.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

In addition to the primary measures of earnings and earnings per share (basic and diluted) in accordance with IFRS, the Corporation includes certain measures in this news release, 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 IFRS, but EBITDA is not a



recognized measure under IFRS, 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 IFRS 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	
	2011	2010	2011	2010
Net income	\$ 4,895	\$ 7,168	\$ 12,117	\$ 10,955
Interest	3,868	4,950	8,130	10,268
Dividends on preference shares	70	320	310	320
Taxes	2,148	2,490	5,039	3,506
Stock-based compensation	19	66	57	160
Depreciation and amortization	7,449	9,245	15,533	18,031
EBITDA	18,449	24,239	41,186	43,240

EBITDA for the second quarter of 2011 was \$18.4 million, compared to \$24.2 million in the second quarter of 2010. As previously discussed, decreased gross profit and an increase in other expenses resulted in decreased 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	
	2011	2010	2011	2010
(Increase) decrease in accounts receivable	\$ (7,296)	\$ 1,165	\$ (18,503)	\$ (2,666)
Decrease in inventories	33,815	5,880	28,588	10,103
(Increase) decrease in prepaid expenses and other	(3,133)	(3,136)	(5,652)	9,602
(Decrease) increase in accounts payable	(17,128)	1,169	(5,028)	(8,475)
Changes to non-cash working capital balances	6,258	5,078	(595)	8,564
Cash provided by operating activities	18,635	20,588	28,524	36,884

In the quarter ended June 30, 2011, the Corporation generated \$18.6 million of cash from its operations, compared to cash generated by operations of \$20.6 million in the second quarter of 2010. Cash was generated mainly by a decrease in inventories offset by increased accounts receivable, accounts payable and prepaid expenses and other.

Included in the inventory decrease was an amount of approximately \$30.0 million, representing the value of certain additional work Magellan has undertaken on the Ghana electric power generation project that is over and above the initial contract. During the second quarter of 2011 the Corporation recognized the revenue earned on the additional work based on the progress made to date on the contract.

Investing Activities

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2011	2010	2011	2010
Purchase of property plant & equipment	\$ (8,840)	\$ (2,849)	\$ (14,270)	\$ (5,174)
Proceeds of disposals of property plant & equipment	—	35	136	136
Increase in other assets	(3,106)	(5,266)	(6,923)	(8,317)
Cash used in investing activities	(11,946)	(8,080)	(21,057)	(13,355)

In the second quarter of 2011, the Corporation invested \$8.8 million in property plant & equipment to upgrade and enhance its capabilities for current and future programs.



Financing Activities

Expressed in thousands of dollars	Three month period ended June 30		Six month period ended June 30	
	2011	2010	2011	2010
Increase (decrease) in bank indebtedness	\$ 9,233	\$ (5,522)	\$ 8,810	\$ (13,520)
Increase (decrease) in debt due within one year	3,023	(3,197)	6,781	(6,982)
Decrease in long-term debt	(6,186)	(4,632)	(8,368)	(5,684)
Increase in long-term debt	822	5,197	1,989	5,197
Decrease in long-term liabilities	(1,320)	(134)	(1,657)	(302)
Increase in provisions	199	—	199	—
Increase in borrowings	902	739	1,618	1,529
Dividends on preference shares	—	—	—	(400)
Redemption of preference shares	(12,000)	(4,000)	(12,000)	(4,000)
Cash used in financing activities	(5,327)	(11,549)	(2,628)	(24,162)

On April 29, 2011 the Corporation amended its credit agreement with its existing lenders and has extended the loan [originally \$65.0 million, \$39.6 million as at June 30, 2011] due on July 1, 2011 (the "Original Loan") due to Edco Capital Corporation ("Edco") in order to provide loan facilities for a two year period. Under the terms of the amended operating credit agreement, the Corporation and the lenders have agreed that the maximum available under the operating credit facility was amended to a Canadian dollar limit of \$125.0 million plus a US dollar limit of \$50.0 million [previously a Canadian dollar limit of \$105.0 million plus a US dollar limit of \$70.0 million] and the maturity date has been extended to April 29, 2013 and will continue to be fully guaranteed until April 29, 2013 by the Chairman of the Board of the Corporation, in consideration of the continued payment by the Corporation of an annual fee payable monthly equal to 0.63% [previously 1.15%] of the gross amount of the operating credit facility. The operating credit facility is extendible for unlimited future one year renewal periods, subject to mutual consent of the syndicate of lenders and the Corporation.

The terms of the amended operating credit facility permit the Corporation to (i) repay, in whole or in part, the Original Loan outstanding from Edco and (ii) retract all [approximately \$12.0 million] of the Corporation's 8.0% Cumulative Redeemable First Preference Shares Series A (the "Preference Shares") on or after April 30, 2011, together with payment of all 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 loan and the payment of the retraction amount the Corporation has at least \$25.0 million in availability under the operating credit facility. As a result, the Corporation retracted all the remaining Preference Shares during the second quarter of 2011 in the amount of \$12.0 million.

In addition, the extension and restatement of the Original Loan (outstanding as at June 30, 2011 in the principal amount of \$39.6 million) from Edco, which is wholly owned by the Chairman of the Board of the Corporation, was completed in the second quarter of 2011. The Corporation has the right to repay the secured subordinated loan at any time without penalty. The interest rate was decreased from 11% per annum to 7.5% per annum commencing July 1, 2011 and the loan extended to July 1, 2013 in consideration of the payment on July 1, 2011 of a fee to Edco equal to 1% of the principal amount outstanding on such date. During the three and six month periods ended June 30, 2011, the Corporation repaid \$4.9 million and \$6.4 million, respectively, of the Original Loan.

During the second quarter of 2011, the Corporation's 10% convertible debentures, which are due on April 30, 2012, were reclassified from a long term liability to a short term liability. The debentures are convertible, at the option of the holder at any time prior to April 30, 2012, in whole or in multiples of \$1,000, into fully paid and non-assessable common shares of the Corporation at the conversion price of \$1.00 per common share which is equal to the issuance on conversion of approximately 40,000,000 common shares in total. Given the conversion price of the convertible debentures are in the money, it is likely that these will be converted into common shares of the Corporation on or before their maturity.

DERIVATIVE CONTRACTS

The Corporation has entered into foreign forward exchange contracts to mitigate future cash flow exposures in US dollars. Under these contracts the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in US dollars. As at June 30, the Corporation has foreign exchange contracts outstanding as follows:

	Amount	Floor	Ceiling
Maturity – less than 1 year – US dollar	9,000	1.0354	1.1111

The fair values of the Corporation's forward foreign exchange contracts are based on the current market values of similar contracts with the same remaining duration as if the contract had been entered into on June 30, 2011.



SHARE DATA

As at July 31, 2011, the Corporation had 18,209,001 common shares outstanding 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 month period ending June 30, 2011 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 help identify and manage significant operational and financial risks.

For more information in relation to the risks inherent in Magellan's business, reference is made to the information under "Risk Factors" in the Corporation's Management's Discussion and Analysis for the year ended December 31, 2010 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2010, which has been filed with SEDAR (www.sedar.com).

CHANGES IN ACCOUNTING POLICIES

Transition to and initial adoption of IFRS

Starting January 1, 2011, the Corporation is applying IFRS as issued by the International Accounting Standards Board ["IASB"]. The preparation of the unaudited interim consolidated financial statements for the three and six month periods ending June 30, 2011 includes the initial adoption of accounting policies under IFRS which are different than the accounting policies used to prepare the most recent annual consolidated financial statements prepared under Canadian generally accepted accounting principles ["Canadian GAAP"].

The accounting policies as set out in Note 2 to the unaudited interim condensed consolidated financial statements for the three and six month periods ended June 30, 2011 have been applied consistently to all periods beginning on or after January 1, 2010 presented in these financial statements. Comparative information for the three and six month periods ended June 30, 2010 and financial statements for the year ended December 31, 2010, have thus been adjusted from amounts previously reported under Canadian GAAP. They also have been applied in preparing an opening IFRS balance sheet at January 1, 2010 for the purpose of the transition to IFRS, as required by IFRS 1, First-time Adoption of International Financial Reporting Standards.

Details on the changes to previously reported amounts as a result of the transition to IFRS were included in the notes to the interim condensed consolidated financial statements for the period ended March 31, 2011. The interim condensed consolidated financial statements for the period ended June 30, 2011 contains additional disclosure related to the three and six months ended June 30, 2010 and as of June 30, 2010. Both sets of statements were filed on SEDAR and are also available on Magellan's website www.magellan.aero.

Impact of IFRS on the Corporation

The conversion to IFRS impacts the way the Corporation presents its financial results. The impact of the conversion to IFRS on the accounting systems has been minimal due to limited changes in accounting policies. The internal and disclosure control processes, as currently designed, have not required significant modifications as a result of the conversion to IFRS. The Corporation has assessed the impact of adopting IFRS on its contractual arrangements, and has not identified any material compliance issues. The Corporation has also considered the impact that the transition will have on its internal planning process and compensation arrangements and has not identified any significant issues.

Recent accounting pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended June 30, 2011, and have not been applied in preparing these unaudited interim consolidated financial statements. The following standards and interpretations have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

International Accounting Standards		Effective Date
IAS 12 – Income taxes	In December 2010, IAS 12 Income Taxes was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes – recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.	January 1, 2012
IFRS 9 - Financial Instruments	In November 2009, as part of the International Accounting Standards Board's (IASB) project to replace International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities.	January 1, 2013
IFRS 10 - Consolidation	IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.	January 1, 2013
IFRS 11 – Joint Arrangements	IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, <i>Interests in Joint Ventures</i> , and SIC-13, <i>Jointly Controlled Entities—Non-monetary Contributions</i> .	January 1, 2013
IFRS 12 - Disclosure of Interests in Other Entities	IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.	January 1, 2013
IFRS 13 – Fair Value Measurement	IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.	January 1, 2013
IAS 27 – Separate Financial Statements	As a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	January 1, 2013
IAS 28 – Investments in Associates and Joint Ventures	As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.	January 1, 2013
IAS 1 – Presentation of Financial Statements	The IASB amended IAS 1 with a new requirement for entities to group items presented in other comprehensive income on the basis of whether they are	January 1, 2013

	potentially reclassifiable to profit or loss.	
IAS 19 – Employee Benefits	A number of amendments have been made to IAS 19, which included eliminating the use of the “corridor” approach and requiring remeasurements to be presented in OCI. The standard also includes amendments related to termination benefits as well as enhanced disclosures.	January 1, 2013

The extent of the impact of adoption of these standards and interpretations on the consolidated financial statements of the Corporation has not been determined.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In the 2010 annual audited consolidated financial statements and management’s discussion and analysis, the Corporation identified the accounting policies and estimates that are critical to the understanding of the business and results of operations. With the adoption of IFRS, critical accounting policies and estimates have been updated to conform with this adoption. Please refer to note 2 to the unaudited interim condensed consolidated financial statements for the three and six month periods ended June 30, 2011 for a detailed discussion regarding the significant accounting policies and application of critical accounting judgments, estimates and assumptions.

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, 2011 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 judgements 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 Corporation continues to monitor key indicators of the global economy for signs that long term solutions are being implemented to ensure that economic stability will continue to support what is currently a robust civil aerospace market. Large economies, such as Europe and the United States, will need to deal effectively with the current economic challenges in order to sustain prudent and necessary military and defence spending. The global defence market is still dominated by the United States and Europe, and is coming under some pressure for restraint in both regions.

The Corporation remains focused on the transition to the future state of aerospace industry technology in support of its strategic core capabilities to ensure that its investment strategy is properly matched to customers’ expressed needs. Magellan’s current efforts are focused on the introduction and ramp up of production for the commercial airliner programs, and the related engines, of Airbus, Boeing and Bombardier. Equally, the rate of advancement towards full production is accelerating for the Joint Strike Fighter Program, with low rate production quantities planned to double each year through the next five years. Full scale production is targeted to be achieved in 2016 by the current plan.

Increased global demand for commercial airliners has resulted in both Airbus and Boeing announcing production rate increases as well as engine enhancements to their current single aisle platforms. These increases and planned improvements apply primarily to the A320 (neo) and B737 families of aircraft, but also to the current twin-aisle A330 and B777 models.



The Corporation's industrial power generation project in Ghana is proceeding on schedule and has increased in scope. The Corporation will assess additional opportunities that continue to emerge and will respond accordingly.

The Corporation's strategy to participate in new aircraft and engine programs during the development phase has been effective in capturing work packages, with the appropriate technology and complexity to move us up the global supply chain. The Corporation has focused its marketing initiatives on communication at senior levels with key customers to assess their needs and thereby position itself to provide solutions to these customers. As new programs are initiated by the prime contactors, the Corporation evaluate each opportunity, and pursue those best suited for the Corporation.

ADDITIONAL INFORMATION

Additional information relating to Magellan Aerospace Corporation, including the Corporation's 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 uncertainties and assumptions, which may cause actual results to be materially different from those expressed or implied. These forward looking statements can be identified by the words such as "anticipate", "continue", "estimate", "forecast", "may", "project", "could", "plan", "intend", "should", "believe" and similar words suggesting future events or future performance. In particular there are forward looking statements contained under the headings: "Overview" which outlines certain expectations for future operations and "Outlook" which outlines certain expectations for the future. These statements assume the continuation of the current regulatory and legal environment; the continuation of trends for passenger airliner and defence production and are subject to the risks contained herein and outlined in our annual information form. The Corporation assumes no future obligation to update these forward-looking statements except as required by law.