

FINAL TRANSCRIPT

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MAL.TO - Q1 2008 Magellan Aerospace Earnings Conference Call

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PRESENTATION

Operator

Welcome to the Magellan Aerospace first-quarter 2008 earnings release conference call. All participants' lines are in a listen-only mode. After the presentation, we will open up the call for question-and-answer.

We would like to formally inform all participants that this call is being recorded. We also remind you that our presentation may contain forward-looking statements reflecting the Company's expectations regarding its future growth, results, and performance. These forward-looking statements reflect the current views of the Company's management and are subject to various risks and uncertainties which could cause the Company's future growth, results, and performance to differ materially from those expressed in or implied by these statements.

Certain of these risks are described in the Magellan Aerospace annual report. Magellan Aerospace disclaims any intention or obligation to update or revise these forward-looking statements.

I now would like to turn the call over to Jim Butyniec, President and Chief Executive Officer.

Jim Butyniec - *Magellan Aerospace Corporation - President, CEO*

Thank you and good morning. Welcome to the first-quarter 2008 conference call. As indicated, my name is Jim Butyniec, President and Chief Executive Officer, and joining me on the call today are Rich Neill; Vice Chairman; John Dekker, Vice President, Finance; Bill Matthews, Vice President of Marketing; Larry Winegarden, Vice President of Corporate Strategy, Konrad Hahnelt, Vice President of Global Sourcing; Elena Milantoni, Controller and Treasurer; Daniel Lang, Assistant Controller.

Thank you for joining us today. While we still have a way to go, we are pleased with our improvements in throughput and profitability demonstrated in the first quarter. It is based on improved volumes and operating capabilities in our plants and

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improved pricing across much of our business. Our long-term legacy work continued strongly, with delivery rates increasing in several areas. And our new work is steadily moving towards full-scale production at a pace of the individual programs. I will update the three major new programs as to their current status later in my remarks.

Our direction on business plans continued to sharpen in focus and move forward. We continue to emphasize and focus on identifying and refining our core products in each division and applying technology to improve our market position. Sourcing of noncore work packages in local and emerging markets is progressing well, with increased offload to our local North American and European supply base, as well as in our developing supply base in China and India.

We are also achieving improved pricing, aided by better cost definition, improved delivery performance, and greater value-added service.

A quick update on the rejuvenation activities. The Magellan UK industrialization was which completed at the end of 2006. Magellan UK is now meeting expectations and on course to expand workloads. A significant new business volume was announced at the end of April, and we will talk a little more on that later. And at the Midland in [Haverel], the rejuvenation has attracted customers to introduce new work load -- core work load into the plant. Buildup of new volume will continue through 2008 and 2009.

In Haley, following the reorganization and expansion completed earlier, output increased in 2007 and is planned to continue in 2008, as tooling performance improved, reducing scrap, capacity is created through efficiency to meet demand and continues to grow, new customer opportunities are being attracted at improved pricing.

Finally, at Ellanef, we continue to move through a three-phase process. We have completed Phase I, rightsizing of the footprint and operating of the equipment with the focus on core competencies. Phase II is progressing well, with additional footprint adjustments and large machine upgrades, and will wrap up in early 2009. And Phase III is on track for 2010 in support of the JSF and 787 wrap-ups in production.

In India, our construction is underway, well underway, on our processing plant, and the project is on target for sometime in the third quarter, as planned. This initiative is driven by our need to focus on core products and capability to each division, our desire to work with our customers in their target market areas, and our need to deliver finished products from India.

Let's move on to the market areas. Demand for Aerospace products on a global basis continues to be strong across Magellan's core areas of composites, exotic hard metals and engineered products in both civil and defense sectors, for aircraft and engine components and assemblies and for proprietary products in defense and space.

Key existing programs. A320 is experiencing rate increases. B737 is also experiencing rate increases, moving into the low 30s. Business jets and helicopter engine activity is showing increases of 10% to 15% year-over-year. Defense products and overhaul continue to show steady strength, with all key programs receiving continued production funding and JSF beginning its early stages of ramp-up.

Future growth programs. The A380 has restarted with 12 deliveries in 2008 and an additional 24 planned for 2009, as the supply and pipeline backlog is used up and production ramps to three to four months in 2010.

The B787 planned production qualities for 2008 through 2010 are expected to be reduced in 2008/2009. First deliveries to the airline customers are now expected to occur in the second half of 2009. Magellan has planned conservatively and continues to deliver the landing gear packages at the required levels.

Joint Strike Fighter is unchanged. We expect six aircraft in 2008, 12 in 2009, and 24 in 2010. Congress is also expected to approve funding for both engine candidates.

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A few words on the Airbus Power 8 agreement announced at the end of April. Magellan has secured its Airbus work at its UK facilities for the next five years, has reached agreement with Airbus to add additional core work and the potential to double Airbus work in the UK to a value approaching C\$140 million per annum by 2010. The work is a combination of rate increases on current work and new core work on the 320 family of aircraft. The total value to Magellan over the next five years could reach C\$600 million.

In summary, we are optimistic that Magellan's performance will continue to improve in what is a strong market. Civil and business aircraft and helicopter markets are very strong, and Magellan has good participation in each sector. Defense continues to show strength and stability and Magellan is maintaining its targeted 35% exposure to this sector.

However, we are mindful that new programs experience various growing pains, as we are seeing on the 380 and 787. We expect the JSF program will also have to overcome difficulties from time to time as it progresses into production. At Magellan, we attempt to assess risks in advance and we have been able to plan conservatively on projected production quantities during the development and initial production phases.

Financial discussion. At this point, I'd like to turn over to John Dekker for a review of the additional detail of the first quarter 2008 results. And then after John's presentation, we will have the Q&A. Thank you.

John Dekker - *Magellan Aerospace Corporation - VP-Finance*

Thanks, Jim. There several matters that were reported in the quarterly report that I wish to highlight. Effective January 1, 2008, the Corporation was required to adopt the Canadian Institute of Charge Accounts Handbook section 3031, Inventories, which replaces the former section 3030 called Inventories. The Corporation adopted this new section retrospectively without restatement of prior periods.

This new section provides revised guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs in net realizable value. It also provides revised guidance on the cost methodologies that are to be used to assign costs to inventories and expands the disclosure requirements to provide increased transparency.

As a result of these required changes in accounting policies, the Corporation was required to adopt the unit cost method for inventory related to its long-term contracts in replacement of the long-term average cost method. The unit cost method is a prescribed cost method under which the actual production costs are charged to each unit produced and recognized to income as the unit is sold. The Corporation previously accounted for the cost of production inventory using the long-term average cost, which reflected higher unit costs at the early stages of a program and lower unit costs at the end of the program. This is known as the learning curve concept.

As a result, learning curve balances totaling approximate C\$40 million and a future income tax recovery of approximately C\$7.5 million were charged to opening retained earnings upon adoption of Section 3031 effective January 1, 2008. This new section also prescribed that certain development costs and program tooling costs may no longer be classified as inventory, and as a result, approximately C\$67 million of deferred development costs related to long-term contracts have been reclassified to other assets, and almost C\$11 million of program tooling costs have been reclassified to capital assets.

As a result of this required adoption of the new standard, the Corporation as at March 31, 2008 was not in compliance with respect to the financial covenant ratios of current assets to current liabilities and of their tangible net worth test. Subsequent to March 31, 2008, the Corporation received a waiver with respect to these two covenants.

On January 30, 2008, the Corporation closed a private placement of C\$21 million of 8.5% convertible debentures, which are due January 31, 2010, which were used to fund in part the repayment of the C\$70 million principal amount of outstanding 8.5% convertible debentures which matured January 31, 2008.

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On January 31, 2008, in order to fund the remaining balance of approximately C\$50 million on the maturity of the existing debentures, a Corporation controlled by the Chairman of the Board provided a loan of C\$50 million dollars and a C\$15 million bridge loan to the Corporation. All of the funds from the bridge loan and approximately C\$35 million of the funds from the original loan were used to repay the balance of the existing debenture, and the C\$15 million additional funds from the original loan was used to retire C\$15 million of subordinated debt due to a company with a common director.

Both the original loan and the bridge loan bear interest at a rate of 10% per annum and are collateralized and subordinated to the Corporation's existing bank credit facility. The original loan is repayable on July 1, 2009, and the bridge loan is repayable on July 31, 2008.

The Board of Directors of Magellan has determined to propose a consolidation of Magellan's issued and outstanding common shares in the upcoming annual general and special meeting of shareholders on the basis of one new common share for each five common shares presently issued and outstanding. The Board of Directors believes the anticipated higher share price resulting from the consolidation may assist in generating investor interest.

I would like to now turn to some overview comments relating specifically to the operating activities in the quarter. Results for Magellan Aerospace Corporation for the first quarter of 2008 showed a continuing path of operational improvement and financial gains. Revenues for the period were C\$161 million, and this is the highest quarterly revenue reported by the Corporation since prior to September 11, 2001, and at which time the Canadian dollar translated into the U.S. dollar at C\$0.66, approximately.

The strong revenue in the quarter demonstrates the increase in volume of underlying shipments, as customer demand in key areas continues to increase. As Jim indicated, single-aisle commercial aircraft build rates in both Boeing and Airbus continue to increase, while demand for business aircraft aeroengines are increasing at a significant pace.

Despite the negative impact of the strengthening Canadian dollar relative to the U.S. dollar, gross profit in both absolute dollars and as a percentage of sales improved in the first quarter of 2008 when compared to the first quarter of 2007. The continuing focus on core capabilities, improved pricing on bids for new work, as well as continuing benefits from the Corporation's facility upgrade programs, attributed to the improved gross profit.

We continue to seek out opportunities to further reduce costs through further efficiencies and improved overhead absorption in our plants as volumes increase. Our program to pursue low-cost sourcing solutions is very active, with a particular focus on opportunities in India. And the Corporation continues to focus on improving cash generation, and the primary areas of emphasis are gross margin improvement, inventory management, and control over capital expenditures.

Now moving through the financial statement, specifically, I'd just like to highlight several areas. First, looking at revenues, as mentioned earlier, revenues in the current quarter were approximately C\$161 million, an increase of C\$17 million from the same period last year. Revenue in Canada increased by approximately 13% due to stronger sales recorded primarily on defense program. U.S. revenue also increased by a like percentage amount due to stronger sales recorded on commercial deliveries to both Airbus and Boeing.

The average Canadian dollar to U.S. dollar foreign exchange rate moved from C\$0.85 in the first quarter of 2007 to approximately C\$1.00, or at par, in the first quarter of 2008. Had the same foreign exchange rate as the first quarter of 2007 been in effect for first quarter 2008, revenue in the first quarter of 2008 would have been approximately C\$15.5 million higher.

Moving now to the gross margin line, a gross margin of 10.8% was reported for the quarter ended March 31, 2008 compared to 10.6% reported for the corresponding period in 2007. Although gross margins have increased modestly from the same period in the prior year, management believes that the effect of the increase in the Canadian dollar has further masked the underlying efficiencies that have been achieved as a result of the recent upgrades of the four Magellan facilities. Had the same foreign exchange rate for the first quarter '07 been in effect for the first quarter of 2008, gross margins in the first quarter of 2008 would

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have been approximately C\$3.8 million higher, which would have translated into a 12% gross margin on comparably adjusted revenues.

Included in total and administrative and general expenses for the first quarter of 2008 is a foreign exchange gain of approximately C\$1.6 million related to foreign exchange rate movements during the quarter. The impact in the first quarter of 2007 was a loss of C\$400,000. After removing the impact of foreign exchange in both periods, administrative and general expenses for the first quarter of 2008 were approximately C\$9.6 million, or approximately 5.9% of revenue compared to C\$11.5 million, or 8% of revenue for the corresponding period in 2007.

Net income for the quarter was C\$2.1 million, reflecting the items previously detailed. This translates into net income per share of C\$0.02 for the quarter. EBITDA for the first quarter of 2008 was C\$15.5 million compared to EBITDA of C\$9.5 in the comparable period 2007, reflecting higher gross profit and lower administrative and general expenses in 2008.

Moving now to the balance sheet, first looking at cash and bank indebtedness, as noted previously, solely as a result of the application of the new accounting standard Section 3031, the Corporation was unable to meet minimum coverage levels prescribed in the financial covenants for current ratio and tangible net worth for the period ended March 31, 2008. Magellan received waivers for these covenants.

The Corporation amended its operating credit facility with its existing lenders on March 30, 2007. Under the terms of the amended agreement, the maximum amount available under the operating credit facility is a Canadian dollar limit of C\$75 million, plus a U.S. dollar limit of US\$90 million, with maturity date of May 24, 2008.

The facility is expandable for unlimited one-year renewal periods and continues to be fully guaranteed by the Chairman of the Board the Corporation. An annual fee in 2008 of 1% of the guarantee amount is provided by the Corporation in consideration for this guarantee. Due to this guarantee, interest is charged at the bankers' acceptance, or LIBOR rates, plus 0.875% compared to the rate charged prior to the guarantee of bankers' acceptance, or LIBOR rates, which was plus 4.5%.

The net annual savings to the Corporation is approximately C\$5.3 million, assuming an average of C\$150 million dollars borrowed under the operating capacity. The Corporation is currently in negotiations with the credit facility syndicate to amend and extend the current operating credit facility to May 25, 2009. To date, the negotiations have been positive with respect to extending the term of the operating credit facility, and the discussions are headed in the direction of increasing the bank limit in order to repay the C\$15 million due on July 31, 2008, and those discussions are proceeding very satisfactorily.

Inventory. As noted previously, the Corporation was required to adopt Section 3031, Inventories, effective January 1, 2008 and as a result, C\$118 million of costs and opening inventory at January 1, 2008 were reallocated, with just short of C\$11 million going to capital assets, C\$67.5 million to other assets; C\$7.7 million to future income taxes, and the balance charged to openly retained earnings. In the future, Magellan will no longer capitalize, defer, and then amortize learning curve costs as was previously permissible, but will instead write them off on a unit cost basis.

Aside from the Section 3031 adjustment, Magellan has increased inventory by C\$11.2 million during the year. The increase relates to expenditures to support higher activity levels for programs currently in production, as well as added investment in programs such as the 787, the A380, and Joint Strike Fighter, that are not yet in full production.

Magellan remains focused on meeting increased customer demand for product while managing its investment in inventory to meet these increased demands.

Moving to the cash-flow statement, the Corporation used approximately C\$5.7 million in operating activities during the quarter ended March 31, 2008, primarily through working capital investment in support of higher activity levels. The Corporation invested a net of C\$4.5 million in capital additions during the quarter to upgrade its facilities and enhance its capabilities. And Magellan continues to carefully control these capital expenditures.

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Also noted during the quarter, in January 2008, the Corporation acquired Verdict Aerospace Components Ltd. for consideration of C\$4.2 million. Verdict is based in the UK and is a high-precision manufacturer of make-to-print components and assemblies for the Aerospace market.

That concludes my comments on these financial statements. Back to you, Jim.

Jim Butyniec - *Magellan Aerospace Corporation - President, CEO*

Thank you, John. At this time, we're open for questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Cameron Doerksen, Versant Partners.

Cameron Doerksen - *Versant Partners - Analyst*

Yes, good morning. I guess a few questions from me. John, maybe you can just let us know if there was any impact on the margins on the income statement from the change in accounting. Was there any impact there?

John Dekker - *Magellan Aerospace Corporation - VP-Finance*

The gross profit in the quarter was approximately C\$550 million lower than it would have been had the previous accounting methodology been applied. So there was a negative --

Jim Butyniec - *Magellan Aerospace Corporation - President, CEO*

C\$550,000.

John Dekker - *Magellan Aerospace Corporation - VP-Finance*

Isn't that what I said?

Jim Butyniec - *Magellan Aerospace Corporation - President, CEO*

You said C\$550 million.

John Dekker - *Magellan Aerospace Corporation - VP-Finance*

I'm sorry. It was C\$550,000.

Cameron Doerksen - *Versant Partners - Analyst*

So it was negative by C\$550,000?

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John Dekker - *Magellan Aerospace Corporation - VP-Finance*

Yes, that's right. Our gross margin was lower by C\$0.5 million.

Cameron Doerksen - *Versant Partners - Analyst*

The second thing is just on the sales line, you cited in your MD&A that you had some strong sales of proprietary products in the first quarter. I know that that business can be lumpy, so just wondering is that sort of level sustainable or was there something unusual in the first quarter that boosted the revenue?

John Dekker - *Magellan Aerospace Corporation - VP-Finance*

There were some strong sales in the first quarter. However, there is also good prospects for those proprietary products. They are stronger over the past number of months, the last year -- they've built and are stronger than they have been the past. So there's some sustainability. But you are right -- it does have peaks and valleys.

Jim Butyniec - *Magellan Aerospace Corporation - President, CEO*

For the most part, 2008 will show considerable leveling by comparison to past years.

Cameron Doerksen - *Versant Partners - Analyst*

Okay. Just on the credit facilities, what is your level of confidence in the continued -- personal guarantee of the credit facilities by your Chairman? Is that something you expect you'll get when you renew this time around?

John Dekker - *Magellan Aerospace Corporation - VP-Finance*

I have a high level of confidence.

Cameron Doerksen - *Versant Partners - Analyst*

Okay. And just lastly -- or second lastly, I guess, is there any sort of update you can give us on the accounting irregularity that you had in the fourth quarter -- any news that's new since then?

John Dekker - *Magellan Aerospace Corporation - VP-Finance*

No, we dealt with the impact of that in the fourth quarter, and it is proceeding as was identified at that point in time to the resolution that we indicated with respect to a portion of that to be recovered.

Cameron Doerksen - *Versant Partners - Analyst*

Okay. Just finally, you mentioned about the impact on the 787 schedule from the [blades] at Boeing. But there's also, I guess, been a few I guess news items that have been out there recently just with regards to the A380, potential delays in ramping up there. Have you heard anything from Airbus on that?

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Jim Butyniec - *Magellan Aerospace Corporation - President, CEO*

We haven't officially heard anything, but there are some rumblings that their recovery is a little slower than they expected. And they haven't put anything formal out there reviewing it, and we should know in the next couple of weeks. We still -- I've got to be careful how I say this -- we're somewhat suspect to their recovery plan being just a little bit more aggressive than we thought. And we've been sort of planning something a little less aggressive.

Cameron Doerksen - *Versant Partners - Analyst*

Okay. That's great. That's all I had. Thanks.

Operator

Claude Proulx, BMO Capital Markets.

Claude Proulx - *BMO Capital Markets - Analyst*

Thank you, good morning. Just again on that accounting change, if we look going forward, it seems to me conceptually that because you wrote off a cost that your margins will be improved going forward. But at the same time, when you start delivery and probably you brought up like a bonus for the Joint Strike Fighter or 787 or the Airbus A350, the margins will be depressed.

So when we look going forward, like for the rest of 2008, that C\$550,000, is that something that we could put in our model for each of the [next three] quarters or --?

John Dekker - *Magellan Aerospace Corporation - VP-Finance*

I guess there is a couple of comments, Claude. First of all, the fact that we had to take that charge against retained earnings does not mean that those were not valuable costs and not anticipated costs. Those were costs that we had anticipated when the programs were originally bid, and we will still get recovery of those costs going forward.

As we sit here at this point in time, very few of our programs going forward will require learning curves with the current programs in-house, other than the Joint Strike Fighter that you have identified. And we are reviewing the pricing structure on that as well as other bids going forward, because the change in accounting may in fact affect how we bid the programs and how we bid the revenue stream for these programs. Because the cost of the initial units will be higher than the 100th unit, for instance.

Jim Butyniec - *Magellan Aerospace Corporation - President, CEO*

We actually are doing block pricing, with the first aircraft being priced higher and subsequent aircraft coming down to more reflect the fact that we are not able to use learning curve.

Claude Proulx - *BMO Capital Markets - Analyst*

Okay. And what about guidance for the rest of the year? Or it's impossible for you to give any guidance on that -- the impact of the accounting change?

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John Dekker - *Magellan Aerospace Corporation - VP-Finance*

The impact would have been highest in the first quarter. As we move forward, as I said, with the programs -- take for the Joint Strike Fighter, most of the programs are well into or through the learning curve phase. So we should not see any adjustments of any magnitude.

Claude Proulx - *BMO Capital Markets - Analyst*

You talk about proprietary product. Is there any way to quantify the impact on the bottom line of shipping or manufacturing more proprietary product this year than last year?

John Dekker - *Magellan Aerospace Corporation - VP-Finance*

We have not broken that disclosure out. Let's see what we can do, Claude, and we may be able to put something on the website to provide a little more disclosure on that.

Claude Proulx - *BMO Capital Markets - Analyst*

Do you think it would be material?

Jim Butyniec - *Magellan Aerospace Corporation - President, CEO*

Like comparison from this year to last year?

Claude Proulx - *BMO Capital Markets - Analyst*

Yes.

Jim Butyniec - *Magellan Aerospace Corporation - President, CEO*

No, it won't be material.

Claude Proulx - *BMO Capital Markets - Analyst*

Okay, and in terms of revenue growth for the rest of the year, can we use the number -- the growth rate we saw in Q1 and apply it to the rest of the year, or should we attempt to be even more conservative than that?

Jim Butyniec - *Magellan Aerospace Corporation - President, CEO*

Well, you might want to do that, but I think under the situation of my last statement, as long as we are affirmed of the 787 and 380, and if they beat all their expectations, then we might be on target with that and it might be fair. I would like not to push back too hard until we get more information.

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John Dekker - *Magellan Aerospace Corporation - VP-Finance*

I guess the other qualifier, as well, Claude, we've been fortunate, if you will, in the first quarter, FX rates remained relatively stable. But if they start bobbling around again, it is going to be difficult to project the impact that that is going to have.

But the point remains that the underlying volumes and shipments have increased, and we are shipping at a higher level, and we don't see it retrenching other than the two elements, the one that Jim raised, and the FX.

Claude Proulx - *BMO Capital Markets - Analyst*

Last question, in terms of hedging, do you have any hedging right now going forward as far as currency is concerned? And were you hedged in Q1 relative to last year? I think last year you were hedged, if I remember.

John Dekker - *Magellan Aerospace Corporation - VP-Finance*

We don't have any hedging of any significance in place right now. And as I said, with the exchange rate staying where it is, that's worked out well for us in the quarter.

Claude Proulx - *BMO Capital Markets - Analyst*

But last year, weren't you hedged, or --?

John Dekker - *Magellan Aerospace Corporation - VP-Finance*

Yes, we had some hedging in place at the front end of the year.

Claude Proulx - *BMO Capital Markets - Analyst*

Okay, thank you.

Operator

Richard Stoneman, Dundee Securities.

Richard Stoneman - *Dundee Securities - Analyst*

Yes, good morning. First question is on the tax rate, which was 46% in the quarter. Would that suggest that you were less profitable in jurisdictions like Canada, where you have significant cash tax loss carryforwards?

Elena Milantoni - *Magellan Aerospace Corporation - Controller, Treasurer*

In Canada, we -- it's noted in our --

Richard Stoneman - *Dundee Securities - Analyst*

I'm having trouble here you on this end.

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Elena Milantoni - *Magellan Aerospace Corporation - Controller, Treasurer*

Sorry about that. It's Elena here. In Canada, we disclosed that in our year-end statements that we had a valuation allowance against our Canadian future cash assets. And as a result, we have not been adding to our future tax asset pool. So that is why you see the flux in the tax asset percentage.

Richard Stoneman - *Dundee Securities - Analyst*

So should we expect 46% for the balance of the year?

Jim Butyniec - *Magellan Aerospace Corporation - President, CEO*

No, I would suggest not. As all jurisdictions move towards a taxable position, we should see the rate moving back to 36.5% to 37%, somewhere in that range.

Richard Stoneman - *Dundee Securities - Analyst*

Okay. And the assumption is -- or the prospect is that all jurisdictions will be profitable later this year?

John Dekker - *Magellan Aerospace Corporation - VP-Finance*

We are certainly working hard to move in that direction, yes.

Richard Stoneman - *Dundee Securities - Analyst*

In terms of proprietary products, could you briefly describe what proprietary products you are shipping. You used to make co-gen plants, etc. Are you still doing that?

Jim Butyniec - *Magellan Aerospace Corporation - President, CEO*

We are doing a limited amount of that. Most of the proprietary products are in the wire strike and our CRV7 rockets and launchers.

Richard Stoneman - *Dundee Securities - Analyst*

Okay, thank you.

Operator

Nick Morton, RBC Capital Markets.

Nick Morton - *RBC Capital Markets - Analyst*

Just on the UK, I wondered if you could expand on Airbus giving you more business, and whether that costs you some cash to ramp up.

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Jim Butyniec - *Magellan Aerospace Corporation - President, CEO*

On the base stuff, no, it did not cost us any cash. On the large contract, we are buying two machines, state-of-the-art, to be able to produce these. And while we're doing that, we expect to have operating costs on the manufacture of those components at some major reduction of at least 40%.

But we have purchased the machines. We have a plan on how we are going to pay for them over a period of time. And we have a pretty good payment schedule with these people. The amount of capital compared to the sales and the opportunity is rather small.

Nick Morton - *RBC Capital Markets - Analyst*

Okay, great. Thank you.

Operator

(OPERATOR INSTRUCTIONS) Chris Murray, CIBC World Markets.

Chris Murray - *CIBC World Markets - Analyst*

Good morning. The first question I have, can you give us some guidance or some idea of what the covenants may be now going forward in terms of the bank [funds]?

John Dekker - *Magellan Aerospace Corporation - VP-Finance*

As I indicated, we're in the midst of negotiating with the bank for the renewal, and the covenants is one of the matters that we're dealing with. So at this point in time, we do not have anything to report. We have been disclosing all of our banking arrangements. It is all filed on SEDAR. so as soon as there is something to file, we will.

Chris Murray - *CIBC World Markets - Analyst*

Okay. The next question I have, just to follow up on your comment on capital spending and keeping that in control, do you have some guidance you can give us on what you're planning on spending for the rest of this year and perhaps in '09?

Jim Butyniec - *Magellan Aerospace Corporation - President, CEO*

I will give you a little bit of a preamble to why we feel we can do what I'm going to tell you. Basically, the more we offload, the less we need to buy in capital. And we're trying to focus our capital on our core products. And currently, we have a budget somewhere in the vicinity of C\$18 million to C\$20 million, and we're trying to work that down a little bit and make sure that our capital that is being expended is truly in support of core products. We want our supply chain to pick up the capital where we are not in noncore products, and provide the additional that is required.

Our whole philosophy going forward is that we are going to spend money on the things that we need to control and we do best and stay away from the noncore items. So I would be surprised for us to end up, unless there's special circumstances with opportunities that present themselves. But the current plan, if we have given you a number around C\$4 million, if you went 4 times that, that's probably more accurate; it might be a little bit higher. But it all depends on what we need at the time and it may go one way or another, but basically within that confines.

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Chris Murray - *CIBC World Markets - Analyst*

Okay, then for '09, with some ramp-up in maybe JSF and 787?

Jim Butyniec - *Magellan Aerospace Corporation - President, CEO*

Definitely in '09, it will be a little bit higher, but we have a bunch of funding partners, and we're not sure exactly what our share of it is going to be. But certainly, the expenditure will be higher.

Operator

Thank you. At this time, sir, we have no other questions registered.

Jim Butyniec - *Magellan Aerospace Corporation - President, CEO*

Okay, we can conclude. Thank you very much for attending this morning, and we look forward to the second-quarter results. I'm sure we will see some of you tomorrow.

John Dekker - *Magellan Aerospace Corporation - VP-Finance*

Thank you very much.

Operator

Thank you, sir. Ladies and gentlemen, this does conclude your conference call for today. Once again, thank you for participating. At this time, we ask that you please disconnect your lines. Have yourself a great day.

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