

MAGELLAN ANNUAL REPORT FY2006

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The Corporation may need to expend significant capital to keep pace with technological developments in its industry. The aerospace industry is constantly undergoing development and change and it is likely that new products, equipment and methods of repair and overhaul service will be introduced in the future. In order to keep pace with any new developments, the Corporation may need to expend significant capital to purchase new equipment and machines or to train the Corporation's employees in the new methods of production and service. In addition, the Corporation makes significant expenditures for the research and development of new products and services. The Corporation may not be successful in developing new products and these capital expenditures may have a material adverse effect on the Corporation.

The Corporation may not realize its anticipated return on capital commitments made to expand its capabilities. From time to time, the Corporation makes significant capital expenditures to implement new processes and to increase both efficiency and capacity. Some of these projects require additional training for the Corporation's employees and not all projects may be implemented as anticipated. If any of these projects do not achieve the anticipated increase in efficiency or capacity, the Corporation's returns on these capital expenditures may not be as expected.

Competitive pressures may adversely affect the Corporation.

The Corporation competes in the aerospace industry primarily with OEMs and the manufacturers that supply them, some of which are divisions or subsidiaries of OEMs, and other large companies that manufacture aircraft components and sub-assemblies. Competition for the repair and overhaul of aerospace components comes from three primary sources: OEMs, major commercial airlines and other independent repair and overhaul companies. Some of the competitors' financial and other resources are substantially greater than those of the Corporation. Competitive pressures may have a material and adverse effect on the Corporation's operating revenues and, in turn, the Corporation's business and financial condition.

Customer unit deliveries may not reach the number projected when the basis for amortization of non-recurring costs is established.

The Corporation relies on customers' delivery projections as well as external market forecasts to determine the number of units over which to amortize non-recurring costs. Should deliveries not reach the number projected, any unamortized balance that remains would then need to be charged to cost of revenues which could have a material adverse impact on the Corporation.

Cancellations, reductions or delays in customer orders may adversely affect the Corporation's results of operations.

The Corporation's overall operating results are affected by many factors, including the timing of orders from large customers and the timing of expenditures to manufacture parts and purchase inventory in anticipation of future sales of products and services. A large portion of the Corporation's operating expenses is relatively fixed. Because several of the Corporation's operating locations typically do not obtain long-term purchase orders or commitments from customers, the Corporation must anticipate the future volume of orders based upon the historic purchasing patterns of customers and upon discussions with customers as to their anticipated future requirements. These historic patterns may be disrupted by many factors, including changing economic conditions, inventory adjustments, work stoppages or labour disruptions, cancellations, reductions or delays in orders by a customer or group of customers, which could have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation may not be able to successfully negotiate long-term contracts to eliminate losses.

From time to time circumstances under which long-term contracts are negotiated change and require amendments so the Corporation does not incur a loss. At December 31, 2006 Magellan was in negotiation with one of its customers over material amendments to pricing with respect to existing long-term contracts. If these negotiations or future negotiations on other contract negotiations are not successful or the final terms are different from what the Corporation expects, the Corporation may be required to record a loss provision on these contracts which will be materially adverse to the Corporation. The amount of such provision, if any, cannot be reasonably estimated until such amendments are finalized.