

# FINAL TRANSCRIPT

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## **MAL.TO - Q1 2007 Magellan Aerospace Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**Jim Butyniec**

*Magellan Aerospace Corporation - President, COO*

**John Dekker**

*Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

**Rich Neill**

*Magellan Aerospace Corporation - Vice Chairman*

**Bill Matthews**

*Magellan Aerospace Corporation - VP, Marketing*

## CONFERENCE CALL PARTICIPANTS

**Jacques Kavafian**

*Research Capital Corporation - Analyst*

**Richard Stoneman**

*Dundee Securities Corporation - Analyst*

**Stephen Anderson**

*Cormark Securities - Analyst*

**Tim James**

*CIBC World Markets - Analyst*

**Cameron Doerksen**

*Versant Partners - Analyst*

**Ben Venditelli**

*BMO Capital Markets - Analyst*

## PRESENTATION

**Operator**

Good day, ladies and gentlemen. Welcome to the Magellan Aerospace first-quarter 2007 earnings release conference call. All participants' lines are on listen mode only, and after the presentation we will open the call for questions and answers. We would like to formally inform all participants that this call is being recorded.

We 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 would now like to turn the call over to Mr. Jim Butyniec. Please go ahead, sir.

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

Thank you. Welcome to the quarter one 2007 Magellan conference call. My name is Jim Butyniec, and I have with me this afternoon Rich Neill, Vice Chairman; John Dekker, Vice President of Finance; Mr. Bill Matthews, Vice President of Marketing; Larry Winegarden, Vice President of Strategic Initiatives. We have also [Elena Milantoni], Corporate Controller.

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I'll try and get into it. I am pleased to have you able to join us for this call and appreciate your participation today. I'm going to start with a brief overview of our assessment of the current aerospace market conditions. Generally, it is a very robust market. In the civil airline sector, demand and delivery is high, particularly in the single-aisle and the mid-sized twin-aisle aircraft. In business aviation, jet and helicopter sector demand is strong and sustained. In the defense area, demand is firm for mature programs and new platforms and equipment are progressing to plan. The space sector demand is strengthening in several areas to support environmental and exploration programs.

Over the past year, we have rolled out a management plan focused on optimization of our operations in all of our plants. In the past few months, we have included all other functional areas in the plan. The plan is forward-looking, identifying the market and technology changes required to be successful now and in the foreseeable future.

We are optimizing activities at all our plant sites. But some have received special attention over the past two years, and I would like to give you an update on the status of these. The first one is Haley Castings. We have worked diligently over the last couple of years in the program to modernize and invest in equipment and facilities in Haley. The results are encouraging. This progress was completed towards the end of 2006, and currently we are seeing some of the benefits.

Over to the second, which is Bournemouth; we call it the realignment, this operation. That was also completed in the latter part of 2006, and we are seeing performance improvements with that division, as expected. We expect that, of course, to continue throughout 2007 and into 2008.

In Middleton, our facility in Massachusetts, we have successfully moved over to a single operation from two plants which were somewhat constructive and restrictive in the amount of business and the type of business that we could do. This was completed, actually, towards the end of the first quarter. We made this move on the basis of having some financial assistance by the state and local governments to aid us through this journey. We expect that to pay off as we go forward through 2007 and onward.

Ellanef -- this division is housed in a number of small buildings; it was housed in a few more than what we have today, of course. This is a multi-phase rejuvenation which was launched and modernized a couple years ago and grow our capability in hard metal machining. This is especially for titanium for the JSF and 787. We're already seeing some benefits in better products, reducing the amount of quality and productivity improvements. This particular rejuvenation or change -- it's probably in the first 30% of the operation, and it will continue throughout 2007, 2008 and into 2009 as the market directs us to go. That is being fundamentally financed through the sale of buildings.

In addition to consolidating, upgrading and re-equipping operating facilities, we have recently initiated an organizational alignment that ties all our divisions together on core competencies and focuses all of our activities through a common mission and vision statement, including an integrated strategic plan. Some of the results we expect to achieve include a more efficient use of resources, a more formalized planning process to determine direction, extensive and growing use of the global supply chain, especially in the emerging markets such as India and China and of course, by doing this, offered our customer offset and services and reduce costs.

Customer relations -- Magellan is focused on achieving strong strategic relationships with key OEMs and Tier 1 level customers who offer growth potential and who we are working with to match our current and future capabilities with their needs.

This approach has led us to successful participation on three new major programs, and looking forward at these, the other programs that will have a major impact on our future. First, I'd like to speak to the 380. Albeit the 380 has been delayed for about 15 months, the program restarted in late 2007 is commencing. The value in Canadian dollars per aircraft is about C\$1.25 million, and there's a C\$50 million revenue differential, of course, for 2006 and for the balance of 2007, C\$20 million in 2006 and the impact C\$30 million in 2007. But we expect that a quick ramp-up over the next probably three or four years will bring it to 4 to 5 a month. We're expecting good things from that program.

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The 787 is a strong program, the largest kickoff in history. We currently have approximately \$450,000 per aircraft, which is comprised of landing gear and wing components. There are more opportunities that exist, and delivers to airplanes planned for mid-2008 and onward.

The JSF, the largest single military program that has been around for awhile -- winning work will provide 20 to 25 years of steady activity. A number of divisions are currently involved in early stages of the program. Technology used in the program should be transferable to future civil programs, contracts not yet awarded for full production.

We can't forget, also, the activity levels on the 737 and 320, and also keeping in mind that the 737 and 320 will become replacements for the future, and we need to address those issues through the technologies that will be evolved through the JSF program. Also business jets and helos, Magellan continues to support the business jet and helicopter marketplace through engine components and proprietary product sales.

This concludes my opening remarks. But let me say in closing that although some progress was made in the first quarter of 2007, there's still much room for improvement.

I would now like to turn this over to John Dekker for the review in detail of the first-quarter results, and I will return for questions and answers. Thank you.

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**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

Thanks, Jim. The aerospace industry continues to expand in all major sectors in the first quarter of 2007. The increase in revenue in the first quarter of 2007 over the same period in 2006 demonstrates the increase in volumes of underlying shipments, as these demands for our aerospace components continue to remain strong.

Gross margin as a percentage of sales was up modestly in the first quarter of 2007, when compared to the same quarter in 2006. Changes in sales mix in the quarter, as well as the benefits starting to materialize from the Corporation's rejuvenation programs, attributed to the moderately improved gross margins.

On March 30, 2007, the Corporation renewed its operating credit facility with its existing lenders. Under the terms of the renewed agreement, the maximum amount available under the operating credit facility was increased by \$20 million, to \$175 million, with a maturity date of May 24, 2008. The facility is extendable for unlimited one-year renewal periods, and continues to be fully guaranteed by the Chairman of the Board of the Corporation.

Also on March 30, 2007, the Corporation borrowed \$15 million by way of a secured promissory note from the Corporation with a common director. This note is due July 1, 2008 and bears interest at a rate of 9% per annum. The note is collateralized and subordinated to the bank credit facility.

During the quarter, an accounts receivable securitization program into which the Corporation had entered was suspended by the securitization trust. The Corporation doesn't expect to incur any costs to extinguish this program. The Corporation remains focused on improving cash generation. The areas of primary emphasis are gross margin improvement, inventory management and control over capital expenditures.

I'd like to move [over] to the financial statements now and hit some of the highlights, looking first at the income statement. Revenues in the current quarter were \$144 million, an increase of \$7 million from the same period last year. The delay in the A380 large aircraft program, which Jim referred to earlier, negatively impacted revenue by approximately \$7 million in the first quarter of 2007.

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A gross margin of 10.6% was reported for the quarter ended March 31, 2007, as compared to 10.4% for the corresponding period in 2006. Although gross margins have increased slightly, the performance for the quarter remains below expectations, and management is focused on further gross margin improvement. Magellan has upgraded four of its facilities in direct response to this issue. Benefits from these upgrades have started to materialize, and are expected to have a positive effect on gross margins through 2007 and beyond.

Included in total administrative and general expenses for the quarter were legal and accounting fees of approximately \$2 million incurred by the Corporation in relation to a detailed investigation of concerns raised by a former employee regarding the integrity of the Corporation's financial statements. The concerns were thoroughly investigated by PricewaterhouseCoopers, who, under the direction of the Corporation's audit committee, prepared a report for the audit committee on their findings. The Corporation's legal counsel has advised the Board of Directors that PwC met with the audit committee and the Corporation's external auditors, and, based on the report prepared by PwC, PwC has advised the audit committee that they have not found anything that would undermine the integrity or accuracy of the Corporation's financial statements. After removing the impact of the above-noted costs, administrative and general expenses remained relatively constant on an absolute basis for the first quarter of 2007, compared to the corresponding quarter of 2006, and improved from 2006 on a percentage-of-sales basis.

Interest expense in the first quarter of 2007 was higher than the corresponding period in 2006, due primarily to higher amounts of debt outstanding during the first quarter of 2007.

The net loss for the quarter reported was \$1.7 million, reflecting the items previously detailed. This translates into a net loss per share of \$0.02 for the quarter.

Moving to the balance sheet, the increase in accounts receivable of approximately \$12.6 million over the December 31, 2006 balance was attributed to the suspension of the Corporation's five-year accounts receivable securitization program during the quarter.

Moving now to inventory, inventories increased from year end by approximately \$17 million. Approximately \$5.5 million of the increase relates to situations where Magellan has completed components as per customer schedules, but the customers have deferred delivery due to either their internal production issues or short-term fluctuations they have experienced in demand for their products. Approximately \$7.2 million of the increase relates to added investment in programs that are not yet in full production. Magellan remains focused on meeting increases in customer demand for product while managing its inventory investment to meet these increased demands.

Moving to the debt line, bank indebtedness and debt, on March 30, 2007, Magellan's bank credit agreement was increased by \$20 million to \$175 million with its existing lenders at favorable rates. As mentioned previously, this credit facility is fully guaranteed by Murray Edwards, Chairman of the Board of Directors. Also on March 30, 2007, Magellan borrowed \$15 million by way of a promissory note from a Corporation with a common director, and this note bears interest at 9%, due July 1, 2008. Finally, to note, convertible debentures were reclassified to current liabilities, as they now are due within one year.

Moving to the cash flow statement, the Corporation used approximately \$29.6 million in operating activities during the quarter ended March 31, 2007, primarily through an increase in accounts receivable and investment in inventory. Looking at capital expenditures, the Corporation has divested \$6.8 million in capital additions during the quarter to upgrade its facilities and enhance its capabilities. Expenditures relate to projects authorized in the preceding year, and relate primarily to completion of the four major initiatives that Jim discussed earlier. Management is carefully controlling capital spending in 2007, as no major plant upgrades are planned for this year.

That concludes my comments on the financial statements. Over to you, Jim.

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

Thank you. I guess we are open to questions and answers.

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## QUESTIONS AND ANSWERS

### Operator

(OPERATOR INSTRUCTIONS). Jacques Kavafian.

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**Jacques Kavafian** - *Research Capital Corporation - Analyst*

Good afternoon, gentlemen. (technical difficulty).

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### Operator

Richard Stoneman.

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**Richard Stoneman** - *Dundee Securities Corporation - Analyst*

What do you expect total CapEx to be this year?

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**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

We're getting some interference from another call or someone else speaking through.

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

We didn't get Jack's question.

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**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

No, and Jack's question did not come through. Let me answer Richard. Richard, we're looking at CapEx in the neighborhood of \$15 million, no more.

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**Richard Stoneman** - *Dundee Securities Corporation - Analyst*

An ex-employee made a complaint that cost the Corporation \$2 million. Does the ex-employee have any liability in terms of repaying that money?

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**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

Richard, this is a clearly sensitive issue, since it's in employment manner and also a legal matter, so I'm not sure it's appropriate to comment at this point.

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**Richard Stoneman** - Dundee Securities Corporation - Analyst

The next question is Jim, the margins improved in the quarter and showed a marked improvement over the prior three quarters, the gross margins. You said that you had expectations of further improvement. What would disappoint you in terms of closing out the year in terms of gross margins?

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

Well, certainly the FX is a concern.

**Richard Stoneman** - Dundee Securities Corporation - Analyst

Leaving out FX?

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

Leaving that out? Well, I think that continued improvement as we have had planned. We have seen a good part of it flowing into the operations, but there's still some issues that haven't been cleaned up to my liking, and we still have just a little bit of work in front of us.

**Richard Stoneman** - Dundee Securities Corporation - Analyst

So what would you think exit rate might be when you leave Q4?

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

I'm going to turn that over to John.

**John Dekker** - Magellan Aerospace Corporation - VP of Finance, Corporate Secretary

I would think we're looking at, hopefully, steadily improving the gross margin, I think, if we picked up half a percentage point over the next few quarters to maybe exit at 11.5%.

**Richard Stoneman** - Dundee Securities Corporation - Analyst

Would you see further improvements in that in 2008?

**John Dekker** - Magellan Aerospace Corporation - VP of Finance, Corporate Secretary

Clearly, that's the objective, and why the rejuvenation programs were undertaken. Clearly, we're all focused on making that happen, so that there are continued improvement's. But as Jim mentioned, there are other factors that could work against us, with FX and like. So clearly, we're focused on continued improvement, and our objective is to deliver.

**Richard Stoneman** - Dundee Securities Corporation - Analyst

In the medium term, over the next couple of years, do you think you could get up over the 12% mark?

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**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

Maybe the best way to respond to that is to indicate how we're approaching our business as we look at new work. At this point in time, our bids are focused on 15% to 20% gross margin. To the extent those programs are awarded and we're able to implement them effectively, clearly, we're focused on improving the gross margin.

**Richard Stoneman** - *Dundee Securities Corporation - Analyst*

John, the differential in the gross margin, looking at Q4, where you came in at 7.5% and we are now up at 10.6%, 10.7%, how much of that is pricing power, and how much of it is economies of scale and how much of it is just taking down the costs of the operation?

**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

I haven't really considered it in those specific terms, but if we look at the fourth quarter, there was an impact of FX, of course, that hit us in the year. Also in the fourth quarter, we were in the midst of the rejuvenation programs, and that had a disruptive effect to us throughout the year. But in terms of quantifying it specifically, I do not have those details in front of me.

**Richard Stoneman** - *Dundee Securities Corporation - Analyst*

Has pricing power become a little more visible, given the constraints in the industry as a whole, in terms of meeting demand?

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

Yes, but I would say a guarded -- there are certain commodities and capacities that are out there, and they are being a factor from the standpoint of us working with our customers on things that are, say, more mutually beneficial.

**Richard Stoneman** - *Dundee Securities Corporation - Analyst*

The final question -- you ended last year with \$575 million in revenue. Do you think you can exit this year with something over \$600 million in revenue? Is that within the realm of the achievable?

**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

To go back to that earlier comment, Richard, if we know what the FX rate is going to be, that will certainly come into play somewhat. But in terms of volume and throughput of product, we are making more deliveries, and expect to increase the level of activity throughout the year. So I hope that answers your question. Business is not diminishing.

**Operator**

Jacques Kavafian.

**Jacques Kavafian** - *Research Capital Corporation - Analyst*

My question -- Richard asked it, but it's a \$2 million expense that you incurred to investigate the accounting policies or whatever. It's a big amount. Anything else you can say about that?

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

I have to go back to the response that I gave to Richard. It's not appropriate for us to make any further comments at this point.

**Operator**

Stephen Anderson, Cormark Securities.

**Stephen Anderson** - *Cormark Securities - Analyst*

Just following on Richard's question about the gross margins, and you suggesting an exit rate towards 11.5% as being a possibility, if I refer back a quarter ago and then two quarters ago, there have been a number of discussions and questions around exiting the year or actually averaging the year at a 12% EBITDA level. So 11.5% gross margins isn't much of a stretch, if that was the previous guidance. So either something has changed there, and if not, then maybe more of a clarification is warranted.

**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

I think all of these comments are --

**Stephen Anderson** - *Cormark Securities - Analyst*

That would be around a \$0.90 dollar, and I'm assuming that as well. That, I think, was the assumption that was given on the last quarter as well.

**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

Yes, and I was one to say a lot of these discussions are couched with FX in mind. I think, Steve, we're just being cautious here. The concern is that we don't overpromise.

**Stephen Anderson** - *Cormark Securities - Analyst*

No, I just think, if you has said something in the past at a 12% EBITDA level on an exit rate -- are you changing that now? That's what I'm trying to understand.

**Rich Neill** - *Magellan Aerospace Corporation - Vice Chairman*

Let's be very clear. Exit rate kind of talks about Q4 of this year, right?

**Stephen Anderson** - *Cormark Securities - Analyst*

Yes.

**Rich Neill** - *Magellan Aerospace Corporation - Vice Chairman*

We are looking at gross margins that are going to be close to 12%, maybe a little bit better, in Q4, right?

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**Stephen Anderson** - *Cormark Securities - Analyst*

Yes.

**Rich Neill** - *Magellan Aerospace Corporation - Vice Chairman*

Now, if my arithmetic is right, that gets you back to EBITDAs that are in the 10% kind of range. That's on exit, which means on average in the year it's going to be slightly less.

**Stephen Anderson** - *Cormark Securities - Analyst*

So you would be looking at an exit rate of closer to 10% now as opposed to 12%?

**Rich Neill** - *Magellan Aerospace Corporation - Vice Chairman*

I would think that's right. If we recognize the impact of a bunch of things, the fact that -- I mean, there's been a lot of commodities go up in price. There's been some costs that we are addressing that should be coming out this year. But we have not got the full benefit from them. All the rejuvenation work that Jim referred to, we haven't got the full benefit from that. So John and the finance guys are being a little conservative, saying that's what we expect to happen. Hopefully, we will try and better it.

**Stephen Anderson** - *Cormark Securities - Analyst*

As long as that's clear, because that's a big modification going from the gross margin level to an EBITDA, and I think that needed clarification. Obviously, the other component in that would be the revenue coming from the 380 and when that clicks in. What do you see on the most recent update from Airbus along those regards?

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

Well, we are doing a bit of work right now, but the real situation for general improvement is towards the end of 2007 and through early part of 2008. We're sort of still sitting here wondering whether they are going to come back to the third change in plan, and up until now we haven't foreseen anything of that magnitude. But one or two months' delay could impact us quite a bit. We still see activity happening in a couple of areas, but really not much before the end of 2007.

**Stephen Anderson** - *Cormark Securities - Analyst*

I guess the way I see it is just given the production increases on the single-aisle planes and then the number of the double-aisles that are in production currently, you could see revenues ramp \$20 million plus over this year. Is that out there or not?

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

Yes, we're just looking at the sheets here, because we are talking about up to \$40 million on 320. Whether they get there or not, we're not trying to second-guess them and tell them they don't know what they are doing. They certainly know their business plans. But I guess I'm concerned that the rest of the supply chain can meet the challenge.

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**Rich Neill** - *Magellan Aerospace Corporation - Vice Chairman*

There's no question that just on the single-aisle rate increase and the 737 increase, there will be in the 15%, 20% improvement year over year. But against that, there are some other programs tapering off. For example, in Boeing's case, the 767 was down to 1 from 3. In Airbus's case, the A300 exits and the 330 [earlier] models go down in rate. So there's a little bit of give-and-take in the numbers here, but \$20 million on the single-aisles is likely not a bad average number.

**Stephen Anderson** - *Cormark Securities - Analyst*

So, given that, and then we've also got the business jet [market] cycling up and Haley doing better and other aspects of the business and new lines coming in, seeing a \$600 million revenue number this year isn't far-fetched at all from that.

**Rich Neill** - *Magellan Aerospace Corporation - Vice Chairman*

Again, you are pushing it.

**Stephen Anderson** - *Cormark Securities - Analyst*

I guess, going from there, the extraordinary costs -- maybe if you can't talk with any clarification about the particulars, maybe you can talk about how long you have been incurring those costs over a period of time.

**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

This is in the first quarter.

**Stephen Anderson** - *Cormark Securities - Analyst*

It was all in the first quarter, the \$2 million?

**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

Yes, and there will be some costs in the second quarter, but we certainly believe we are through the worst of it.

**Stephen Anderson** - *Cormark Securities - Analyst*

So some costs, so nothing that we would expect to impact the earnings as significantly?

**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

Absolutely not. That's our current view.

**Stephen Anderson** - *Cormark Securities - Analyst*

Then the last thing was just on working capital requirements. Obviously, with the inventory -- in that inventory number, do you have any 380's in there or not?

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**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

There is some 380 component element in there, and that's what I was referring to, some 380 plus some other programs, where customers are deferring receipt of product that's essentially completed, waiting to go out the door, but the delays that they are in are preventing that from happening.

**Stephen Anderson** - *Cormark Securities - Analyst*

So you will start to recognize revenues on that immediately when they began to accept those components?

**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

There's not a lot of value added required to much of that inventory.

**Stephen Anderson** - *Cormark Securities - Analyst*

So can you comment on what proportion of that inventory is 380 or not?

**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

I'm not prepared to do that, I think.

**Rich Neill** - *Magellan Aerospace Corporation - Vice Chairman*

[I'm not sure we do have a number exactly there].

**Stephen Anderson** - *Cormark Securities - Analyst*

Just the inventory -- obviously, with that big of a ramp q-over-q and working capital, you look like you've got a \$175 million line or \$161 million into it, \$7 million in cash. Do you foresee more financing requirements from a working capital perspective in the relatively near term?

**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

Our objective is to work within the capacity that we have, and we believe we can do that.

**Rich Neill** - *Magellan Aerospace Corporation - Vice Chairman*

Let me add to that, Steve. When Jim and John sat down with the banks, we kind of focused forecasted what we would need. So the limits were actually set within the knowledge that we had at the time. We believe it's enough to go through.

**Operator**

Tim James, CIBC World Markets.

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**Tim James** - CIBC World Markets - Analyst

Can you comment on any either opportunities or challenges that you foresee for the UK operations related to all the changes underway at Airbus?

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

I'll try and speak to that. Yes, we are talking to them regularly. As a matter of fact, we are having dialogues not only with the UK people in Airbus but also in Toulouse. We're trying to evaluate where Power 8 is going. We're trying to evaluate how that is going to impact us.

We don't see any immediate concern, but we're paying attention as to where the thing is going. I'm not, certainly, alarmed, but I would like to understand where their overall plan is. Because in the direction that they are heading, it would indicate that there would even be more off-load and more opportunity. So we're looking at it from both aspects -- what are the risks and what are some of the opportunities that we can take advantage of?

**Tim James** - CIBC World Markets - Analyst

So you feel at this point there's more likely to be opportunity out of this as opposed to difficulties?

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

With what's happening, and if the Airbus decision in the UK is to change some of their operations, they will be offloading more work, yes.

**Tim James** - CIBC World Markets - Analyst

The Canadian revenues declined by 1% year over year. I assume there was some commercial revenue in there that was ramping up year over year. Can you just help us understand what were the weak parts of the business in the Canadian operations?

**John Dekker** - Magellan Aerospace Corporation - VP of Finance, Corporate Secretary

When you say weak parts, you are referring to where potentially the revenue might not be as strong as in the past. I think if we look at opportunities that were expected in the first quarter of 2007, clearly, we were anticipating the A380 sales out of Chicopee. So that would have certainly been an important element.

In terms of other Canadian sales, some of the sales out of Bristol tends to be somewhat irregular and a little bit lumpy, as we look at some of the rockets and CRV7 sales. So from one quarter to the next, that may not necessarily be a relevant measurement period. So to try to analyze the variances on a quarter-by-quarter sometimes may be a little bit misleading.

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

Are you talking about just the recent past, or are you talking about over the last few years?

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**Tim James** - CIBC World Markets - Analyst

I'm talking about, in particular, Q1 of 2007, in which revenues were down 1% in Canada. I'm just wondering which programs resulted in lower revenues. It sounds like A380 may have been lower revenues compared to Q1 of last year, and the CRV. Is that fair to say?

**Rich Neill** - Magellan Aerospace Corporation - Vice Chairman

Going back to Chicopee as well, I think there was some Boeing 747 work that kind of came off in rate a little bit as they ramped that, and there was Boeing 767 work came down as well. So I think some of these legacy older programs -- we were still doing trailing work on it that tapered off in 2007, which was still there in 2006.

**Tim James** - CIBC World Markets - Analyst

You mentioned CapEx of approximately \$15 million in 2007. Any kind of early indications of what you think might occur in 2008? Is that number going to have to grow in 2008?

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

I'll try and answer a part of that. It depends, certainly, to the degree of the investment required on the JSF and what funding, government support and so on that we end up getting out of that, that will determine that. But from our stabilized post-rejuvenation project, certainly there will be minor things that will continue to need to be replaced. But we don't see going back into Haley and spending a lot more money or the same thing with Bournemouth. It's mostly keeping up to speed on what's happening from a manufacturing, productivity and delivery standpoint.

**Tim James** - CIBC World Markets - Analyst

Can you give us the breakdown of defense revenues versus commercial revenues in the first quarter of 2007?

**John Dekker** - Magellan Aerospace Corporation - VP of Finance, Corporate Secretary

Yes. In the first quarter of 2007, we were running at about the same as we exited 2006, about 64% commercial, 36% defense.

**Tim James** - CIBC World Markets - Analyst

That's the same rate as you were in Q4 of 2006?

**John Dekker** - Magellan Aerospace Corporation - VP of Finance, Corporate Secretary

I believe that's right.

**Operator**

Cameron Doerksen, Versant Partners.

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**Cameron Doerksen** - *Versant Partners - Analyst*

Just a follow-up question on the cash flows and financial position, the receivables sales that you were doing up until last quarter. I seem to recall in the last conference call, you mentioned that that was something you were going to try and restart, I guess, with maybe another source. Can you describe where that stands right now?

**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

Yes. That's still an option that we're pursuing and have not made a final determination yet. So it's still a possibility.

**Cameron Doerksen** - *Versant Partners - Analyst*

In the text of the press release, one of the things that's mentioned is some strained capacity, I guess especially on the business jet engine side. I assume that that's at Haley. Is there anything you can talk about there? Is that a situation that's being resolved?

**Rich Neill** - *Magellan Aerospace Corporation - Vice Chairman*

You're going to have to repeat your question. Can you do it again?

**Cameron Doerksen** - *Versant Partners - Analyst*

Yes, just in the news release or the press release, you talk about some capacity constraints on the business jet engine side. So I just wanted (multiple speakers).

**Rich Neill** - *Magellan Aerospace Corporation - Vice Chairman*

Got you. Okay.

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

Yes, based on what we're trying to do right now is we are pretty well at where we want to be, and we think that we'll be able to meet the actual needs of our customers. We've done the changeover to getting the more complex large castings, and through that I think we've created a little bit more capacity in the medium and lower side, plus we have utilized our casting facility in Phoenix to take over and do a few more of the simpler castings, for basically two reasons -- one, to create a little extra capacity at Haley, on one hand, and on the other to move them up the chain of technological capability down there.

**Cameron Doerksen** - *Versant Partners - Analyst*

So you don't --?

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

I don't foresee a major problem. I'm not saying we're out of the woods, but we are continuing to address the issue, and we do not have a major concern. (multiple speakers). Right now, we're on (inaudible) -- we are full one shift, probably 70% second shift, and we still have third shift opportunities -- weekends and so on. We are using some weekends currently, but not to the extent that we could.

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**Cameron Doerksen** - *Versant Partners - Analyst*

I guess it's a fairly interesting skillset that's required at Haley. Is there any difficulty in getting additional employees? I know that was one -- an issue a year ago.

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

Well, I think I've been talking about this here and to anybody that understands that casting business. We have been aggressively looking at technology to remove the need for some of the skillsets, not to say it's going away. There's certainly a fair amount of skillsets there, but we have tried to get some new technology introduced to increase our ability to put through product with more repeatability. We've introduced a number of pieces of equipment that have computerization added to them, which helps us in this process. We still have to rely on the skillsets of the people and we'll continue to do that, but hopefully we will give them the tools to be able to support that.

**Cameron Doerksen** - *Versant Partners - Analyst*

Thirdly, just on the 787 program, you shipped first components in Q1. I guess that was on the landing gear, and I understand you're doing some components on the wing as well. I just wonder if you could maybe describe in a little more detail what is you're manufacturing there on the wing components and where that work is being done?

**Bill Matthews** - *Magellan Aerospace Corporation - VP, Marketing*

The wing and center work is primarily large ribs or bracing materials that give the strength to the wing. They are titanium, and they are being machined primarily in New York, at our Ellanef plant. They are being subcontracted from both the Japanese companies that have responsibility for the wing, and also we're getting some subcontract out of Seattle as well.

**Cameron Doerksen** - *Versant Partners - Analyst*

Have you started shipping those components yet?

**Bill Matthews** - *Magellan Aerospace Corporation - VP, Marketing*

Yes.

**Operator**

[Ben Venditelli], BMO Capital Markets.

**Ben Venditelli** - *BMO Capital Markets - Analyst*

All my questions have been answered. Thank you.

**Operator**

Richard Stoneman, Dundee Securities.

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**Richard Stoneman** - Dundee Securities Corporation - Analyst

Jim, just a supplemental -- in terms of materials and the costs of materials that you're using, do you bear the risk on those maturing in these long-term contracts, or is the risk carried by the US government and Airbus Boeing?

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

More and more, for the most part, these are flow-through charges to the government and to JSF programs and to Boeing. We are somewhat reluctant to get ourselves into long-term titanium pricing agreements. We're in business to move material around, not inventory it. So the environment is such that we insist on some protection.

**Richard Stoneman** - Dundee Securities Corporation - Analyst

Would that apply to the Haley contracts as well, where there's some exotic materials used?

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

Well, Haley's material is, to a lesser extent, important. I think the value added is the biggest component at the Haley, so what we have to be very careful there is FX, because the labor component is much of the sales value.

**Rich Neill** - Magellan Aerospace Corporation - Vice Chairman

The titanium materials are primarily aluminum and magnesium. There hasn't been quite the same growth in commodity price in these two metals, compared with the titaniums and the [astelloids] and the [incanals] and stuff like that. So Jim's comments are right, and it doesn't really affect Haley so much as some of the other operations.

**Richard Stoneman** - Dundee Securities Corporation - Analyst

Haley -- if I can recall historically, it had revenues in the \$60 million range before you bought it. Are the revenues in that range still, or have they moved up considerably?

**Rich Neill** - Magellan Aerospace Corporation - Vice Chairman

John, do you have any --?

**John Dekker** - Magellan Aerospace Corporation - VP of Finance, Corporate Secretary

You take the first round.

**Rich Neill** - Magellan Aerospace Corporation - Vice Chairman

The \$60 million actually included Presto, which is the Arizona operations. It also included composite [golf] shaft manufacturer, and I can't remember what else. So the corporate total that was reported through the public company was in the \$60 million. We only bought the casting operations in [Renfro] and in Arizona, and I think now we're back -- between the two of them, we're back over \$60 million? Would that be correct?

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**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

Yes. The other important element to remember here is that was 2002, when exchange rates were much different than they are now, and the bulk of Haley sales (multiple speakers). So again, back to an earlier comment I made, while the revenue line maybe doesn't correctly portray the increased activity, there certainly is more volume going through that shop now than there was when we first bought them.

**Rich Neill** - *Magellan Aerospace Corporation - Vice Chairman*

Just this thought occurred to me. There's been three or four different analysts all ask questions about Haley. There might be some interest in an analyst visit to the plant. If that is the case, why don't you give us an email to that effect. We'll set it up.

**John Dekker** - *Magellan Aerospace Corporation - VP of Finance, Corporate Secretary*

Do a day at Haley?

**Rich Neill** - *Magellan Aerospace Corporation - Vice Chairman*

Yes.

**Operator**

Tim James, CIBC Capital Markets.

**Tim James** - *CIBC World Markets - Analyst*

I just want to confirm something that you said earlier. Your total revenue per 787 is now approximately \$450,000 Canadian? Is that correct, including the landing gear work and the structural work?

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

[That's what we have]. (multiple speakers).

**Operator**

(OPERATOR INSTRUCTIONS). Mr. Butyniec, there are no further questions at this time. Please continue.

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

Thank you. Thank you for everyone calling in. We appreciate your comments. Hopefully, any answers that still have to come, that we're able to take care of you in some fashion. Again, thank you for the questioning and thank you for being onboard. We will consider it closed out at this point.

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### Operator

Ladies and gentlemen, this concludes the conference call for today. It has been our pleasure working with you on this conference call. You may now disconnect your line, and have a great day.

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