



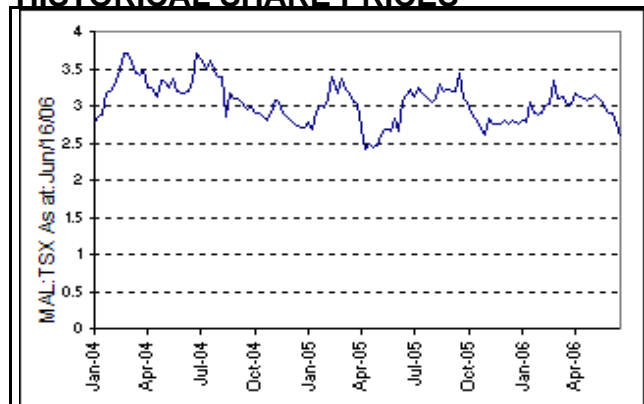
THE COMPANY

Magellan Aerospace Corporation, based in Mississauga, is a leading supplier of technologically advanced aerospace engines, structures and components. The Company designs, engineers and manufactures a wide range of products from operating facilities around the globe. Magellan has now achieved the size and scope necessary to develop and maintain close relationships with the major aircraft manufacturers, engine builders and defence contractors through the consolidation of several smaller aerospace companies. Additional strategic acquisitions, new outsourcing contract wins and impending U.S. Department of Defense spending initiatives will drive future performance.

FINANCIAL DATA

	2002	2003	2004
Earnings per Share (\$)	0.17	0.06	0.02
Price to Earnings (times)	17.6	50.0	150.0
Dividend (\$)	0.00	0.00	0.00
Dividend Yield (%)	0.00	0.00	0.00
Book Value (\$)	4.44	4.43	4.03
Price to Book (times)	0.68	0.68	0.74

HISTORICAL SHARE PRICES



WHY ABC FUNDS BOUGHT MAGELLAN

Without a doubt, the horrific events of September 11th have thrown the commercial airline industry into turmoil. Fear and uncertainty have severely pressured airline and aircraft manufacturer stocks. However, we believe that the long-term viability of the industry is unquestionable due to the importance of air travel in an increasingly global society. Given enough time, the exceptional security measures that have been implemented should provide business and leisure travelers with the confidence to return to the skies. It is amid this turbulent environment that we opportunistically purchased Magellan Aerospace, a well-positioned and well-managed company, at extremely depressed price levels.

Magellan's historic financial performance provides evidence of management's ability to successfully integrate acquisitions and generate profitable, internal growth. In the most recently completed fiscal year, revenue grew over 11% to \$625 million and earnings per share improved from \$0.49 to \$0.59 or more than 20%. Steady margin improvement was particularly impressive, with the gross margin reaching 21.5% in 2000, up from 21.1% in 1999 and 20.5% in 1998. At current price levels, Magellan is trading at 6.8 times 2000 earnings and at 0.95 times yearend book value of \$4.21. Despite the uncertainty, the Company is on pace to earn \$0.60 in 2001, which implies a forward P/E multiple of only 6.7 times. Investors are clearly looking beyond 2001 in an attempt to estimate the impact of the terrorist attacks on future revenue and earnings, particularly those derived from the commercial aerospace division.

The outlook for the commercial aerospace division is of key importance to our analysis because it represents approximately two thirds of the Company's revenue. Generally, investors have looked to Boeing as a proxy for this division since it accounts for one third of Magellan's total sales. Up-to-date guidance indicates that Boeing expects to deliver 522 aircraft in 2001 and between 350 and 400 aircraft in 2002, which is certainly a significant decline. However, some of Magellan's other customers, including Bombardier and Airbus, are anticipating a less severe downturn. We estimate that the precipitous drop in Magellan's share price was overdone, even considering a worst case scenario for the commercial aerospace division.

Offsetting some of the weakness in commercial aerospace, revenue growth from military and defence contracts is expected to accelerate. Currently, Magellan generates one third of total revenue from such contracts, including structural components for the F-18 fighter, repair and overhaul work and space and defence missile systems. Leveraging this experience, the Company should be able to pursue opportunities such as outsourcing work on the recently announced Lockheed-Martin Joint Strike Fighter program, worth over US\$200 billion from the U.S. Department of Defense. Though military spending has been on the decline for the past several years, we believe that additional business will materialize as military capabilities are rebuilt to deal with terrorist threats.

The commercial airline industry is, admittedly, facing one of its most difficult periods ever. Manufacturers and investors are anticipating a large decline in aircraft deliveries through 2002 and perhaps 2003. However, military and defence spending should mitigate some of the downturn until the inevitable recovery in air travel occurs. In the meantime, Magellan may be able to capitalize on industry-wide weakness and make one or more strategic acquisitions. Ignoring these potential sources of strength and overestimating even the most pessimistic short-term outlook, panicked investors created an exceptional buying opportunity. Following our mandate as value investors, we were able to take a position in an advanced technology company that was trading at old economy multiples, offering excellent long-term value.

UPDATES

After falling to a low of \$3.81 on October 19, 2001, shares of Magellan Aerospace have recovered and stabilized. Investor sentiment has improved and although the outlook for the commercial aerospace sector is still weak, the situation is less dire. Additionally, defence spending has ramped-up and is expected to grow as a proportion of the Company's total revenue over the next few years.

Recent developments are a testament to Magellan's strong positioning within the aerospace and defence sectors. The Company has announced a Raytheon defence missile fin order, a U.S. Army tank engine order, two long-term agreements with Pratt & Whitney Canada, an extension of a CF18 fighter aircraft repair and overhaul contract and a Northrop Grumman contract for F/A-18E/F structural components.

Despite the turmoil in the industry, Magellan Aerospace reported solid operating results and continued profitability. In the fourth quarter of 2001, the Company earned \$0.14, down from \$0.18 in the comparable period last year. For fiscal 2001, the Company earned \$0.62 per share versus \$0.59 in 2000. Importantly, free cash flow was used to reduce total debt by approximately \$23 million and the debt to capital ratio improved from 44.7% to 38.2%, over the course of fiscal 2001. We believe that the possibility of an opportunistic but accretive acquisition is good given the strong balance sheet and the difficulties facing many smaller companies in the sector.

ABC Funds
March 28, 2002

As reported in the popular press, the major airlines in the United States have yet to see a recovery in either leisure or business travel. Because of the high fixed-cost nature of the business, some of the weaker players in the industry have declared bankruptcy or are rumoured to be considering bankruptcy. Even the more financially secure airlines are struggling with weak profitability. In order to preserve liquidity, capacity has been reduced, workforces have been cut and aircraft orders and deliveries have been delayed. The fallout has impacted almost every company in the aerospace sector, including Magellan Aerospace. Although current climate is difficult, to say the least, the longer-term outlook for Magellan remains good.

Despite our optimism, the financial results for the first half of 2002 demonstrated the severity of the downturn in the sector. Year to date, revenue has declined from \$319 million to \$233 million and earnings have declined from \$0.35 to \$0.15 per share. In the second quarter press release, management suggested that notwithstanding the decline in revenue, the Company is seeing various opportunities to bid for new business. Further, Magellan has won several contracts for both military and civilian work since the beginning of the year, which will eventually flow through to the bottom line. Importantly, Magellan's backlog, which now exceeds a year's worth of revenue, has grown to its highest level since the spring of 2001.

As we had suggested in a previous comment, improvements in Magellan's balance sheet would allow the Company to take advantage of the depressed valuations in the sector. On July 3, 2002 Magellan announced the acquisition of Haley Industries Limited, an aerospace manufacturer that produces magnesium and aluminum castings. Although Magellan has over 70% of the outstanding shares locked up, the offer was extended and improved slightly in an effort to "encourage the deposit of additional Haley shares". Magellan has estimated that the acquisition of Haley's complementary business lines would prove to be accretive in the order of \$0.03 to \$0.05 per share. Given the improving backlog, the Haley acquisition and the opportunity to win new contracts or make additional acquisitions, we continue to believe that Magellan will prosper once the sector inevitably recovers.

ABC Funds
September 13, 2002

The Magellan Aerospace story is little changed since our last update. The recovery in the commercial aerospace sector has been slower than expected, which has hindered share price performance. Further, some of the military contracts that Magellan received, both before and after September 11th, have yet to show up in the Company's financial results. We believe that this is simply a timing issue related to the bureaucracy that surrounds government spending. Magellan is expected to report third quarter results shortly and we believe that the longer-term outlook is more favourable than the quarterly results will indicate.

In the meantime, the Company is constantly searching for takeover targets and is proceeding with the acquisition of Haley Industries. On September 30, Magellan announced that approximately 83% of Haley's outstanding shares were tendered to the revised offer. Magellan can now acquire the balance of the shares in a subsequent transaction, directly or indirectly, as described in the take-over bid circular. Management will then be able to concentrate their efforts on the integrating Haley's operations and maximizing the benefits of the acquisition. Hopefully Magellan will continue to take advantage of the depressed valuations in the sector and make additional strategic acquisitions in order to boost revenue and earnings.

ABC Funds
November 8, 2002

Every time we think that the commercial airline business can't get any worse, it does. The industry is facing its own perfect storm that started with the economic downturn and rising fuel prices, was heightened by the events of 9-11 and was prolonged by the war with Iraq. For a while, the Pacific Rim remained a bright spot amid the turmoil in North America and Europe. However, SARS-related fears have now severely curtailed air travel in the region, at least until the hysteria settles down.

As a supplier to many of the major manufacturers in the sector, Magellan Aerospace has seen its operating performance deteriorate significantly. Revenues are depressed (as orders were delayed or deferred and work stoppages disrupted business), margins are compressed (as costs were allocated over a lower revenue base) and cash conservation is the order of the day. In the Company's fourth

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quarter, earnings per share were \$0.00, excluding a \$0.29 per share write-down of the Orenda Reciprocating Engine Program. Magellan also disclosed that they expect to take a charge of approximately \$31 million in 2003 after closing its Fleet Industries plant in Fort Erie, Ontario. Excluding unusual charges and write-downs, Magellan managed to earn \$0.17 per share in 2002. Considering the state of the global airline industry, management's ability to turn any profit at all is a testament to their determination to take the necessary steps to weather the storm.

With a solid turnaround in the sector potentially years away, we are less interested in forecasting the Company's earnings than examining the Company's cash position and debt load. In the fourth quarter of 2002, Magellan used \$1 million of cash in operations compared to generating \$26 million in the fourth quarter of 2001. However, for the full year the Company generated \$3 million in cash from operations. This includes the impact of a large but temporary inventory build at yearend due to deferred orders and redundant working capital from the Haley acquisition. Management expects to chew through the excess over the next few quarters and free up some of this cash. Coupled with funds from operations, we believe that Magellan has sufficient liquidity to meet its obligations through the trough of the cycle.

After a difficult year, Magellan's financial leverage increased from 2001. But remember that some of this debt was used to purchase Haley Industries, a strategically sound acquisition that vertically integrated the Company's casting, machining and assembly operations. Working capital requirements and capital expenditures also contributed to the rising debt load. However, Magellan Aerospace issued convertible debentures subsequent to yearend that will be used to reduce total debt and improve financial flexibility. Because the convertibles will be accounted for as equity, Magellan's net debt to total capital should decline from 46% to just above 30%. Cash flow management, with minimal capital spending, headcount reductions and perhaps even further plant rationalizations will ensure the long-term viability of the Company.

As we've suggested, the visibility of a turnaround in the sector and, by extension, Magellan's profitability is poor. However, Richard Neill, CEO, in a recently televised interview took the time to discuss the differences between mainline carriers and regional carriers. Regionals and discount carriers, Magellan's forte, are in far better shape than mainlines and are continuing to order new planes. For example, JetBlue placed an order with Airbus for 65 new A320s with options on another 50, as recently as April 24. Regional Airlines Holdings placed an order for 10 Q400 (Dash-8) Turboprop aircraft with Bombardier Aerospace, with the option to order an additional 15 aircraft, on April 24. FlyBE, a regional carrier in the UK, signed a £520 million order for 17 Q400s with options on another 20 with Bombardier, on April 23. On January 24, Ryanair ordered up to 150 Boeing 737-800 aircraft to be delivered over an eight-year period, which would make Ryanair Europe's largest international scheduled airline. Although aircraft orders and deliveries are tracking well below historic levels, at least some carriers are continuing to replace inefficient, older aircraft or are looking to fill air travel demand in smaller, niche markets.

In short, this sector and the profitability for those in the sector will eventually recover; just don't expect it to happen overnight. Magellan Aerospace has positioned itself for the future and we expect that the Company can successfully navigate this extremely difficult and unpredictable period. We believe that the shares have been oversold and expect them to recover to a more reasonable trading range as investors get a grip on their emotions.

ABC Funds
May 2, 2003

After reporting a decent second quarter, Magellan Aerospace's third quarter financial results seem to have disappointed investors. On a year over year basis revenue declined 8.7% to \$102.2 million from \$111.9 million, the gross margin shrank to 11.3% from 13.3% and earnings per share dropped to (\$0.02) from \$0.02. For those expecting a quick or steady return to profitability, these headline numbers were a reality check.

Without a doubt, this was a tough quarter for the Company but management pointed to several mitigating factors that negatively impacted the results. Excluding foreign exchange fluctuations, revenue in the quarter, including the Haley acquisition, would have increased 3.4% over last year. The top line was also dampened by extended summer shutdowns at customer facilities and certain project delays in the quarter. The gross margin was squeezed by lower than expected sales volumes, a shift in the product mix and a stronger Canadian dollar. Essentially, inventory that was purchased in prior periods with more expensive U.S. dollars flowed through the income statement in the current quarter. All of these issues contributed to the weaker net income and earnings per share.

Despite the soft results, management suggested that investors should be more optimistic when looking to the fourth quarter and beyond. In the press release, they pointed to better profitability in the commercial airline sector, plans to increase capacity and a general improvement in the economy. Further, foreign exchange hedges, inventory purchased with cheaper U.S. dollars and a higher build rate for Boeing's 737 will all contribute to better results going forward. Having said that, Magellan is not expected to return to historic levels of profitability quickly.

Without a dramatic earnings recovery to drive the stock in the near term, investors must focus on other factors. We were quite pleased to see that the Company generated \$3 million of cash from operations in the third quarter, double the \$1.5 million in the second quarter of this year. We also liked the recently announced acquisition of Mayflower Aerospace, a U.K. based aerospace firm. Magellan purchased Mayflower's assets, a company with annual revenues of approximately \$55 million, out of receivership for \$13.4 million. This acquisition is strategically important because it will strengthen the Company's relationship with Airbus, which played a role in awarding the assets to Magellan. Currently, management is examining various options to minimize the cost of financing while protecting the

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balance sheet. The positive cash flow and astute acquisitions allow us to remain confident that Magellan will successfully navigate through the trough of the aerospace cycle.

ABC Funds
November 14, 2003

Magellan Aerospace recently announced a long-term agreement with General Electric to produce components for the GE F414 aircraft engine used on the Boeing F-18 Super Hornet jet. This contract is a good win for the Company's military division and demonstrates the importance of long-term relationships with key manufacturers. Magellan currently supplies exhaust frames for the F414 but the agreement has been expanded to include the front engine frame and increase the volume of exhaust frames over the next 25 years. The required investment will be US\$28 million over the next four years, which will be funded with internally generated cash flow and existing bank lines.

Although the military segment is gaining some traction, we still need a recovery in the commercial aerospace market. Recently, valuations across the sector have been improving with the uptick in airline traffic. Once the major US and Asian carriers return to profitability, we can look forward to new orders of commercial aircraft, which in turn leads to profit growth for the manufacturers. As always, the stock market acts as a discounting mechanism and is finally anticipating at least some of the turn in the cycle.

ABC Funds
February 27, 2004

Magellan continues to bump along the bottom of the aerospace cycle. The Company's second quarter was a difficult one, with the results negatively impacted by unfavourable currency movements and lower margins. The margin issue actually sends mixed signals regarding the health of the Company's business and the aerospace sector. In the short-term, margin pressure obviously hurts the Company's profitability. However, in this case margins were down because several programs were ramping up to full production. Startup costs could not yet be matched to revenue in the quarter, which caused the margin compression. From a longer-term perspective, we were encouraged to see these programs finally ramping up. Richard Neill, President and CEO, suggested that this is a positive sign and that the Company will benefit from a recovery in the aerospace market in the latter part of 2004 and through 2005.

Unfortunately, the margin compression, lower EBITDA and working capital requirements necessitated a rights issue to comply with some of the Company's bank covenants. Shareholders were given the right to acquire one common share for every seven rights held at a price of \$2.75. The issue was oversubscribed, and Magellan raised net proceeds of \$31.1 million. Murray Edwards, the Company's Chairman and major shareholder, subscribed to \$15 million of the issue. Of the proceeds, 50% was applied to a permanent reduction of long-term debt and 50% was applied to reduce the Company's revolving line of credit. Magellan expects to be in compliance with all of its current bank covenants through 2005.

As a final thought, we would like to point out that both Boeing and Airbus have indicated that orders and deliveries are improving. Specifically, in Boeing's second quarter earnings release, the Company raised its 2004 and 2005 earnings guidance to "reflect expected higher deliveries of commercial airplanes". Boeing boosted its delivery forecast for 2005 from 300 to between 315 and 320 airplanes. Further, the delivery forecast is sold out for 2004 and 92% sold for 2005. Airbus has a backlog of over five years worth of deliveries at current production rates. We continue to believe that Magellan Aerospace is well positioned to benefit from the pending recovery in the aerospace sector.

ABC Funds
September 24, 2004

It has been quite a while since our last update on Magellan Aerospace, reflecting the extended trough of the aerospace cycle. This is most evident when one graphs the Company's margins. They have formed a saw-tooth pattern indicating a lumpy bottoming process with several false starts for what seems like an eternity for long suffering investors. Declining revenue, rising raw material costs and a strengthening Canadian dollar have made the conditions extremely difficult. As the industry finally began to recover, the new business that the Company had won required start-up expenses and entailed a learning process, which has hampered a return to profitability.

Magellan's balance sheet has also worked against the Company through the trough of the cycle. The Company's debt load was not extreme, but acquisitions and working capital requirements necessitated a convertible debenture issue, a common share issue, a rights offering and, mostly recently, a private placement of convertible preferred shares. In the press release announcing the closing of the convertible preferred share offering, it was noted that the Company's Chairman, Murray Edwards, subscribed for \$10 million of the \$20 million issue. It appears that Mr. Edwards' confidence in the Company is unwavering.

The convertible preferred share issue, which closed May 27, 2005, was a particularly important milestone because it allowed the Company to refinance its bank credit agreement. The uncertainty of the negotiations had been overhanging the stock since the Company had required a waiver from its lenders to remain in compliance with covenants in its operating and long-term credit facilities. The new \$155 million facility will bear interest at LIBOR plus 1.0%, reduced from LIBOR plus 4.5% on the previous credit agreement. How was the Company able to obtain such terms? Murray Edwards has personally fully guaranteed the credit facility in exchange for a fee of 0.1% per annum of the maximum amount. We believe that this essentially eliminates any financial risk from the Company. Thankfully, Magellan Aerospace now has the financial wherewithal to focus on its operations.

We continue to believe that the aerospace cycle has bottomed, which eventually will be reflected in Magellan's financial results. We would

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point to the slew of Boeing and Airbus jet orders that we have seen recently. According to Boeing's website, the Company has received 223 net new orders for the year through May 24, compared to 272 net orders for all of 2004. In response, Boeing stock has appreciated to within 10% of its all-time high. Similarly, we would expect a recovery in Magellan's stock price as the financial results turn the corner.

ABC Funds
June 3, 2005

To suggest that Magellan Aerospace has faced an extended cycle trough is an understatement. Record commercial aircraft orders, strong profitability from Middle Eastern and Asian airlines and solid defense spending indicate that the cycle has turned. However, new project ramps and the high Canadian dollar have masked operational and financial improvements at Magellan.

In the first quarter of 2006, Magellan reported revenue of \$137.0 million compared to \$144.9 million a year ago. After adjusting for foreign exchange fluctuations and the shutdown of the Company's Fort Erie plant revenue grew by 6.4% year over year. Although Magellan reported a small loss of \$658,000 or \$0.01 per share, we were encouraged to see \$9.7 million of EBITDA in the quarter, or \$0.11 per share.

We have seen the shares dip recently due to the general market malaise and some noise surrounding the Airbus A380. Unfortunately, Airbus announced six-month delivery delays for its superjumbo jet. Airbus blamed installation difficulties with wiring harnesses, huge bundles of thousands of wires that control aircraft systems, in-flight entertainment systems, lights, air-conditioning and other key electronics. Shares in Airbus' parent company EADS dropped by almost 30% on this announcement. However, the impact on Magellan is relatively minor. We estimate that Magellan's A380 contracts are for approximately \$25 million per year. On sales of almost \$600 million, this equates to only 4% of total revenue, which is a relatively minor hiccup.

ABC Funds
June 16, 2006