

**Magellan Aerospace Corporation**  
**Fourth Quarter Report**  
**December 31, 2005**

Magellan Aerospace Corporation (the "Corporation" or "Magellan") is listed on the Toronto Stock Exchange under the symbol MAL. The Corporation is a diversified supplier of components to the aerospace industry. Through its network of facilities throughout North America and the United Kingdom, Magellan supplies leading aircraft manufacturers, airlines and defence agencies throughout the world.

**Financial Results**

On March 23, 2006, the Corporation released its financial results for the fourth quarter of 2005. The results are summarized as follows:

	Three-months ended December 31			Twelve-months ended December 31		
	2005	2004 (restated)	Change	2005	2004 (restated)	Change
<i>(Expressed in thousands, except per share amounts)</i>						
Revenues	\$ 142,764	\$ 137,270	4.0 %	\$ 568,483	\$ 573,779	-0.9 %
Net income (loss)	\$ (3,494)	\$ (6,940)	-	\$ (6,076)	\$ (8,164)	-
Net earnings (loss) per share	\$ (0.05)	\$ (0.08)	-	\$ (0.08)	\$ (0.10)	-
EBITDA*	\$ 8,706	\$ 3,149	173.4 %	\$ 37,448	\$ 37,018	0.9 %
EBITDA* per share	\$ 0.10	\$ 0.03	200.0 %	\$ 0.41	\$ 0.45	-

**This quarterly statement contains certain forward-looking statements that reflect the current views and/or expectations of the Corporation with respect to its performance, business and future events. Such statements are subject to a number of risks, uncertainties and assumptions which may cause actual results to be materially different from those expressed or implied. The Corporation assumes no future obligation to update these forward-looking statements.**

**\*The Corporation has included certain measures in this quarterly statement, including EBITDA, the terms for which are not defined under Canadian generally accepted accounting principles. The Corporation defines EBITDA as earnings before interest, taxes and depreciation and amortization. The Corporation has included these measures, including EBITDA, because it believes this information is used by certain investors to assess financial performance and EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Corporation's principal business activities prior to consideration of how these activities are financed and how the results are taxed in various jurisdictions. Although the Corporation believes these measures are used by certain investors (and the Corporation has included them for this reason), these measures are unlikely to be comparable to similarly titled measures used by other companies.**

### **Management's Discussion and Analysis**

The fourth quarter of 2005 was a challenging period for Magellan Aerospace Corporation as operating performance was affected by the need to meet increased delivery demands from customers, introduction of new parts into manufacturing as well as adjusting to increased prices for strategic materials, energy and key commodities.

Gross margins for the quarter and the year did not achieve expected levels of improvement. Continuing challenges occurred in the casting business as the Corporation responded to rapidly increasing production activity that resulted in margin slippage from previously achieved levels. While still showing positive results, UK operations did not achieve the gross margin gains anticipated. Focused actions are underway in both the casting business and the UK to remedy the situations.

Demand in the commercial aerospace sector remains strong following a record year of orders for large commercial aircraft reported by both Boeing and Airbus. Both companies are also organizing supply chains to not only cope with increased build rates of existing single aisle models but also to establish supply for new twin aisle designs in development, the Boeing B787 and the Airbus A350. As well as new parts being introduced, delivery rates on Airbus A380 components are scheduled to increase in the second quarter of 2006, and deliveries of Boeing 787 components are scheduled to begin in the fourth quarter of 2006. Once at full rates, these two contracts should represent \$25 million in annualized revenue for the Corporation.

In addition, there were increased activities in the business jet market, and in defence, demand was strong from both new programs and spares while, at the same time, certain mature defence program production rates began to decrease.

While increasing demand has been the case in the aerospace sector, components produced for OEM's in the electrical utilities markets are still at a low as this business still suffers from lack of regulatory clarity.

### **Revenues**

	<b>Three-months ended December 31</b>			<b>Twelve-months ended December 31</b>		
	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>2005</b>	<b>2004</b>	<b>Change</b>
<i>(Expressed in thousands)</i>						
Canada	\$ 70,445	\$ 62,681	12.4 %	\$ 277,530	\$ 287,613	-3.5 %
United States	48,581	49,424	-1.7 %	183,811	185,591	-1.0 %
United Kingdom	23,738	25,165	-5.7 %	107,142	100,575	6.5 %
<b>Total Revenue</b>	<b>\$ 142,764</b>	<b>\$ 137,270</b>	<b>4.0 %</b>	<b>\$ 568,483</b>	<b>\$ 573,779</b>	<b>-0.9 %</b>

Revenues for the fourth quarter of 2005 were \$142.8 million, an increase of \$5.5 million or 4.0% over the same period in 2004. Revenues in the United States and the United Kingdom were lower in the fourth quarter of 2005 compared to the same period in 2004, due to changes in foreign exchange rates; had foreign exchange rates remained the same as in the same period in 2004, revenues in the United States and the United Kingdom would have risen 2.2% and 10.0% respectively. Fourth quarter revenues in Canada increased in 2005 compared to 2004, in spite of reduced sales of \$5.8 million from the Corporation's Fort Erie location, as increases were experienced on a number of commercial aircraft and aeroengine programs. Revenues for the full year 2005 were \$5.3 million lower than in 2004, with changing foreign exchange rates and the wind down of the Corporation's Fort Erie location negatively impacting annual year over year revenues by \$36.5 million and \$12.7 million, respectively.

### Gross Profit

	Three-months ended December 31			Twelve-months ended December 31		
	2005	2004	Change	2005	2004	Change
<i>(Expressed in thousands)</i>						
Gross profit	\$ 13,577	\$ 10,495	29.4 %	\$ 56,450	\$ 58,960	-4.3 %
Percentage of revenue	9.5 %	7.6 %		9.9 %	10.3 %	

Gross margin for the fourth quarter of 2005 was \$13.6 million or 9.5% of revenues, compared to \$10.5 million or 7.6% of revenues in the same period of last year. Results improved over the fourth quarter of 2004, but were poorer than management expectations, due to the continued strengthening of the Canadian dollar, higher costs for raw materials and poor efficiencies at certain of the Corporation's manufacturing facilities. Management is focused on improving efficiencies and is also seeking improved pricing for its products going forward into 2006.

### Administrative and General Expenses

	Three-months ended December 31		Twelve-months ended December 31	
	2005	2004 (restated)	2005	2004 (restated)
<i>(Expressed in thousands)</i>				
Administrative and general expenses	\$ 12,347	\$ 9,053	\$ 46,110	\$ 46,747
Gain on sale of capital assets	-	(416)	(1,442)	(2,026)
Foreign exchange gain	(288)	(361)	(1,624)	(3,914)
<b>Total administrative and general expenses</b>	<b>\$ 12,059</b>	<b>\$ 8,276</b>	<b>\$ 43,044</b>	<b>\$ 40,807</b>
<b>Percentage of revenue</b>	<b>8.5%</b>	<b>6.0%</b>	<b>7.6%</b>	<b>7.1%</b>

Total administrative and general expenses were \$12.1 million in the fourth quarter of 2005. Included in total administration and general expenses are a foreign exchange gain of \$0.3 million. Without these two items, administrative and general expenses were \$12.3 million in the fourth quarter of 2005 compared to \$9.1 million in the same period in 2004. The increase was mainly due to timing of expenses, as administrative and general expenses for the year ended December 31, 2005 were approximately the same as the year ended December 31, 2004, after excluding gains on foreign exchange and sale of capital assets.

### Interest Expense

	Three-months ended December 31		Twelve-months ended December 31	
	2005	2004 (restated)	2005	2004 (restated)
<i>(Expressed in thousands)</i>				
Interest on bank indebtedness and long-term debt	\$ 2,894	\$ 3,774	\$ 11,677	\$ 14,635
Convertible debenture interest	1,488	1,488	5,950	5,950
Accretion charge for convertible debt	831	906	2,211	2,136
Discount on sale of accounts receivable	388	186	1,696	896
<b>Total interest expense</b>	<b>\$ 5,601</b>	<b>\$ 6,354</b>	<b>\$ 21,534</b>	<b>\$ 23,617</b>

Interest on bank indebtedness and long-term debt decreased in 2005 compared to the same period in 2004 due to lower interest rates under the Corporation's credit facility. Discount on the sale of accounts receivable rose as a higher amount of receivables were sold at higher discount rates.

**Provision for (Recovery of) Income Taxes**

	Three-months ended December 31		Twelve-months ended December 31	
	2005	2004 (restated)	2005	2004 (restated)
<i>(Expressed in thousands)</i>				
Provision for current income taxes	\$ 268	\$ 522	\$ 688	\$ 780
(Recovery of) provision for future income taxes	(857)	(3,333)	(2,740)	(3,696)
<b>Total (recovery of) provision for income taxes</b>	\$ (589)	\$ (2,811)	\$ (2,052)	\$ (2,916)
<b>Effective Tax Rate</b>	14.4 %	28.8 %	25.2 %	26.3%

A provision for recovery of income taxes of \$0.6 million (14.4% of pre-tax income) was recorded in the fourth quarter of 2005, compared to a provision for recovery of income taxes of \$2.8 million in the same period in 2004 (28.8% of pre-tax income). The overall tax rate is a blended rate across the three countries in which the Corporation operates. At lower levels of income, the effective tax rate is affected more by non-deductible expenses such as accretion on convertible debenture and stock option charges.

**Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA")**

	Three-months ended December 31		Twelve-months ended December 31	
	2005	2004 (restated)	2005	2004 (restated)
<i>(Expressed in thousands)</i>				
Loss before income taxes	\$ (4,083)	\$ (9,751)	\$ (8,128)	\$ (11,080)
Interest	5,601	6,354	21,534	23,617
Depreciation and amortization	7,188	6,546	24,042	24,481
<b>EBITDA</b>	\$ 8,706	\$ 3,149	\$ 37,448	\$ 37,018

**Cash Flow from Operating Activities**

	Three-months ended December 31		Twelve-months ended December 31	
	2005	2004	2005	2004
<i>(Expressed in thousands)</i>				
Decrease in accounts receivable	\$ 6,090	\$ 21,325	\$ 5,009	\$ 18,323
Decrease (increase) in inventories	4,697	17,098	(5,736)	2,750
(Increase) decrease in prepaid expenses and other	(681)	341	(1,756)	(1,145)
Increase (decrease) in accounts payable	11,013	(18,079)	436	(9,653)
<b>Net change in non-cash working capital items</b>	\$ 21,119	\$ 20,685	\$ (2,047)	\$ 10,275
<b>Cash provided by operating activities</b>	\$ 24,967	\$ 23,402	\$ 14,568	\$ 28,941

In the fourth quarter of 2005, the Corporation generated \$25.0 million of cash from operations, compared to \$23.4 million of cash generated in the same period of 2004. Decreases in accounts receivable and inventories and increase in accounts payable relate mainly to timing of payments and receivables in the short term, as the net change in non-cash working capital balances for the year ended December 31, 2005 is small.

### **Cash Flow from Investing Activities**

	<b>Three-months ended December 31</b>		<b>Twelve-months ended December 31</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<i>(Expressed in thousands)</i>				
Business acquisition	\$ -	\$ -	\$ -	\$ (10,440)
Purchase of capital assets	(7,597)	(5,404)	(19,185)	(16,936)
Proceeds from disposals of capital assets	-	432	3,746	17,089
(Increase) decrease in other assets	1,324	766	(7,435)	15
<b>Cash used in investing activities</b>	<b>\$ (6,273)</b>	<b>\$ (4,206)</b>	<b>\$ (22,874)</b>	<b>\$ (10,272)</b>

The increase in other assets in the year to date period reflects the follow-on contract to purchase technology rights for the manufacture of components for the GE 414 engine under a revenue sharing partnership agreement. The Corporation has cautiously increased the level of capital expenditures in response to favourable conditions in the aerospace industry.

### **Cash Flow from Financing Activities**

	<b>Three-months ended December 31</b>		<b>Twelve-months ended December 31</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<i>(Expressed in thousands)</i>				
(Decrease) increase in bank indebtedness	\$ (10,898)	\$ (13,796)	\$ 50,826	\$ 250
Repayment of long-term debt	(537)	(3,963)	(50,276)	(33,687)
(Decrease) increase in long-term liabilities	(7,225)	2,239	(12,480)	(11,402)
Dividends on Preference Shares	(1,080)	-	(1,080)	-
Issue of Common Shares	57	44	147	31,229
Issue of Preference Shares	-	-	19,949	-
<b>Cash (used in ) provided by financing activities</b>	<b>\$ (19,683)</b>	<b>\$ (15,476)</b>	<b>\$ 7,086</b>	<b>\$ (13,610)</b>

The Corporation renewed its bank credit agreement with its existing lenders on May 27, 2005. Under the terms of the renewed agreement, Magellan has an operating credit facility, expiring on May 26, 2006 and extendable to May 26, 2007, with a maximum credit facility of \$155.0 million. Amounts drawn under this facility bear interest at the bankers' acceptance or LIBOR rates plus 1.0%, reduced from its previous rate of bankers' acceptance or LIBOR rates plus 4.5%. The credit facility is fully guaranteed by N. Murray Edwards, Chairman of the Board of Directors. An annual fee of \$0.2 million is paid in consideration for the guarantee.

On May 27, 2005, the Corporation issued 2.0 million, 8.0% Cumulative Redeemable First Preference Shares Series A ("Preference Shares") by private placement at a price of \$10.00 per Preference Share for total gross proceeds of \$20.0 million. Each Preference Share is convertible into 3.33 Common Shares of Magellan (6,666,667 common shares in aggregate) at a price of \$3.00 per Common Share.

### **Update on Closure of Fleet Industries Ltd.**

In early 2006, the Corporation sold the manufacturing assets and leased the manufacturing facilities formerly operated at Fleet Industries Ltd. While various costs remain to be fully settled, management believes that the provision for closure previously recorded will be adequate to cover the remaining closure costs.

### **Change in Accounting Policy**

Effective January 1, 2005 the Corporation adopted the recommendation of the CICA contained in the amended Section 3860, "Financial Instruments", which require the Corporation to account for its convertible debentures as debt as opposed to equity. Management has computed the impact on the Corporation's financial statements in note 2 of the interim consolidated financial statements.

All comments herein have incorporated the restated quarterly financial statements resulting from the change in accounting policy as computed in note 2.

**Outlook**

Magellan is looking to the future with confidence. Burgeoning order books from aircraft operators, especially from customers with good financial resources, create a market demand that indicates current activity levels should increase and continue at high rates for the foreseeable future. Despite higher fuel prices, all sectors of the aircraft sector continue to exhibit buoyancy that has not been seen since 2002.

Excess manufacturing capacity in North America is shrinking and as a result conditions for aerospace component manufacturers to improve their operating profitability has improved. Management continues to focus on improving margins and profitability in 2006 and beyond by ensuring that operations are re-organized to take advantage of the current market opportunity and by off-setting the impact of foreign exchange rate changes through efficiency improvements and contract amendments.

On behalf of the Board



**N. Murray Edwards**  
**Chairman**  
March 23, 2006



**Richard A. Neill**  
**President and Chief Executive Officer**

**MAGELLAN AEROSPACE CORPORATION**
**CONSOLIDATED STATEMENTS OF OPERATIONS  
AND RETAINED EARNINGS**

(un-audited)

	Three-months ended December 31		Twelve-months ended December 31	
	2005	2004 (restated)	2005	2004 (restated)
<i>(Expressed in thousands of dollars, except per share amounts)</i>				
Revenues	\$ 142,764	\$ 137,270	\$ 568,483	\$ 573,779
Cost of revenues	129,187	126,775	512,033	514,819
Gross profit	13,577	10,495	56,450	58,960
Administrative and general expenses	12,059	8,276	43,044	40,807
Interest	5,601	6,354	21,534	23,617
Unusual item	-	5,616	-	5,616
	17,660	20,246	64,578	70,040
Loss before income taxes	(4,083)	(9,751)	(8,128)	(11,080)
Provision for (recovery of) income taxes				
- Current	268	522	688	780
- Future	(857)	(3,333)	(2,740)	(3,696)
	(589)	(2,811)	(2,052)	(2,916)
<b>Net loss for the period</b>	<b>(3,494)</b>	<b>(6,940)</b>	<b>(6,076)</b>	<b>(8,164)</b>
Retained earnings, beginning of period	111,593	121,115	114,175	122,339
Dividends on Preference Shares	(1,080)	-	(1,080)	-
Net loss for the period	(3,494)	(6,940)	(6,076)	(8,164)
Retained earnings, end of period	\$ 107,019	\$ 114,175	\$ 107,019	\$ 114,175
<b>Loss per share</b>				
Basic	\$ (0.05)	\$ (0.08)	\$ (0.08)	\$ (0.10)
Diluted	\$ (0.05)	\$ (0.08)	\$ (0.08)	\$ (0.10)

**MAGELLAN AEROSPACE CORPORATION**
**CONSOLIDATED BALANCE SHEETS**

(un-audited)

**As at December 31  
2005**
**As at December 31  
2004**
*(Expressed in thousands of dollars)*

(restated)

**ASSETS**
**Current**

Cash	\$	7,426	\$	9,048
Accounts receivable		62,862		70,974
Inventories		268,590		269,735
Prepaid expenses and other		9,343		8,113
Future income tax assets		3,518		7,104

**Total current assets**

351,739

364,974

Capital assets

264,899

274,724

Other

46,467

42,486

Future income tax assets

50,752

42,318

**Total assets**

\$ 713,857

\$ 724,502

**LIABILITIES AND SHAREHOLDERS' EQUITY**
**Current**

Bank indebtedness (note 4)	\$	113,824	\$	68,028
Accounts payable and accrued charges		122,978		114,327
Current portion of long-term debt		2,201		48,335

**Total current liabilities**

239,003

230,690

Long-term debt

9,608

11,856

Future income tax liabilities

77,301

82,345

Convertible debentures

65,141

63,042

Other long-term liabilities

15,061

32,926

**Total liabilities**

406,114

420,859

**Shareholders' equity**

Capital stock (note 5)		234,058		213,962
Contributed surplus		854		234
Other paid-in capital		11,100		11,100
Retained earnings		107,019		114,175
Foreign exchange translation (note 8)		(45,288)		(35,828)

**Total shareholders' equity**

307,743

303,643

**Total liabilities and shareholders' equity**

\$ 713,857

\$ 724,502



**MAGELLAN AEROSPACE CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(un-audited)

	Three-months ended December 31		Twelve-months ended December 31	
	2005	2004 (restated)	2005	2004 (restated)
<i>(Expressed in thousands of dollars)</i>				
<b>OPERATING ACTIVITIES</b>				
Loss for the period	\$ (3,494)	\$ (6,940)	\$ (6,076)	\$ (8,164)
Add (deduct) items not affecting cash				
Depreciation and amortization	7,188	6,546	24,042	24,481
Gain on sale of capital assets	-	(416)	(1,442)	(2,026)
Stock option charge	180	78	620	234
Accretion of convertible debentures	831	906	2,211	2,136
Unusual items	-	5,616	-	5,616
Future income taxes recoveries	(857)	(3,073)	(2,740)	(3,611)
	3,848	2,717	16,615	18,666
Net change in non-cash working capital items relating to operating activities	21,119	20,685	(2,047)	10,275
<b>Cash provided by operating activities</b>	24,967	23,402	14,568	28,941
<b>INVESTING ACTIVITIES</b>				
Business acquisition	-	-	-	(10,440)
Purchase of capital assets	(7,597)	(5,404)	(19,185)	(16,936)
Proceeds from disposal of capital assets	-	432	3,746	17,089
Decrease (increase) in other assets	1,324	766	(7,435)	15
<b>Cash used in investing activities</b>	(6,273)	(4,206)	(22,874)	(10,272)
<b>FINANCING ACTIVITIES</b>				
(Decrease) increase in bank indebtedness	(10,898)	(13,796)	50,826	250
Repayment of long-term debt	(537)	(3,963)	(50,276)	(33,687)
(Decrease) increase in long-term liabilities	(7,225)	2,239	(12,480)	(11,402)
Dividends on Preference Shares	(1,080)	-	(1,080)	-
Issue of Common Shares	57	44	147	31,229
Issue of Preference Shares	-	-	19,949	-
<b>Cash (used in) provided by financing activities</b>	(19,680)	(15,476)	7,086	(13,610)
<b>Effect of exchange rate changes on cash</b>	(197)	(569)	(402)	101
(Decrease) increase in cash	(1,186)	3,151	(1,622)	5,160
Cash, beginning of period	8,612	5,897	9,048	3,888
<b>Cash, end of period</b>	\$ 7,426	\$ 9,048	\$ 7,426	\$ 9,048

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in thousands of dollars except share and per share data)

**1. ACCOUNTING POLICIES**
**Basis of presentation**

The accompanying un-audited consolidated financial statements have been prepared by the Corporation in accordance with accounting principles generally accepted in Canada on a basis consistent with those followed in the most recent audited consolidated financial statements except for the changes identified in note 2, Change in Accounting Policy, below. These un-audited consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes included in the Corporation's Annual Report for the year ended December 31, 2004. The Corporation's external auditors have not reviewed these financial statements.

**2. CHANGE IN ACCOUNTING POLICY**

The principal amount of the Corporation's outstanding convertible debentures of \$70 million due on January 31, 2008 was previously classified as an equity instrument due to the Corporation's ability to settle principal and interest payments by the issuance of common shares. In accordance with the amended standard CICA 3860, the Corporation has presented the liability component of its convertible debentures as long-term debt and the equity component as other paid-in capital. The liability represents the present value of the principal and interest payment of the debentures and the equity component represents the fair value of the holder's conversion feature. The stated interest payments and accretion expense from adjusting the value of the principal of the debentures over time are recorded as interest expense in the statement of operations.

The following table represents the changes to the Corporation's consolidated statements of operations and retained earnings for the three-month and twelve-month periods ended December 31, 2004 by applying the recommendation retroactively:

**CONSOLIDATED STATEMENTS OF OPERATIONS  
AND RETAINED EARNINGS**

	Three-months ended December 31, 2004		Twelve-months ended December 31, 2004	
	Originally Reported	As Restated	Originally Reported	As Restated
Administrative and general expenses	\$ 8,171	\$ 8,276	\$ 40,396	\$ 40,807
Interest	3,960	6,354	15,531	23,617
Loss before income taxes	\$ (7,253)	\$ (9,751)	\$ (2,583)	\$ (11,080)
Recovery of income taxes	(2,415)	(2,811)	(749)	(2,916)
Net loss for the period	(4,838)	(6,940)	(1,834)	(8,164)
Retained earnings, beginning of period	121,630	121,115	122,853	122,339
Interest and accretion	(1,687)	-	(5,914)	-
Retained earnings, end of period	\$ 115,105	\$ 114,175	\$ 115,105	\$ 114,175

The following table represents the changes to the Corporation's balance sheet as at December 31, 2004 by applying the recommendation retroactively:

<b>CONSOLIDATED BALANCE SHEET</b>				
<b>As at December 31, 2004</b>				
	<b>Originally Reported</b>		<b>As Restated</b>	
Other assets	\$	41,254	\$	42,486
Convertible debentures as debt		-		63,042
Other paid-in capital		-		11,100
Convertible debentures as equity		71,980		-
Retained Earnings		115,105		114,175

The following table represents the impact to the Corporation's consolidated statements of operations and retained earnings for the three-month and twelve-month periods ended December 31, 2005.

<b>CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS</b>								
	<b>Three-months ended</b>			<b>Twelve-months ended</b>				
	<b>December 31, 2005</b>			<b>December 31, 2005</b>				
	<b>As Reported</b>		<b>Without Change in Accounting Policy</b>		<b>As Reported</b>			
	<b>As Reported</b>	<b>Without Change in Accounting Policy</b>	<b>As Reported</b>	<b>Without Change in Accounting Policy</b>	<b>As Reported</b>	<b>Without Change in Accounting Policy</b>		
Administrative and general expenses	\$	12,059	\$	11,958	\$	43,044	\$	42,634
Interest		5,601		3,284		21,534		13,373
(Loss) income before income taxes	\$	(4,083)	\$	(1,664)	\$	(8,128)	\$	443
(Recovery of) provision for income taxes		(589)		(521)		(2,052)		238
Net (loss) income for the period		(3,494)		(1,143)		(6,076)		205
Retained earnings, beginning of period		111,593		111,593		114,175		114,175
Dividends on Preference Shares		(1,080)		(1,080)		(1,080)		(1,080)
Interest and accretion, net of income taxes		-		(2,089)		-		(6,019)
Retained earnings, end of period	\$	107,019	\$	107,281	\$	107,019	\$	107,281

### 3. INVENTORIES

The Corporation is in negotiations with one of its customers over amendments to pricing with respect to an existing long-term contract. While it is probable that the Corporation will be successful in its negotiations, the final result is not determinable at the present time. If the negotiations are not successful or the final terms differ from what the Corporation expects, the Corporation may be required to record a loss provision on this contract. The amount of such provision, if any, cannot be reasonably estimated until such amendments are finalized.

### 4. BANK INDEBTEDNESS

Bank indebtedness of \$113,824 [2004 - \$68,028] is payable on demand and bears interest at the bankers' acceptance or LIBOR rates, plus 1.0% (4.9% at December 31, 2005). Included in the amount outstanding at December 31, 2005 is US\$71,000 [2004 - US\$52,537]. At December 31, 2005, the Corporation had drawn \$113,824 under the operating credit and had issued letters of credit totalling \$2,017 such that \$30,871 was unused and available. A fixed and floating charge debenture on accounts receivable, inventories and capital assets is pledged as collateral for the operating loan and the term bank loan. The credit facility is fully guaranteed by the Chairman of the Board of Directors. An annual fee of \$155 is paid in consideration for the guarantee.

## 5. CAPITAL STOCK

The following table summarizes information on share capital and related matters as at December 31, 2005:

	<b>Outstanding</b>	<b>Exercisable</b>
Common Shares	90,792,410	
Common Share stock options	3,299,800	521,100
Preference Shares	2,000,000	

The weighted average number of Common Shares outstanding during the three-month and twelve-month periods ended December 31, 2005 was 90,762,690 and 90,753,746 respectively.

On May 27, 2005, the Corporation issued 2,000,000, 8.0% Cumulative Redeemable First Preference Shares Series A ("Preference Shares") at a price of \$10.00 per preference share for total gross proceeds of \$20,000. Each preference share is convertible into 3.33 Common Shares of Magellan (6,666,667 Common Shares in aggregate) at a price of \$3.00 per Common Share.

## 6. STOCK-BASED COMPENSATION PLAN

The Corporation has an incentive stock option plan, which provides for the granting of options for the benefit of employees and directors. The maximum number of options for Common Shares that remain to be granted under this plan is 2,050,903. Options are granted at an exercise price that will be the market price of the Corporation's Common Shares at the time of granting. Options normally have a life of five years with vesting at 20% at the end of the first, second, third, fourth and fifth years from the date of the grant. In addition, certain business unit income tests must be met in order for the option holder's entitlement to fully vest.

The Corporation accounts for stock options issued after January 1, 2003 using the fair value method. Compensation expense recorded during the three-month and twelve-month periods ended December 31, 2005 was \$180 and \$620 respectively [2004 - \$78 and \$234 respectively]. In the twelve-month period ended December 31, 2005, there were 1,545,000 stock options issued at an exercise price of \$2.65. The fair value of these options was \$1.02.

The fair value of stock options is estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

Risk-free interest rate	3.14 %
Expected volatility	35 %
Expected average life of options	4 years
Expected dividend yield	0 %

The Black-Scholes option pricing model used by the Corporation to determine fair values was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. The Corporation's employee stock options are not transferable, cannot be traded and are subject to vesting restrictions and exercise restrictions under the Corporation's blackout policy, which would tend to reduce the fair value of the Corporation's stock options. Changes to the subjective input assumptions used in the model can cause a significant variation in the estimate of the fair value of the options.

For the stock options issued prior to January 1, 2003 the Corporation follows the intrinsic value method, which does not give rise to compensation expense. Under Canadian generally accepted accounting principles, the Corporation is required to disclose compensation expense as if the Corporation had elected to follow the fair value method for such options.

For purposes of pro-forma disclosures, the Corporation's net loss attributable to its common shares and basic and diluted loss per common share for options granted prior to January 1, 2003 would have been as follows:

	Three-months ended December 31		Twelve-months ended December 31	
	2005	2004	2005	2004
Net loss	\$ (3,494)	\$ (6,940)	\$ (6,076)	\$ (8,164)
Less: Pro forma compensation expense	(30)	(62)	(216)	(248)
Pro forma net loss	\$ (3,524)	\$ (7,002)	\$ (6,292)	\$ (8,412)
Dividends on Preference Shares	(1,080)	-	(1,080)	-
Loss attributable to common shareholders	(4,604)	(7,002)	(7,372)	(8,412)
Pro forma net loss per common share				
- Basic	\$ (0.05)	\$ (0.08)	\$ (0.08)	\$ (0.10)
- Diluted	\$ (0.05)	\$ (0.08)	\$ (0.08)	\$ (0.10)

## 7. SEGMENTED INFORMATION

The Corporation is organized and managed as a single business segment, being aerospace, and the Corporation is viewed as a single operating segment by the chief operating decision maker for the purposes of resource allocations and assessing performance.

Capital assets are based on the country in which they are located. Domestic and foreign capital assets consist of:

	As at December 31, 2005				As at December 31, 2004			
	Canada	US	UK	Total	Canada	US	UK	Total
<b>Capital assets</b>	\$ 126,181	\$ 125,783	\$ 12,935	\$ 264,899	\$ 128,446	\$ 136,334	\$ 9,944	\$ 274,724

Revenue is attributable to countries based on the location of the customers. Domestic and foreign revenues consist of:

	Twelve-months ended December 31							
	2005				2004			
	Canada	US	UK	Total	Canada	US	UK	Total
<b>Revenue</b>								
Domestic	\$ 96,100	\$ 148,693	\$ 101,493	\$ 346,286	\$ 102,977	\$ 156,004	\$ 93,923	\$ 352,904
Export	181,430	35,118	5,649	\$ 222,197	184,636	29,587	6,652	220,875
<b>Total revenue</b>	\$ 277,530	\$ 183,811	\$ 107,142	\$ 568,483	\$ 287,613	\$ 185,591	\$ 100,575	\$ 573,779

The major customers for the Corporation for the three-month and twelve-month periods ended December 31 are as follows:

	Three-months ended December 31		Twelve-months ended December 31	
	2005	2004	2005	2004
<b>Major Customers</b>				
Canadian operations				
- Number of customers	4	4	4	2
- Percentage of total Canadian revenue	46 %	45 %	41 %	25 %
US operations				
- Number of customers	3	4	3	4
- Percentage of total US revenue	57 %	70 %	57 %	65 %
UK operations				
- Number of customers	1	1	1	1
- Percentage of total UK revenue	84 %	65 %	80 %	65 %

## 8. FOREIGN EXCHANGE TRANSLATION

Unrealized translation adjustments, which arise on the translation to Canadian dollars of assets and liabilities of the Corporation's self-sustaining foreign operations, resulted in unrealized currency translation losses of \$1,338 and \$9,460 for the three-month and twelve-month periods ended December 31, 2005 respectively [2004 - \$8,125 and \$12,156], which is reflected as foreign exchange translation on the consolidated balance sheets and has no impact on net income.

## 9. SUPPLEMENTARY INFORMATION

Foreign exchange gain on the conversion of foreign currency denominated working capital balances and debt for the three-month and twelve-month periods ended December 31, 2005 was \$288 and \$1,624 respectively [2004 - gain of \$361 and \$3,914].

### For additional information contact:

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