

**Magellan Aerospace Corporation**  
**Third Quarter Report**  
**September 30, 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 November 14, 2005, the Corporation released its financial results for the third quarter of 2005. The results are summarized as follows:

	Three-months ended September 30			Nine-months ended September 30		
	2005	2004	Change	2005	2004	Change
<i>(Expressed in thousands, except per share amounts)</i>						
Revenues	\$ 134,613	\$ 142,727	-5.7 %	\$ 425,719	\$ 436,509	-2.5 %
Net income (loss)	\$ (614)	\$ 482	-	\$ (2,582)	\$ (1,223)	-
Net earnings (loss) per share	\$ (0.01)	\$ 0.01	-	\$ (0.03)	\$ (0.01)	-
EBITDA*	\$ 9,117	\$ 13,043	-30.1 %	\$ 28,742	\$ 33,870	-15.1 %
EBITDA* per share	\$ 0.10	\$ 0.16	-37.5 %	\$ 0.32	\$ 0.39	-18.0 %

**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

Results for the third quarter of 2005 show an underlying activity level consistent with or better than previous quarters. Commercial airliner delivery rates continued a strong upward trend for the main product lines of both Boeing and Airbus. Small and mid-sized business jet deliveries also maintained the strong growth curve that started in early 2004. Regional aircraft showed strong sales in turboprop aircraft, and defence programs were steady in both new and aftermarket applications. These trends were tempered to some degree by a sharp drop in sales of 50-seat regional jets and a six-month delay in the first deliveries of the A380 (now scheduled for first half of 2006). The strong Canadian dollar, measured against the U.S. and U.K. currencies, negatively impacted reported sales and profits, on a year over year comparative basis, during the third quarter in spite of increased deliveries in the quarter.

Despite the Chapter 11 bankruptcy filings by four major US airlines and high energy costs, conditions in the commercial airline industry continue to improve. Airlines are experiencing high load factors, lower personnel costs and increased route efficiencies. Fuel prices are also showing improvement and most airlines in North America, Asia and Europe reported more buoyant financial results. Orders for new large commercial passenger aircraft (greater than 150 seats) increased to 1,060 in the nine-month period to September 30 2005, compared to 385 aircraft in the same period in 2004.

### Revenues

	Three-months ended September 30			Nine-months ended September 30		
	2005	2004	Change	2005	2004	Change
<i>(Expressed in thousands)</i>						
Canada	\$ 62,102	\$ 66,624	-6.8 %	\$ 207,086	\$ 224,932	-7.9 %
United States	46,259	49,190	-6.0 %	135,230	136,167	-0.7 %
United Kingdom	26,252	26,913	-2.5 %	83,403	75,410	10.6 %
<b>Total Revenue</b>	<b>\$ 134,613</b>	<b>\$ 142,727</b>	<b>-5.7 %</b>	<b>\$ 425,719</b>	<b>\$ 436,509</b>	<b>-2.5 %</b>

Consolidated revenues for the third quarter of 2005 were \$134.6 million, a decrease of \$8.1 million, or 5.7%, from the third quarter of 2004. Deliveries of aircraft components increased slightly in the third quarter of 2005 compared to the same period in 2004 as the rate of manufacture of several large civil aircraft programs increased, as did the demand for business jet engine components, offset by lower demand for regional jet engine components. However, revenues were lower in the third quarter of 2005 compared to the same period in 2004 largely due to the strength of the Canadian dollar versus both the US dollar and the United Kingdom Pound Sterling. Changes in foreign exchange rates reduced revenues in the third quarter of 2005 by approximately \$3.6 million in Canada, by \$4.1 million in the United States and by \$2.9 million in the United Kingdom, a total of \$10.6 million for the Corporation on a consolidated basis. Canadian revenues also declined by \$4.1 million, quarter over quarter, due to the winding down of operations at the Corporation's Fort Erie division. After these items are taken into account, revenues rose 4.8% in Canada, 2.3% in the United States and 8.3% in the United Kingdom, or by 4.6% for the Corporation on a consolidated basis.

Revenues generated by commercial product sales in the third quarter of 2005 represented 65.9% (65.0% in 2004) of total revenues while defence product sales comprised the remaining 34.1% (35.0% in 2004) of revenues.

### Gross Profit

	Three-months ended September 30			Nine-months ended September 30		
	2005	2004	Change	2005	2004	Change
<i>(Expressed in thousands)</i>						
Gross profit	\$ 13,465	\$ 15,453	-12.9 %	\$ 42,873	\$ 48,466	-11.5 %
Percentage of revenue	10.0 %	10.8 %		10.1 %	11.1 %	

Gross profit was \$13.5 million, or 10.0% of revenues for the three-month period ended September 30, 2005, compared to \$15.5 million, or 10.8% of revenues, in the same period in 2004. The decline in gross profit, as a percentage of revenue, is due to changes in product mix and the impact of the strengthening Canadian dollar, offset somewhat by operating efficiency gains. Management continues to improve operating efficiencies at all of its plants, and expects that margins will improve through 2006 as volume increases further, which would be offset by further strength in the Canadian dollar.

### **Administrative and General Expenses**

	<b>Three-months ended September 30</b>		<b>Nine-months ended September 30</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<i>(Expressed in thousands)</i>				
Administrative and general expenses	\$ 11,552	\$ 13,124	\$ 33,763	\$ 34,617
Gain on sale of capital assets	-	(1,610)	(1,442)	(1,610)
Foreign exchange gain	(1,899)	(3,553)	(1,336)	(476)
<b>Total administrative and general expenses</b>	<b>\$ 9,653</b>	<b>\$ 7,961</b>	<b>\$ 30,985</b>	<b>\$ 32,531</b>
<b>Percentage of revenue</b>	<b>7.2%</b>	<b>5.6%</b>	<b>7.3%</b>	<b>7.5%</b>

Reported administrative and general expenses were \$9.7 million, or 7.2% of revenues in the third quarter of 2005 compared to \$8.0 million, or 5.6% of revenues in the same period of 2004. Included in administrative and general expenses in the three months ended September 30, 2005 is a foreign exchange gain of \$1.9 million. In the three-month period ended September 30, 2004 there was a gain on the sale of surplus real estate of \$1.6 million and a foreign exchange gain of \$3.6 million. Administrative and general expenses, before adjusting for these items, have decreased by \$1.6 million in the third quarter of 2005 compared to the third quarter in 2004. Approximately 50% of this decrease is due to lower administrative and general expenses incurred in the United States and the United Kingdom after translation to Canadian dollars.

### **Interest Expense**

	<b>Three-months ended September 30</b>		<b>Nine-months ended September 30</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<i>(Expressed in thousands)</i>				
Interest on bank indebtedness and long-term debt	\$ 2,399	\$ 3,848	\$ 8,783	\$ 10,861
Convertible debenture interest	1,487	1,487	4,462	4,462
Accretion charge for convertible debt	460	410	1,380	1,230
Discount on sale of accounts receivable	457	401	1,308	710
<b>Total interest expense</b>	<b>\$ 4,803</b>	<b>\$ 6,146</b>	<b>\$ 15,933</b>	<b>\$ 17,263</b>

Interest expense in the third quarter of 2005 was \$4.8 million, \$1.3 million lower than the third quarter of 2004. Magellan's effective interest rate has decreased due to the renewed credit agreement, which has reduced spreads on bankers' acceptance and LIBOR instruments from 4.5% to 1.0% over base rates effective May 27, 2005. Discounts on sale of accounts receivable increased due to an increase in the amount of accounts receivable sold.

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

	<b>Three-months ended September 30</b>		<b>Nine-months ended September 30</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<i>(Expressed in thousands)</i>				
Provision for current income taxes	\$ 155	\$ 175	\$ 420	\$ 258
(Recovery of) provision for future income taxes	(532)	689	(1,883)	(363)
<b>Total (recovery of) provision for income taxes</b>	<b>\$ (377)</b>	<b>\$ 864</b>	<b>\$ (1,463)</b>	<b>\$ (105)</b>
<b>Effective Tax Rate</b>	<b>38.0%</b>	<b>64.2 %</b>	<b>36.2 %</b>	<b>7.9%</b>

There was a recovery of income taxes of \$0.4 million for the third quarter of 2005, compared to a provision for income taxes of \$0.9 million for the third quarter of 2004. The change in effective tax rates is a result of a changing mix of income across the different jurisdictions in which Magellan operates. The effective rate fluctuates as minimum taxes are provided for with low levels of income.

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

	Three-months ended September 30		Nine-months ended September 30	
	2005	2004	2005	2004
<i>(Expressed in thousands)</i>				
Pre-tax (loss) income	\$ (991)	\$ 1,346	\$ (4,045)	\$ (1,328)
Interest	4,803	6,146	15,933	17,263
Depreciation and amortization	5,305	5,551	16,854	17,935
<b>EBITDA</b>	<b>\$ 9,117</b>	<b>\$ 13,043</b>	<b>\$ 28,742</b>	<b>\$ 33,870</b>

EBITDA for the third quarter of 2005 was \$9.1 million, a decrease of \$3.9 million from the third quarter of 2004, due to a decrease in pre-tax income, lower interest expense and lower depreciation. Income was lower in the third quarter of 2005 mainly due to larger foreign exchange gains and the gain on sale of real estate recorded in the third quarter of 2004.

**Liquidity and Capital Resources**
**Cash Flow from Operations**

	Three-months ended September 30		Nine-months ended September 30	
	2005	2004	2005	2004
<i>(Expressed in thousands)</i>				
Decrease (increase) in accounts receivable	\$ 25,812	\$ (15,090)	\$ (1,081)	\$ (3,002)
(Increase) decrease in inventories	(2,825)	8,320	(10,433)	(14,348)
Increase (decrease) in prepaid expenses and other	(673)	1,188	(1,075)	(1,486)
(Decrease) increase in accounts payable	(8,188)	3,810	(10,577)	8,426
<b>Changes to non-cash working capital balances</b>	<b>\$ 14,126</b>	<b>\$ (1,772)</b>	<b>\$ (23,166)</b>	<b>\$ (10,410)</b>
<b>Cash provided by (used in) operating activities</b>	<b>\$ 18,935</b>	<b>\$ 3,906</b>	<b>\$ (10,399)</b>	<b>\$ 5,540</b>

In the quarter ended September 30, 2005, the Corporation generated \$18.9 million of cash from operating activities, compared to generating \$3.9 million of cash from operating activities in the third quarter of 2004. This was largely due to reduced level of accounts receivable offset by higher inventory balances and lower accounts payable.

**Investing Activities**

	Three-months ended September 30		Nine-months ended September 30	
	2005	2004	2005	2004
<i>(Expressed in thousands)</i>				
Business acquisitions	\$ -	\$ -	\$ -	\$ (10,439)
Purchase of capital assets	(4,639)	(3,874)	(11,588)	(11,532)
Proceeds from disposals of capital assets	23	1,645	3,746	16,657
Increase in other assets	(7,978)	(2,090)	(8,759)	(751)
<b>Cash used in investing activities</b>	<b>\$ (12,594)</b>	<b>\$ (4,319)</b>	<b>\$ (16,601)</b>	<b>\$ (6,065)</b>

In the third quarter of 2005, the Corporation invested \$4.6 million in capital assets to upgrade its facilities and enhance its capabilities. As previously announced the Corporation also recorded an asset of \$8.1 million representing an additional investment in the GE 414 engine program, which increases the scope of supply under this contract.

**Financing Activities**

	Three-months ended September 30		Nine-months ended September 30	
	2005	2004	2005	2004
<i>(Expressed in thousands)</i>				
(Decrease) increase in bank indebtedness	\$ (917)	\$ (2,372)	\$ 61,724	\$ 14,046
Repayment of long-term debt	(1,927)	(20,696)	(49,739)	(29,724)
Increase (decrease) in long-term liabilities	2,899	(9,255)	(5,255)	(13,641)
Issue of Common Shares	72	31,110	114	31,185
Issue of Preference Shares	-	-	19,925	-
<b>Cash provided by (used in) financing activities</b>	<b>\$ 127</b>	<b>\$ (1,213)</b>	<b>\$ 26,769</b>	<b>\$ 1,866</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.

On May 27, 2005, the Corporation issued 2.0 million, 8.0% Cumulative Redeemable First Preference Shares Series A 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**

Manufacturing operations at Fleet Industries have now been wound down. 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 taking actions in two broad categories going forward. First, it will continue to build new business through participation on new aircraft programs at Boeing and Airbus in the commercial sector, General Electric, Rolls-Royce, Pratt & Whitney and Honeywell in the business, defence and regional jet engines sectors, and Lockheed and Northrop in the defence aircraft sector. Concurrently, Magellan will continue measures to refresh existing contracts to reflect current economic and supply realities, reduce internal costs through current plans to rationalize its operating footprint, and ramp up sourcing in emerging markets to maintain global competitiveness and support customer market development objectives. These actions are expected to deliver increased revenues and margins in 2006 and beyond.

On behalf of the Board



**N. Murray Edwards**  
 Chairman  
 November 10, 2005



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

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

(unaudited)

	Three-months ended September 30		Nine-months ended September 30	
	2005	2004 (restated)	2005	2004 (restated)
<i>(Expressed in thousands of dollars, except per share amounts)</i>				
Revenues	\$ 134,613	\$ 142,727	\$ 425,719	\$ 436,509
Cost of revenues	121,148	127,274	382,846	388,043
Gross profit	13,465	15,453	42,873	48,466
Administrative and general expenses	9,653	7,961	30,985	32,531
Interest	4,803	6,146	15,933	17,263
	14,456	14,107	46,918	49,794
Income (loss) before income taxes	(991)	1,346	(4,045)	(1,328)
Provision for (recovery of) income taxes				
- Current	155	175	420	258
- Future	(532)	689	(1,883)	(363)
	(377)	864	(1,463)	(105)
<b>Net profit/(loss) for the period</b>	<b>(614)</b>	<b>482</b>	<b>(2,582)</b>	<b>(1,223)</b>
Retained earnings, beginning of period	113,137	121,148	115,105	122,853
Retained earnings, end of period	\$ 112,523	\$ 121,630	\$ 112,523	\$ 121,630
<b>Earnings per share</b>				
Basic	\$ (0.01)	\$ 0.01	\$ (0.03)	\$ (0.02)
Diluted	\$ (0.01)	\$ 0.00	\$ (0.03)	\$ (0.02)

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

(unaudited)

**As at September 30  
2005**
**As at December 31  
2004**
*(Expressed in thousands of dollars)*

(restated)

**ASSETS**
**Current**

Cash	\$	8,612	\$	9,048
Accounts receivable		68,864		70,974
Inventories		273,511		269,735
Prepaid expenses and other		8,729		8,113
Future income tax assets		10,690		7,104

**Total current assets**

370,406 364,974

Capital assets

263,529 274,724

Other

49,551 42,486

Future income tax assets

39,778 42,318

**Total assets**

\$ 723,264 \$ 724,502

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

Bank indebtedness (note 4)	\$	125,769	\$	68,028
Accounts payable and accrued charges		99,042		114,327
Current portion of long-term debt		1,658		48,335

**Total current liabilities**

226,469 230,690

Long-term debt

9,553 11,856

Future income tax liabilities

81,839 82,457

Convertible debentures

64,975 63,595

Other long-term liabilities

27,633 32,926

**Total liabilities**

410,469 421,524

**Shareholders' equity**

Capital stock (note 5)		234,043		213,962
Contributed surplus		674		234
Other paid-in capital		9,505		9,505
Retained earnings		112,523		115,105
Foreign exchange translation (note 8)		(43,950)		(35,828)

**Total shareholders' equity**

312,795 302,978

**Total liabilities and shareholders' equity**

\$ 723,264 \$ 724,502

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

(unaudited)

	Three-months ended September 30		Nine-months ended September 30	
	2005	2004 (restated)	2005	2004 (restated)
<i>(Expressed in thousands of dollars)</i>				
<b>OPERATING ACTIVITIES</b>				
Loss for the period	\$ (614)	\$ 482	\$ (2,582)	\$ (1,223)
Add (deduct) items not affecting cash				
Depreciation and amortization	5,305	5,551	16,854	17,935
Gain on sale of capital assets	-	(1,610)	(1,442)	(1,610)
Stock option charge	190	156	440	156
Accretion of convertible debentures	460	410	1,380	1,230
Future income taxes (recoveries)	(532)	689	(1,883)	(538)
	4,809	5,678	12,767	15,950
Net change in non-cash working capital items relating to operating activities	14,126	(1,772)	(23,166)	(10,410)
<b>Cash provided by (used in) operating activities</b>	18,935	3,906	(10,399)	5,540
<b>INVESTING ACTIVITIES</b>				
Business acquisitions	-	-	-	(10,439)
Purchase of capital assets	(4,639)	(3,874)	(11,588)	(11,532)
Proceeds from disposal of capital assets	23	1,645	3,746	16,657
Increase in other assets	(7,978)	(2,090)	(8,759)	(751)
<b>Cash used in investing activities</b>	(12,594)	(4,319)	(16,601)	(6,065)
<b>FINANCING ACTIVITIES</b>				
(Decrease) increase in bank indebtedness	(917)	(2,372)	61,724	14,046
Repayment of long-term debt	(1,927)	(20,696)	(49,739)	(29,724)
Increase (decrease) in long-term liabilities	2,899	(9,255)	(5,255)	(13,641)
Issue of common shares	72	31,110	114	31,185
Issue of preference shares	-	-	19,925	-
<b>Cash provided by financing activities</b>	127	(1,213)	26,769	1,866
<b>Effect of exchange rate changes on cash</b>	(5)	(418)	(205)	668
Increase (decrease) in cash	6,463	(2,044)	(436)	2,009
Cash, beginning of period	2,149	7,941	9,048	3,888
<b>Cash, end of period</b>	\$ 8,612	\$ 5,897	\$ 8,612	\$ 5,897



**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 unaudited 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 unaudited 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 under 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 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 time 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 nine-month periods ended September 30, 2004 by applying the recommendation retroactively:

**CONSOLIDATED STATEMENTS OF OPERATIONS  
AND RETAINED EARNINGS**

	Three-months ended September 30, 2004		Nine-months ended September 30, 2004	
	Originally Reported	As Restated	Originally Reported	As Restated
Administrative and general expenses	\$ 7,859	\$ 7,961	\$ 32,225	\$ 32,531
Interest	4,248	6,146	11,571	17,263
(Loss) income before income taxes	\$ 3,346	\$ 1,346	\$ 4,670	\$ (1,328)
(Recovery of) provision for income taxes	1,190	864	1,666	(105)
Net (loss) income for the period	2,156	482	3,004	(1,223)
Retained earnings, beginning of period	121,148	121,148	122,853	122,853
Interest and accretion	(1,674)	-	(4,227)	-
Retained earnings, end of period	\$ 121,630	\$ 121,630	\$ 121,630	\$ 121,630

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
Future tax liabilities		82,345		82,457
Convertible debentures as debt		-		63,595
Other paid-in capital		-		9,505
Convertible debentures as equity		71,980		-

The following table represents the impact to the Corporation's consolidated statements of operations and retained earnings for the three-month and nine-month periods ended September 30, 2005.

<b>CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS</b>						
	<b>Three-months ended</b>			<b>Nine-months ended</b>		
	<b>September 30, 2005</b>			<b>September 30, 2005</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	\$ 9,653	\$	9,551	\$ 30,984	\$	30,676
Interest	4,803		2,856	15,933		10,089
(Loss) income before income taxes	\$ (991)	\$	1,058	\$ (4,045)	\$	2,107
(Recovery of) provision for income taxes	(377)		391	(1,463)		759
Net (loss) income for the period	(614)		667	(2,582)		1,348
Retained earnings, beginning of period	113,137		113,137	115,105		115,105
Interest and accretion, net of income taxes	-		(1,281)	-		(3,930)
Retained earnings, end of period	\$ 112,523	\$	112,523	\$ 112,523	\$	112,523

### 3. INVENTORIES

The Corporation is currently negotiating 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 negotiating a favourable outcome, the final result is not determinable at the present time. If the Corporation does not successfully negotiate a pricing increase or the final terms vary from what the Corporation expects, the Corporation may be required to record a loss provision on this contract. The amount of such a provision, if any, cannot be reasonably estimated until the negotiating process is complete and amendments are finalized.

### 4. BANK INDEBTEDNESS

Bank indebtedness as at September 30, 2005 of \$125,769 [December 31, 2004 - \$68,028] is payable on demand and bears interest at the bankers' acceptance or LIBOR rates, plus 1.0%. Included in the amount outstanding at September 30, 2005 is US\$74,324 [December 31, 2004 - US\$52,537]. The total amount of the operating credit available to the Corporation is \$155,000. A fixed and floating charge debenture on certain of the Corporation's assets is pledged as collateral for the operating loan. The credit facility is fully guaranteed by the Chairman of the Board of Directors.

## 5. CAPITAL STOCK

The following table summarizes information on share capital and related matters as at September 30, 2005:

	<b>Outstanding</b>	<b>Exercisable</b>
Common Shares	90,765,380	
Common Share stock options	3,710,700	998,600
Preference shares	2,000,000	

The weighted average number of Common Shares outstanding during the three-month and nine-month periods ended September 30, 2005 was 90,762,690 and 90,759,412 respectively.

On May 27, 2005, the Corporation issued 2,000,000, 8.0% Cumulative Redeemable First Preference Shares Series A 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 1,279,203. 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 20.0% 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 nine-month periods ended September 30, 2005 was \$190 and \$440 respectively (2004 - \$78 and \$155 respectively). In the nine-month period ended September 30, 2005, there were 1,537,500 stock options issued at an exercise price of \$2.65. The fair value of these options was \$0.96.

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	3.1 %
Expected volatility	35.0 %
Expected average life of options	4 years
Expected dividend yield	0.0 %

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 black-out 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 would have been:

	Three-months ended September 30		Nine-months ended September 30	
	2005	2004	2005	2004
Net income (loss)	\$ (614)	\$ 482	\$ (2,582)	\$ (1,223)
Less: Pro forma compensation expense	(62)	(62)	(186)	(186)
Pro forma net income (loss)	\$ (676)	\$ 420	\$ (2,768)	\$ (1,409)
Pro forma net income (loss) per common share				
- Basic	\$ (0.01)	\$ 0.01	\$ (0.03)	\$ (0.04)
- Diluted	\$ (0.01)	\$ 0.01	\$ (0.03)	\$ (0.04)

## 7. SEGMENTED INFORMATION

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

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

	As at September 30, 2005				As at December 31, 2004			
	Canada	US	UK	Total	Canada	US	UK	Total
<b>Capital assets</b>	\$ 125,055	\$ 126,925	\$ 11,549	\$ 263,529	\$ 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:

	Nine-months ended September 30							
	2005				2004			
	Canada	US	UK	Total	Canada	US	UK	Total
<b>Revenue</b>								
Domestic	\$ 72,920	\$ 107,341	\$ 80,058	\$ 260,319	\$ 80,884	\$ 127,396	\$ 70,101	\$ 278,381
Export	134,166	27,889	3,345	\$ 165,400	144,048	8,771	5,309	158,128
<b>Total revenue</b>	\$ 207,086	\$ 135,230	\$ 83,403	\$ 425,719	\$ 224,932	\$ 136,167	\$ 75,410	\$ 436,509

The major customers for the Corporation for the three-month and nine-month periods ended September 30, 2005 are as follows:

	Three-months ended September 30		Nine-months ended September 30	
	2005	2004	2005	2004
<b>Major Customers</b>				
Canadian operations				
- Number of customers	2	2	2	2
- Percentage of total Canadian revenue	21.1 %	23.4 %	22.0 %	22.7 %
US operations				
- Number of customers	3	4	3	3
- Percentage of total US revenue	52.8 %	79.6 %	56.0%	51.7 %
UK operations				
- Number of customers	1	1	1	1
- Percentage of total UK revenue	85.2 %	59.8 %	70.3%	54.4 %

## **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 \$8,830 and \$8,122 for the three-month and nine-month periods ended September 30, 2005 respectively [2004 - \$9,042 and \$4,031], 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 nine-month periods ended September 30, 2005 was \$1,899 and \$1,336 respectively [2004 – gain of \$3,553 and 476].

### **For additional information contact:**

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