MANAGEMENT'S DISCUSSION AND ANALYSIS

Magellan Aerospace Corporation ("Magellan") is a diversified supplier of components to the aerospace industry. Through its network of facilities throughout North America, Magellan supplies the leading aircraft manufacturers, airlines and defence agencies throughout the world. Magellan's performance in 2001 showed growth in earnings and shareholders' equity, strengthening its ability to serve the world aviation market.

Year ended December 31, 2001 compared with the year ended December 31, 2000

Consolidated revenue for the year ended December 31, 2001 was $614.5 million, a decrease of $10.9 million or 1.7% from 2000 levels. The decrease resulted from a combination of current economic conditions and the aftermath of the September 11th disaster.

Cost of revenues was $502.7 million for the year ended December 31, 2001, for a gross profit of $111.8 million or 18.2%. This compares to the gross profit of $115.7 million or 18.5% recorded in 2000. Lower sales, uncertain shipping schedules, and the Corporation's manpower levels decreasing at a slower rate than sales contributed to lower margins.

Administrative and general expenses were $39.4 million or 6.4% of revenues for the year ended December 31, 2001, compared to $35.5 million or 5.7% of revenues in 2000. Management continues to focus on minimizing these costs, however, intensified marketing efforts and increased employee costs have contributed to the increase in administrative and general expenses over the comparable period in the prior year.

Interest expense of $11.3 million for the year ended December 31, 2001 was $8.4 million or 42.8% lower than 2000 levels. Interest expense was lower in 2001 as Magellan benefited from the significant reductions in borrowing rates and lower debt levels.

Income tax expense was $19.5 million in 2001, on income before income taxes of $60.0 million for an effective tax rate of 32.4%. This rate includes an adjustment of $2.5 million recorded in the second quarter to reflect the effect of lower Canadian tax rates on the Corporation's net future tax liabilities. In 2000, income tax expense was $21.7 million on pre-tax income of $59.6 million for an effective rate of 36.4%.

Year ended December 31, 2000 compared with the year ended December 31, 1999

Consolidated revenue for the year ended December 31, 2000 was $625.4 million, an increase of 11.3% or $63.6 million over 1999 levels. The increase resulted from the inclusion of a full year of sales from Ellanef Manufacturing Corporation, which was acquired in the second quarter of 1999, and organic growth throughout the balance of the Corporation.

Cost of revenues was $509.7 million for the year ended December 31, 2000, for a gross profit of $115.7 million or 18.5%. This compares favourably to the gross profit of $102.2 million or 18.2% recorded in 1999 and reflects the impact of "Six Sigma" and lean manufacturing techniques initiated throughout the Corporation.

Administrative and general expenses were $35.5 million for the year ended December 31, 2000, compared to $36.6 million in 1999. Management's focus on minimizing these costs has resulted in a slight decline, in spite of overall business levels increasing.

Interest expense was $19.7 million, which was an increase of 29.6% or $4.5 million over 1999 levels. The interest expense was higher in 2000 as this was the first full year of inclusion of the debt associated with the purchase of Ellanef, as well as the impact of higher interest rates.

Income tax expense was $21.7 million in 2000, on income before income taxes of $59.6 million for an effective tax rate of 36.4%. In 1999, income tax expense was $19.1 million on pre-tax income of $50.0 million for an effective rate of 38.2%. The income tax rate decreased during 2000 because of reduction of provincial income tax rates as well as the use of capital loss carry-forwards applied to capital gains realized on the disposition of other assets.

Liquidity and Capital Resources

In 2001, the Corporation continued to generate an increasing amount of cash from operating activities when compared to 2000. Cash flow from operations was $65.9 million for the year, an increase of $12.9 million from the previous year.

During the year ended December 31, 2001, the Corporation invested $32.4 million in new production equipment to modernize current facilities and to enhance its capabilities. The Corporation also used a total of $36.3 million of funds generated to reduce long-term debt.

Management believes that adequate cash is available through internally generated liquidity and undrawn lines of credit to meet the Corporation's working capital, program and capital investment, and debt servicing requirements.