MAGELLAN
AEROSPACE CORPORATION

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 midsized 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		
(Expressed in thousands)	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
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 %
Total Revenue	$ 134,613	$ 142,727	-5.7 %	$ 425,719	$ 436,509	-2.5 %

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		
(Expressed in thousands)	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
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

(Expressed in thousands)	Three-months ended September 30 2005	Three-months ended September 30 2004	Nine-months ended September 30 2005	Nine-months ended September 30 2004
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)
Total administrative and general expenses	$ 9,653	$ 7,961	$ 30,985	$ 32,531
Percentage of revenue	7.2%	5.6%	7.3%	7.5%

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

(Expressed in thousands)	Three-months ended September 30 2005	Three-months ended September 30 2004	Nine-months ended September 30 2005	Nine-months ended September 30 2004
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
Total interest expense	$ 4,803	$ 6,146	$ 15,933	$ 17,263

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

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

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	
(Expressed in thousands)	**2005**	**2004**	**2005**	**2004**
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
EBITDA	$ 9,117	$ 13,043	$ 28,742	$ 33,870

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	
(Expressed in thousands)	**2005**	**2004**	**2005**	**2004**
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
Changes to non-cash working capital balances	$ 14,126	$ (1,772)	$ (23,166)	$ (10,410)
Cash provided by (used in) operating activities	$ 18,935	$ 3,906	$ (10,399)	$ 5,540

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	
(Expressed in thousands)	**2005**	**2004**	**2005**	**2004**
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)
Cash used in investing activities	$ (12,594)	$ (4,319)	$ (16,601)	$ (6,065)

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.

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Financing Activities

(Expressed in thousands)	Three-months ended September 30 2005	Three-months ended September 30 2004	Nine-months ended September 30 2005	Nine-months ended September 30 2004
(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	-
Cash provided by (used in) financing activities	$ 127	$ (1,213)	$ 26,769	$ 1,866

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