



Magellan Aerospace Corporation
Third Quarter Report
September 30, 2011

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 and in certain circumstances for power generation projects. Through its network of facilities throughout North America, United Kingdom and India, Magellan supplies leading aircraft manufacturers, airlines and defence agencies throughout the world.

Financial Results

On November 14, 2011, the Corporation released its financial results for the third quarter of 2011. All amounts are expressed in Canadian dollars unless otherwise indicated. The results are summarized as follows:

| | Three month period ended September 30 | | | Nine month period ended September 30 | | |
|---|--|---------|---------|---|---------|--------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Expressed in thousands of dollars, except per share amounts | \$ | \$ | % | \$ | \$ | % |
| Revenues | 161,643 | 184,704 | (12.5)% | 518,120 | 543,752 | (4.7)% |
| Gross Profit | 22,449 | 23,763 | (5.5)% | 67,304 | 68,191 | (1.3)% |
| Net Income | 8,649 | 7,983 | 8.3% | 20,766 | 18,938 | 9.7% |
| Net Income per Share – Diluted | 0.17 | 0.16 | 6.3% | 0.42 | 0.38 | 10.5% |

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 except as required by law.

The Corporation has included certain measures in this quarterly statement, including EBITDA, the terms for which are not defined under International Financial Reporting Standards. The Corporation defines EBITDA as earnings before interest, dividends on preference shares, taxes, depreciation and amortization and non-cash charges. 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 may not be comparable to similarly titled measures used by other companies.



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides a review of activities, results of operations, and financial condition of Magellan Aerospace Corporation for the three and nine months ended September 30, 2011, in comparison with those for the three and nine months ended September 30, 2010. References to "Magellan" or "the Corporation" refer to Magellan Aerospace Corporation and its subsidiaries, as applicable. The following discussion should be read in conjunction with the unaudited interim consolidated financial statements, including the notes thereto, for the three and nine months ended September 30, 2011, and the audited annual consolidated financial statements for the year ended December 31, 2010. The date of the MD&A is November 14, 2011.

OVERVIEW

Magellan is a diversified supplier of components to the aerospace industry and in certain circumstances for power generation projects. Through its wholly owned subsidiaries, Magellan designs, engineers, and manufactures aeroengine and aerostructure components for aerospace markets, advanced products for military and space markets, and complementary specialty products. The Corporation also supports the aftermarket through supply of spare parts as well as performing repair and overhaul services and supplies in certain circumstances parts and equipment for power generation projects.

The Corporation's strategy has been to focus on several core competencies within the aerospace industry. These include precision machining of a wide variety of aerospace material, composites, complex high technology magnesium and aluminum alloy castings, repair and overhaul technologies and design of structures. The Corporation is now seeking to leverage these core competencies by achieving growth in applications where these abilities are critical in meeting customer needs.

BUSINESS UPDATE

During the third quarter of 2011, economic uncertainty affected much of the world. Conflicts in the Middle East and the debt crisis in Europe as well as concerns about the US economy continued to dominate the headlines. Notwithstanding this environment, demand from the commercial airline sector for products supplied by the Corporation remains robust. Despite the fact that profit reporting by many airlines has declined from previous reporting periods, to date this has not manifested itself in a softening of demand. In the third quarter of 2011, the Original Equipment Manufacturers ("OEM") (namely Boeing and Airbus) increased their production rates on both single aisle and twin aisle aircraft platforms in line with rates anticipated in previous forecasts. At the same time, a negative cloud on the horizon is the fact that there are strong indicators that defence spending in both Europe and North America will likely be curtailed to some degree and those programs approved for expenditures will likely be closely scrutinized going forward. It is expected that any increase in either commercial or defence aerospace spending will be in support of emerging markets, primarily Asia and India.

The Corporation remains well positioned with existing contracts and the anticipated growth in the single aisle A320 and B737 programs. The Corporation should also benefit from opportunities to increase support to both Airbus and Boeing in their re-engineering initiatives in this single aisle market. The Corporation has been fully engaged in supporting the entry into service and the production ramp up of Boeing's B787 and the development and launch of production on Airbus's A350 twin aisle aircraft, further solidifying our position on commercial airline programs. However, to date both the B787 and A350 programs have experienced delays which has caused the Corporation shortfalls in revenues. In the defence sector, Magellan continues to benefit from the investment made in technology, equipment and facilities in support of the F-35 Program, with the program now moving forward in support of production rate increases. The Corporation recently completed a 140,000 square foot addition to its Winnipeg location in support of the JSF program which was partially funded through a \$14.9 million mortgage. The facility provides a state-of-the-art environment for the manufacture of the advanced composite components required for the JSF program. In the fourth quarter of 2011, the Corporation will continue to invest in machinery and equipment for the new facility. Any delays in these new programs will impact the amount of revenue and corresponding profits earned by the Corporation.

In the aero engine marketplace, Magellan's agreement with Rolls-Royce to support their engine shaft business through investment in the Corporation's Haverhill shaft facility is progressing well and is on plan. It is expected that the additional investment during the fourth quarter of 2011 and first quarter of 2012 in shaft technology in this facility will be fully operational by mid-2012.

The global space market is growing in segments that include science and space exploration, defence, and media, which affect earth observation, communication, navigation, and entertainment. The Corporation has been involved in various space activities for over four decades and has more recently established itself as a satellite developer, obtaining an important role within the Canadian space program over the past decade. With two complete satellites delivered, Magellan is



presently under contract to design the satellite bus for Canada's RADARSAT Constellation Mission (RCM), with manufacturing and assembly of the three-satellite RCM constellation to commence in 2012.

The Corporation's focus on achieving operational excellence through standardized business processes across all divisions has continued unabated and has generated positive reactions by our customer base and has also positively impacted our financial performance. Non-core work continues to be out-sourced to local and emerging markets, which successfully frees up capacity for new core programs as they ramp up. Business development activities remain focused on increasing the level and complexity of core activity within the operating sites and adding value to the Corporation's key customers.

During the second quarter of 2011, the Corporation's Winnipeg location was affected by a work stoppage of union employees, which while now resolved, has had a negative impact on the Corporation's third quarter financial results. It is expected that full revenue recovery will not be achieved until the first quarter of 2012.

For additional information, please refer to the "Management's Discussion and Analysis" section of the Corporation's 2010 Annual Report available on www.sedar.com.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective January 1, 2011, the Corporation began reporting its financial results in accordance with International Financial Reporting Standards ("IFRS"). Accordingly, these IFRS results and all future results will be reported under IFRS and prior period comparative amounts, including the opening statement of financial position at January 1, 2010, have been conformed to reflect results as if the Corporation had always prepared its financial statements using IFRS. Please see additional discussion regarding IFRS later in this MD&A.

ANALYSIS OF OPERATING RESULTS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2011

The Corporation reported lower revenue in the third quarter of 2011 than the third quarter of 2010, primarily as a result of lower revenues in the power generation project segment. Gross profit and net income for the third quarter of 2011 were \$22.4 million and \$8.6 million, respectively, a decrease from the third quarter of 2010 gross profit of \$23.8 million and an increase from the third quarter of 2010 net income of \$8.0 million.

Consolidated Revenue

Overall, the Corporation's revenues decreased when compared to the third quarter of 2010.

| Expressed in thousands of dollars | Three month period ended September 30 | | | Nine month period ended September 30 | | |
|-----------------------------------|--|----------------|----------------|---|----------------|---------------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Aerospace | \$ 149,033 | \$ 147,788 | 0.8% | \$ 447,359 | \$ 467,135 | (4.2)% |
| Power Generation Project | 12,610 | 36,916 | (65.8)% | 70,761 | 76,617 | (7.6)% |
| Total revenues | 161,643 | 184,704 | (12.5)% | 518,120 | 543,752 | (4.7)% |

Consolidated sales for the third quarter ended September 30, 2011 decreased 12.5% to \$161.6 million from \$184.7 million in the third quarter of 2010, due mainly to decreased revenues earned in the Power Generation Project segment partially offset a slight increase in revenues earned in the Aerospace segment. As the Corporation moves into late 2011 and 2012, revenue from the Power Generation Project will decrease on a year over year basis unless the Corporation receives further contracts in this area. Overall consolidated sales in the third quarter of 2011 were at the lowest level of quarterly sales since the first quarter of 2008.

Aerospace Segment

Revenues for the Aerospace segment were as follows:

| Expressed in thousands of dollars | Three month period ended September 30 | | | Nine month period ended September 30 | | |
|-----------------------------------|--|----------------|-------------|---|----------------|---------------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Canada | \$ 67,878 | \$ 72,772 | (6.7)% | \$ 204,540 | \$ 235,294 | (13.1)% |
| United States | 46,197 | 45,635 | 1.2% | 140,224 | 140,351 | (0.1)% |
| United Kingdom | 34,958 | 29,381 | 19.0% | 102,595 | 91,490 | 12.1% |
| Total revenues | 149,033 | 147,788 | 0.8% | 447,359 | 467,135 | (4.2)% |



Consolidated aerospace revenues for the third quarter of 2011 of \$149.0 million were 0.8% higher than revenues of \$147.8 million in the third quarter of 2010. Revenues in Canada in the third quarter of 2011 decreased 6.7% from the same period in 2010 as the Corporation experienced lower volumes on certain product lines and the delay in shipments in the first month of the quarter as one of the Corporations locations resumes shipments after a work stoppage. In addition US denominated sales in Canada were negatively impacted by the decline of the US dollar against the Canadian dollar. Increased revenues in the United States in the third quarter of 2011 in comparison to the third quarter of 2010 resulted from increased volumes experienced on both new and existing programs. Revenues in the United Kingdom in the third quarter of 2011 increased over revenues in the same period in 2010 as the Airbus statement of work continues to increase in volume.

Power Generation Project Segment

Revenues for the Power Generation Project segment were as follows:

| Expressed in thousands of dollars | Three month period ended September 30 | | | Nine month period ended September 30 | | |
|-----------------------------------|--|-----------|---------|---|-----------|--------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Power Generation Project | \$ 12,610 | \$ 36,916 | (65.8)% | \$ 70,761 | \$ 76,617 | (7.6)% |
| Total revenues | 12,610 | 36,916 | (65.8)% | 70,761 | 76,617 | (7.6)% |

Decreased revenues in the third quarter of 2011 over the same period in 2010 represents the Corporation's progress made on the Ghana electric power generation project in the period in comparison to the progress made in the previous quarter. As the Corporation moves into late 2011 and 2012, revenue from the Power Generation Project will decrease on a year over year basis unless the Corporation receives further contracts in this area.

Gross Profit

| Expressed in thousands of dollars | Three month period ended September 30 | | | Nine month period ended September 30 | | |
|-----------------------------------|--|-----------|--------|---|-----------|--------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Gross profit | \$ 22,449 | \$ 23,763 | (5.5)% | \$ 67,304 | \$ 68,191 | (1.3)% |
| Percentage of revenues | 13.9% | 12.9% | | 13.0% | 12.5% | |

Gross profit of \$22.4 million (13.9% of revenues) was reported for the third quarter of 2011 compared to \$23.8 million (12.9% of revenues) during the same period in 2010. Gross profit in the most recent quarter of 2011, as a percentage of revenues, increased over the same period in 2010 due in large part to additional investment tax credits (ITC's) of \$1.1 million recognized in the third quarter of 2011 when compared to the same quarter in the prior year. Had the Corporation not recorded the additional benefits from the ITC's in the quarter, gross profit, as a percentage of revenue would have been consistent with the prior year percentage of 12.9%. Overall margins also increased as a result of change in the mix of revenues between the Aerospace segment and the Power Generation Project segment.

Administrative and General Expenses

| Expressed in thousands of dollars | Three month period ended September 30 | | | Nine month period ended September 30 | | |
|-------------------------------------|--|----------|--------|---|-----------|--------|
| | 2011 | 2010 | Change | 2011 | 2010 | Change |
| Administrative and general expenses | \$ 8,811 | \$ 9,387 | (6.1)% | \$ 27,647 | \$ 28,848 | (4.2)% |
| Percentage of revenues | 5.4% | 5.1% | | 5.3% | 5.3% | |

Administrative and general expenses were \$8.8 million (5.4% of revenues) in the third quarter of 2011 compared to \$9.4 million (5.1% of revenues) in the third quarter of 2010.

Other

| Expressed in thousands of dollars | Three month period ended September 30 | | Nine month period ended September 30 | |
|--------------------------------------|--|--------|---|--------|
| | 2011 | 2010 | 2011 | 2010 |
| Foreign exchange (gain) loss | \$ (355) | \$ 243 | \$ 38 | \$ 863 |
| Plant and program closure recoveries | - | - | - | (820) |
| Loss on sale of PP&E | 87 | 34 | 117 | 152 |
| Total other | (268) | 277 | 155 | 195 |

Other income of \$0.3 million in the third quarter of 2011 consisted of realized and unrealized foreign exchange gains offset by losses on the sale of property, plant and equipment. Other expense in the third quarter of 2010 resulted from unrealized foreign exchange losses and losses on the sale of property, plant and equipment.

Interest Expense

| Expressed in thousands of dollars | Three month period ended September 30 | | Nine month period ended September 30 | |
|--|--|--------------|---|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Interest on bank indebtedness and long-term debt | \$ 1,949 | \$ 3,567 | \$ 7,359 | \$ 11,214 |
| Convertible debenture interest | 1,006 | 1,008 | 2,992 | 2,997 |
| Accretion charge for convertible debt, borrowings and long-term debt | 389 | 207 | 779 | 617 |
| Discount on sale of accounts receivable | 145 | 75 | 489 | 297 |
| Total interest expense | 3,489 | 4,857 | 11,619 | 15,125 |

Interest expense of \$3.5 million in the third quarter of 2011 was lower than the third quarter of 2010 amount of \$4.9 million. Interest on bank indebtedness and long-term debt decreased as principal amounts outstanding during the third quarter of 2011 were lower than those in the third quarter of 2010. Reduced interest rates on the long-term debt and lower interest rate spreads on bank indebtedness also contributed to the reduction in interest expense in the current quarter when compared to the third quarter of 2010.

Provision for Income Taxes

| Expressed in thousands of dollars | Three month period ended September 30 | | Nine month period ended September 30 | |
|--|--|--------------|---|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| Expense (recovery) of current income taxes | \$ 1,111 | \$ (417) | \$ 1,136 | \$ 575 |
| Expense of deferred income taxes | 657 | 1,356 | 5,671 | 3,870 |
| Total expense of income taxes | 1,768 | 939 | 6,807 | 4,445 |
| Effective tax rate | 17.0% | 10.5% | 24.7% | 19.0% |

The Corporation recorded an income tax expense of \$1.8 million for the third quarter of 2011, compared to an income tax expense of \$0.9 million for the third quarter of 2010. The change in effective tax rates is a result of a changing mix of income across the different jurisdictions in which the Corporation operates.

SELECTED QUARTERLY FINANCIAL INFORMATION

| Expressed in millions of dollars | International Financial Reporting Standards | | | | | | | Previous Canadian GAAP |
|----------------------------------|---|----------|----------|----------|----------|----------|----------|------------------------------|
| | 2011 | | 2010 | | | | 2009 | |
| | Sep 30 | Jun 30 | Mar 31 | Dec 31 | Sep 30 | Jun 30 | Mar 31 | Dec 31 |
| Revenues | \$ 161.6 | \$ 186.0 | \$ 170.5 | \$ 187.9 | \$ 184.7 | \$ 181.4 | \$ 177.6 | \$ 165.8 |
| Net Income | 8.6 | 4.9 | 7.2 | 15.4 | 8.0 | 7.1 | 3.8 | 2.0 |
| Net Income per Share | | | | | | | | |
| Basic | 0.47 | 0.27 | 0.40 | 0.85 | 0.44 | 0.39 | 0.21 | 0.09 |
| Diluted | 0.17 | 0.10 | 0.15 | 0.29 | 0.16 | 0.14 | 0.07 | 0.05 |

Revenues and net income reported in the quarterly information was impacted by the fluctuations in the Canadian dollar exchange rate in comparison to the US dollar and British Pound. The US dollar/Canadian dollar exchange rate in the third quarter of 2011 fluctuated reaching a low of 0.9440 and a high of 1.0326. During the third quarter of 2011, the British Pound relative to the Canadian dollar fluctuated reaching a low of 1.5302 and a high of 1.6328. Had exchange rates remained at levels experienced in the third quarter of 2010, reported revenues in the third quarter of 2011 would have been higher by \$6.5 million. Net income was higher in the third quarter of 2011 than the same quarter in 2010 in large part due to \$1.7 million less depreciation and amortization charge in the 2011 third quarter than the same period in 2010. Net income for the fourth quarter of 2010 of \$15.4 million was higher than other quarterly net income disclosed in the table above as in the fourth quarter of 2010 the Corporation recognized a reversal of previous impairment losses of \$7.6 million against intangible assets relating to various civil aircraft programs. As at September 30, 2011 the Corporation does not estimate that a reversal of previous impairment losses will be recorded in the fourth quarter of 2011.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

In addition to the primary measures of earnings and earnings per share (basic and diluted) in accordance with IFRS, the Corporation includes certain measures in this quarterly statement, including EBITDA (earnings before interest expense, dividends on preference shares, income taxes, depreciation, amortization and certain non-cash charges). The Corporation has provided these measures 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 the various jurisdictions. Each of the components of this measure are calculated in accordance with IFRS, but EBITDA is not a recognized measure under IFRS, and the Corporation's method of calculation may not be comparable with that of other companies. Accordingly, EBITDA should not be used as an alternative to net earnings as determined in accordance with IFRS or as an alternative to cash provided by or used in operations.

| Expressed in thousands of dollars | Three month period ended September 30 | | Nine month period ended September 30 | |
|-----------------------------------|--|---------------|---|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income | \$ 8,649 | \$ 7,983 | \$ 20,766 | \$ 18,938 |
| Interest | 3,489 | 4,857 | 11,619 | 15,125 |
| Dividends on preference shares | - | 320 | 310 | 640 |
| Taxes | 1,768 | 939 | 6,807 | 4,445 |
| Stock-based compensation | (7) | 55 | 50 | 215 |
| Depreciation and amortization | 6,891 | 8,195 | 22,424 | 26,375 |
| EBITDA | 20,790 | 22,349 | 61,976 | 65,738 |

EBITDA for the third quarter of 2011 was \$20.8 million, compared to \$22.3 million in the third quarter of 2010. As previously discussed, decreased gross profit resulted in decreased EBITDA for the current quarter.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow from Operations

| Expressed in thousands of dollars | Three month period ended September 30 | | Nine month period ended September 30 | |
|--|--|----------|---|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Decrease (increase) in accounts receivable | \$ 10,055 | \$ 5,998 | \$ (8,448) | \$ 3,332 |
| (Increase) decrease in inventories | (2,132) | (12,931) | 26,456 | (2,828) |
| Decrease in prepaid expenses and other | 8,399 | 18,393 | 2,747 | 27,994 |
| Decrease in accounts payable | (26,579) | (18,565) | (31,607) | (27,040) |
| Changes to non-cash working capital balances | (10,257) | (7,105) | (10,852) | 1,458 |
| Cash provided by operating activities | 1,062 | 8,471 | 29,586 | 45,354 |

In the quarter ended September 30, 2011, the Corporation generated \$1.1 million of cash from its operations, compared to cash generated by operations of \$8.5 million in the third quarter of 2010. Cash was generated mainly by a decrease in accounts receivable and prepaid expenses and other, offset by decreases in accounts payable and inventories.

Investing Activities

| Expressed in thousands of dollars | Three month period ended September 30 | | Nine month period ended September 30 | |
|---|--|------------|---|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Purchase of property, plant & equipment | \$ (11,567) | \$ (7,928) | \$ (25,837) | \$ (13,102) |
| Proceeds of disposals of property plant & equipment | 210 | - | 346 | 136 |
| Increase in other assets | (89) | (3,443) | (7,012) | (11,759) |
| Cash used in investing activities | (11,446) | (11,371) | (32,503) | (24,725) |

In the third quarter of 2011, the Corporation invested \$26.1 million in property, plant and equipment of which \$20.8 million represented the Corporation's investment in an advanced composite manufacturing centre in Manitoba to support the Joint Strike Fighter program. A portion of the costs of the advanced composite manufacturing centre was financing through a mortgage in the amount of \$14.9 million. The remaining investments in property, plant and equipment was to upgrade and enhance capabilities for current and future programs.



Financing Activities

| Expressed in thousands of dollars | Three month period ended September 30 | | Nine month period ended September 30 | |
|---|--|----------|---|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Increase (decrease) in bank indebtedness | \$ 986 | \$ 4,587 | \$ 9,796 | \$ (8,933) |
| Increase (decrease) in debt due within one year | 2,327 | (6,089) | 9,108 | (13,071) |
| Decrease in long-term debt | (5,916) | (5,569) | (14,284) | (11,253) |
| Increase in long-term debt | 3,220 | 889 | 5,209 | 6,086 |
| Increase (decrease) in long-term liabilities | 1,340 | (183) | (317) | (485) |
| (Decrease) increase in provisions | (137) | - | 62 | - |
| Increase in borrowings | 1,420 | 1,766 | 3,038 | 3,295 |
| Dividends on preference shares | - | - | - | (400) |
| Redemption of preference shares | - | - | (12,000) | (4,000) |
| Cash provided by (used in) financing activities | 3,240 | (4,599) | 612 | (28,761) |

On April 29, 2011 the Corporation amended its credit agreement with its existing lenders and extended the loan [originally \$65.0 million, \$34.5 million as at September 30, 2011] due on July 1, 2011 (the "Original Loan") due to Edco Capital Corporation ("Edco") in order to provide loan facilities for a two year period. Under the terms of the amended operating credit agreement, the Corporation and the lenders have agreed that the maximum available under the operating credit facility was amended to a Canadian dollar limit of \$125.0 million plus a US dollar limit of \$50.0 million [previously a Canadian dollar limit of \$105.0 million plus a US dollar limit of \$70.0 million] and the maturity date has been extended to April 29, 2013 and will continue to be fully guaranteed until April 29, 2013 by the Chairman of the Board of the Corporation, in consideration of the continued payment by the Corporation of an annual fee payable monthly equal to 0.63% [previously 1.15%] of the gross amount of the operating credit facility. The operating credit facility is extendible for unlimited future one year renewal periods, subject to mutual consent of the syndicate of lenders and the Corporation.

The terms of the amended operating credit facility permit the Corporation to (i) repay, in whole or in part, the Original Loan outstanding from Edco and (ii) retract all [approximately \$12.0 million as at April 30, 2011] of the Corporation's 8.0% Cumulative Redeemable First Preference Shares Series A (the "Preference Shares") on or after April 30, 2011, together with payment of all accrued and unpaid dividends on the shares to be retracted provided there is no current default or event of default under the operating credit facility and after the repayment of the loan and the payment of the retraction amount the Corporation has at least \$25.0 million in availability under the operating credit facility. As a result, the Corporation retracted all the remaining Preference Shares during the second quarter of 2011 in the amount of \$12.0 million.

In addition, the extension and restatement of the Original Loan (outstanding as at September 30, 2011 in the principal amount of \$34.5 million) from Edco, which is wholly owned by the Chairman of the Board of the Corporation, was completed in the third quarter of 2011. The Corporation has the right to repay the secured subordinated loan at any time without penalty. The interest rate was decreased from 11% per annum to 7.5% per annum commencing July 1, 2011 and the loan extended to July 1, 2013 in consideration of the payment on July 1, 2011 of a fee to Edco equal to 1% of the principal amount outstanding on such date. During the three and nine month periods ended September 30, 2011, the Corporation repaid \$5.1 million and \$11.5 million, respectively, of the Original Loan.

The Corporation's 10% convertible debentures, which are due on April 30, 2012, were reclassified from a long term liability to a short term liability during the quarter. The debentures are convertible, at the option of the holder at any time prior to April 30, 2012, in whole or in multiples of \$1,000, into fully paid and non-assessable common shares of the Corporation at the conversion price of \$1.00 per common share which is equal to the issuance on conversion of approximately 40,000,000 common shares in total. Given the conversion price of the convertible debentures are in the money, it is likely that these will be converted into common shares of the Corporation on or before their maturity.

During the quarter the Corporation entered into a 5 year variable rate term mortgage in the amount of \$14.9 million, under which interest is charged at a margin of 1.75% over the lender's prime lending rate of 3.0% at September 30, 2011. The mortgage is secured by certain land and building. Due to the large capital expenditure the Corporation incurred in the third quarter of 2011 (relative to previous quarters) and to be incurred in the fourth quarter of 2011, the Corporation's long term debt levels will be increasing somewhat.

DERIVATIVE CONTRACTS

The Corporation has entered into foreign forward exchange contracts to mitigate future cash flow exposures in US dollars. Under these contracts the Corporation is obliged to purchase specific amounts at predetermined dates and exchange rates. These contracts are matched with anticipated operational cash flows in US dollars. As at September 30, the Corporation has foreign exchange contracts outstanding as follows:



| | Amount | Floor | Ceiling |
|---|--------|--------|---------|
| Maturity – less than 1 year – US dollar | 4,500 | 1.0354 | 1.1111 |

The fair values of the Corporation's forward foreign exchange contracts are based on the current market values of similar contracts with the same remaining duration as if the contract had been entered into on September 30, 2011.

SHARE DATA

As at October 31, 2011, the Corporation had 18,209,001 common shares outstanding and \$40.0 million convertible debentures convertible into 40,000,000 common shares. The dilutive weighted average number of common shares outstanding, resulting from the potential common shares issuable on the conversion of the convertible debentures, for the three month period ending September 30, 2011 was 58,209,001.

RISKS AND UNCERTAINTIES

The Corporation manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without hindering the ability to maximize returns. Management has procedures to help identify and manage significant operational and financial risks.

For more information in relation to the risks inherent in Magellan's business, reference is made to the information under "Risk Factors" in the Corporation's Management's Discussion and Analysis for the year ended December 31, 2010 and to the information under "Risks Inherent in Magellan's Business" in the Corporation's Annual Information Form for the year ended December 31, 2010, which has been filed with SEDAR (www.sedar.com).

CHANGES IN ACCOUNTING POLICIES

Transition to and initial adoption of IFRS

Starting January 1, 2011, the Corporation is applying IFRS as issued by the International Accounting Standards Board ["IASB"]. The preparation of the unaudited interim consolidated financial statements for the three and nine month periods ending September 30, 2011 includes the initial adoption of accounting policies under IFRS which are different than the accounting policies used to prepare the most recent annual consolidated financial statements prepared under Canadian generally accepted accounting principles ["Canadian GAAP"].

The accounting policies as set out in Note 2 to the unaudited interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2011 have been applied consistently to all periods beginning on or after January 1, 2010 presented in these financial statements. Comparative information for the three and nine month periods ended September 30, 2010 and financial statements for the year ended December 31, 2010, have thus been adjusted from amounts previously reported under Canadian GAAP. They also have been applied in preparing an opening IFRS balance sheet at January 1, 2010 for the purpose of the transition to IFRS, as required by IFRS 1, First-time Adoption of International Financial Reporting Standards.

Details on the changes to previously reported amounts as a result of the transition to IFRS were included in the notes to the interim condensed consolidated financial statements for the period ended March 31, 2011. The interim condensed consolidated financial statements for the period ended September 30, 2011 contains additional disclosure related to the three and nine months ended September 30, 2010 and as of September 30, 2010. Both sets of statements were filed on SEDAR and are also available on Magellan's website www.magellan.aero.

Impact of IFRS on the Corporation

The conversion to IFRS impacts the way the Corporation presents its financial results. The impact of the conversion to IFRS on the accounting systems has been minimal due to limited changes in accounting policies. The internal and disclosure control processes, as currently designed, have not required significant modifications as a result of the conversion to IFRS. The Corporation has assessed the impact of adopting IFRS on its contractual arrangements, and has not identified any material compliance issues. The Corporation has also considered the impact that the transition will have on its internal planning process and compensation arrangements and has not identified any significant issues.

Recent accounting pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended September 30, 2011, and have not been applied in preparing these unaudited interim consolidated financial statements. The

following standards and interpretations have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

| International Accounting Standards | Effective Date |
|---|-----------------------|
| IAS 12 – Income taxes | January 1, 2012 |
| IFRS 9 - Financial Instruments | January 1, 2013 |
| IFRS 10 - Consolidation | January 1, 2013 |
| IFRS 11 – Joint Arrangements | January 1, 2013 |
| IFRS 12 - Disclosure of Interests in Other Entities | January 1, 2013 |
| IFRS 13 – Fair Value Measurement | January 1, 2013 |
| IAS 27 – Separate Financial Statements | January 1, 2013 |
| IAS 28 – Investments in Associates and Joint Ventures | January 1, 2013 |
| IAS 1 – Presentation of Financial Statements | January 1, 2013 |

| | | |
|----------------------------|--|-----------------|
| IAS 19 – Employee Benefits | A number of amendments have been made to IAS 19, which included eliminating the use of the “corridor” approach and requiring remeasurements to be presented in OCI. The standard also includes amendments related to termination benefits as well as enhanced disclosures. | January 1, 2013 |
|----------------------------|--|-----------------|

The extent of the impact of adoption of these standards and interpretations on the consolidated financial statements of the Corporation has not been determined.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In the 2010 annual audited consolidated financial statements and management’s discussion and analysis, the Corporation identified the accounting policies and estimates that are critical to the understanding of the business and results of operations. With the adoption of IFRS, critical accounting policies and estimates have been updated to conform with this adoption. Please refer to note 2 to the unaudited interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2011 for a detailed discussion regarding the significant accounting policies and application of critical accounting judgments, estimates and assumptions.

CONTROLS AND PROCEDURES

Based on the current Canadian Securities Administrators (the “CSA”) rules under National Instrument 52-109 Certification of Disclosure in Issuers’ Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer (or individuals performing similar functions as a chief executive officer or chief financial officer) are required to certify as at September 30, 2011 that they are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting.

Management does not expect disclosure controls and procedures and internal control over financial reporting to prevent all errors, misstatements or fraud. In addition, internal control over financial reporting that management has designed and established may be circumvented and rendered ineffective as a result of unauthorized acts of individuals through collusion or management override. A system of control, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that control objectives are met. Due to the inherent limitations in a system of control, there is no absolute assurance that all controls issues, which may result in errors, misstatements, or fraud, can be prevented or detected. The inherent limitations include, amongst other things: (i) management’s assumptions and judgements could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of isolated errors; (iii) assumptions about the likelihood of future events.

No changes were made in the Corporation’s internal control over financial reporting during the Corporation’s most recent interim period, that have materially affected, or are reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

OUTLOOK

The Corporation continues to monitor and analyze key indicators of the global economy for signs that solutions adopted by governments globally are successfully implemented so as to ensure that economic stability continues to support what is currently a strong civil aerospace market. Large economies, such as Europe, United States, India and China will need to continue to deal effectively with the current economic challenges in order to sustain prudent and necessary military and defence spending. The global commercial markets will be heavily influenced by the Asian and Emerging markets while the defence market, still dominated by the United States and Europe, will continue to be under budget duress and fiscal restraints.

The Corporation is focused on the active transition to the future state of aerospace industry technology in support of its strategic core capabilities to ensure that its investment strategy is properly matched to our customers’ expressed needs. The Corporation’s current efforts are now concentrated on supporting the Boeing 787 and Airbus A350 commercial airliner programs and the Joint Strike Fighter defence program, all of which programs are currently experiencing delays.

Increased global demand for commercial airliners has resulted in both Airbus and Boeing implementing production rate increases and launching engine enhancements programs in support of their current single aisle platforms. These increases and planned improvements apply primarily to the A320 (neo) and B737 families of aircraft, but also to the current twin-aisle A330 and B777 models.



The Corporation's industrial power generation project in Ghana is proceeding on schedule and the Corporation continues to assess additional opportunities that emerge and will respond accordingly.

The Corporation's strategy to participate in new aircraft and engine programs during the development phase has been effective in capturing work packages, with the appropriate technology and complexity to move us up the global supply chain. The Corporation has focused its marketing initiatives on communication at senior levels with key customers to assess their needs and thereby position itself to provide solutions to these customers. As new programs are initiated by the prime contractors, Magellan will evaluate each opportunity and pursue those best suited for the Corporation.

ADDITIONAL INFORMATION

Additional information relating to Magellan Aerospace Corporation, including the Corporation's annual information form, can be found on the SEDAR web site at www.sedar.com.

FORWARD LOOKING STATEMENTS

This Management and Discussion Analysis contain 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 uncertainties and assumptions, which may cause actual results to be materially different from those expressed or implied. These forward looking statements can be identified by the words such as "anticipate", "continue", "estimate", "forecast", "may", "project", "could", "plan", "intend", "should", "believe" and similar words suggesting future events or future performance. In particular there are forward looking statements contained under the headings: "Overview" which outlines certain expectations for future operations and "Outlook" which outlines certain expectations for the future. These statements assume the continuation of the current regulatory and legal environment; the continuation of trends for passenger airliner and defence production and are subject to the risks contained herein and outlined in our annual information form. The Corporation assumes no future obligation to update these forward-looking statements except as required by law.