MAGELLAN
AEROSPACE CORPORATION

Magellan Aerospace Corporation
Second Quarter Report
June 30, 2004

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 August 7, 2004, the Corporation released its financial results for the second quarter of 2004. The results are summarized as follows:

	Three Months Ended June 30			Six Months Ended June 30		
Expressed in thousands, except per share amounts	2004	2003	PERCENTAGE CHANGE	2004	2003	PERCENTAGE CHANGE
Revenues	$ 157,766	$ 120,987	30.4%	$ 293,782	$ 239,042	22.9%
Net Income (Loss)	$ (1,787)	$ 4,573	-	$ 848	$ (14,531)	-
Net Income (Loss) Per Share	$ (0.04)	$ 0.05	-	$ (0.02)	$ (0.25)	-
EBITDA*	$ 7,162	$ 15,997	-55.2%	$ 20,827	$ (4,442)	-
EBITDA* Per Share	$ 0.09	$ 0.24	-62.5%	$ 0.26	$ (0.07)	-
Net Income Before Unusual Item	$ (1,787)	$ 4,573	-	$ 848	$ 6,930	-87.8%
Net Income Per Share Before Unusual Item	$ (0.04)	$ 0.05	-	$ (0.03)	$ 0.10	-
EBITDA* Before Unusual Item	$ 7,162	$ 15,997	-55.2%	$ 20,827	$ 28,831	-27.8%
EBITDA* Per Share Before Unusual Item	$ 0.09	$ 0.24	-62.5%	$ 0.26	$ 0.43	-39.5%

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.

***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.**

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Management's Discussion and Analysis

Revenues for the three months ended June 30, 2004 were $157.8 million, an increase of $36.8 million or 30.4% from the same period one year ago. Revenues for the year-to-date period ending June 30, 2004 were $293.8 million, an increase of $54.7 million or 22.9% from the previous year. Approximately two-thirds of the increase in revenues, being $26.4 million, is due to the inclusion of Magellan's business in the United Kingdom, acquired in October 2003, and the balance from new contracts, such as the GE 414 Aircraft Engine Revenue Sharing Agreement as well as increased shipments from higher activity levels at its North American operations.

Gross profit is $15.3 million (9.7% of revenues) for the second quarter of 2004 compared to $16.8 million (13.9% of revenues) during the same period in 2003. Gross profit was negatively affected by an increase in new program shipments, which are experiencing low margins in the early stages, and operating inefficiencies associated with ramp-up to increased volumes. Gross profits were also impacted by foreign exchange rates; even though Magellan has hedged a significant portion of its cash flows, current year hedging levels are less advantageous compared to those from one year ago. Cost reduction efforts are continuing to occur in order to remain competitive in the prevailing exchange rate environment.

Due to the stronger Canadian dollar in 2004 compared to 2003, revenues in the second quarter of 2004 were lower by approximately $2.7 million compared to the second quarter of 2003, had the exchange rate been the same in both periods. Cost of sales is correspondingly lower as well, but the exchange impact is somewhat more diluted, as the cost of Canadian based inventories expensed in the quarter will have been purchased at different rates in the inventory turn cycle. In addition, certain production costs are denominated in Canadian dollars, and therefore the strengthening of the Canadian dollar versus the US dollar has no effect on these costs. In the second quarter of 2004, the Corporation realized a benefit of $0.8 million from its hedging activities to offset the negative impact of foreign exchange rate changes on gross margin. In the corresponding quarter in 2003 the gain realized from hedging was $1.7 million, which was recorded as an addition to gross margin in that period.

Administrative and general expenses were $14.1 million in the second quarter of 2004, an increase of $7.3 million from the same period last year. Included in administrative and general expenses for the three months ended June 30, 2004, is a foreign exchange loss of $3.3 million, which arose on translation of the Corporation's US dollar denominated debt as the Canadian dollar weakened compared to the US dollar during the quarter. In the corresponding period in 2003, there was a foreign exchange gain of $3.6 million due to the translation of the US dollar debt, as the Canadian dollar had strengthened in that period. Excluding the impact of foreign exchange, administrative and general expenses were $10.8 million or 6.8% of revenues in the second quarter of 2004, compared to $10.4 or 8.6% in the second quarter of 2003.

Interest expense increased to $3.9 million in the three months ended June 30, 2004, up from $2.9 million in the same period last year. Interest expense is higher due to additional debt levels associated with higher working capital balances outstanding during the quarter. Interest expense includes an amount of $0.2 million which represents discounts on the sale of receivables.

Recovery of income tax was $1.0 million in the second quarter of 2004, resulting in an effective tax rate of 35.3%, compared to a provision from income tax of $2.6 million in the second quarter of 2003, for an effective rate of 36.3%. The blended income tax rate has declined year over year primarily due to lower income tax rates in the United Kingdom where the Corporation had operations in 2004, but no operations in the corresponding period in 2003.

There was a net loss for the quarter ended June 30, 2004 of $1.7 million (loss of $0.04 per share), compared to net income of $4.6 million (income of $0.05 per share) for the same period in 2003. For the year to date in 2004, net income is $0.9 million (loss of $0.02 per share), compared to a net loss of $14.5 million (loss of $0.25 per share) in the year to date period in 2003. The year to date loss in 2003 contained a pre tax provision of $33.3 million related to the closure of facilities in Fort Erie. The most recent review of the closure provision indicates that it remains sufficient to cover all anticipated closure costs. The earnings per share calculations contain charges related to the convertible debenture of $1.3 million for the second quarter of 2004 and $2.6 million for 2004 year-to-date.

Liquidity and Capital Resources

During the second quarter of 2004 the Corporation used $2.7 million of cash in operations, as non-cash working capital balances increased by $5.7 million. The growth in working capital includes increases in inventory of $17.5 million, offset by decreases in accounts receivable of $10.6 million and increases in accounts payable of $3.1 million. Inventory increased as the Corporation built ahead of customer delivery schedules to ensure continued deliveries during traditional summer maintenance shutdowns in July and August at several divisional locations. Inventory also increased during the second quarter due to the additional work in the United Kingdom and increased demand for products in North America. Accounts receivable decreased, as additional receivables were sold under securitization arrangements.

During the second quarter, the Corporation sold certain receivables under securitization arrangements with third parties. In the second quarter, the Corporation sold a total of $33.0 million of receivables. A discount of $0.2 million relating to these sales reflecting an annualized discount rate of 2.5% has been recorded as interest expense in the second quarter.

In the quarter ended June 30, 2004, the Corporation invested $12.2 million in capital expenditures to modernize current facilities and enhance it capabilities. Included in this amount was $7.1 million related to the modernization and facilitation to support additional business awarded in the United Kingdom. For the year-to-date, the Corporation has made $14.5 million of capital acquisitions.

The Corporation was not in compliance with certain of its bank financial covenants at the end of the second quarter of 2004. As a result, the Corporation obtained a waiver of these financial covenants as of June 30, 2004, and received an amendment of its financial covenants for the quarter ending September 30, 2004. In addition, Magellan committed to raise additional capital through the issuance of equity and committed to refinance its long-term debt. Magellan expects to be in compliance with all of its existing bank covenants, as amended, at all times during the upcoming twelve months.

Risk Factors

The majority of the Corporation's revenues and operating income is derived from the aviation industry. The Corporation's aerospace operations are focused on engineering and manufacturing aircraft components on new aircraft, selling spare parts and performing repair and overhaul services on existing aircraft components. Therefore, the Corporation's business is directly affected by economic factors and other trends that affect the Corporation's customers in the aerospace industry. Economic and other factors, both internal to the aviation industry or general economic factors that might affect the aerospace industry may have an adverse impact on the Corporation's results from operations.

In addition, growth in the demand for products manufactured by the Corporation has resulted in an increased requirement for working capital. The Corporation needs to access the capital markets to fund this growth, as indicated in the Liquidity and Capital Resources discussion above. There is no assurance that the Corporation will be able to raise additional capital required on financial terms acceptable to it.

A more extensive analysis of related risk factors, which covers both generic and in some cases more specific items, is contained in the Corporation's Annual Information Form.

Recent Developments

On May 6, 2004 the Corporation announced the signing of a new supply agreement with Airbus UK, which represents additional work valued at approximately $24.0 million annually, across the full range of Airbus products with significant content on the Airbus A380. The work consists of complex machining of aluminium and hard metal alloys. Magellan has also secured additional equipment and facilities to accommodate the expanded workload and anticipated volume increases as the demand for Airbus aircraft grows. This additional capacity is located adjacent to existing Magellan facilities in the United Kingdom, and will provide an opportunity to rationalize the increased workload across all divisions, reduce overhead costs and absorb the cost reduction demands that are now a feature of aerospace lean manufacturing. Along with the Airbus work, the Corporation has secured additional work from AgustaWestand and the GKN Group, representing an additional $9.0 million to $12.0 million of annual revenue.

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A new opportunity for growth was made available to the Corporation as the first co-generation gas turbine was delivered during the quarter to a customer in London, Ontario. This unit will be the prototype installation for the production of electricity and steam from biofuel and presents a growth opportunity given the increasing demands for power in the Ontario marketplace and elsewhere.

Magellan also announced at the Farnborough Air Show, an agreement with agencies in China and India, to develop suppliers in those two countries to expand Magellan's global supplier network. Major customers are increasingly interested in dealing with suppliers with strong global sourcing systems to enhance value, and to provide economic benefits to those areas where their products will be sold.

Summary

The worldwide aerospace industry continues to strengthen. In spite of high fuel costs, major airlines have been experiencing higher load factors for both freight and passenger traffic. While profits have not recovered at the major US airlines, low-cost carriers continue to flourish both in North America and Europe and Asian airlines are also profitable. Both Boeing and Airbus have recently updated delivery schedules for 2005 and 2006 showing increases in rates in the single aisle aircraft models. As Magellan has good exposure to these models, business activity is expected to increase to meet the increased demand for components. Delivery schedules for twin-aisle aircraft have remained steady. There are also signs of a recovery in the power generation sector increasing the opportunities for component manufacturing and small co-generation power units.

On behalf of the Board

N. Murray Edwards
Chairman
August 6, 2004

Richard A. Neill
President and Chief Executive Officer