

**Magellan Aerospace Corporation  
 First Quarter Report  
 March 31, 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 May 13, 2005, the Corporation released its financial results for the first quarter of 2005. The results are summarized as follows:

Expressed in thousands, except per share amounts	Three Months Ended March 31		
	2005	2004	PERCENTAGE CHANGE
Revenues	\$ 144,941	\$ 136,016	6.6%
Net Income (Loss)	\$ (1,679)	\$ 1,358	-223.6%
Net Income (Loss) Per Share	\$ (0.02)	\$ 0.02	-200.0%
EBITDA*	\$ 8,881	\$ 13,665	-35.0%
EBITDA Per Share	\$ 0.10	\$ 0.17	-41.2%

**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**

The first quarter of 2005 reflects improved sales and margins from the fourth quarter of 2004. Customer demand in several key areas continues to increase as single aisle commercial aircraft build rates at both Boeing and Airbus continue to increase, while demand for business aircraft aeroengines are increasing at a significant pace. Defence programs are continuing at a steady pace, as the US government has confirmed production rates for the F-18 and F-22 aircraft and new orders were received for F-15 components. As well, repair and overhaul activity rates show no signs of decline. Boeing announced the cancellation of the B717 in the quarter, however, this will have no material impact on Magellan. Bid opportunities for new work are increasing, on both new aircraft programs such as the Boeing 787 and Airbus 350, but also on current production models as well.

### **Revenues**

	<b>Three Months Ended March 31</b>			
	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>% Change</b>
<i>(Expressed in thousands of dollars)</i>				
Canada	\$ 73,120	\$ 69,597	\$ 3,523	5.1%
United States	43,566	44,403	(837)	-1.9%
United Kingdom	28,255	22,016	6,239	28.3%
Total Revenues	<u>\$ 144,941</u>	<u>\$ 136,016</u>	<u>\$ 8,925</u>	6.6%

Consolidated revenues for the first quarter of 2005 were \$144.9 million, an increase of \$8.9 million, or 6.6%, from the first quarter of 2004. Revenues increased by \$6.2 million, or 28.3% in the United Kingdom, which reflects the impact of expanded work scope under an Airbus contract signed in April, 2004. Revenues declined by \$0.8 million or 1.9% in the United States, while increasing by \$3.5 million or 5.1% in Canada. Average Canadian-US exchange rates were 0.8150 in the first quarter of 2005 compared to 0.7588 in the first quarter of 2004. On a consolidated basis, revenues were approximately \$8.0 million lower in the first quarter of 2005 than they would have been if foreign exchange rates had remained the same as in the first quarter of 2004. After adjusting for this impact, revenues reflect 12.5% year over year growth.

Revenues generated by commercial product sales in the first quarter of 2005 represented 68% (66% in 2004) of total revenues while defence product sales comprised the remaining 32% (34% in 2004) of revenues.

### **Gross Profit**

	<b>Three Months Ended March 31</b>			
	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>% Change</b>
<i>(Expressed in thousands of dollars)</i>				
Gross profit	\$ 14,455	\$ 17,757	\$ (3,302)	-18.6%
% of revenues	<u>10.0%</u>	<u>13.1%</u>		

Gross profits of \$14.5 million (10.0% of revenues) were reported for the first quarter of 2005 compared to \$17.8 million (13.1% of revenues) during the same period in 2004. Margin percentage declined year over year due to the effect of lower foreign exchange rates for the Canadian dollar vs. the US dollar, a change in mix of products sold, and additional period costs to support anticipated increased demand expected to occur throughout 2005 and beyond. Margins have improved from the fourth quarter of 2004, due to improving efficiencies in manufacturing processes. The Corporation is focussed on improving profitability levels and expects that gross profit, as a percentage of sales, will improve through the balance of 2005.

### **Administrative and General Expenses**

	<b>Three Months Ended March 31</b>			
	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>% Change</b>
<i>(Expressed in thousands of dollars)</i>				
Administrative and general expenses	\$ 10,923	\$ 10,247	\$ 676	6.6%
Foreign exchange loss	312	166	146	88.0%
Total administrative and general expenses	<u>\$ 11,235</u>	<u>\$ 10,413</u>	<u>\$ 822</u>	7.9%

Administrative and general expenses (net of foreign exchange loss) were \$10.9 million, or 7.5% of revenues in the first quarter of 2005 compared to \$10.2 million, or 7.5% of revenues in the same period of 2004. The increase in general and administrative expenses is due to increased sales levels. A net foreign exchange loss of \$0.3 million was incurred in the first quarter of 2005, compared to a foreign exchange loss of \$0.2 million in the first quarter of 2004.

### **Interest Expense**

	<b>Three Months Ended March 31</b>			
	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>% Change</b>
<i>(Expressed in thousands of dollars)</i>				
Interest on bank indebtedness and long term debt	\$ 3,361	\$ 3,252	\$ 109	3.4%
Convertible debenture interest	1,488	1,488	-	-
Accretion charge for convertible debt	460	409	51	12.5%
Discount on sale of accounts receivable	494	108	386	357.4%
Total interest expense	<u>\$ 5,803</u>	<u>\$ 5,257</u>	<u>\$ 546</u>	<u>10.4%</u>

Interest expense increased due to increased average interest rates on bank indebtedness and long term debt. Discount charges increased because of a larger volume of accounts receivables sold. Accretion charge represents the value of the call option related to the Corporation's convertible debentures that is expensed in the period and added to the face value of the convertible debentures.

### **Provision for Income Taxes**

	<b>Three Months Ended March 31</b>			
	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>% Change</b>
<i>(Expressed in thousands of dollars)</i>				
Current income tax	\$ 125	\$ 58	\$ 67	115.5%
Future income tax	(1,029)	671	(1,700)	-253.3%
	<u>\$ (904)</u>	<u>\$ 729</u>	<u>\$ (1,633)</u>	<u>-224.0%</u>
Effective tax rate	<u>35.0%</u>	<u>34.9%</u>		

There was a recovery of income taxes of \$0.9 million for the first three months of 2005, compared to a provision for income taxes of \$1.4 million for the first three months of 2004. The minor change in effective tax rates is a result of a changing mix of income across the different jurisdictions in which Magellan operates.

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

	<b>Three Months Ended March 31</b>			
	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>% Change</b>
<i>(Expressed in thousands of dollars)</i>				
Net income	\$ (1,679)	\$ 1,358	\$ (3,037)	-223.6%
Interest	5,803	5,257	546	10.4%
Taxes	(904)	729	(1,633)	-224.0%
Depreciation and amortization	5,661	6,321	(660)	-10.4%
EBITDA	<u>\$ 8,881</u>	<u>\$ 13,665</u>	<u>\$ (4,784)</u>	<u>-35.0%</u>

EBITDA for the first quarter of 2005 was \$8.9 million, a decrease of \$4.8 million from the first quarter of 2004, due to a decline in pre-tax income and lower depreciation. Depreciation was lower in the first quarter of 2005 than in the corresponding period in 2004 because of lower foreign exchange rates impacting the depreciation charge for the Corporation's US subsidiaries, and a lower capital asset base as a result of the sale operating leaseback transaction which occurred at the end of the first quarter of 2004.

### **Financial Position**

The following chart outlines the significant changes in the consolidated balance sheets of the Corporation from December 31, 2004 to March 31, 2005.

<b>Balance Sheet Item</b>	<b>Change</b>	<b>Explanation</b>
<i>(Expressed in thousands of dollars)</i>		
Cash	\$ (3,853)	See Consolidated Statement of Cash Flows
Accounts receivable	21,752	Increase due to additional sales in current quarter and timing of collections
Inventory	4,808	Increase due to increasing demand from customers
Capital assets	(1,613)	Decrease due to depreciation being greater than capital asset acquisitions, net of foreign exchange rate impact

Bank indebtedness	27,958	Increase is due to increase in working capital balances and payments of long-term debt
Convertible debentures	460	Increase due to non-cash accretion charge

### **Liquidity and Capital Resources**

<b>Cash Flow from Operations</b> (Expressed in thousands of dollars)	<b>Three Months Ended March 31</b>			
	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>% Change</b>
Changes to non-cash working capital balances	\$ (26,125)	\$ (6,539)	\$ (19,586)	299.5%
Cash (used in), provided by operating activities	(22,652)	2,221	(24,873)	-1,119.9%

In the quarter ended March 31, 2005, the Corporation used \$22.7 million of cash in its operations, compared to generating \$2.2 million from operations in the first quarter of 2004. This was largely due to increased accounts receivable as a result of increased sales and the timing of receivables collections. Inventories rose in response to increasing demand from the Corporation's customers.

<b>Investing Activities</b> (Expressed in thousands of dollars)	<b>Three Months Ended March 31</b>			
	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>% Change</b>
Purchases of capital assets	\$ (3,457)	\$ (2,277)	\$ (1,180)	51.8%
Proceeds of disposal of capital assets	531	15,007	(14,476)	-96.5%
Increase in other assets	(271)	(956)	685	-71.7%
Cash used in investing activities	\$ (3,197)	\$ 11,774	\$ (14,971)	-127.2%

In the first quarter of 2005, the Corporation invested \$3.5 million in capital assets to upgrade its facilities and enhance its capabilities. Proceeds of \$0.5 million were received in the first quarter of 2005 on the sale of equipment no longer used in operations. In the first quarter of 2004, the Corporation sold \$15.0 million of capital assets at their net book value and entered into a five-year operating lease agreement to retain their use.

<b>Financing Activities</b> (Expressed in thousands of dollars)	<b>Three Months Ended March 31</b>			
	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>% Change</b>
Increase (decrease) in bank indebtedness	\$ 27,635	\$ (5,983)	\$ 33,618	-561.9%
Repayment of long-term debt	(4,440)	(4,205)	(235)	5.6%
Decrease in long-term liabilities	(1,048)	(4,330)	3,282	-75.8%
Issue of common shares	27	55	(28)	-50.9%
Cash provided by (used in) financing activities	\$ 22,174	\$ (14,463)	\$ 36,637	-253.3%

In the first quarter of 2005, the Corporation drew on its operating credit in the amount of \$27.6 million to fund growth in working capital. Also in the quarter, the Corporation repaid \$4.4 million of long-term debt as scheduled.

The Corporation is in discussions with its lenders to renegotiate its existing operating and long-term credit agreements. In conjunction with the proposed refinancing, the Corporation's lenders have required the Corporation to raise \$20.0 million of new equity which the Corporation proposes to satisfy by issuing \$20 million of convertible preferred shares. The preferred shares are expected to bear an 8.0% cumulative dividend, payable quarterly, and each preferred share is expected to be convertible into 3.33 common shares of the Corporation at the option of the holder. In addition, the preferred shares are expected to be redeemable at the option of the Corporation and retractable, under certain circumstances, at the option of the holder. The proceeds of the shares will be used to repay debt and for general corporate purposes. The Corporation had committed to its bankers to have the preferred share issue completed by April 29, 2005 and is in default of this commitment. The Corporation has received a waiver of this default and expects to have both the preferred share issue as well as new credit agreements in place by May 31, 2005.

### **Update on Closure of Fleet Industries**

Operations at Fleet Industries are at present, in a wind-up mode, and the facility is expected to complete all operations by the end of the second quarter of 2005. At present, no further increases to the provision for the plant closure are expected.

**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 continues to look to the future with guarded optimism. While commercial airline results continue to be tempered by high fuel costs, many airlines are reporting higher utilization of equipment, better load factors and stronger yields. Significant orders for new aircraft have also recently been placed. Magellan expects the growth that it is experiencing to date in 2005 will continue over the next two years. The current strong demand for business jet engines is also expected to be sustained as well, with mid-size and micro-jets leading the way. Defence opportunities appear to be stable, with no reduction expected in the short-term. As these increases in sales take effect, Magellan hopes to see this growth reflected in its financial returns.

On behalf of the Board



**N. Murray Edwards**  
**Chairman**  
May 13, 2005



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