MAGELLAN
AEROSPACE CORPORATION

Magellan Aerospace Corporation
First Quarter Report
March 31, 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.

<u>Financial Results</u>

On May 12, 2004, the Corporation released its financial results for the first quarter of 2004. The results are summarized as follows:

	Three Months Ended March 31		
Expressed in thousands, except per share amounts	2004	2003	PERCENTAGE CHANGE
Revenues	$ 136,016	$ 118,055	15.2%
Net Income (Loss)	2,635	(19,104)	-
Net Income (Loss) Per Share	0.02	(0.30)	-
EBITDA	13,665	(20,439)	-
EBITDA Per Share	0.17	(0.30)	-
Net Income Before Unusual Item	$ 2,635	$ 2,357	11.8%
Net Income Per Share Before Unusual Item	0.02	0.02	0.0%
EBITDA Before Unusual Item	13,665	12,834	6.5%
EBITDA Per Share Before Unusual Item	0.17	0.19	-10.5%

<u>Management's Discussion & Analysis</u>

The aerospace industry continues a slow recovery from its low point in 2003, fuelled by continuing strength in defence spending, and signs of recovery in some sectors of civil aviation.

In defence, demand for products and services remains strong in the aftermarket sector, driven by high activity rates over the past year. The Corporation has also experienced increased production rates in engine components for new original equipment. The current delay of the Boeing 767 air-refuelling program casts some doubts on the production rates for this aircraft. However, overall defence production continues to increase steadily.

The airline industry continues to report mixed results. Most regional and low cost airlines continue to order new regional jets and small to mid-sized single-aisle aircraft. For larger civil aircraft, favoured by the mainline airlines, the situation is less clear, with results mixed at best. While load factors continue to improve, recovery in this sector will be slow and adversely affected by high fuel prices. The result is a low level of orders for larger aircraft. Looking forward, the strong sales of the Airbus A380, and the launch of the Boeing 7E7 indicate improvement in future years.

The business aircraft sector, driven largely by the health of the general economy, is showing the most buoyant recovery, with significantly higher orders for delivery in 2004 and beyond. The Corporation will benefit from the strength of the business aircraft and regional jet sectors through its position on the engines of these aircraft. It also has a strong position on single-aisle aircraft, both Boeing and Airbus models, through its involvement on wings and landing gear components, and supplies major engine exhaust structures for several large airliners.

The Corporation announced on May 6th the expansion of its operations in the United Kingdom (UK) acquired in late 2003. This growth was triggered by an opportunity to significantly increase Airbus civil aircraft workload, and gain additional exposure to other UK-based customers. The new agreement with Airbus makes Magellan (UK) the largest aerostructure supplier to Airbus UK wing assembly operations.

Results from Operations

Consolidated revenues for the first quarter of 2004 were $136.0 million, an increase of 15.2% or $18.0 million from the first quarter of 2003**.** The increase in revenues was due to the inclusion of Magellan's operations in the United Kingdom, offset by the effect of lower foreign exchange rates on the Corporation's US dollar denominated revenues. A further discussion on the impact of foreign exchange rates is included below. Revenues in the first quarter of 2004 approached the level of revenues of the fourth quarter of 2003, which is an encouraging sign as the fourth quarter is typically the strongest quarter of the year.

The Corporation recorded gross margin of $17.8 million, or 13.1% of sales, in the first quarter of 2004, compared to gross margin of $15.5 million, or 13.2% of sales in the first quarter of 2003. The increase in gross margin amounts is due to the increased sales levels.

Administrative and general expenses were $10.3 million in the first quarter of 2004 compared to $9.1 million, in the corresponding period in 2003. The increase in administrative and general expenses is due to the inclusion of Magellan's operations in the United Kingdom and the impact of foreign exchange, offset by lower costs incurred in the North American operations. A foreign exchange loss of $0.2 million is included in administrative and general expenses in the first quarter of 2004, compared to a foreign exchange gain of $2.2 million in the first quarter of 2003. These losses and gains result from the conversion of US dollar denominated debt at current rates.

Foreign exchange rates continue to have a significant impact in comparing current year to prior year results. Due to the stronger Canadian dollar in 2004, revenues in the first quarter of 2004 were lower by $12.9 million compared to the first 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 first quarter of 2004, the Corporation realized a benefit of $1.1 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 $0.4 million.

Interest expense increased to $3.3 million for the first quarter of 2004, from $2.6 million in the first quarter in 2003. Included in interest expense in 2004 are discounts related to sales of accounts receivable totalling $0.3 million and interest charges relating to the deferred liability for the GE 414 revenue sharing partnership agreement signed in late December 2003.

The provision for income taxes in the first quarter of 2004 was $1.5 million, or 35.5% of pre-tax income. The Corporation expects to pay only minimal cash income taxes in 2004 as there are sufficient deductions for income tax purposes to offset any income earned in the year.

The Corporation earned net income of $2.6 million ($0.02 per share) for the three months ended March 31, 2004, compared to a loss of $19.1 million ($0.30 per share) in the corresponding period in 2003. The 2003 loss resulted from the pre-tax provision of $33.3 to close the facilities in Fort Erie, and excluding this charge, net income in the first quarter of 2003 was $2.4 million ($0.02 per share).

Liquidity and Capital Resources

In the quarter ended March 31, 2004, the Corporation generated $3.7 million from operations, compared to a usage of cash from operations of $7.7 million in the first quarter in 2003. Net income and non-cash items were offset by growth in accounts receivable and inventory.

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During the quarter the Corporation sold $15.0 million of capital assets to a third party at their net book value and entered into an operating lease agreement to retain their use. The Corporation also purchased $2.3 million of new equipment to modernize its facilities and further enhance its capabilities.

Recent Developments

On May 6, the Corporation announced a series of moves to strengthen its European base. A new supply agreement was signed with Airbus, under which the Corporation will produce additional work valued at £10.0 million annually across the entire family of Airbus commercial aircraft. To undertake this additional work, the Corporation has secured additional equipment and facilities to accommodate the expanded workload and further volume increases as the demand for Airbus aircraft continues to grow. The additional facilities, located adjacent to existing facilities in the United Kingdom will provide an opportunity for Magellan to rationalize the increased workload across all divisions, decrease overhead costs and absorb the cost reduction demands that are now a feature of aerospace lean manufacturing. The greater capacity also brings the benefit of additional work on AgustaWestland helicopter programs and with the GKN Group, contributing additional work worth £4-5 million annually.

Summary

Conditions in the commercial aerospace industry continue to show signs of improvement. The regional and business jet sectors are experiencing pickups in demand which is being evidenced by a pickup in order activity on existing contracts. As the overall economies in North America, Europe and Asia improve, air travel will also increase, further increasing the need for new aircraft. Over the past two years, while the industry was slowing, Magellan had positioned itself to be able to respond to increased demand as the aerospace cycle turned. Maintaining capacity in North America and executing the transactions in the United Kingdom over the last six months have positioned Magellan well for the expected increased demand in the near future.

On behalf of the Board

N. Murray Edwards
Chairman
May 12, 2004

Richard A. Neill
President and Chief Executive Officer