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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.

Financial Results

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%

Management’s Discussion & Analysis

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

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, the terms for which are not defined under Canadian generally accepted accounting principles. The Corporation has included these measures because it believes this information is used by certain investors to assess financial performance. 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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CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND RETAINED EARNINGS
(unaudited)

(expressed in thousands of dollars except per share amounts)	Three months ended March 31 **2004**	2003
Revenues	**$ 136,016**	$ 118,055
Cost of revenues	**118,259**	102,513
Gross profit	**17,757**	15,542
Administrative and general expenses	**10,311**	9,054
Interest	**3,360**	2,602
Unusual item (note 2)	**-**	33,273
	13,671	44,929
Income (loss) before income taxes	**4,086**	(29,387)
Income taxes		
Current	**58**	323
Future (Recovery)	**1,393**	(10,606)
	1,451	(10,283)
Net income (loss) for the period	**2,635**	(19,104)
Retained earnings, beginning of the period	**122,853**	142,762
Interest and accretion related to the convertible debentures	**(1,277)**	(869)
Retained earnings, end of period	**$ 124,211**	$ 122,789
Income (loss) per common share		
Basic	**$ 0.02**	$ (0.30)
Diluted	**$ 0.01**	$ (0.30)

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CONSOLIDATED BALANCE SHEETS
(unaudited)

(expressed in thousands of dollars)	March 31 2004	December 31 2003
ASSETS		
Current		
Cash	**$ 3,890**	$ 3,888
Accounts receivable	**90,228**	82,726
Inventories	**288,640**	275,233
Prepaid expenses and other	**8,741**	7,785
Future income tax assets	**6,948**	5,101
Total current assets	**398,447**	374,733
Capital assets	**283,180**	300,076
Other	**43,127**	42,414
Future income tax assets	**38,815**	34,862
	$ 763,569	$ 752,085
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	**$ 66,418**	$ 71,808
Accounts payable and accrued charges	**111,385**	99,261
Current portion of long-term debt (note 3)	**24,725**	24,558
Total current liabilities	**202,528**	195,627
Long-term debt (note 3)	**67,268**	70,845
Future income tax liabilities	**96,096**	87,692
Other long-term liabilities	**41,816**	46,105
Shareholders' equity		
Capital stock (note 4)	**182,788**	182,733
Convertible debentures	**70,224**	69,902
Retained earnings	**124,211**	122,853
Foreign exchange translation	**(21,362)**	(23,672)
Total shareholders' equity	**355,861**	351,816
	$ 763,569	$ 752,085

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(expressed in thousands of dollars)	Three months ended March 31 **2004**	2003
OPERATING ACTIVITIES		
Income (loss) for the period	**$ 2,635**	$ (19,104)
Add (deduct) items not affecting cash		
Depreciation and amortization	**6,219**	6,346
Unusual item (note 2)	**-**	33,273
Future income taxes (recoveries)	**1,393**	(10,606)
	10,247	9,909
Net change in non-cash working capital items relating to operating activities	**(6,546)**	(17,627)
Cash provided by (used in) operating activities	**3,701**	(7,718)
INVESTING ACTIVITIES		
Purchase of capital assets	**(2,277)**	(407)
Proceeds from disposal of capital assets	**15,007**	-
(Increase) decrease in other assets	**(956)**	494
Cash provided by investing activities	**11,774**	87
FINANCING ACTIVITIES		
Decrease in bank indebtedness	**(5,983)**	(11,768)
Net repayments of long-term debt	**(4,205)**	(45,275)
Decrease in long-term liabilities	**(4,330)**	(611)
Issue of convertible debentures	**-**	67,950
Interest on convertible debentures	**(1,480)**	(1,463)
Issue of common shares	**55**	36
Cash (used in) provided by financing activities	**(15,943)**	8,869
Effect of exchange rate changes on cash	**470**	(244)
Increase in cash	**2**	994
Cash, beginning of period	**3,888**	3,630
Cash, end of period	**$ 3,890**	$ 4,624

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(expressed in thousands of dollars except share and per share data)

1. ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by the Corporation in accordance with accounting principles generally accepted in Canada on a basis consistent with those followed in the most recent audited consolidated financial statements. These unaudited consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes included in the Corporation's Annual Report for the year ended December 31, 2003. These financial statements have not been reviewed by the Corporation's external auditors.

2. UNUSUAL ITEM

During 2003, the Corporation announced its decision to cease operations at its Fleet Industries plant in Fort Erie, Ontario. Management has estimated the potential costs and losses resulting from this decision and has recorded a one-time charge to net earnings in 2003 of $33,273; however as this amount involves estimates, the ultimate amount of the charge could be materially different from the amounts recorded.

3. LONG-TERM DEBT

	March 31, 2004 $	**December 31, 2003** $
Term bank loan	79,105	83,217
Other non-bank loans	7,921	7,114
Obligations under capital leases	4,967	5,072
	91,993	95,403
Less current portion	24,725	24,558
	67,268	70,845

The term bank loan bears interest at bankers' acceptance or LIBOR rates, plus 2.25% to 4.50%, and has a maturity date of July 26, 2005. Included in the term bank loan are amounts due in U.S. dollars of $60,203 [2003 - $63,864].

4. CAPITAL STOCK

The following table summarizes information on share capital and related matters at March 31, 2004:

	Outstanding	**Exercisable**
Common shares	79,352,972	
Common shares stock options	1,948,000	1,195,100

The weighted average number of common shares outstanding during the three months ended March 31, 2004 was 79,346,482.

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5. STOCK-BASED COMPENSATION PLAN

The Corporation has an incentive stock option plan, which provides for the granting of options for the benefit of employees and directors. At March 31, 2004, the maximum number of options for common shares remaining to be granted under this plan was 3,322,703. Options are granted at an exercise price that will be the market price of the Corporation's common shares at the time of granting. Options normally have a life of 5 years with vesting of 20% at the end of the first, second, third, fourth and fifth years from the date of the grant. In addition, certain business unit income tests must be met in order for the option holder's entitlement to fully vest.

The Corporation accounts for stock options issued after January 1, 2003 using the fair value method, which gives rise to compensation expense. There were no stock options issued during the year ended December 31, 2003 or the three month period ended March 31, 2004.

The Corporation accounts for stock options issued before January 1, 2003 using the intrinsic value method, which does not give rise to compensation expense. Under Canadian generally accepted accounting principles, the Corporation is required to disclose compensation expense for the stock option plan as if the Corporation had elected the fair value method at the grant date.

For purposes of pro-forma disclosures, The Corporation's net income (loss) attributable to its common shares and basic and diluted earnings (loss) per common share would have been:

	Three months ended March 31, 2004	2003
Net income (loss)	$ 2,635	$ (19,104)
Less: Pro forma compensation expense	(62)	(69)
Pro forma net income (loss)	$ 2,573	$ (19,173)
Pro forma income (loss) per common share		
Basic	$ 0.03	$ (0.29)
Diluted	$ 0.02	$ (0.29)

6. SEGMENTED INFORMATION

The Corporation is organized and managed as a single business segment being aerospace and the Corporation is viewed as a single operating segment by the chief operating decision maker for the purposes of resource allocations and assessing performance.

Domestic and foreign operations consist of the following:

	Three months ended March 31, 2004				2003			
	Canada $	USA $	UK $	Total $	Canada $	USA $	UK $	Total $
Revenue								
Domestic	25,097	39,384	19,611	84,092	16,469	50,089	—	66,558
Export	44,500	5,019	2,405	51,924	44,602	6,895	—	51,497
Total revenue	69,597	44,403	22,016	136,016	61,071	56,984	—	118,055
Capital assets	130,334	152,631	215	283,180	154,342	172,581	—	326,923

Revenue is attributed to countries based on the location of the customers and capital assets are based on the country in which they are located.

	Three months ended March 31, 2004	2003
	$	$
Major Customers		
Canadian operations		
Number of customers	3	3
Percentage of total Canadian revenue	34%	35%
U.S. operations		
Number of customers	3	2
Percentage of total U.S. revenue	70%	44%
U.K. operations		
Number of customers	1	—
Percentage of total U.K. revenue	46%	—

7. FOREIGN EXCHANGE TRANSLATION

Unrealized translation adjustments, which arise on the translation to Canadian dollars of assets and liabilities of the Corporation's self–sustaining foreign operations, resulted in an unrealized currency translation gain of $2,310 for the period ending March 31, 2004 [2003 – a loss of $9,375], which is reflected as foreign exchange translation on the consolidated balance sheets and has no impact on net income. The unrealized gain resulted from the weakening of the Canadian dollar against the U.S. dollar, and by the weakening of the Canadian dollar against the Great Britain Pound Sterling.

8. SUPPLEMENTARY INFORMATION

Foreign exchange loss (on the conversion of foreign currency denominated working capital balances and debt) for the three months ended March 31, 2004 was $166 [2003 – gain of $2,168].

For additional information contact:

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