MAGELLAN
AEROSPACE CORPORATION

Magellan Aerospace Corporation
Second Quarter Report
June 30, 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 August 14, 2005, the Corporation released its financial results for the second quarter of 2005. The results are summarized as follows:

	Three-months ended June 30			Six-months ended June 30		
(Expressed in thousands, except per share amounts)	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Revenues	$ 146,166	$ 157,766	-7.4 %	$ 291,106	$ 293,782	-0.9 %
Net loss	$ (289)	$ (3,063)	-	$ (1,968)	$ (1,705)	-
Net loss per share	$ (0.00)	$ (0.04)	-	$ (0.02)	$ (0.04)	-
EBITDA*	$ 11,026	$ 7,162	54.0 %	$ 19,625	$ 20,827	-5.8 %
EBITDA* per share	$ 0.12	$ 0.09	33.3 %	$ 0.22	$ 0.26	-15.4 %

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

Results for the second quarter of 2005 show a modest improvement over those of the first quarter of 2005. Magellan continues to experience increasing demand from customers as a result of planned increases in the delivery rates of commercial aircraft, as well as increases in demand for business jet aircraft engine components, offset by reducing demand for regional jet components. Due to long lead times for product delivery, this demand has not yet resulted in significantly increased revenues in the current quarter, but the Corporation anticipates this demand will begin to be realized in 2006. Deliveries for engine components needed to support the buoyant demand for business jets also occurred in the quarter but this was offset by delays in certain defence shipments.

Conditions in the commercial airline industry are improving, as passenger load rates increase, but profitability is being severely impacted by extremely high fuel prices. European, South American, and Asian carriers seem to be fairing better, and as a result, the bulk of new orders have come from these regions. Demand in the defence sector remains steady for repair and overhaul services and spare parts although such demand is subject to funding issues particularly by the US Department of Defence.

Opportunities for new work across both commercial and defence sectors are being seen, as the industry adjusts to the anticipated increase in workload expected in 2006 and 2007.

Revenues

	Three-months ended June 30			Six-months ended June 30		
(Expressed in thousands)	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Canada	$ 71,865	$ 79,456	-9.6 %	$ 144,984	$ 149,053	-2.7 %
United States	45,405	51,829	-12.4 %	88,971	96,232	-7.5 %
United Kingdom	28,896	26,481	9.1 %	57,151	48,497	17.8 %
Total Revenue	$ 146,166	$ 157,766	-7.4 %	$ 291,106	$ 293,782	-0.9 %

Consolidated revenues for the second quarter of 2005 were $146.2 million, a decrease of $11.6 million, or 7.4%, from the second quarter of 2004. Revenues increased by $2.4 million, or 9.1% in the United Kingdom ("UK"), which reflects the impact of expanded work scope under an Airbus contract, signed in April 2004. Revenues declined year over year by $6.4 million or 12.4% in the United States ("US") and $7.6 million or 9.6% in Canada. Revenues were lower in Canada by $6.0 million in the current quarter due to the wind-up of operations at Fleet Industries. Changing foreign exchange rates also impacted consolidated revenues, as the Canadian dollar was stronger versus both the US dollar and the Great British Pound Sterling in the second quarter of 2005 compared to the second quarter of 2004. If exchange rates experienced in the second quarter of 2004 had been realized in the second quarter of 2005, revenues would have been higher by $4.2 million in the US, $4.2 million in Canada, and $1.8 million in the UK. After adjusting for the impact of foreign exchange and the Fort Erie wind-up, consolidated revenues reflect a year over year increase of $4.7 million or 2.9%.

Revenues generated by commercial product sales in the second quarter of 2005 represented 64.8% (63.7% in 2004) of total revenues while defence product sales comprised the remaining 35.2% (36.3% in 2004) of revenues.

Gross Profit

	Three-months ended June 30			Six-months ended June 30		
(Expressed in thousands)	**2005**	**2004**	**Change**	**2005**	**2004**	**Change**
Gross profit	$ 14,954	$ 15,256	-2.0 %	$ 29,408	$ 33,013	-10.9 %
Percentage of revenue	10.2 %	9.7 %		10.1 %	11.2 %	

Gross profits of $15.0 million (10.2% of revenues) were reported for the second quarter of 2005 compared to $15.3 million (9.7% of revenues) during the same period in 2004. The Corporation continues to adjust operations for higher build rates on major program expected to occur in the next two years and expects that margins will improve as volumes increase. The strength of the Canadian dollar continues to be a challenge, and while the Corporation's hedging program has helped to mitigate the impact of the strengthening dollar, the effect is temporary.

Administrative and General Expenses

	Three-months ended June 30		Six-months ended June 30	
(Expressed in thousands)	**2005**	**2004**	**2005**	**2004**
Administrative and general expenses	$ 11,368	$ 10,820	$ 22,010	$ 21,067
Gain on sale of capital assets	(1,723)	-	(1,442)	-
Foreign exchange loss	452	3,337	764	3,503
Total administrative and general expenses	$ 10,097	$ 14,157	$ 21,332	$ 24,570

Administrative and general expenses were $10.1 million, or 6.9% of revenues in the second quarter of 2005 compared to $14.2 million, or 9.0% of revenues in the same period of 2004. A net foreign exchange loss of $0.5 million was recognized in the second quarter of 2005, compared to a foreign exchange loss of $3.3 million in the second quarter of 2004. The foreign exchange loss is lower in 2005 due to less movement in foreign exchange rates and lower US dollar denominated liabilities. In addition, a gain on sale of surplus real estate of $1.7 million was recorded in the second quarter of 2005. Excluding these items, administrative and general expenses were $11.4 million, or 7.8% of sales in the second quarter of 2005, compared to $10.8 million, or 6.9% in the same period in 2004.

Interest Expense

	Three-months ended June 30		Six-months ended June 30	
(Expressed in thousands)	**2005**	**2004**	**2005**	**2004**
Interest on bank indebtedness and long-term debt	$ 3,024	$ 3,762	$ 6,384	$ 7,013
Convertible debenture interest	1,487	1,487	2,975	2,975
Accretion charge for convertible debt	460	410	920	820
Discount on sale of accounts receivable	357	201	851	309
Total interest expense	$ 5,328	$ 5,860	$ 11,130	$ 11,117

Interest expense in the second quarter of 2005 was $5.3 million, $0.5 million lower than the second quarter of 2004. Magellan's effective interest rate has decreased due to the renewed credit agreement, which has reduced spreads on bankers' acceptance and LIBOR instruments from 4.5% to 1.0% over base rates beginning on May 28, 2005. Discounts on sale of accounts receivable increased due to an increase in the amount of accounts receivable sold.

Provision for (Recovery of) Income Taxes

	Three-months ended June 30		Six-months ended June 30	
(Expressed in thousands)	**2005**	**2004**	**2005**	**2004**
Provision for current income taxes	$ 140	$ 200	$ 265	$ 258
Recovery of future income taxes	(322)	(1,898)	(1,351)	(1,227)
Total recovery of income taxes	$ (182)	$ (1,698)	$ (1,086)	$ (969)
Effective Tax Rate	38.6 %	35.7 %	35.6 %	36.2 %

There was a recovery of income taxes of $0.2 million for the second quarter of 2005, compared to an income tax recovery of $1.7 million for the second quarter of 2004. The change in effective tax rates is a result of a changing mix of income across the different jurisdictions in which Magellan operates.

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

	Three-months ended June 30		Six-months ended June 30	
(Expressed in thousands)	**2005**	**2004**	**2005**	**2004**
Net loss	$ (289)	$ (3,063)	$ (1,968)	$ (1,705)
Interest	5,328	5,860	11,130	11,117
Taxes	(182)	(1,698)	(1,086)	(969)
Depreciation and amortization	6,169	6,063	11,549	12,384
EBITDA	$ 11,026	$ 7,162	$ 19,625	$ 20,827

EBITDA for the second quarter of 2005 was $11.0 million, an increase of $3.9 million from the second quarter of 2004, due to an increase in pre-tax income offset by lower interest expense and depreciation.

Liquidity and Capital Resources

Cash Flow from Operations

	Three-months ended June 30		Six-months ended June 30	
(Expressed in thousands)	**2005**	**2004**	**2005**	**2004**
(Increase) decrease in accounts receivable	$ (4,974)	$ 18,827	$ (26,893)	$ 12,088
Increase in inventories	(3,329)	(11,228)	(7,608)	(22,668)
Increase in prepaid expenses and other	(322)	(1,882)	(402)	(2,674)
(Decrease) increase in accounts payable	(2,680)	(7,815)	(2,389)	4,617
Changes to non-cash working capital balances	$ (11,167)	$ (2,098)	$ (37,292)	$ (8,637)
Cash (used in) provided by operating activities	$ (6,682)	$ (586)	$ (29,334)	$ 1,635

In the quarter ended June 30, 2005, the Corporation used $6.7 million of cash in its operations, compared to using $0.6 million in operations in the second quarter of 2004. This was largely due to increased accounts receivable as a result of the timing of deliveries and receivables collections. Inventories rose in response to increasing demand from the Corporation's customers.

Investing Activities

	Three-months ended June 30		Six-months ended June 30	
(Expressed in thousands)	**2005**	**2004**	**2005**	**2004**
Business acquisitions	$ -	$ (10,439)	$ -	$ (10,439)
Purchase of capital assets	(3,492)	(5,381)	(6,949)	(7,658)
Proceeds of disposals of capital assets	3,192	5	3,723	15,012
(increase) decrease in other assets	(510)	2,295	(781)	1,339
Cash used in investing activities	$ (810)	$ (13,520)	$ (4,007)	$ (1,746)

In the second quarter of 2005, the Corporation invested $3.5 million in capital assets to upgrade its facilities and enhance its capabilities. Proceeds of $3.2 million were received in the second quarter of 2005 on the sale of surplus real estate.

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Financing Activities

(Expressed in thousands)	Three-months ended June 30 2005	Three-months ended June 30 2004	Six-months ended June 30 2005	Six-months ended June 30 2004
Increase in bank indebtedness	$ 35,006	$ 22,401	$ 62,641	$ 16,418
Repayment of long-term debt	(43,372)	(4,823)	(47,812)	(9,028)
Decrease in long-term liabilities	(7,106)	(56)	(8,154)	(4,386)
Issue of common shares	15	20	42	75
Issue of preferred shares	19,925	-	19,925	-
Cash provided by financing activities	$ 4,468	$ 17,542	$ 26,642	$ 3,079

The Corporation renewed its bank credit agreement with its existing lenders on May 27, 2005. Under the terms of the renewed agreement, Magellan will have an operating credit facility, expiring on May 26, 2006, and extendable to May 26, 2007, with a maximum credit facility of $155.0 million. Amounts drawn under this facility bear interest at the bankers' acceptance or LIBOR rates plus 1.0%, reduced from its previous rate of bankers' acceptance or LIBOR rates plus 4.5%. The credit facility is fully guaranteed by N. Murray Edwards, Chairman of the Board of Directors.

On May 27, 2005, the Corporation issued 2.0 million, 8.0% cumulative redeemable first preference shares series A at a price of $10.00 per preference share (the "Issue Price") for total gross proceeds of $20.0 million. Each preference share is convertible into 3.33 common shares of Magellan (6,666,667 common shares in aggregate) at a price of $3.00 per common share.

Update on Closure of Fleet Industries

Operations at Fleet Industries are in a wind-up mode and 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

The recent surge of orders for new commercial aircraft has confirmed optimism in the industry that activity levels will increase in the near future. Many of these orders are in part due to high fuel prices, which make new fuel-efficient aircraft such as the Boeing 787 and Airbus A350 more desirable than older models, and should eventually hasten retirement of these older aircraft. Continued buoyancy in business jet markets is partly offset by a reduction in the demand for regional jet aircraft. In the defence sector, it is anticipated that demand will be stable over the next 24 months. In the longer term, the outlook is less certain, as the US Department of Defence reviews its airlift and fighter jet programs. While the increase in activity bodes well for Magellan, the low value of the US dollar, longer lead times for raw materials, and high energy and non-energy commodity costs are all challenges which must be overcome to increase margins and profitability.

On behalf of the Board

N. Murray Edwards
Chairman
August 14, 2005

Richard A. Neill
President and Chief Executive Officer