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.

<u>Financial Results</u>

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.

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				Six-months ended June 30			
	2005		**2004**		**2005**		**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

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CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(unaudited)

(Expressed in thousands of dollars, except per share amounts)	Three-months ended June 30		Six-months ended June 30	
	2005	**2004** (restated)	**2005**	**2004** (restated)
Revenues	$ 146,166	$ 157,766	$ 291,106	$ 293,782
Cost of revenues	131,212	142,510	261,698	260,769
Gross profit	14,954	15,256	29,408	33,013
Administrative and general expenses	10,097	14,157	21,332	24,570
Interest	5,328	5,860	11,130	11,117
	15,425	20,017	32,462	35,687
Loss before income taxes	(471)	(4,761)	(3,054)	(2,674)
(Recovery of) provision for income taxes				
- Current	140	200	265	258
- Future	(322)	(1,898)	(1,351)	(1,227)
	(182)	(1,698)	(1,086)	(969)
Net loss for the period	(289)	(3,063)	(1,968)	(1,705)
Retained earnings, beginning of the period	113,426	124,211	115,105	122,853
Retained earnings, end of period	$ 113,137	$ 121,148	$ 113,137	$ 121,148
Earnings per share				
Basic	$ (0.00)	$ (0.04)	$ (0.02)	$ (0.04)
Diluted	$ (0.00)	$ (0.04)	$ (0.02)	$ (0.04)

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CONSOLIDATED BALANCE SHEETS

(unaudited)

(Expressed in thousands of dollars)

	As at June 30 2005	As at December 31 2004 (restated)
ASSETS		
Current		
Cash	$ 2,149	$ 9,048
Accounts receivable	97,078	70,974
Inventories	278,549	269,735
Prepaid expenses and other	8,435	8,113
Future income tax assets	10,143	7,104
Total current assets	396,354	364,974
Capital assets	270,987	274,724
Other	42,554	42,486
Future income tax assets	41,080	42,318
Total assets	$ 750,975	$ 724,502
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (note 4)	$ 131,363	$ 68,028
Accounts payable and accrued charges	112,588	114,327
Current portion of long-term debt	3,260	48,335
Total current liabilities	247,211	230,690
Long-term debt	9,635	11,856
Future income tax liabilities	82,883	82,457
Convertible debentures	64,515	63,595
Other long-term liabilities	24,796	32,926
Total liabilities	429,040	421,524
Shareholders' equity		
Capital stock (note 5)	233,929	213,962
Contributed surplus	484	234
Other paid in capital	9,505	9,505
Retained earnings	113,137	115,105
Foreign exchange translation (note 8)	(35,120)	(35,828)
Total shareholders' equity	321,935	302,978
Total liabilities and shareholders' equity	$ 750,975	$ 724,502

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(Expressed in thousands of dollars)	Three-months ended June 30 2005	Three-months ended June 30 2004 (restated)	Six-months ended June 30 2005	Six-months ended June 30 2004 (restated)
OPERATING ACTIVITIES				
Loss for the period	$ (289)	$ (3,063)	$ (1,968)	$ (1,705)
Add (deduct) items not affecting cash				
Depreciation and amortization	6,169	6,063	11,549	12,384
Gain on sale of capital assets	(1,723)	-	(1,442)	-
Stock option charge	190	-	250	-
Accretion of convertible debentures	460	410	920	820
Future income taxes (recoveries)	(322)	(1,898)	(1,351)	(1,227)
	4,485	1,512	7,958	10,272
Net change in non-cash working capital items relating to operating activities	(11,167)	(2,098)	(37,292)	(8,637)
Cash (used in) provided by operating activities	(6,682)	(586)	(29,334)	1,635
INVESTING ACTIVITIES				
Business acquisitions	-	(10,439)	-	(10,439)
Purchase of capital assets	(3,492)	(5,381)	(6,949)	(7,658)
Proceeds from disposal 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)
FINANCING ACTIVITIES				
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 preference shares	19,925	-	19,925	-
Cash provided by financing activities	4,468	17,542	26,642	3,079
Effect of exchange rate changes on cash	(22)	615	(200)	1,085
(Decrease) increase in cash	(3,046)	4,051	(6,899)	4,053
Cash, beginning of period	5,195	3,890	9,048	3,888
Cash, end of period	$ 2,149	$ 7,941	$ 2,149	$ 7,941

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 except for the changes identified in note 2, Change in Accounting Policy, below. 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, 2004. The Corporation's external auditors have not reviewed these financial statements.

2. CHANGE IN ACCOUNTING POLICY

The principal amount of the Corporation's outstanding convertible debentures of $70 million due on January 31, 2008 was previously classified as an equity instrument due to the Corporation's ability to settle principal and interest payments by the issuance of common shares. In accordance with the amended standard under CICA 3860, the Corporation has presented the liability component of its convertible debentures as long-term debt and the equity component as other paid in capital. The liability represents the present value of the principal payment of the debentures and the equity component represents the fair value of the holder's conversion feature. The stated interest payments and accretion expense from adjusting the time value of the principal of the debentures over time are recorded as interest expense in the statement of operations.

The following table represents the changes to the Corporation's consolidated statements of operations and retained earnings for the three-month and six-month periods ended June 30, 2004 by applying the recommendation retroactively:

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS	**Three-months ended June 30, 2004**		**Six-months ended June 30, 2004**	
	Originally Reported	**As Restated**	**Originally Reported**	**As Restated**
Administrative and general expenses	$ 14,055	$ 14,157	$ 24,366	$ 24,570
Interest	3,963	5,860	7,323	11,117
(Loss) income before income taxes	$ (2,762)	$ (4,761)	$ 1,324	$ (2,674)
(Recovery of) provision for income taxes	(975)	(1,698)	476	(969)
Net (loss) income for the period	(1,787)	(3,063)	848	(1,705)
Retained earnings, beginning of the period	124,211	124,211	122,853	122,853
Interest and accretion	(1,276)	-	(2,553)	-
Retained earnings, end of period	$ 121,148	$ 121,148	$ 121,148	$ 121,148

The following table represents the changes to the Corporation's balance sheet as at December 31, 2004 by applying the recommendation retroactively:

CONSOLIDATED BALANCE SHEET As at December 31, 2004	Originally Reported	As Restated
Other assets	$ 41,254	$ 42,486
Future tax liabilities	82,345	82,457
Convertible debentures as debt	-	63,595
Other paid in capital	-	9,505
Convertible debentures as equity	$ 71,980	$ -

The following table represents the impact to the Corporation's consolidated statements of operations and retained earnings for the three-month and six-month periods ended June 30, 2005.

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS	Three-months ended June 30, 2005		Six-months ended June 30, 2005	
	As Reported	Without Change in Accounting Policy	As Reported	Without Change in Accounting Policy
Administrative and general expenses	$ 10,097	$ 9,995	$ 21,332	$ 21,128
Interest	5,328	3,380	11,130	7,235
(Loss) income before income taxes	$ (471)	$ 1,579	$ (3,054)	$ 1,045
(Recovery of) provision for income taxes	(182)	382	(1,086)	43
Net (loss) income for the period	(289)	1,197	(1,968)	1,002
Retained earnings, beginning of the period	113,426	113,426	115,105	115,105
Interest and accretion	-	(1,486)	-	(2,970)
Retained earnings, end of period	$ 113,137	$ 113,137	$ 113,137	$ 113,137

3. INVENTORIES

The Corporation is currently negotiating with one of its customers over amendments to pricing with respect to an existing long-term contract. While it is probable that the Corporation will be successful in negotiating a favourable outcome, the final result is not determinable at the present time. If the Corporation does not successfully negotiate a pricing increase or the final terms vary from what the Corporation expects, the Corporation may be required to record a loss provision on this contract. The amount of such a provision, if any, cannot be reasonably estimated until the negotiating process is complete and amendments are finalized.

4. BANK INDEBTEDNESS

Bank indebtedness as at June 30, 2005 of $131,363 [December 31, 2004 - $68,028] is payable on demand and bears interest at the bankers' acceptance or LIBOR rates, plus 1.0%. Included in the amount outstanding at June 30, 2005 is US$74,076 [December 31, 2004 - US$52,537]. The total amount of the operating credit available to the Corporation is $155,000. A fixed and floating charge debenture on certain of the Corporation's assets is pledged as collateral for the operating loan. The credit facility is fully guaranteed by the Chairman of the Board of Directors.

5. CAPITAL STOCK

The following table summarizes information on share capital and related matters as at June 30, 2005:

	Outstanding	Exercisable
Common shares	90,755,227	
Common shares stock options	4,071,500	1,359,400
Preferred shares	2,000,000	

The weighted average number of common shares outstanding during the three-month and six-month periods ended June 30, 2005 was 90,752,359 and 90,748,122 respectively.

On May 27, 2005, the Corporation issued 2,000,000, 8.0% cumulative redeemable first preference shares series A at a price of $10.00 per preference share for total gross proceeds of $20,000. 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.

6. 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. The maximum number of options for common shares that remain to be granted under this plan is 1,279,203. 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 five years with vesting at 20.0% 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. Compensation expense recorded during the three-month and six-month periods ended June 30, 2005 was $60 and $190 respectively (2004 - $nil and $78 respectively). In the three-month period ended June 30, 2005, there were 1,537,500 stock options issued at an exercise price of $2.65. The fair value of these options was $0.96.

The fair value of stock options is estimated at the date of grant using the Black-Scholes pricing model with the following weighted average assumptions:

Risk-free interest rate	3.1 %
Expected volatility	35.0 %
Expected average life of options	4 years
Expected dividend yield	0.0 %

The Black-Scholes option pricing model used by the Corporation to determine fair values was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. The Corporation's employee stock options are not transferable, cannot be traded and are subject to vesting restrictions and exercise restrictions under the Corporation's black-out policy which would tend to reduce the fair value of the Corporation's stock options. Changes to the subjective input assumptions used in the model can cause a significant variation in the estimate of the fair value of the options

For the stock options issued prior to January 1, 2003 the Corporation follows 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 as if the Corporation had elected to follow the fair value method for such options.

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

	Three-months ended June 30		Six-months ended June 30	
	2005	2004	2005	2004
Net loss	$ (289)	$ (3,063)	$ (1,968)	$ (1,705)
Less: Pro forma compensation expense	(62)	(62)	(138)	(138)
Pro forma net loss	$ (351)	$ (3,125)	$ (2,106)	$ (1,843)
Pro forma loss per common share				
- Basic	$ (0.00)	$ (0.04)	$ (0.02)	$ (0.02)
- Diluted	$ (0.00)	$ (0.04)	$ (0.02)	$ (0.02)

7. SEGMENTED INFORMATION

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

Capital assets are based on the country in which they are located. Domestic and foreign capital assets consist of:

	As at June 30, 2005				As at December 31, 2004			
	Canada	US	UK	Total	Canada	US	UK	Total
Capital assets	$ 124,740	$ 134,718	$ 11,529	$ 270,987	$ 128,446	$ 136,334	$ 9,944	$ 274,724

Revenue is attributable to countries based on the location of the customers. Domestic and foreign revenues consist of:

	Six-months ended June 30							
	2005				2004			
	Canada	US	UK	Total	Canada	US	UK	Total
Revenue								
Domestic	$ 51,064	$ 71,582	$ 54,377	$ 177,023	$ 53,375	$ 75,691	$ 46,087	$ 175,153
Export	93,920	17,389	2,774	$ 114,083	95,678	20,541	2,410	118,629
Total revenue	$ 144,984	$ 88,971	$ 57,151	$ 291,106	$ 149,053	$ 96,232	$ 48,497	$ 293,782

The major customers for the Corporation for the three-month and six-month periods ended June 30, 2005 are as follows:

	Three-months ended June 30		Six-months ended June 30	
	2005	2004	2005	2004
Major Customers				
Canadian operations				
- Number of customers	2	2	2	2
- Percentage of total Canadian revenue	25.1 %	23.4 %	23.8 %	22.7 %
US operations				
- Number of customers	3	4	3	3
- Percentage of total US revenue	59.8 %	79.6 %	57.6%	51.7 %
UK operations				
- Number of customers	1	1	1	1
- Percentage of total UK revenue	77.2 %	59.8 %	61.7%	54.4 %

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8. 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 unrealized currency translation gains of $493 and $708 for the three-month and six-month periods ended June 30, 2005 respectively [2004 - $5,011 and $7,321], which is reflected as foreign exchange translation on the consolidated balance sheets and has no impact on net income.

9. SUPPLEMENTARY INFORMATION

Foreign exchange loss on the conversion of foreign currency denominated working capital balances and debt for the three-month and six-month periods ended June 30, 2005 was $452 and $764 respectively.

For additional information contact:

Richard A. Neill
(905) 677-1889 ext. 230
President & Chief Executive Officer

John B. Dekker
(905) 677-1889 ext 224
Vice President Finance & Corporate Secretary