MD&A and Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

Magellan Aerospace Corporation ("Magellan") is a diversified supplier of components and assemblies to the aerospace industry. Through its network of facilities throughout North America, Magellan supplies the leading aircraft manufacturers, airlines and defence agencies throughout the world. Magellan's performance in 2000 showed growth in sales, earnings and shareholders' equity, strengthening its ability to serve the world aviation market.

YEAR ENDED DECEMBER 31, 2000 COMPARED WITH THE YEAR ENDED DECEMBER 31, 1999

Consolidated revenue for the year ended December 31, 2000 was $625.4 million, an increase of 11.3% or $63.6 million over 1999 levels. The increase resulted from the inclusion of a full year of sales from Ellanef Manufacturing Corporation, which was acquired in the second quarter of 1999, and organic growth throughout the balance of the Corporation.

Cost of revenues was $509.7 million for the year ended December 31, 2000, for a gross profit of $115.7 million or 18.5%. This compares favourably to the gross profit of $102.2 million or 18.2% recorded in 1999. The impact of Six Sigma and Lean operating techniques initiated throughout the Corporation are beginning to take effect, and management believes that significant results will be achieved as more employees are trained and improvements are implemented throughout the manufacturing and support processes.

Administrative and general expenses were $35.5 million for the year ended December 31, 2000, compared to $36.6 million in 1999. Management's focus on minimizing these costs has resulted in a slight decline, in spite of overall business levels increasing.

Interest expense was $19.7 million, which was an increase of 29.6% or $4.5 million over 1999 levels. The interest expense was higher in 2000 as this was the first full year of inclusion of the debt associated with the purchase of Ellanef, as well as the impact of higher interest rates.

Income tax expense was $21.7 million in 2000, on income before income taxes of $59.6 million for an effective tax rate of 36.4%. In 1999, income tax expense was $19.1 million on pre-tax income of $50.0 million for an effective rate of 38.2%. The income tax rate decreased during 2000 because of reduction in provincial income tax rates as well as the use of capital loss carryforwards applied to capital gains realized on the disposition of other assets.

Effective January 1, 2000 the Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. The change resulted in the restatement of the 1999 provision to reflect the full tax rate for the year. This change is more fully explained in the notes to the Corporation's financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 1999 COMPARED WITH THE YEAR ENDED DECEMBER 31, 1998

Revenue for 1999 was $561.8 million, an increase of 31.6% or $134.9 million over 1998. The increase in sales was due to the addition of Ellanef in the second quarter, the full year results of Chicopee Manufacturing Limited and AMBEL Precision Manufacturing Corporation, and the effect of new aerostructures programs. Revenues in other areas showed modest gain despite a strong competitive environment.

Cost of revenues was $459.6 million, up 31.5% or $110.2 million over 1998. Gross profit percentage improved slightly from 18.1% in 1998 to 18.2% in 1999 due to increased manufacturing efficiencies.

Administrative and general expenses rose to $36.6 million in 1999 from $33.8 million in 1998, but fell as a percentage of revenue from 7.9% in 1998 to 6.5% in 1999.

Interest expense increased by 66.9% to $15.1 million, reflecting the higher debt levels as a result of the purchase of Ellanef, investments in new programs, and capital assets purchased in 1999.

Income before income taxes for the year was $50.0 million, an increase of $17.0 million or 51.7% over 1998. This increase was due to higher volumes at slightly higher margins. EBITDA increased from $52.0 million in 1998 to $81.5 million in 1999, a 56.7% increase year over year.

Income tax expense rose from $12.7 million in 1998 to $19.1 million in 1999. The effective tax rate fell slightly from 38.5% in 1998 to 38.2% in 1999 due to a shift to jurisdictions with lower tax rates. Income tax expense for 1999 and 1998 has been restated to reflect the adoption of the new standard for accounting for income taxes recommended by the Canadian Institute of Chartered Accountants. These changes are more fully described in the notes to the financial statements.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation continues to generate increasing amounts of cash from operating activities. Cash flow from operations was $53.0 million for the year ended December 31, 2000, an increase of $13.5 million from the previous year. Non-cash working capital balances used $10.5 million, primarily due to an increase in accounts receivable.

During the year ended December 31, 2000, the Corporation invested $28.0 million in new production equipment to modernize current facilities and to enhance its capabilities. The Corporation also used a total of $25.8 million in funds generated to reduce bank indebtedness and long-term debt.

Management believes that adequate cash is available through internally generated liquidity and undrawn lines of credit to meet the Corporation's working capital, program and capital investment, and debt servicing requirements.