

**Magellan Aerospace Corporation**  
**Second Quarter Report**  
**June 30, 2003**

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, Magellan supplies leading aircraft manufacturers, airlines and defence agencies throughout the world.

**Financial Results**

On August 11, 2003, the Corporation released its financial results for the second quarter of 2003. The results are summarized as follows:

Expressed in thousands, except per share amounts	Three Months Ended June 30			Six Months Ended June 30		
	2003	2002	PERCENTAGE CHANGE	2003	2002	PERCENTAGE CHANGE
Revenues	\$ 120,987	\$ 104,999	15.2%	\$ 239,042	\$ 233,043	2.6%
Net Income (Loss)	\$ 4,573	\$ 3,493	30.9%	\$ (14,531)	\$ 9,845	-247.6%
Net Income (Loss) Per Share	\$ 0.05	\$ 0.05	0.0%	\$ (0.25)	\$ 0.15	-266.7%
EBITDA	\$ 15,997	\$ 12,901	24.0%	\$ (4,442)	\$ 30,624	-114.5%
EBITDA Per Share	\$ 0.24	\$ 0.20	20.0%	\$ (0.07)	\$ 0.46	-115.2%
Net Income Before Unusual Item	\$ 4,573	\$ 3,493	30.9%	\$ 6,930	\$ 9,845	-29.6%
Net Income Per Share Before Unusual Item	\$ 0.05	\$ 0.05	0.0%	\$ 0.10	\$ 0.15	-33.3%
EBITDA Before Unusual Item	\$ 15,997	\$ 12,901	24.0%	\$ 28,831	\$ 30,624	-5.9%
EBITDA Per Share Before Unusual Item	\$ 0.24	\$ 0.20	20.0%	\$ 0.43	\$ 0.46	-6.5%

**Management's Discussion & Analysis**

The results for the second quarter of 2003 show positive revenue and net income growth over the first quarter of 2003, and the comparable second quarter of 2002.

There are indications of improvement in the aerospace industry. While the results from the large airlines are still mixed, the low cost carriers continue to show strength and there has been some growth in the defence sector. The impact of Severe Acute Respiratory Syndrome (SARS), while significant, especially to Asian carriers, has ebbed. Some airlines have begun to post modest profits in the second quarter and have shown higher load factors. In spite of this, it will take some time before significant capacity is added and meaningful orders of new aircraft are made.

**Results from Operations**

Consolidated revenues for the second quarter of 2003 were \$121.0 million, an increase of \$16.0 million, or 15.2%, from the second quarter of 2002. Revenues were higher by \$12.7 million in the second quarter of 2003 compared to the second



quarter of 2002 because of the inclusion Haley Industries, acquired in September, 2002. Foreign exchange rate fluctuations between the Canadian and US dollar negatively impacted revenue by \$7.9 million in the second quarter. Excluding these two factors, revenue in the second quarter of 2003 is \$11.2 million or 10.7% higher than in the corresponding quarter of 2002.

Gross profit is \$16.8 million (13.9% of revenues) for the second quarter of 2003 compared to \$15.2 million (14.5% of revenues) during the same period in 2002. Gross profit is largely unaffected by changes in exchange rates, as Magellan has effectively hedged its the foreign exchange risk through the end of fiscal 2004. This hedging strategy creates an opportunity for the Corporation to intensify its cost reduction activities in its operations to address the prevailing foreign exchange rate environment.

Administrative and general expenses decreased by \$1.2 million, or 15.5%, for the second quarter of 2003 compared to the same quarter in 2002. Included in administrative and general expenses for the second quarter of 2003 is a foreign exchange gain of \$3.6 million, due to the strengthening of the Canadian dollar. This compares to a foreign exchange gain of \$1.8 million in the same quarter of 2002. The inclusion of Haley Industries in the second quarter of 2003 resulted in additional administrative and general expenses of \$1.5 million compared to the same period in 2002. Excluding these two factors, administrative and general expenses decreased by \$0.9 million.

Interest expense increased to \$2.9 million in the second quarter of 2003 from \$1.8 million in the second quarter of 2002 due to higher interest rates.

Net income for the most recent quarter was \$4.6 million, an increase of \$1.1 million when compared to the same period in 2002. Net income per share calculations for 2003 reflect charges of \$1.5 million relating to the convertible debentures issued in January, 2003. Net income per share of \$0.05 for the second quarter, remained the same for both 2002 and 2003.

### **Liquidity and Capital Resources**

In the quarter ended June 30, 2003, the Corporation generated \$1.5 million of cash from operations, compared to \$1.5 million in the second quarter of 2002. For the year to date period in 2003, \$7.7 million of cash was used in operations, as increases in non-cash working capital balances have offset earnings and non-cash charges to earnings.

During the quarter ended June 30, 2003, the Corporation invested \$2.5 million in new production equipment to modernize current facilities and to enhance its capabilities. Acquisitions of capital assets for the year to date period in 2003 total \$2.9 million. Acquisitions in the same period in 2002 were \$19.2 million. Capital spending has been reduced to reflect current business conditions.

On January 7, 2003, the Corporation completed an offering of \$70.0 million of 8.5% convertible unsecured subordinated debentures, due January 31, 2008. Additional information on the debentures can be found in note 2 of the attached consolidated financial statements.

### **Recent Developments**

Magellan enjoyed an active second quarter in the area of business development. Contracts awarded in the second quarter of 2003 included components for the F-15 Eagle, Standard Missile fins, Joint Strike Fighter (JSF) wing components, and Airbus A380 engine exhaust systems, with a combined value of over \$180.0 million.

Two new orders were announced at the Paris Air Show, in June 2003. The first is a long-term contract with the US Department of Defense, for the supply of a variety of high-precision aeroengine components for the next 10 years. The package includes disks, shafts, turbine wheels and seven other components for the General Electric designed J85 engine and is valued at \$80.0 million. The second is for landing gear components for Goodrich Corporation for further integration into the main landing gear system for the Airbus A380. First deliveries will be made this year, and the contract has a value of \$8.0 million dollars over the first four years.

Bid activity levels continue to be significant in the defence marketplace, and are showing some signs of increased life in the commercial aircraft market. However, full recovery will continue to be paced by general business robustness, airline health, and the stability of defence budgets.



**Summary**

Management's view is that overall activity will remain at these lower levels for the foreseeable future and management is continuing to stabilize businesses, align operations and workforces with market realities in order to ensure Magellan is well-positioned to participate in the industry recovery when it occurs. Management continues to pursue opportunities for new contracts from existing and new customers.

On behalf of the Board

**N. Murray Edwards**  
**Chairman**  
August 11, 2003

**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.