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AEROSPACE CORPORATION

Magellan Aerospace Corporation
Fourth Quarter Report
December 31, 2002

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 April 15, 2003, the Corporation released its results for the fourth quarter and the year ended December 31, 2002. The results are summarized as follows:

	Three Months Ended December 31			Twelve months ended December 31		
Expressed in thousands, except per share amounts	2002	2001 (restated)	PERCENTAGE CHANGE	2002	2001 (restated)	PERCENTAGE CHANGE
Revenues	$ 115,222	$ 156,802	-26.5%	$ 460,141	$ 614,461	-25.1%
Net Income Before Unusual Item	$ 129	$ 9,001	-98.6%	$ 11,264	$ 39,018	-71.1%
Net Income Per Share Before Unusual Item	$ 0.00	$ 0.14	-98.6%	$ 0.17	$ 0.59	-71.2%
EBITDA Before Unusual Item	$ 8,672	$ 19,015	-54.4%	$ 49,531	$ 91,360	-45.8%
EBITDA Per Share Before Unusual Item	$ 0.13	$ 0.29	-55.2%	$ 0.75	$ 1.39	-46.0%
Net Income (Loss)	$ (19,321)	$ 9,001	-314.7%	$ (8,186)	$ 39,018	-121.0%
Net Income (Loss) Per Share	$ (0.29)	$ 0.14	-307.1%	$ (0.12)	$ 0.59	-120.3%
EBITDA	$ (21,483)	$ 19,015	-213.0%	$ 19,376	$ 91,360	-78.8%
EBITDA Per Share	$ (0.32)	$ 0.29	-210.3%	$ 0.29	$ 1.39	-79.1%

Management’s Discussion & Analysis

Despite the challenging market conditions in 2002, Magellan continues to meet commitments to its customers by stabilizing businesses, and re-aligning operations, capital investments and workforce with market realities, while continuing to pursue opportunities for new contracts.

The September 11, 2001 terrorist attacks had a significant impact on the aerospace industry throughout 2002 and continues to impact the level of business in 2003. Airline travel fell considerably directly after the attacks, and still has not fully recovered. Recovery may be further delayed as a result of the war in Iraq and the potential for reduced travel due to the Severe Acute Respiratory Syndrome (SARS) outbreak. Airlines have responded to the drop in traffic by decreasing the number of flights and, in some instances, by delaying the purchase of new aircraft from the Corporation’s customers. This has had a significant effect on the Corporation in the short term as the demand for new aircraft components has correspondingly declined.

On December 1, 2002 Magellan completed the acquisition of Haley Industries Limited [“Haley”], by acquiring the remaining 17% of the outstanding common shares of Haley. This reinforces Magellan’s stated strategy of growth through the acquisition of capability that is compatible with its core businesses. Haley specializes in the design and production of magnesium and aluminum castings, primarily for the aerospace industry, and has facilities in Haley, Ontario and Glendale, Arizona. The acquisition of Haley has opened new customer opportunities for other Magellan operations, and has allowed the vertical integration of casting, machining and assembly operations within Magellan.

In light of the significant downturn in the general aviation market and the general economic environment impacting Orenda Recip Inc. ["Recip"], a Canadian division of the Corporation, the decision was made by the Corporation to discontinue the product line associated with Recip, the reciprocating aeroplane engine. As a result, the Corporation has recorded a provision at December 31, 2002 of $30.2 million (or $19.5 million net of tax recovery) to write down the assets of Recip to their estimated net realizable value. Recip is exploring its ability to grant non-exclusive licenses of its technology and negotiating terminations of customer commitments.

On February 13, 2003, the Corporation announced its decision to cease operations at its Fleet Industries plant in Fort Erie, Ontario. Strike bound for four months, Fleet Industries had a long history of troubled labour relations. When it became clear that disruptions to customer relations at the facility were untenable, the course of action taken to safeguard commitments to customers was to transfer the majority of the work to other Magellan divisions and to close the plant. Although it is not possible to accurately determine the extent of potential costs and losses resulting from this decision, management estimates a one-time charge to net earnings will be recorded in 2003 of approximately $31.0 million.

Results from Operations

Consolidated revenues for the fourth quarter of 2002 were $115.2 million, a decrease of 26.5% from the fourth quarter of 2001. Reduced sales to Boeing of components for commercial aircraft and delayed work orders on some key contracts contributed to the reduced sales level. Gross profits fell to $13.5 million (11.7% of revenues) for the fourth quarter of 2002 from $26.1 million (16.7% of revenues) during the same period in 2001.

Actions taken by the Corporation to deal with the reduced revenues include a reduction in the workforce of 485 direct and indirect employees during 2002. While the Corporation took steps to minimize the cost of excess labour, this action also impacted the base over which manufacturing overhead costs could be allocated to production. As a consequence, approximately $15.9 million of excess manufacturing overhead costs were expensed directly to cost of revenues in the twelve months ended December 31, 2002. To minimize these charges in future periods, efforts have been undertaken to further reduce overhead costs while still maintaining core business capabilities to position Magellan to participate when the industry recovery occurs.

Administrative and general expenses increased by $1.5 million, or 15.8%, for the fourth quarter of 2002 compared to the same quarter in 2001. This increase is largely due to the inclusion of Haley's results for a full quarter in the fourth quarter of 2002. On a year over year basis administrative and general expenses have decreased by $4.0 million, or 9.9%, even after including 4 months of Haley's results in 2002. This is a result of the Corporation focusing efforts on reducing administrative and general expenses.

Interest expense increased to $2.3 million in the fourth quarter of 2002 from $1.9 million in the fourth quarter of 2001 due to higher debt levels.

Net loss for the quarter was $19.3 million, a decrease of $28.3 million when compared to the same period in 2001. The loss was primarily driven by the $30.2 million unusual item provision recorded in the fourth quarter for the discontinuance of the Recip product line. Net loss per share was $0.29 for the quarter, compared to net income per share of $0.14 in the fourth quarter of 2001. Excluding the Recip unusual item provision of $19.5 million net of tax recovery, net income was $0.1 million for the fourth quarter of 2002 and $11.3 million for the year ended 2002.

Liquidity and Capital Resources

In the quarter ended December 31, 2002, the Corporation used $1.0 million of cash from operations, compared to cash generated from operating activities of $25.0 million in the fourth quarter of 2001.

During the quarter ended December 31, 2002, the Corporation invested $4.8 million in new production equipment to modernize current facilities and to enhance its capabilities.

On January 7, 2003, the Corporation completed an offering of $70 million of 8.5 percent convertible unsecured subordinated debentures, due January 31, 2008. Additional information on the debentures can be found in note 9 (a) of the attached consolidated financial statements.

Changes in Accounting Policies

In accordance with the recommendations of the Canadian Institute of Chartered Accountants, the Corporation has adopted new accounting policies with respect to Goodwill, Foreign Currency Translation, and Stock-Based Compensation. Details of these changes to accounting policies can be found in the notes to the financial statements.

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Recent Developments

Magellan's acquisition of Haley was successfully completed in December 2002. The integration of capabilities, marketing and operations activities began immediately, and several successes have been achieved in the first quarter of 2003. With Magellan backing, Haley negotiated new long-term agreements with a key customer, won the casting portion of an integrated Magellan bid, and opened two new opportunities to combine casting and machining activities to deliver a turn-key product.

Magellan's capture of new business in the defence sector continued, with three key program wins occurring in January 2003. Magellan received orders for engine assemblies for aftermarket support in the defence market on the F110 and AGT 1500 military engines. These engines are used in the F16 aircraft and the M1A1 Abrams tank, respectively. Magellan also received its first supply contract for the test and development portion of the Lift Fan assembly for the Short Take-off Vertical Landing (STOVL) variant of the F35 Joint Strike Fighter (JSF) aircraft. These orders have a potential value of $70 million dollars, and are expected to lead the way to greater participation in a number of emerging defence and commercial programs.

Finally, two significant labour relations developments occurred during the fourth quarter of 2002, and the first quarter of 2003. Labour negotiations at Orenda Aerospace were successfully concluded and a new 3-year agreement was reached with that workforce in November. Efforts to reach an agreement with the workforce at Fleet Industries continued throughout the fall and winter, but proved unsuccessful. Due to the economic impact of the strike, Magellan announced in February 2003 the planned closure of the Fleet plant in Fort Erie.

Summary

Management continues to pursue opportunities for new contracts from existing and new customers, while realigning the organization and the operations to market realities.

On behalf of the Board

N. Murray Edwards
Chairman
April 15, 2003

Richard A. Neill
President and Chief Executive Officer

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MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND RETAINED EARNINGS
(unaudited)

(expressed in thousands of dollars, except per share amounts)

	Three months ended December 31		Twelve months ended December 31	
	2002	2001 (restated)	**2002**	2001 (restated)
Revenues	**$ 115,222**	$ 156,802	**$ 460,141**	$ 614,461
Cost of revenues	**101,770**	130,693	**395,708**	502,701
Gross profit	**13,452**	26,109	**64,433**	111,760
Administrative and general expenses	**10,900**	9,412	**36,906**	40,946
Research and development	**44**	161	**786**	1,066
Interest	**2,328**	1,897	**9,002**	11,251
Unusual item (note 4)	**30,155**	-	**30,155**	-
	43,427	11,470	**76,849**	53,263
Income (loss) before income taxes	**(29,975)**	14,639	**(12,416)**	58,497
Income taxes - current	**(459)**	3,573	**505**	17,110
- future	**(10,195)**	2,065	**(4,735)**	2,369
	(10,654)	5,638	**(4,230)**	19,479
Net income (loss) for the period	**(19,321)**	9,001	**(8,186)**	39,018
Retained earnings, beginning of the period	**162,083**	155,368	**166,700**	126,136
Restatement due to change in accounting policy regarding foreign exchange translation (note 2b)	**-**	-	**(2,331)**	(785)
Retained earnings, beginning of the period, as restated	**162,083**	155,368	**164,369**	125,351
Change in accounting policy regarding goodwill (note 2a)	**-**	-	**(13,421)**	-
Retained earnings, end of period	**$ 142,762**	$ 164,369	**$ 142,762**	$ 164,369
Income (loss) per common share				
Basic (note 6)	**$ (0.29)**	$ 0.14	**$ (0.12)**	$ 0.59
Diluted (note 6)	**$ (0.29)**	$ 0.14	**$ (0.12)**	$ 0.59

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CONSOLIDATED BALANCE SHEETS
(unaudited)

(expressed in thousands of dollars)	December 31 2002	December 31 2001 (restated)
ASSETS		
Current		
Cash	$ 3,630	$ 3,638
Accounts receivable	76,060	89,800
Inventories	285,048	230,943
Prepaid expenses and other	7,613	8,218
Future income tax asset	3,694	3,643
Total current assets	376,045	336,242
Capital assets	346,241	347,801
Goodwill	-	13,421
Other	8,012	8,836
Future income tax asset	18,883	11,265
	$ 749,181	$ 717,565
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	$ 95,187	$ 57,431
Accounts payable and accrued charges	86,857	92,067
Deferred revenue	-	2,779
Current portion of long-term debt (note 5)	20,367	41,108
Total current liabilities	202,411	193,385
Long-term debt (note 5)	146,328	102,240
Future income tax liabilities	93,936	95,225
Other long-term liabilities	7,835	10,485
Shareholders' equity		
Capital stock (notes 6)	153,032	147,350
Retained earnings	142,762	164,369
Foreign exchange translation	2,877	4,511
Total shareholders' equity	298,671	316,230
	$ 749,181	$ 717,565

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(expressed in thousands of dollars)	Three months ended December 31		Twelve months ended December 31	
	2002	2001 (restated)	**2002**	2001 (restated)
OPERATING ACTIVITIES				
Income (loss) for the period	**$ (19,321)**	$ 9,001	**$ (8,186)**	$ 39,018
Add items not affecting cash				
Depreciation and amortization	**6,164**	5,461	**22,790**	21,612
Unusual item (note 4)	**30,155**	-	**30,155**	-
Future income taxes (recoveries)	**(10,195)**	2,065	**(4,735)**	2,369
	6,803	16,527	**40,024**	62,999
Net change in non-cash working capital items relating to operating activities	**(7,839)**	8,469	**(37,124)**	1,363
Cash provided by (used in) operating activities	**(1,036)**	24,996	**2,900**	64,362
INVESTING ACTIVITIES				
Acquisition (note 3)	**(3,444)**	-	**(19,562)**	-
Purchase of capital assets	**(4,832)**	(8,211)	**(30,215)**	(32,369)
Decrease in other assets	**2,250**	2,588	**985**	2,627
Cash used in investing activities	**(6,026)**	(5,623)	**(48,792)**	(29,742)
FINANCING ACTIVITIES				
Increase (decrease) in bank indebtedness	**7,556**	(6,263)	**36,562**	2,100
Net advance (repayments) of long-term debt	**(2,092)**	(10,562)	**11,874**	(36,272)
Issue of common shares	**1,065**	97	**1,796**	793
Decrease in long-term liabilities	**(405)**	(2,667)	**(4,316)**	(3,502)
Cash provided by (used in) financing activities	**6,124**	(19,395)	**45,916**	(36,881)
Effect of exchange rate changes on cash	**(31)**	35	**(32)**	215
Increase (decrease) in cash	**(969)**	13	**(8)**	(2,046)
Cash, beginning of period	**4,599**	3,625	**3,638**	5,684
Cash, end of period	**$ 3,630**	$ 3,638	**$ 3,630**	$ 3,638

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 as noted 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, 2001.

2. ACCOUNTING CHANGES

(a) Goodwill

Effective January 1, 2002, the Corporation has adopted the new recommendations of The Canadian Institute of Chartered Accountants with respect to accounting for goodwill and other intangible assets. Under this new accounting standard, which can only be applied prospectively, goodwill is no longer amortized, but is tested for impairment upon adoption of the new standard and at least annually thereafter.

The impact of this change of not amortizing goodwill in the current year was a decrease in the net loss of $576. The following table shows the impact had this change been applied in fiscal 2001:

	2002 $	2001 $
Net income (loss), as previously reported	(8,186)	39,018
Increase in net income	—	576
Net income (loss), as adjusted	(8,186)	39,594
Diluted income (loss) per common share, as previously reported	(0.12)	0.59
Increase in net income	—	0.01
Diluted income (loss) per common share, as adjusted	(0.12)	0.60

Prior to the current recommendations coming into effect, goodwill impairment was assessed based on the estimated future undiscounted cash flows for the business to which the goodwill relates. Under these new recommendations, goodwill impairment is assessed based on a comparison of the fair value of a reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill. Under these new recommendations, upon initial adoption of the goodwill valuation standards, any write-down of goodwill that is a result of an identified impairment that existed as of January 1, 2002 is charged to opening retained earnings at January 1, 2002. Thereafter, goodwill must be assessed for impairment on an annual basis and any required write-down charged against earnings.

The Corporation completed its initial impairment review of goodwill and based on this review recorded a goodwill write-down of $13,421, which has been charged against the January 1, 2002 opening balance of retained earnings. The write down was a result of continuing lower than expected revenues at the subsidiary that gave rise to the goodwill.

(b) Foreign Exchange Translation

In December 2001, The Canadian Institute of Chartered Accountants amended Handbook Section 1650 "Foreign Currency Translation". Effective January 1, 2002, the Corporation adopted these new recommendations on a retroactive basis. The most significant change under these new recommendations is to eliminate the deferral and amortization method for unrealized translation gains and losses on long-term monetary assets and liabilities. Unrealized translation gains and losses on long-term monetary assets and liabilities are now reflected in income.

The effect of this change resulted in a decrease in net income for 2001 of $1,546, a decrease in retained earnings at January 1, 2002 of $785 and a decrease in other assets at December 31, 2001 of $2,331. The effect of this change for 2002 is immaterial. The impact of this change on net income for the current year was a decrease in the net loss of $1,217.

(c) Stock-Based Compensation

In November 2001, The Canadian Institute of Chartered Accountants issued Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments". Under this new standard, stock options may be accounted for using the fair value method (which gives rise to compensation expense) or the intrinsic value method (which does not give rise to compensation expense). The Corporation will continue to account for its stock options under the intrinsic value method. Note 7 discloses what the impact on net income would have been if the fair value method was followed.

3. ACQUISITION

On September 3, 2002 the Corporation acquired 72% of the outstanding common shares of Haley Industries Limited ["Haley"] and an additional 11% during September through subsequent tenders. On December 1, 2002, the Corporation acquired the remaining 17% of the outstanding common shares of Haley. The results of Haley's operations have been included in the consolidated financial statements, partially since September 3, 2002, and fully effective December 1, 2002. Haley produces magnesium and aluminum castings primarily for the aerospace industry, with facilities located in Haley, Ontario and Glendale, Arizona.

The aggregate purchase price was $23,448, consisting of both cash and common shares of the Corporation. The value of the 748,686 common shares issued was determined based on the average market price of the Corporation's common shares over a three-day period once the amended terms of the acquisition were announced in August 2003.

The following table summarizes the estimated fair value of the assets acquired and the liabilities assumed at the date of acquisition.

	$
Current assets	20,493
Capital assets	17,560
Future tax asset	6,082
Other assets	535
Total assets acquired	44,670
Current liabilities	(9,466)
Long-term debt	(9,942)
Other long-term liabilities	(1,814)
Total liabilities assumed	(21,222)
Net assets acquired and purchase price	**23,448**

The purchase price consideration was as follows:

	$
Cash consideration	19,233
Transaction costs	900
Less Haley cash on hand	(571)
Total cash consideration	19,562
Value of 748,686 common shares issued	3,886
Total consideration	**23,448**

4. UNUSUAL ITEM

In light of the significant downturn in the general aviation market and the general economic environment impacting Orenda Recip Inc. ["Recip"], a Canadian division of the Corporation, the decision was made by the Corporation to discontinue the product line associated with Recip. As a result, the Corporation has recorded a provision at December 31, 2002 to write down the assets of Recip to their estimated net realizable value.

The details of the provision are as follows:

	$
Capital assets	24,857
Inventory	3,183
Prepaid expenses	2,115
Total provision	**30,155**

5. LONG-TERM DEBT

	2002 $	2001 $
Term bank loan	152,900	135,100
Other non-bank loans	8,183	8,248
Obligations under capital leases	5,612	—
	166,695	143,348
Less current portion	20,367	41,108
	146,328	102,240

The term bank loan bears interest at bankers' acceptance or LIBOR rates, plus 1.75% 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 $79,000 [2001 - $71,315].

6. CAPITAL STOCK

The authorized capital of the Corporation consists of an unlimited number of preference shares, issuable in series, and an unlimited number of common shares.

Common shares:

	Number of shares \#	Stated capital $
Outstanding at December 31, 2000	65,834,189	146,557
Issued upon exercise of options	112,500	459
Issued to employees and directors	56,605	334
Outstanding at December 31, 2001	66,003,294	147,350
Issued upon exercise of options	462,600	1,538
Issued to employees and directors	49,459	258
Issued to acquire Haley	748,686	3,886
Outstanding at December 31, 2002	67,264,039	153,032

The reconciliation of the numerator and denominator for the calculation of basic and diluted income (loss) per share is as follows:

	2002 $	2001 $
Net income (loss)	(8,186)	39,018
Weighted average shares outstanding	66,388,778	65,936,087
Net effect of dilutive stock options	218,769	401,735
Diluted weighted average shares outstanding	66,607,547	66,337,822
Income (loss) per share		
Basic	(0.12)	0.59
Diluted	(0.12)	0.59

For the year ended December 31, 2002 options to purchase 424,000 common shares [2001 - 459,400 common shares] were not included in the computation of the diluted income (loss) per share because the option exercise prices were greater than the average market price of the common shares.

7. 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 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 optionholder's entitlement to fully vest.

A summary of the plan and changes during each of 2002 and 2001 are as follows:

	2002		2001	
	Shares \#	Weighted average exercise price $	Shares \#	Weighted average exercise price $
Outstanding, beginning of year	2,257,700	5.63	1,711,702	5.42
Granted	666,500	5.04	746,500	5.85
Exercised	(462,600)	3.32	(112,500)	4.08
Forfeited	(413,600)	6.14	(88,002)	5.51
Outstanding, end of year	2,048,000	5.85	2,257,700	5.63

The following table summarizes information about options outstanding and exercisable:

	Options outstanding			Options exercisable	
Range of exercise prices $	Number outstanding at December 31, 2002	Weighted average remaining contractual life	Weighted average exercise price $	Number exercisable at December 31, 2002	Weighted average exercise price $
4.80 – 6.55	**1,714,000**	**4.13**	**5.47**	**296,710**	**5.66**
7.75 – 10.05	**334,000**	**1.97**	**7.83**	**202,624**	**7.86**
	2,048,000	**3.78**	**5.85**	**499,334**	**6.55**

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.

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

- Risk free interest rate 4.92%
- Expected volatility 33%
- Expected average life of the options 4 years
- Expected dividend yield 0%

The Black-Scholes option valuation 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 purposes of pro forma disclosures, the Corporation's net loss attributable to its common shares and basic and diluted loss per common shares would have been:

	2002 $
Net loss as reported	(8,186)
Pro forma compensation expense	(247)
Pro forma net loss	(8,433)
Pro forma loss per common share:	
Basic	(0.13)
Diluted	(0.13)
Weighted average fair value of options granted during the year	1.70

8. 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:

	2002			2001		
	Canada $	United States $	Total $	Canada $	United States $	Total $
Revenue						
Domestic	92,148	192,436	284,584	159,284	215,223	374,507
Export	149,068	26,489	175,557	215,855	24,099	239,954
Total revenue	241,216	218,925	460,141	375,139	239,322	614,461
Capital assets and goodwill	157,144	189,097	346,241	162,415	198,807	361,222

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

	2002 $	2001 $
Major Customers		
Canadian operations		
Number of customers	3	2
Percentage of total Canadian revenue	42%	46%
U.S. operations		
Number of customers	3	3
Percentage of total U.S. revenue	59%	70%

9. SUBSEQUENT EVENTS

(a) Convertible Debentures

On January 7, 2003, the Corporation completed an offering of $70,000 of 8.5 percent convertible unsecured subordinated debentures, due January 31, 2008. The debentures pay interest on a semi-annual basis on January 31 and July 31 in each year commencing July 31, 2003. The debentures are convertible, at any time prior to the maturity date, by holders into common shares of the Corporation, at a conversion price of $4.50 per common share. The debentures are redeemable by the Corporation between January 31, 2006 and January 31, 2007 at a price equal to the principal amount, plus accrued and unpaid interest, if any, provided that the current market price is not less than 125 percent of the conversion price, and after January 31, 2007 and prior to the maturity date at a price equal to the principal amount, plus accrued and unpaid interest, if any. The debentures are unsecured obligations of the Corporation and will be subordinated in right of payment to all of the Corporation's existing and future senior indebtedness.

The net proceeds of the offering of $67,950 will be applied as to $33,975 towards the permanent reduction of the principal amount of the term bank loan, $8,869 towards repayment of the other bank loans and the remaining amount of $25,106 paying down the Corporation's revolving lines of credit, but not as a permanent reduction thereof.

The following table adjusts the December 31, 2002 accounts to reflect the issuance of the debentures and the use of the net proceeds as if the debentures had been issued on December 31, 2002:

	2002		
	Reported $	**Adjustments** $	**Pro forma** $
Current liabilities	202,411	(25,106)	177,305
Long-term debt	146,328	(42,844)	103,484
Shareholders' equity	298,671	67,950	366,621

As the Corporation has the ability to pay both interest and principal in its common shares, the debentures are reflected as part of shareholders' equity.

(b) Plant Closure

On February 13, 2003, the Corporation announced its decision to cease operations at its Fleet Industries plant in Fort Erie, Ontario. Although it is not be possible to accurately determine the extent of potential costs and losses resulting from this decision, management estimates a one-time charge to net earnings will be recorded in 2003 of approximately $31,000.

10. NON-GAAP MEASURES

EBITDA is defined by the Corporation as net income before interest, taxes, depreciation and amortization. The Corporation has included information concerning EBITDA because it believes this measure is used by certain investors as a measure of financial performance. Although the Corporation believes that this measure is used by certain investors (and the Corporation has included it for this reason), EBITDA is not a measure of financial performance under Canadian GAAP and is unlikely to be comparable to similarly titled measures used by other companies. EBITDA should not be construed as an alternative to cash flow from operations or net income as determined in accordance with GAAP as measures of liquidity or earnings.

11. COMPARATIVE FIGURES

Certain of the comparative figures have been restated to conform to current year presentation.

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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.

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

www.magellanaerospace.com