

**Magellan Aerospace Corporation**  
**First Quarter Report**  
**March 31, 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 May 15, 2003, the Corporation released its financial results for the first quarter of 2003. The results are summarized as follows:

Expressed in thousands, except per share amounts	Three Months Ended March 31		
	2003	2002	PERCENTAGE CHANGE
Revenues	\$ 118,055	\$ 128,044	-7.8%
Net Income (Loss)	\$ (19,104)	\$ 6,352	-400.8%
Net Income (Loss) Per Share	\$ (0.30)	\$ 0.10	-400.0%
EBITDA	\$ (20,439)	\$ 17,723	-215.3%
EBITDA Per Share	\$ (0.30)	\$ 0.27	-211.1%
Net Income Before Unusual Item	\$ 2,357	\$ 6,352	-62.9%
Net Income Per Share Before Unusual Item	\$ 0.04	\$ 0.10	-60.0%
EBITDA Before Unusual Item	\$ 12,834	\$ 17,723	-27.6%
EBITDA Per Share Before Unusual Item	\$ 0.19	\$ 0.27	-29.6%

**Management's Discussion & Analysis**

The results for the first quarter of 2003 show positive sales and earnings growth over the fourth quarter of 2002, but trailed results of a year earlier. Before the unusual item, the Corporation recorded a profit, despite difficult conditions in the aerospace industry. After recognition of the unusual item, a loss was reported for the quarter.

On February 13, 2003, due to the prolonged strike and the associated economic consequences of this strike, the Corporation announced its decision to cease operations at its Fleet Industries ("Fleet") plant in Fort Erie, Ontario. Strike-bound for four months, Fleet had a long history of troubled labour relations. When it became clear that disruptions to customer relations at the facility had become 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. A provision of \$33.3 million, slightly in excess of the \$31.0 million estimated in our 2002 year-end financial statements, was recorded in the first quarter of 2003 relating to this decision, and had a significant impact on the reported results.

The timing of a recovery in the aerospace industry still remains unclear. The industry was in the process of adjusting to a downturn in the world economy when it was directly affected by the events of September 11, 2001, the conflict in Afghanistan, the war in Iraq and, most recently, concern over the spread of the Severe Acute Respiratory Syndrome (SARS).

As a result of these events, commercial air travel has fallen dramatically and a number of airlines have suffered financial distress, impacting their ability to accept new aircraft deliveries. This has had a significant effect on the Corporation in the short term as the demand for new aircraft and, accordingly, components has correspondingly declined. There are encouraging initial signs that some airlines are regaining financial stability, but current projections indicate aircraft build rates remain volatile.

In the defence sector, activity levels have improved. Sales generated by the defence sector now represent 40% of total sales compared to the traditional level of 35% of sales. In addition, a number of further bid opportunities are being pursued.

Magellan is positioning itself to participate in the recovery expected to take place in 2005 by stabilizing its businesses and re-aligning its operations. Concurrently, new contracts are being secured with both short and long-term volume.

### **Results from Operations**

Consolidated revenues for the first quarter of 2003 were \$118.1 million, a decrease of 7.8% from the first quarter of 2002. Reduced sales to Boeing of components for commercial aircraft and delayed work orders on some key contracts were partially offset by increased delivery on the A340 and USAF programs. Gross profits fell to \$15.5 million (13.2% of revenues) for the first quarter of 2003 from \$20.9 million (16.3% of revenues) during the same period in 2002.

In the first quarter of 2003 consolidated revenues of \$118.1 million represented an increase of 2.5% over the fourth quarter of 2002, the fourth quarter being traditionally the strongest quarter in the year. Gross profits improved to \$15.5 million (13.2% of revenues) for the first quarter of 2003 from \$13.5 million (11.7% of revenues) during the fourth quarter of 2002.

Administrative and general expenses increased by \$0.3 million, or 3.8%, for the first quarter of 2003 compared to the same quarter in 2002. Included in administrative and general expenses for the first quarter of 2003 is a foreign exchange gain of \$2.2 million, due to the strengthening of the Canadian dollar. This compares to a foreign exchange gain of \$0.1 million in the same quarter of 2002. The overall increase is largely due to the inclusion of Haley's results for a full quarter in the first quarter of 2003, and the additional strike related costs from the Fleet plant.

Interest expense increased to \$2.6 million in the first quarter of 2003 from \$2.0 million in the first quarter of 2002 due to higher interest rates.

Net loss for the quarter was \$19.1 million, a decrease of \$25.5 million when compared to the same period in 2002. The loss was primarily driven by a provision of \$33.3 million recorded as an unusual item in the first quarter of 2003 relating to the decision to cease operations at the Fleet plant in Fort Erie, Ontario. Net loss per share was \$0.30 for the quarter, compared to net income per share of \$0.10 in the first quarter of 2002. Excluding the Fleet unusual item of \$21.5 million net of tax recovery, net income was \$2.4 million or \$0.04 net income per share for the first quarter of 2003.

### **Liquidity and Capital Resources**

In the quarter ended March 31, 2003, the Corporation used \$9.2 million of cash from operations, compared to \$5.7 million in the first quarter of 2002.

During the quarter ended March 31, 2002, the Corporation invested \$0.4 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 2 of the attached consolidated financial statements.

### **Recent Developments**

Magellan announced on January 13, 2003, the award of new F-15 Eagle and Abrams tank engine assemblies contracts for the U.S. Department of Defense, with revenues in excess of \$40.0 million over 5 years for all options.

On May 5, 2003, Magellan announced new orders valued at \$6.0 million to manufacture F-15 Eagle engine fairings for the Defense Supply Center Richmond (DSCR), and STANDARD missile dorsal fins for Raytheon Missile Systems in Tucson, Arizona.



Magellan announced on May 7, 2003, its selection by Lockheed Martin, Fort Worth, TX, to perform work packages on the wing of the F-35 Joint Strike Fighter (JSF) aircraft. This order has an estimated value of over \$17.0 million, and builds on the JSF engine-related orders as previously announced.

Magellan announced May 12, 2003, that it was selected by engine nacelle maker Hurel-Hispano as the sole source manufacturer of exhaust nozzles for the Rolls-Royce and Engine Alliance engines offered on the Airbus A380 aircraft. The contract has estimated revenues of \$160.0 million over 15 years.

**Summary**

Management's view is that overall activity will remain at these lower levels for the foreseeable future and is reacting by stabilizing businesses, aligning 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**  
May 15, 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.

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

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

**Three months ended**  
**March 31**

2003                      2002

Revenues	\$ <b>118,055</b>	\$ 128,044
Cost of revenues	<u>102,513</u>	<u>107,157</u>
Gross profit	<u>15,542</u>	<u>20,887</u>
Administrative and general expenses	<b>9,054</b>	8,719
Interest	<b>2,602</b>	2,011
Unusual item (note 3)	<u>33,273</u>	<u>—</u>
	<u>44,929</u>	<u>10,730</u>
Income (loss) before income taxes	<b>(29,387)</b>	10,157
Income taxes - current	<b>323</b>	627
- future (recovery)	<u>(10,606)</u>	<u>3,178</u>
	<u>(10,283)</u>	<u>3,805</u>
<b>Net income (loss) for the period</b>	<u><b>(19,104)</b></u>	<u>6,352</u>
Retained earnings, beginning of the period	<b>142,762</b>	164,369
Interest on convertible debentures (note 2)	<u>(869)</u>	<u>—</u>
Retained earnings, end of period	\$ <u><b>122,789</b></u>	\$ <u>170,721</u>
Income (loss) per common share		
Basic (note 5)	\$ <u><b>(0.30)</b></u>	\$ <u>0.10</u>
Diluted (note 5)	\$ <u><b>(0.30)</b></u>	\$ <u>0.10</u>

**MAGELLAN AEROSPACE CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
 (unaudited)

(expressed in thousands of dollars)

	<b>March 31</b>	December 31
	<b><u>2003</u></b>	<u>2002</u>
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 4,624	\$ 3,630
Accounts receivable	86,711	76,060
Inventories	279,164	285,048
Prepaid expenses and other	5,161	7,613
Future income tax asset	<u>4,581</u>	<u>3,694</u>
<b>Total current assets</b>	<b><u>380,241</u></b>	<b><u>376,048</u></b>
Capital assets	326,923	346,241
Other	7,486	8,012
Future income tax asset	<u>18,475</u>	<u>18,883</u>
	<b><u>\$ 733,125</u></b>	<b><u>\$ 749,181</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness	\$ 79,029	\$ 95,187
Accounts payable and accrued charges	97,654	86,857
Current portion of long-term debt (note 4)	<u>18,776</u>	<u>20,367</u>
<b>Total current liabilities</b>	<b><u>195,459</u></b>	<b><u>202,411</u></b>
Long-term debt (note 4)	96,002	146,328
Future income tax liabilities	77,838	93,936
Other long-term liabilities	26,517	7,835
<b>Shareholders' equity</b>		
Capital stock (note 5)	153,068	153,032
Convertible debentures (note 2)	67,950	—
Retained earnings	122,789	142,762
Foreign exchange translation	<u>(6,498)</u>	<u>2,877</u>
<b>Total shareholders' equity</b>	<b><u>337,309</u></b>	<b><u>298,671</u></b>
	<b><u>\$ 733,125</u></b>	<b><u>\$ 749,181</u></b>

**MAGELLAN AEROSPACE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
 (unaudited)

(expressed in thousands of dollars)

**Three months ended**  
**March 31**
**2003**                      **2002**
**OPERATING ACTIVITIES**

Income (loss) for the period	\$ (19,104)	\$ 6,352
Add items not affecting cash		
Depreciation and amortization	6,346	5,555
Unusual item (note 3)	33,273	—
Future income taxes (recoveries)	<u>(10,606)</u>	<u>3,176</u>
	9,909	15,083
Net change in non-cash working capital items relating to operating activities	<u>(19,090)</u>	<u>(20,798)</u>
Cash used in operating activities	<u>(9,181)</u>	<u>(5,715)</u>

**INVESTING ACTIVITIES**

Purchase of capital assets	(407)	(8,550)
Decrease (increase) in other assets	<u>494</u>	<u>(510)</u>
Cash provided by (used in) investing activities	<u>87</u>	<u>(9,060)</u>

**FINANCING ACTIVITIES**

(Decrease) increase in bank indebtedness	(11,768)	24,925
Net repayments of long-term debt	(45,275)	(10,727)
Issue of convertible debentures	67,950	—
Issue of common shares	36	232
Decrease in long-term liabilities	<u>(611)</u>	<u>(2,241)</u>
Cash provided by financing activities	<u>10,332</u>	<u>12,189</u>

Effect of exchange rate changes on cash	<u>(244)</u>	<u>(18)</u>
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Increase (decrease) in cash	994	(2,604)
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Cash, beginning of period	<u>3,630</u>	<u>3,638</u>
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Cash, end of period	<u>\$ 4,624</u>	<u>\$ 1,034</u>
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**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. 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, 2002.

**2. 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 are 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 were 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 to pay down the Corporation's revolving lines of credit, but not as a permanent reduction thereof.

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.

**3. UNUSUAL ITEM**

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 possible to accurately determine the extent of potential costs and losses resulting from this decision, management estimated and has recorded a one-time charge to net earnings in 2003 of \$33,273.

**4. LONG-TERM DEBT**

	<b>March 31, 2003</b>	<b>December 31, 2002</b>
	\$	\$
Term bank loan	101,432	152,900
Other non-bank loans	7,910	8,183
Obligations under capital leases	5,436	5,612
	114,778	166,695
Less current portion	18,776	20,367
	96,002	146,328

The term bank loan bears interest at bankers' acceptance or LIBOR rates, plus 2.25% 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 \$69,105 [2002 - \$79,000].

## 5. 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 \$
<b>Outstanding at December 31, 2001</b>	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
<b>Outstanding at December 31, 2002</b>	67,264,039	153,032
Issued to employees and directors	11,521	36
<b>Outstanding at March 31, 2003</b>	67,275,560	153,068

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

	2003	2002
Net income (loss)	\$ (19,104)	\$ 6,352
Less: Interest on convertible debentures	(869)	—
Net income (loss) available to common shareholders	\$ (19,973)	\$ 6,352
Weighted average shares outstanding	67,271,663	66,031,780
Net effect of dilutive stock options	—	227,062
Net effect of convertible debentures	15,555,556	—
<b>Diluted weighted average shares outstanding</b>	<b>82,827,219</b>	<b>66,258,842</b>
<b>Income (loss) per share</b>		
Basic	\$ (0.30)	\$ 0.10
Fully Diluted	\$ (0.30)	\$ 0.10

## 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 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 option holder's entitlement to fully vest.



A summary of the plan and changes during each of 2003 and 2002 are as follows:

	2003		2002	
	Shares #	Weighted average exercise price \$	Shares #	Weighted average exercise price \$
<b>Outstanding, beginning of period</b>	2,048,000	5.85	2,257,700	5.63
Granted	—	—	666,500	5.04
Exercised	—	—	(462,600)	3.32
Forfeited	—	—	(413,600)	6.14
<b>Outstanding, end of period</b>	<b>2,048,000</b>	<b>5.85</b>	<b>2,048,000</b>	<b>5.85</b>

The following table summarizes information about options outstanding and exercisable:

Range of exercise prices \$	Options outstanding			Options exercisable	
	Number outstanding at March 31, 2003	Weighted average remaining contractual life	Weighted average exercise price \$	Number exercisable at March 31, 2003	Weighted average exercise price \$
4.80 – 6.55	1,714,000	3.89	5.47	380,887	5.62
7.75 – 10.05	334,000	1.72	7.83	219,095	7.86
	<b>2,048,000</b>	<b>3.54</b>	<b>5.85</b>	<b>599,982</b>	<b>6.43</b>

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:

	2003 \$
Net loss as reported	(19,104)
Pro forma compensation expense	(69)
<b>Pro forma net loss</b>	<b>(19,173)</b>
Pro forma loss per common share:	
Basic	(0.29)
Diluted	(0.29)

## 7. 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:

	<b>Three months ended March 31,</b>					
	<b>2003</b>			<b>2002</b>		
	<b>Canada</b>	<b>United States</b>	<b>Total</b>	<b>Canada</b>	<b>United States</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$
<b>Revenue</b>						
Domestic	16,469	50,089	66,558	32,612	51,830	84,442
Export	44,602	6,895	51,497	36,624	6,978	43,602
<b>Total revenue</b>	<b>61,071</b>	<b>56,984</b>	<b>118,055</b>	<b>69,236</b>	<b>58,808</b>	<b>128,044</b>
<b>Capital assets</b>	<b>154,342</b>	<b>172,581</b>	<b>326,923</b>	<b>165,006</b>	<b>199,412</b>	<b>364,418</b>

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

	<b>Three months ended March 31,</b>	
	<b>2003</b>	<b>2002</b>
<b>Major Customers</b>		
Canadian operations		
Number of customers	3	2
Percentage of total Canadian revenue	35%	39%
U.S. operations		
Number of customers	2	3
Percentage of total U.S. revenue	44%	64%

## 8. SUPPLEMENTARY INFORMATION

Foreign exchange gain in 2003 was \$2,168 [2002 - \$62]

### For additional information contact:

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