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AEROSPACE CORPORATION

Magellan Aerospace Corporation
Fourth Quarter Report
December 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 and the United Kingdom, Magellan supplies leading aircraft manufacturers, airlines and defence agencies throughout the world.

Financial Results

On March 30, 2004, the Corporation released its financial results for the fourth quarter and the year ended December 31, 2003. The results are summarized as follows:

	Three Months Ended December 31			Twelve Months Ended December 31		
Expressed in thousands, except per share amounts	2003	2002	PERCENTAGE CHANGE	2003	2002	PERCENTAGE CHANGE
Revenues	$ 137,092	$ 115,222	19.0%	$ 478,313	$ 460,141	3.9%
Net Income (Loss)	$ 147	$ (19,321)	100.7%	$ (14,241)	$ (8,186)	-74.0%
Net Income (Loss) Per Share Before Extraordinary item	$ (0.07)	$ (0.29)	75.9%	$ (0.34)	$ (0.12)	-183.3%
EBITDA	$ 10,265	$ (21,483)	147.8%	$ 15,446	$ 19,376	-20.3%
EBITDA Per Share	$ 0.14	$ (0.32)	143.8%	$ 0.23	$ 0.29	-20.7%
Net Income (Loss) Before Unusual and Extraordinary Item	$ (3,206)	$ 129	-2,585.3%	$ 3,867	$ 11,264	-65.7%
Net Income (Loss) Per Share Before Unusual and Extraordinary Item	$ (0.04)	$ 0.00	-	$ 0.06	$ 0.17	-64.7%
EBITDA Before Unusual and Extraordinary Item	$ 10,265	$ 8,672	18.4%	$ 48,719	$ 49,531	-1.6%
EBITDA Per Share Before Unusual and Extraordinary Item	$ 0.14	$ 0.13	7.7%	$ 0.71	$ 0.75	-5.3%

Industry Trends

The commercial airline industry continues to be challenged, although there are signs of recovery, especially in the regional jet and single aisle (approximately 150 seat) models such as the Boeing 737 and Airbus A320 families. Operating metrics at many airlines continue to improve and several airlines have announced expansion plans in recent months signalling that there will be significant new orders in the near future. Boeing and Airbus have both projected stable build programs of approximately 300 aircraft per year for the next two years.

The defence aerospace industry continues to provide significant opportunity. In late December, Magellan entered into a revenue sharing agreement with GE Aircraft Engines to build the front and exhaust frames of the GE F414 engine. The F414 engine is the powerplant for the F/A 18 E/F Super Hornet fighter jet used by the US Navy, and will also be used in the

EA 18G airborne electronic aircraft which is currently under development. Magellan will earn revenue on each F414 engine sold, commencing January 1, 2004.

Other defence development programs such as the F22 Raptor and F35 Joint Strike Fighter, continue to make forecasted progress to plan. Significant revenues on these programs will not be seen for a few years, but the development work being performed on these contracts create synergies in other areas of the business which have a more immediate effect. Repair and overhaul work continues to be strong. Also during the quarter, the J85 engine repair and overhaul program for the United States Air Force reached its full production rate.

Certain technology developments in Industrial Turbines are encouraging. It is anticipated that the first co-generation system capable of burning bio-fuel directly in the turbine will be delivered in the 2nd quarter of 2004. Uncertainty in the Canadian power industry continues to make forecasts difficult but the technology allows the Corporation to benefit from alternative fuel opportunities.

The acquisition of Magellan Aerospace (UK) Limited ("MAL UK") was completed in the fourth quarter and operating results are included in the consolidated statements for the year and quarter ended December 31, 2003. The acquisition of MAL UK significantly increases the exposure Magellan has with Airbus, as MAL UK builds products for the complete family including the A320 and the A380 aircraft.

Results from Operations

Consolidated revenues for the fourth quarter of 2003 were $137.1 million, an increase of $21.9 million, or 18.9%, from the fourth quarter of 2002. Consolidated revenues include revenue of $21.3 million from MAL UK, whose results are included from the effective date of control on October 1, 2003. The weak US dollar continues to have a negative impact on sales. Compared to the same quarter one year ago, sales have decreased by $13.0 million solely due to changes in exchange rates.

Gross profits of $14.4 million (10.5% of revenues) were reported for the fourth quarter of 2003 compared to $13.5 million (11.7% of revenues) during the same period in 2002. Gross profits decreased due primarily to a change in mix of products sold in the fourth quarter of 2003.

Administrative and general expenses decreased by $0.3 million, or 3.0%, for the fourth quarter of 2003 compared to the same quarter in 2002. Included in administrative and general costs for the three months ended December 31, 2003, is a foreign exchange gain of $2.5 million; in the corresponding period in 2002 there was no foreign exchange gain or loss reported. Excluding this gain, administrative and general costs increased by $2.2 million largely due to the inclusion of MAL UK results. Management continues to focus on reducing administrative and general costs to reflect current business activity levels.

Interest expense increased to $4.0 million in the fourth quarter of 2003 from $2.3 million in the fourth quarter of 2002 due to higher borrowing costs and the discounting of certain receivables. A receivable of $6.5 million, due December 31, 2005, was sold to an unrelated party for a discount of $0.6 million, or an annual interest rate of 4.60%. This discount is included in interest expense in the fourth quarter.

The provision for income taxes in the fourth quarter of 2003 was $2.8 million. Included in this balance is a provision of $2.4 million due to a recent change in income tax rates in the Province of Ontario. The provision, as a percentage of pre-tax income is higher than statutory rates because of certain minimum taxes payable and the effect of certain non-deductible items.

An extraordinary gain of $3.4 million was recorded on the purchase of MAL UK, as the net value of the assets acquired over the liabilities assumed was greater than the purchase price. This excess was first applied to reduce the cost of long term, non-monetary assets, and the balance is included in income as an extraordinary gain.

Net income, after the extraordinary gain, for the fourth quarter of 2003 was $0.1 million, an increase of $19.5 million when compared to the fourth quarter of 2002. The fourth quarter of 2002 included a provision of $30.2 million for the writedown of assets relating to the Orenda Recip program. Net income per share calculations for the fourth quarter of 2003 reflect charges of $1.6 million relating to the convertible debentures issued in January, 2003.

Liquidity and Capital Resources

In the quarter ended December 31, 2003, the Corporation generated $15.6 million of cash from operations, compared to a usage of $1.0 million in the fourth quarter of 2002. In 2003, $10.8 million of cash was generated by operations.

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Capital spending has been reduced to reflect current business conditions. During the quarter ended December 31, 2003, the Corporation invested $5.4 million in new production equipment to modernize current facilities and to enhance its capabilities. Acquisitions of capital assets for 2003 total $11.1 million. Acquisitions of capital assets for 2002 totalled $30.2 million.

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.

On December 21, 2003, the Corporation completed an offering of 12.0 million common shares for gross proceeds of $30.6 million. The proceeds were used to pay for the acquisition of MAL UK and to reduce corporate indebtedness.

Summary

For the first time, Airbus has overtaken Boeing in orders received and hence the new business that the Corporation has obtained on Airbus aircraft exhaust systems and the additional business recently acquired with MAL UK bodes well for the future.

Overall, conditions in the aerospace industry are showing signs of improvement. Defence spending continues to be strong and Magellan has positioned itself to participate significantly in several new programs. While significant increases in revenue are not immediate, these programs will lay the foundation for a solid base of business for the years to come. Improvements in the general economy will lead to increased airline traffic and should eventually lead to orders of commercial aircraft. Magellan continues to position itself in order to fully participate in the expected upturn in the commercial aerospace sector. Growth in European activity, which includes the acquisition of MAL UK, evidences Magellan's commitment to international growth, and to become a key supplier in the European aerospace market.

On behalf of the Board

N. Murray Edwards
Chairman
March 30, 2004

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	
	2003	2002	**2003**	2002
Revenues	**$ 137,092**	$ 115,222	**$ 478,313**	$ 460,141
Cost of revenues	**122,724**	101,770	**420,036**	395,708
Gross profit	**14,368**	13,452	**58,277**	64,433
Administrative and general expenses	**10,578**	10,900	**34,504**	36,906
Research and development	**210**	44	**210**	786
Interest	**4,004**	2,328	**12,703**	9,002
Unusual item	**—**	30,155	**33,273**	30,155
	14,792	43,427	**80,690**	76,849
Income (loss) before income taxes	**(424)**	(29,975)	**(22,413)**	(12,416)
Income taxes - current	**(180)**	(459)	**839**	505
- future (recovery)	**2,962**	(10,195)	**(5,658)**	(4,735)
	2,782	(10,654)	**(4,819)**	(4,230)
Loss before extraordinary gain	**(3,206)**	(19,321)	**(17,594)**	(8,186)
Extraordinary gain	**3,353**	—	**3,353**	—
Net income (loss) for the period	**147**	(19,321)	**(14,241)**	(8,186)
Retained earnings, beginning of the period, as restated	**124,261**	162,083	**142,762**	150,948
Convertible debenture charges	**(1,555)**	—	**(5,668)**	—
Retained earnings, end of period	**$ 122,853**	$ 142,762	**$ 122,853**	$ 142,762
Loss per common share				
Basic	**$ (0.07)**	$ (0.29)	**$ (0.34)**	$ (0.12)
Diluted	**$ (0.07)**	$ (0.29)	**$ (0.34)**	$ (0.12)

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CONSOLIDATED BALANCE SHEETS
(unaudited)

(expressed in thousands of dollars)

	December 31 2003	December 31 2002
ASSETS		
Current		
Cash	**$ 3,888**	$ 3,630
Accounts receivable	**82,726**	76,060
Inventories	**275,233**	285,048
Prepaid expenses and other	**7,785**	7,613
Future income tax asset	**5,101**	3,694
Total current assets	**374,733**	376,045
Capital assets	**300,076**	346,241
Other	**42,414**	8,012
Future income tax asset	**34,862**	18,883
	$ 752,085	$ 749,181
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	**$ 71,808**	$ 95,187
Accounts payable and accrued charges	**99,261**	86,857
Current portion of long-term debt (note 4)	**24,558**	20,367
Total current liabilities	**195,627**	202,411
Long-term debt (note 4)	**70,845**	146,328
Future income tax liabilities	**87,692**	93,936
Other long-term liabilities	**46,105**	7,835
Shareholders' equity		
Capital stock (note 5)	**182,733**	153,032
Convertible debentures (note 2)	**69,902**	—
Retained earnings	**122,853**	142,762
Foreign exchange translation (note 8)	**(23,672)**	2,877
Total shareholders' equity	**351,816**	298,671
	$ 752,085	$ 749,181

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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	
	2003	2002	**2003**	2002
OPERATING ACTIVITIES				
Income (loss) for the period	**$ 147**	$ (19,321)	**$ (14,241)**	$ (8,186)
Add (deduct) items not affecting cash				
Depreciation and amortization	**6,685**	6,164	**25,156**	22,790
Unusual item (note 3)	?	30,155	**33,273**	30,155
Future income taxes (recoveries)	**2,962**	(10,195)	**(5,658)**	(4,735)
Extraordinary gain	**(3,353)**	?	**(3,353)**	?
	6,441	6,803	**35,177**	40,024
Net change in non-cash working capital items relating to operating activities	**9,132**	(7,839)	**(24,342)**	(37,124)
Cash provided by (used in) operating activities	**15,573**	(1,036)	**10,835**	2,900
INVESTING ACTIVITIES				
Acquisitions	**(14,102)**	(3,444)	**(14,102)**	(19,562)
Purchase of capital assets	**(5,414)**	(4,832)	**(11,139)**	(30,215)
Extraordinary gain	**3,353**	?	**3,353**	?
(Increase) decrease in other assets	**(2,028)**	2,250	**(2,875)**	985
Cash used in investing activities	**(18,191)**	(6,026)	**(24,763)**	(48,792)
FINANCING ACTIVITIES				
(Decrease) increase in bank indebtedness	**(11,641)**	7,556	**(12,140)**	36,562
Net advance (repayments) of long-term debt	**(3,548)**	(2,092)	**(58,096)**	11,874
Issue of convertible debentures	?	?	**67,950**	?
Interest on convertible debentures	**(5,852)**	__	**(5,852)**	?
Issue of common shares	**29,585**	1,065	**29,701**	1,796
Decrease in long-term liabilities	**(3,194)**	(405)	**(5,964)**	(4,316)
Cash provided by financing activities	**5,350**	6,124	**15,599**	45,916
Effect of exchange rate changes on cash	**(1,112)**	(31)	**(1,413)**	(32)
Increase (decrease) in cash	**1,620**	(969)	**258**	(8)
Cash, beginning of period	**2,268**	4,599	**3,630**	3,638
Cash, end of period	**$ 3,888**	$ 3,630	**$ 3,888**	$ 3,630

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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, 2003.

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. The debentures consist of the present value of both principal and interest, as well as the holder's conversion option. The holder's conversion option is valued using the residual value approach, and is being accreted to convertible debentures, through periodic charges against retained earnings. Convertible debenture charges consist of interest, net of income taxes and accretion of the holder's conversion option.

3. UNUSUAL ITEM

During 2003, the Corporation announced its decision to cease operations at its Fleet Industries plant in Fort Erie, Ontario. Management has estimated the potential costs and losses resulting from this decision and has recorded a one-time charge to net earnings in 2003 of $33,273; however as estimates are involved, the ultimate amount of the charge could be materially different from the amounts recorded.

4. LONG-TERM DEBT

	2003	**2002**
	$	$
Term bank loan	83,217	152,900
Other non-bank loans	7,114	8,183
Obligations under capital leases	5,072	5,612
	95,402	166,695
Less current portion	24,558	20,367
	70,845	146,328

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 $55,045 [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 $
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 Industries Limited	748,686	3,886
Outstanding at December 31, 2002	67,264,039	153,032
Issued for cash	12,000,000	29,505
Issued to employees and directors	73,089	196
Outstanding at December 31, 2003	79,337,128	182,733

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

	Three months ended December 31, 2003	Three months ended December 31, 2002	Twelve months ended December 31, 2003	Twelve months ended December 31, 2002
Net income (loss)	$ 147	$ (19,321)	$ (14,241)	$ (8,186)
Less: Convertible debenture charges	(1,555)	—	(5,668)	—
Net income (loss) available to common shareholders	(1,408)	(19,321)	(19,909)	(8,186)
Extraordinary item	3,353	—	3,353	—
Net income (loss) available to common shareholders before extraordinary item	$ (4,761)	$ (19,321)	$ (23,262)	$ (8,186)
Weighted average shares outstanding	71,322,565	66,985,890	68,296,953	66,388,788
Net effect of dilutive stock options	—	—	—	—
Diluted weighted average shares outstanding	71,322,565	66,985,890	68,296,953	66,388,788
Income (loss) per share, before extraordinary item				
Basic	$ (0.07)	$ (0.29)	$ (0.34)	$ (0.12)
Fully Diluted	$ (0.07)	$ (0.29)	$ (0.34)	$ (0.12)

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**
	#	$	#	$
Outstanding, beginning of period	2,048,000	5.85	2,257,700	5.63
Granted	—	—	666,500	5.04
Exercised	—	—	(462,300)	3.32
Forfeited	(100,000)	6.06	(413,600)	6.14
Outstanding, end of period	1,948,000	5.84	2,048,000	5.85

The following table summarizes information about options outstanding and exercisable:

	Options outstanding			Options exercisable	
Range of exercise prices	**Number outstanding at December 31, 2003**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number exercisable at Sept 30, 2003**	**Weighted average exercise price**
$			$		$
4.80 – 6.55	**1,626,000**	**3.10**	**5.47**	**689,300**	**5.56**
7.75	**322,000**	**1.00**	**7.75**	**257,600**	**7.75**
	1,948,000	**2.64**	**5.84**	**946,900**	**6.16**

The Corporation accounts for stock options granted after January 1, 2003 under the fair value method. No stock options were granted in the year ended December 31, 2003 and, therefore, no compensation charge was recorded.

For the stock options granted 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.

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	2002
Net loss, after extraordinary item	$ (14,241)	$ (8,186)
Less: Pro forma compensation expense	(269)	(247)
Pro forma net income (loss), after extraordinary item	$ (14,510)	$ (8,433)
Pro forma income (loss) per common share, after extraordinary item		
Basic	$ (0.20)	$ (0.13)
Diluted	$ (0.20)	$ (0.13)

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:

	2003				2002			
	Canada $	USA $	UK $	Total $	Canada $	USA $	UK $	Total $
Revenue								
Domestic	84,919	175,605	18,700	279,224	92,148	192,436	—	284,584
Export	169,534	26,990	2,565	199,089	149,068	26,489	—	175,557
Total revenue	254,453	202,595	21,265	478,313	241,216	218,925	—	460,141
Capital assets	147,485	152,376	215	300,076	157,144	189,097	—	346,241

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.

	2003 $	2002 $
Major Customers		
Canadian operations		
Number of customers	3	3
Percentage of total Canadian revenue	34%	42%
U.S. operations		
Number of customers	3	3
Percentage of total U.S. revenue	71%	59%
U.K. operations		
Number of customers	3	—
Percentage of total U.K. revenue	68%	—

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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 an unrealized currency translation loss of $26,549 for the period ending December 31, 2003 [2002 – a loss of $1,634], which is reflected as foreign exchange translation on the consolidated balance sheets and has no impact on net income. The unrealized loss resulted from the strengthening of the Canadian dollar against the U.S. dollar, partially offset by the weakening of the Canadian dollar against the Great Britain Pound Sterling.

9. SUPPLEMENTARY INFORMATION

Foreign exchange gain in 2003 was $8,003 [2002 – gain of $1,491]

For additional information contact:

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