

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.

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

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

	Three months ended		Six months ended	
	June 30		June 30	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Revenues	\$ 120,987	\$ 104,999	\$ 239,042	\$ 233,043
Cost of revenues	<u>104,183</u>	<u>89,790</u>	<u>206,696</u>	<u>196,947</u>
Gross profit	<u>16,804</u>	<u>15,209</u>	<u>32,346</u>	<u>36,096</u>
Administrative and general expenses	6,761	8,005	15,815	16,324
Interest	2,870	1,824	5,472	3,835
Unusual item (note 3)	<u>—</u>	<u>—</u>	<u>33,273</u>	<u>—</u>
	<u>9,631</u>	<u>9,829</u>	<u>54,560</u>	<u>20,559</u>
Income (loss) before income taxes	7,173	5,380	(22,214)	15,537
Income taxes - current	548	150	871	777
- future (recovery)	<u>2,052</u>	<u>1,737</u>	<u>(8,554)</u>	<u>4,915</u>
	<u>2,600</u>	<u>1,887</u>	<u>(7,683)</u>	<u>5,692</u>
Net income (loss) for the period	<u>4,573</u>	<u>3,493</u>	<u>(14,531)</u>	<u>9,845</u>
Retained earnings, beginning of the period	122,789	170,721	142,762	164,369
Convertible debenture charges (note 2)	<u>(1,493)</u>	<u>—</u>	<u>(2,362)</u>	<u>—</u>
Retained earnings, end of period	\$ <u>125,869</u>	\$ <u>174,214</u>	\$ <u>125,869</u>	\$ <u>174,214</u>
Income (loss) per common share				
Basic (note 5)	\$ <u>0.05</u>	\$ <u>0.05</u>	\$ <u>(0.25)</u>	\$ <u>0.15</u>
Diluted (note 5)	\$ <u>0.05</u>	\$ <u>0.05</u>	\$ <u>(0.25)</u>	\$ <u>0.15</u>

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED BALANCE SHEETS
 (unaudited)

(expressed in thousands of dollars)

	June 30 <u>2003</u>	December 31 <u>2002</u>
ASSETS		
Current		
Cash	\$ 2,484	\$ 3,630
Accounts receivable	80,874	76,060
Inventories	268,834	285,048
Prepaid expenses and other	6,817	7,613
Future income tax asset	<u>4,036</u>	<u>3,694</u>
Total current assets	<u>363,045</u>	<u>376,045</u>
Capital assets	309,465	346,241
Other	7,938	8,012
Future income tax asset	<u>18,490</u>	<u>18,883</u>
	<u>\$ 698,938</u>	<u>\$ 749,181</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	\$ 77,535	\$ 95,187
Accounts payable and accrued charges	85,688	86,857
Current portion of long-term debt (note 4)	<u>19,250</u>	<u>20,367</u>
Total current liabilities	<u>182,473</u>	<u>202,411</u>
Long-term debt (note 4)	86,214	146,328
Future income tax liabilities	75,740	93,936
Other long-term liabilities	25,313	7,835
Shareholders' equity		
Capital stock (note 5)	153,102	153,032
Convertible debentures (note 2)	68,500	—
Retained earnings	125,869	142,762
Foreign exchange translation	<u>(18,273)</u>	<u>2,877</u>
Total shareholders' equity	<u>329,198</u>	<u>298,671</u>
	<u>\$ 698,938</u>	<u>\$ 749,181</u>

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
 (unaudited)

	Three months ended		Six months ended	
	June 30		June 30	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
(expressed in thousands of dollars)				
OPERATING ACTIVITIES				
Income (loss) for the period	\$ 4,573	\$ 3,493	\$ (14,531)	\$ 9,845
Add (deduct) items not affecting cash				
Depreciation and amortization	5,954	5,697	12,300	11,252
Unusual item (note 3)	—	—	33,273	—
Future income taxes (recoveries)	<u>2,052</u>	<u>1,739</u>	<u>(8,554)</u>	<u>4,915</u>
	12,579	10,929	22,488	26,012
Net change in non-cash working capital				
items relating to operating activities	<u>(11,109)</u>	<u>(9,400)</u>	<u>(30,199)</u>	<u>(30,198)</u>
Cash provided by (used in) operating activities	<u>1,470</u>	<u>1,529</u>	<u>(7,711)</u>	<u>(4,186)</u>
INVESTING ACTIVITIES				
Purchase of capital assets	(2,515)	(10,623)	(2,922)	(19,173)
Decrease (increase) in other assets	<u>(1,148)</u>	<u>566</u>	<u>(654)</u>	<u>56</u>
Cash used in investing activities	<u>(3,663)</u>	<u>(10,057)</u>	<u>(3,576)</u>	<u>(19,117)</u>
FINANCING ACTIVITIES				
(Decrease) increase in bank indebtedness	4,867	(13,383)	(6,900)	11,542
Net advance (repayments) of long-term debt	(3,608)	20,567	(48,883)	9,840
Issue of convertible debentures	—	—	67,950	—
Issue of common shares	35	404	70	636
Decrease in long-term liabilities	<u>(1,012)</u>	<u>(524)</u>	<u>(1,623)</u>	<u>(2,765)</u>
Cash provided by financing activities	<u>282</u>	<u>7,064</u>	<u>10,614</u>	<u>19,253</u>
Effect of exchange rate changes on cash	<u>(229)</u>	<u>891</u>	<u>(473)</u>	<u>873</u>
Decrease in cash	(2,140)	(573)	(1,146)	(3,177)
Cash, beginning of period	<u>4,624</u>	<u>1,034</u>	<u>3,630</u>	<u>3,638</u>
Cash, end of period	<u>\$ 2,484</u>	<u>\$ 461</u>	<u>\$ 2,484</u>	<u>\$ 461</u>

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. 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

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

	June 30, 2003	December 31, 2002
	\$	\$
Term bank loan	92,512	152,900
Other non-bank loans	7,646	8,183
Obligations under capital leases	5,306	5,612
	105,464	166,695
Less current portion	19,250	20,367
	86,214	146,328

The term bank loan bears interest at bankers' acceptance or LIBOR rates, plus 2.00% 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 \$68,655 [2002 - \$79,020].

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	748,686	3,886
Outstanding at December 31, 2002	67,264,039	153,032
Issued to employees and directors	29,740	70
Outstanding at June 30, 2003	67,293,779	153,102

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

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Net income (loss)	\$ 4,573	\$ 3,493	\$ (14,531)	\$ 9,845
Less: Convertible debenture charges	(1,492)	—	(2,362)	—
Net income (loss) available to common shareholders	\$ 3,081	\$ 3,493	\$ (16,893)	\$ 9,845
Weighted average shares outstanding	67,279,958	66,087,031	67,279,958	66,087,031
Net effect of dilutive stock options	—	332,873	—	332,873
Net effect of convertible debentures	15,555,556	—	15,555,556	—
Diluted weighted average shares outstanding	82,835,514	66,419,904	82,835,514	66,419,904
Income (loss) per share				
Basic	\$ 0.05	\$ 0.05	\$ (0.25)	\$ 0.15
Fully Diluted	\$ 0.05	\$ 0.05	\$ (0.25)	\$ 0.15

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	—	—	(462,600)	3.32
Forfeited	—	—	(413,600)	6.14
Outstanding, end of period	2,048,000	5.85	2,048,000	5.85

The following table summarizes information about options outstanding and exercisable:

Range of exercise prices \$	Options outstanding			Options exercisable	
	Number outstanding at June 30, 2003	Weighted average remaining contractual life	Weighted average exercise price \$	Number exercisable at June 30, 2003	Weighted average exercise price \$
4.80 – 6.55	1,714,000	3.64	5.47	466,352	5.59
7.75 – 10.05	334,000	1.47	7.83	235,749	7.86
	2,048,000	3.29	5.85	702,101	6.35

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	2002
Net income (loss)	\$ (14,531)	\$ 9,845
Pro forma compensation expense	(138)	(109)
Pro forma net income (loss)	\$ (14,669)	\$ 9,736
Pro forma income (loss) per common share		
Basic	\$ (0.22)	\$ 0.15
Diluted	\$ (0.22)	\$ 0.15

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:

	Six months ended June 30,					
	2003			2002		
	Canada	United States	Total	Canada	United States	Total
	\$	\$	\$	\$	\$	\$
Revenue						
Domestic	49,265	95,621	144,886	56,793	97,071	153,864
Export	80,674	13,482	94,156	65,136	14,043	79,179
Total revenue	129,939	109,103	239,042	121,929	111,114	233,043
Capital assets	150,292	159,173	309,465	165,492	194,017	359,509

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.

	Six months ended June 30,	
	2003	2002
Major Customers		
Canadian operations		
Number of customers	4	3
Percentage of total Canadian revenue	46%	45%
U.S. operations		
Number of customers	2	3
Percentage of total U.S. revenue	41%	62%

8. SUPPLEMENTARY INFORMATION

Foreign exchange gain in 2003 was \$7,141 [2002 - \$1,880]

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