Magellan Aerospace Corporation
Third Quarter Report
September 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 November 10, 2003, the Corporation released its financial results for the third quarter of 2003. The results are summarized as follows:

	Three Months Ended September 30			Nine Months Ended September 30		
Expressed in thousands, except per share amounts	2003	2002	PERCENTAGE CHANGE	2003	2002	PERCENTAGE CHANGE
Revenues	$ 102,179	$ 111,876	-8.7%	$ 341,221	$ 344,919	-1.1%
Net Income (Loss)	$ 143	$ 1,290	-88.9%	$ (14,388)	$ 11,135	-229.2%
Net Income (Loss) Per Share	$ (0.02)	$ 0.02	-200.0%	$ (0.27)	$ 0.17	-258.8%
EBITDA	$ 9,623	$ 10,235	-6.0%	$ 5,181	$ 40,859	-87.3%
EBITDA Per Share	$ 0.14	$ 0.15	-6.7%	$ 0.08	$ 0.62	-87.1%
Net Income Before Unusual Item	$ 143	$ 1,290	-88.9%	$ 7,073	$ 11,135	-36.5%
Net Income Per Share Before Unusual Item	$ (0.02)	$ 0.02	-200.0%	$ 0.11	$ 0.17	-35.3%
EBITDA Before Unusual Item	$ 9,623	$ 10,235	-6.0%	$ 38,454	$ 40,859	-5.9%
EBITDA Per Share Before Unusual Item	$ 0.14	$ 0.15	-6.7%	$ 0.57	$ 0.62	-8.1%

Management's Discussion & Analysis

The commercial airline industry is showing tangible signs of economic health and recovery. Many of the major US and international airlines are reporting third quarter profits, and have indicated plans to increase capacity over the next few months. While orders of new aircraft continue at a slow pace, improvements in the general economy and a corresponding increase in airline traffic will gradually require additional new aircraft.

The defence aerospace industry continues to provide significant opportunity, with major programs such as the F/A18 Super Hornet, F22 Raptor, and F35 Joint Strike Fighter progressing to plan. High usage rates are also providing sustained repair and overhaul activity. Magellan continues to pursue additional opportunities in these and other defence programs.

Despite indications that the aerospace industry is at the bottom of the cycle, and the quarter was impacted by extended summer shutdowns at several customers, Magellan was still able to generate positive net income in the quarter. Activity levels picked up noticeably near the end of the quarter and indications are that this will continue into the fourth quarter.

Results from Operations

Consolidated revenues for the third quarter of 2003 were $102.2 million, a decrease of $9.7 million, or 8.7%, from the third quarter of 2002. Revenues were negatively impacted by the strengthening Canadian dollar, which has the effect of reducing sales when revenues denominated in foreign currencies (a substantial portion of which are denominated in US dollars) are translated into Canadian funds. Excluding the impact of foreign exchange, revenues for the third quarter of 2003 show a growth rate of 3.4%, which reflects the inclusion of Haley industries for a full quarter in 2003 versus only one month in the third quarter in 2002. The proportion of revenues from the defence sector has grown and now represents greater than 50% of total revenues in 2003, which has increased from the traditional level of 35% of total revenues experienced in the past several years.

Gross profits of $11.6 million (11.3% of revenues) were reported for the third quarter of 2003 compared to $14.9 million (13.3% of revenues) during the same period in 2002. Gross profits decreased due to a change in mix of products sold in the third quarter of 2003, and inefficiencies caused by an extended summer shutdown at several of Magellan's customers. Magellan has hedged a large portion of its net exposure to the US dollar for 2003 and 2004, therefore at present currency rate fluctuations have had only a minor effect on gross profit.

Administrative and general expenses decreased by $1.9 million, or 19.1%, for the third quarter of 2003 compared to the same quarter in 2002. The third quarter of 2002 included a foreign exchange loss of $1.5 million. There was no foreign exchange gain or loss in the third quarter of 2003, as exchange rates remained relatively stable during this period. Despite the inclusion of the administrative and general expenses of Haley Industries Limited, which was acquired in September, 2002, for a full quarter in 2003, administration and general expenses decreased slightly (net of the impact of the foreign exchange loss) in the third quarter of 2003 when compared to the same period in 2002 due to management's focus on controlling costs.

Interest expense increased to $3.2 million in the third quarter of 2003 from $2.8 million in the third quarter of 2002 due to higher borrowing costs.

Net income for the most recent quarter was $0.1 million, a decrease of $1.1 million when compared to the same period in 2002. Net income per share calculations for the third quarter of 2003 reflect charges of $1.8 million relating to the convertible debentures issued in January, 2003. Because of these charges, there was a loss per common share of $0.02 for the third quarter of 2003, compared to income per share of $0.02 in the third quarter of 2002.

Liquidity and Capital Resources

In the quarter ended September 30, 2003, the Corporation generated $3.0 million of cash from operations, compared to $9.6 million of cash generated in the third quarter of 2002. For the year to date period in 2003, $4.7 million of cash was used in operations, as increases in non-cash working capital balances have offset earnings and non-cash charges to earnings.

Capital spending has been reduced to reflect current business conditions. During the quarter ended September30, 2003, the Corporation invested $2.8 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 $5.7 million. Acquisitions of capital assets in the same period in 2002 were $25.4 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.

Recent Developments

On September 29, 2003, Magellan announced that a related party, Kimball Capital Corporation ("Kimball"), which is controlled by one of Magellan's directors, acquired through a receivership process, substantially all of the aerospace business and assets of Mayflower Aerospace located in the United Kingdom for $13.4 million. Kimball has granted Magellan a right to acquire such assets at the same price and on the same terms as those applicable to Kimball, subject to Magellan securing all bank and other approvals required to complete the acquisition. Magellan hopes to obtain all required approvals in the fourth quarter. The acquired business concentrates on aerostructures, and includes Airbus U.K. and Bombardier-Shorts as its major customers. Magellan estimates that annual revenues from the acquired businesses and assets will be approximately $55.0 million.

In order to secure the funds required to complete the acquisition, Magellan is proposing to issue up to 10 million common shares, subject to securing any applicable regulatory approvals.

Summary

Conditions in the aerospace industry are showing signs of improvement. Defence activity continues to be solid, and Magellan is positioning itself to participate significantly in several new programs in the development stage. 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. The proposed acquisition evidences Magellan's commitment to growth, and to become a key supplier in the European aerospace market.

On behalf of the Board

N. Murray Edwards **Chairman** November 10, 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

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

(unaudited)

(expressed in thousands of dollars, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2003	2002	**2003**	2002
Revenues	**$ 102,179**	$ 111,876	**$ 341,221**	$ 344,919
Cost of revenues	**90,616**	96,991	**297,312**	293,938
Gross profit	**11,563**	14,885	**43,909**	50,981
Administrative and general expenses	**8,111**	10,024	**23,926**	26,748
Interest	**3,227**	2,839	**8,699**	6,674
Unusual item (note 3)	**—**	—	**33,273**	—
	11,338	12,863	**65,898**	33,422
Income (loss) before income taxes	**225**	2,022	**(21,989)**	17,559
Income taxes - current	**148**	187	**1,019**	964
- future (recovery)	**(66)**	545	**(8,620)**	5,460
	82	732	**(7,601)**	6,424
Net income (loss) for the period	**143**	1,290	**(14,388)**	11,135
Retained earnings, beginning of the period	**125,869**	174,214	**142,762**	164,369
Convertible debenture charges (note 2)	**(1,751)**	—	**(4,113)**	—
Retained earnings, end of period	**$ 124,261**	$ 175,504	**$ 124,261**	$ 175,504
Income (loss) per common share				
Basic (note 5)	**$ (0.02)**	$ 0.02	**$ (0.27)**	$ 0.17
Diluted (note 5)	**$ (0.02)**	$ 0.02	**$ (0.27)**	$ 0.17

MAGELLAN AEROSPACE CORPORATION

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED BALANCE SHEETS
(unaudited)

(expressed in thousands of dollars)	**September 30 2003**	December 31 2002
ASSETS		
Current		
Cash	**$ 2,268**	$ 3,630
Accounts receivable	**75,786**	76,060
Inventories	**266,945**	285,048
Prepaid expenses and other	**6,185**	7,613
Future income tax asset	**4,037**	3,694
Total current assets	**355,221**	376,045
Capital assets	**307,177**	346,241
Other	**7,768**	8,012
Future income tax asset	**20,148**	18,883
	$ 690,314	$ 749,181
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	**$ 84,066**	$ 95,187
Accounts payable and accrued charges	**75,309**	86,857
Current portion of long-term debt (note 4)	**23,685**	20,367
Total current liabilities	**183,060**	202,411
Long-term debt (note 4)	**77,990**	146,328
Future income tax liabilities	**76,417**	93,936
Other long-term liabilities	**24,194**	7,835
Shareholders' equity		
Capital stock (note 5)	**153,148**	153,032
Convertible debentures (note 2)	**69,300**	—
Retained earnings	**124,261**	142,762
Foreign exchange translation (note 8)	**(18,056)**	2,877
Total shareholders’ equity	**328,653**	298,671
	$ 690,314	$ 749,181

MAGELLAN AEROSPACE CORPORATION

MAGELLAN AEROSPACE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(expressed in thousands of dollars)	Three months ended September 30 **2003**	2002	Nine months ended September 30 **2003**	2002
OPERATING ACTIVITIES				
Income (loss) for the period	**$ 143**	$ 1,290	**$ (14,388)**	$ 11,135
Add (deduct) items not affecting cash				
Depreciation and amortization	**6,171**	5,374	**18,471**	16,626
Unusual item (note 3)	—	—	**33,273**	—
Future income taxes (recoveries)	**(66)**	545	**(8,620)**	5,460
	6,248	7,209	**28,736**	33,221
Net change in non-cash working capital items relating to operating activities	**(3,275)**	2,354	**(33,474)**	(27,844)
Cash provided by (used in) operating activities	**2,973**	9,563	**(4,738)**	5,377
INVESTING ACTIVITIES				
Acquisition of Haley Industries Limited	—	(16,118)	—	(16,118)
Purchase of capital assets	**(2,803)**	(6,210)	**(5,725)**	(25,383)
Increase in other assets	**(193)**	(1,321)	**(847)**	(1,265)
Cash used in investing activities	**(2,996)**	(23,649)	**(6,572)**	(42,766)
FINANCING ACTIVITIES				
(Decrease) increase in bank indebtedness	**6,401**	17,944	**(499)**	28,915
Net advance (repayments) of long-term debt	**(5,665)**	4,126	**(54,548)**	13,966
Issue of convertible debentures	—	—	**67,950**	—
Issue of common shares	**46**	95	**116**	731
Decrease in long-term liabilities	**(1,147)**	(1,146)	**(2,770)**	(3,911)
Cash provided by (used in) financing activities	**(365)**	21,019	**10,249**	39,701
Effect of exchange rate changes on cash	**172**	(2,795)	**(301)**	(1,922)
Increase (decrease) in cash	**(216)**	4,138	**(1,362)**	390
Cash, beginning of period	**2,484**	461	**3,630**	4,209
Cash, end of period	**$ 2,268**	$ 4,599	**$ 2,268**	$ 4,599

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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. 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

	September 30, 2003 $	**December 31, 2002** $
Term bank loan	89,100	152,900
Other non-bank loans	7,389	8,183
Obligations under capital leases	5,186	5,612
	101,675	166,695
Less current portion	23,685	20,367
	77,990	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 $66,005 [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 Industries Limited	748,686	3,886
Outstanding at December 31, 2002	67,264,039	153,032
Issued to employees and directors	47,086	116
Outstanding at September 30, 2003	67,311,125	153,148

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

	Three months ended September 30, 2003	Three months ended September 30, 2002	Nine months ended September 30, 2003	Nine months ended September 30, 2002
Net income (loss)	$ 143	$ 1,290	$ (14,388)	$ 11,135
Less: Convertible debenture charges	(1,751)	—	(4,113)	—
Net income (loss) available to common shareholders	$ (1,608)	$ 1,290	$ (18,501)	$ 11,135
Weighted average shares outstanding	67,288,415	66,189,740	67,288,415	66,189,740
Net effect of dilutive stock options	—	291,692	—	291,692
Net effect of convertible debentures	—	—	—	—
Diluted weighted average shares outstanding	67,288,415	66,481,432	67,288,415	66,481,432
Income (loss) per share				
Basic	$ (0.02)	$ 0.02	$ (0.27)	$ 0.17
Fully Diluted	$ (0.02)	$ 0.02	$ (0.27)	$ 0.17

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	—	—	(413,600)	6.14
Outstanding, end of period	2,048,000	5.85	2,692,900	5.85

The following table summarizes information about options outstanding and exercisable:

	Options outstanding			Options exercisable	
Range of exercise prices	**Number outstanding at Sept 30, 2003**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number exercisable at Sept 30, 2003**	**Weighted average exercise price**
$			$		$
4.80 – 6.55	**1,714,000**	**3.39**	**5.47**	**552,756**	**5.57**
7.75 – 10.05	**334,000**	**1.22**	**7.83**	**252,586**	**7.85**
	2,048,000	**3.03**	**5.85**	**805,342**	**6.29**

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 2002 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)	$ (14,388)	$ 11,135
Less: Convertible debenture charges	(4,113)	—
Less: Pro forma compensation expense	(207)	(178)
Pro forma net income (loss)	$ (18,708)	$ 10,957
Pro forma income (loss) per common share		
Basic	$ (0.28)	$ 0.17
Diluted	$ (0.28)	$ 0.16

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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:

Nine months ended September 30,

	2003			**2002**		
	Canada $	**United States** $	**Total** $	**Canada** $	**United States** $	**Total** $
Revenue						
Domestic	**56,431**	**136,793**	**193,224**	74,556	148,303	222,859
Export	**127,769**	**20,228**	**147,997**	103,293	18,767	122,060
Total revenue	**184,200**	**157,021**	**341,221**	177,849	167,070	344,919
Capital assets	**148,924**	**158,253**	**307,177**	185,331	202,173	387,504

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.

	Nine months ended September 30, 2003	**2002**
Major Customers		
Canadian operations		
Number of customers	2	4
Percentage of total Canadian revenue	26%	44%
U.S. operations		
Number of customers	2	3
Percentage of total U.S. revenue	41%	62%

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 $20,933 for the period ending September 30, 2003 [2002 – a loss of $4,160], 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.

9. SUPPLEMENTARY INFORMATION

Foreign exchange gain in 2003 was $9,384 [2002 – loss of $1,051]

10. COMMITMENTS

On September 29, 2003, Magellan announced that a related party, Kimball Capital Corporation ("Kimball"), which is controlled by one of Magellan's directors, acquired through a receivership process, substantially all of the aerospace business and assets of Mayflower Aerospace located in the United Kingdom for $13.4 million. Kimball has granted Magellan a right to acquire such assets at the same price and on the same terms as those applicable to Kimball, subject to Magellan securing all bank and other approvals required to complete the acquisition. The acquired business concentrates on aerostructures, and includes Airbus U.K. and Bombardier-Shorts as its major customers.

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