MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

For the year ended March 31, 2012

HÉROUX DEVTEK

MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL POSITION AND OPERATING RESULTS

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Management Discussion and Analysis of Financial Position and Operating Results

The purpose of this management discussion and analysis ("MD&A") is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries ("Héroux-Devtek" or the "Corporation") evolved between March 31, 2011 and March 31, 2012. It also compares the operating results and cash flows for the fiscal year ended March 31, 2012 to those for the previous year.

This analysis should be read in conjunction with the Corporation's audited consolidated financial statements dated March 31, 2012. This MD&A is based on our consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), using the Canadian dollar as the reporting currency. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Effective April 1, 2011, the Corporation adopted IFRS as the Corporation's basis of financial reporting, using April 1, 2010 as the transition date. The audited consolidated financial statements for the fiscal year ended March 31, 2012 have been prepared in accordance with the requirements of the International Financial Reporting Standard 1, first-time Adoption of International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB"). Except where otherwise noted, all prior period comparative figures have been restated to conform to IFRS.

For details on the most significant adjustments to the consolidated financial statements of prior periods, see Note 33 – *Conversion to International Financial Reporting Standards* – of the audited consolidated financial statements for the fiscal year ended March 31, 2012.

The Corporation has implemented the necessary changes to its systems and reporting processes in various parts of its business, to support preparation of the IFRS consolidated opening balance sheet as at April 1, 2010 and the preparation of its consolidated financial statements under IFRS. In addition, the impact of the transition to IFRS on internal controls over financial reporting and disclosure controls and procedures have been determined and the adjusted controls were implemented.

Forward-Looking Statements

In the interest of providing shareholders and potential investors with information regarding Héroux-Devtek, including Management's assessment of future plans and operations, certain statements in this MD&A are forward-looking statements subject to risks, uncertainties and other important factors that could cause the Corporation's actual performance to differ materially from those expressed in or implied by such statements.

Such factors include, but are not limited to: the impact of worldwide general economic conditions and, in particular, economic conditions in Canada and the United States; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity prices; foreign exchange or interest rate fluctuations; stock market volatility; and the impact of accounting policies issued by Canadian, U.S. and international standard setters. Some of these factors are further discussed under Risks and Uncertainties in this MD&A. Readers are cautioned

that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

Although the Corporation believes that the expectations conveyed by the forward-looking statements are based on information available to it on the date such statements were made, there can be no assurance that such expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Corporation or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. Unless otherwise required by applicable securities laws, the Corporation expressly disclaims any intention, and assumes no obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

Héroux-Devtek and its subsidiaries specialize in the design, development, manufacture, repair and overhaul of systems and components used principally in the aerospace and industrial segments. As such, a significant portion of the Corporation's sales are made to a limited number of customers mainly located in the United States and Canada.

The Corporation was founded in 1942 as Héroux Machine Parts Limited, and later changed its name to Héroux Inc. The Corporation became public in 1986. In 2000, it acquired Devtek Corporation and the two entities were merged to form Héroux-Devtek Inc., one of the largest second-tier manufacturers in the Canadian aerospace industry.

On April 1, 2004, the Corporation acquired Progressive Incorporated ("Progressive"), a privately-held Texas-based manufacturer of large structural components for military aircraft, thereby boosting its aerostructure capability and gaining access to the important aerostructure military sector.

On April 28, 2010, the Corporation concluded the acquisition of U.S. based Eagle Tool & Machine Co. and its subsidiary, All Tool Inc., two privately-held Ohio-based manufacturers of landing gear products mainly for the military aerospace industry (now referred to as "Landing Gear USA").

Héroux-Devtek serves two segments: Aerospace and Industrial. The Corporation supplies both the commercial and military sectors of the Aerospace segment with landing gear products (including spare parts and repair and overhaul services) and airframe structural components (including kits). In the commercial sector, the Corporation is active in the large commercial and business jet, regional aircraft and helicopter markets. On the military side, the Corporation provides parts and services for all major military aircraft, mainly in the United States.

Héroux-Devtek's main products for the Industrial segment are large components for power-generating and heavy equipment, with its largest customers being The General Electric Company (GE) and Caterpillar. It also sells precision components for other industrial applications such as the wind energy market.

The Corporation’s sales by segment are as follows:

	2012	2011
Aerospace	91%	93%
Industrial	9%	7%
	100%	100%

Héroux-Devtek sells mainly to original equipment manufacturers (“OEMs”) such as Lockheed-Martin, Bombardier, Goodrich and Boeing, and into the aftermarket, where its main customers are the US Air Force (USAF) and US Navy. In fiscal 2012, sales to these six customers represented approximately 59% of total consolidated sales. More specifically, the Corporation has one customer representing 18% of its consolidated sales and two customers representing between 13% and 14% of its consolidated sales, all of them in the Aerospace segment.

The Aerospace segment comprises the Landing Gear and Aerostructure product lines. The Industrial segment comprises large power generation components and other industrial products produced by the Industrial product line. The Landing Gear product line designs, manufactures, repairs and overhauls landing gears and has built a strong, well-recognized design engineering team and serves both the commercial and military sectors. The Aerostructure product line manufactures airframe components ranging in size from small to large, for the commercial and military aerospace sectors. The Aerospace segment includes the Landing Gear and Aerostructure product lines since, in particular, their products and services, production processes, type of customers and methods of distribution are similar. The Industrial product line manufactures large components for power generation, for heavy equipment and other industrial markets, including the wind energy sector.

Business Management

The Corporation's segments and product lines are managed through decentralized operations that encourage entrepreneurship and the involvement of every employee. Each product line has the management, engineering, manufacturing and marketing resources required to meet the needs of its specific markets. The growth and profitability of each product line is the responsibility of a Vice-President - General Manager who reports directly to the Corporation's President and Chief Executive Officer, while the Vice-President, Finance of each product line reports directly to the Corporation's Vice-President, Control and Information Technology, and to the Executive Vice-President and Chief Financial Officer.

The Corporation's Corporate Office is responsible for the Corporation's public financial and other reporting and disclosure requirements and, for all financial and major business development decisions. It also provides each product line with support in establishing budget and strategic plans, developing new products and markets, and with assistance for public relations, financial controls and reporting, legal counsel, tax, human resources and information technology.

Business Strategy

Héroux-Devtek's business strategy is to position itself as a key supplier for its customers in the three pillars of its business: Aerospace landing gear and Aerostructure and Industrial product lines. For the Corporation, being a key supplier means providing not only manufactured components but also other services, such as design, assembly and program management, in order to become a complete service provider and allow customers to focus on their core business. In order to achieve this, the Corporation aims to develop management and technical expertise so as to add value to products at competitive costs. It also seeks to grow to attain a critical mass in each of its markets, while maintaining a solid financial position and returns.

In practice, this translates into:

- A focused factory approach, with each plant specializing in a specific type of component and services;
- Standard and compatible information systems across the Corporation;
- Migration of technical and managerial know-how between product lines;
- A lean manufacturing approach in all its plants;
- Revenue stability, whenever possible, through long-term agreements with its customers;
- A balanced sales mix between civil and military aerospace sectors complemented by industrial sales; and
- Building and maintaining a culture of entrepreneurship through the participation, dedication and commitment of its employees.

Héroux-Devtek seeks growth externally through acquisitions that can be easily integrated into its existing operations or that bring complementary technology, leading to greater added value. Internally, the Corporation aims to:

- Develop value-added, proprietary products through design engineering;
- Establish or enhance its presence in certain product markets, such as the after-market repair and overhaul of commercial and military landing gear, design and manufacturing of small to medium landing gear, and complete structural assemblies for commercial and military aircraft OEMs; and
- Diversify the customer base for its existing product lines, which generally means finding new OEM customers for its landing gear, airframe structural components and industrial products.

Key Performance Indicators

Héroux-Devtek measures its performance on a corporation-wide basis through the following elements:

- Profitability;
- Liquidity;
- Growth and competitive positioning;
- Customer satisfaction, and
- Financial situation and returns.

To do so, the Corporation developed key performance indicators ("KPI"). Presented below is a summary of these indicators as well as elements for which they are looked at:

Elements measured	**Profitability**	**Liquidity**	**Growth and competitive positioning**	**Customer satisfaction**	**Financial situation and returns**
KPIs	Gross profit	Earnings before interest, tax, depreciation and amortization (EBITDA)	Sales	On-time delivery	Working capital
	Operating income Earnings before interest and taxes (EBIT)	Free cash flow	Backlog (Purchase orders on hand)	Non-quality performance and costs	Long-term debt to equity ratio
	Cost reduction targets	Return on operating assets (RONA)	Market share in niche product markets where the Corporation evolves	-	Net-debt to equity ratio
	Manufacturing capacity utilization	-	Value added to products as a percentage of sales	-	Return on equity and RONA
What is being measured	Measures of operating performance	Measures of liquidity generation	Measures of growth, indicators of future revenue and measures of competitive positioning	Measures of commitments towards customers and product reliability	Measures of solidity of short- and long-term financial position and return to shareholders

Most of these KPIs are discussed later in this MD&A and are also included in the Financial Highlights of the Corporation's fiscal 2012 Annual Report. Some of these KPIs are not publicly disclosed since they are of a competitive nature.

In last year's fiscal 2011, the market trend had an obvious impact on the Corporation's capacity utilization and added pressure on the cost absorption for some of the Corporation's business units, while this year's fiscal 2012 benefited from ongoing improvements in the commercial aerospace and industrial markets. On-time delivery and non-quality costs are customers' satisfaction indicators that are closely monitored by Héroux-Devtek. The Corporation has steadily improved these indicators over recent years and continues to pay close attention to quality matrix and quality reports from its major customers.

Furthermore, the Corporation's incentive plan is based on achievement of certain financial objectives and specific personal objectives. The financial targets are the RONA, operating income, sales, net income and earnings per share.

Risk Management

The Corporation's Risk Management process includes essentially the identification and assessment of business risks and opportunities and the implementation of strategies and controls to manage, monitor and communicate these risks. To help achieve its risk management objectives, the Corporation has included risk management activities and controls in the operational responsibilities of management in each product line. The Corporation's Board of Directors is ultimately responsible for identifying and assessing the Corporation's principal business risks, reviewing overall business risks and ensuring the implementation of appropriate systems to manage these risks. The Human Resources and Corporate Governance Committee and the Audit Committee, composed of independent Directors, assist the Board of Directors in its general management responsibilities.

The Corporation operates in markets subject to various risks and uncertainties. Some of these risks are inherent to the nature of the Corporation's operations. See *Risks and Uncertainties* below.

MARKET TRENDS

As economic improvements remained modest in calendar 2011, key indicators in the commercial air transport market were mixed. Demand in the passenger market continued to grow at a healthy pace, with traffic expressed in Revenue Passenger Kilometers ("RPK") increasing 5.9% over calendar 2010, but freight traffic expressed in Freight Tonne Kilometers ("FTK") decreased 0.7%[1]. These trends have been sustained in the first three months of calendar 2012 with an increase of 7.4% in RPK and a 0.7% contraction in FTK[2].

Industry deliveries of large commercial aircraft reached a new record in calendar 2011, with 1,011 aircraft for Airbus and Boeing combined, while net new orders more than doubled to an

[1] Source: IATA press release February 1, 2012
[2] Source: IATA press release May 2, 2012

aggregate amount of 2,224 aircraft[3]. Both manufacturers also announced several production rate increases on leading programs scheduled for calendar years 2012 to 2014[4]. Moreover, their respective backlogs represent approximately seven years of production at current rates.

In the regional aviation market, Embraer delivered 105 aircraft in calendar year 2011[5], while Bombardier delivered 78 in the 11-month period ended December 31, 2011[6], including turboprops. With regards to backlogs, volume remained stable for Embraer, while Bombardier experienced a decline.

Business jet deliveries further declined 7.9% in calendar 2011, reaching 703 aircraft. However, certain positive signs continue to suggest improving conditions, such as a 2.9% increase in U.S. business aircraft movements and a year-over-year decrease of approximately 1% in the proportion of the business aircraft fleet for sale[7].

The military market was stable in calendar year 2011, as governments address their deficits. In the U.S., proposed funding for the fiscal 2013 base defense budget is approximately 1% below enacted funding for fiscal 2012[8]. As to the Joint Strike Fighter F-35 (JSF) program, the U.S. government confirmed it will purchase fewer aircraft over the next five years, but remains committed to buying the same number of aircraft over the life of the program.

Conditions in the Corporation's main industrial markets remain favourable. In the power generation industry, leading North American equipment manufacturers are reporting further increases in new orders. Backlogs also continue to rise for leading heavy equipment manufacturers.[9]

Finally, fluctuations in the value of the Canadian dollar, which was at parity with the US dollar at fiscal year-end, continued to negatively impact the Corporation's results.

MAJOR ACHIEVEMENTS OF FISCAL 2012

- Héroux-Devtek generated record sales and net income in fiscal 2012. Sales reached $380.3 million, up 6.4% from a year earlier, while net income rose strongly by 38.4% to $26.5 million, or $0.86 per share on a fully diluted basis.
- Héroux-Devtek inaugurated a new state-of-the art manufacturing facility located in the Querétaro Aerospace Park, in Mexico. Production at the 47,200 square-feet facility began in December 2011. The first phase of the project represents an investment of up to $20 million by Héroux-Devtek over a three-year period. In due time, a subsequent phase could see the plant expanded to 150,000 square feet. Such expansion would eventually provide

3 Sources: Airbus press release January 17, 2012; Boeing press release January 5, 2012
4 Sources: Airbus press releases May 18, 2011; February 3, 2011. Boeing press releases June 15, 2011; Dec. 20, 2010.
5 Source: Embraer press release, January 11, 2012.
6 Source: Bombardier press release, January 23, 2012.
7 Sources: GAMA report April 19, 2012; FAA January 2012 Business Jet Report, JetNet report April 5, 2012
8 Source: U.S. Department of Defense press release February 13, 2012
9 Sources: GE press release April 20, 2012; Caterpillar press release April 25, 2012.

the Corporation with the capability to manufacture and assemble aerostructure and landing gear systems;

- Héroux-Devtek was awarded a seven-year contract by Lockheed Martin Aeronautics to manufacture the landing gear for the C-130J Super Hercules aircraft. Under the terms of the agreement, Héroux-Devtek will manufacture and assemble the landing gear for Lockheed Martin's global production of C-130J aircraft and provide spare parts over a seven-year period that began in January 2012. Based on current program expectations, the contract has a potential value of approximately $70 million;
- Unionized employees of the Longueuil and Laval Landing Gear products facilities voted in favour of three-year collective agreements which extend through May 1, 2014 and December 31, 2014, respectively;
- The Landing Gear products operations were awarded the Embraer Suppliers Award – ESC 2011 in the Development Program category. This award recognizes performance excellence in quality, flexibility, deliveries, customer support and development for Héroux-Devtek's involvement in the Legacy 450 and 500 business jet programs. The Corporation designs and develops the landing gear for these jets as part of a life-cycle contract obtained in July 2008. Héroux-Devtek had won the same award in 2009.

Acquisition of the assets of Eagle Tool Machine Co and of its subsidiary

As previously disclosed in last year’s audited consolidated financial statements, on April 28, 2010, the Corporation announced that it had concluded the acquisition, through a U.S. subsidiary, of substantially all the net assets of U.S.-based Eagle Tool & Machine Co and of its subsidiary, All Tool Inc, two privately owned manufacturers of precision machined products mainly for the military aerospace industry, with annual sales of approximately $40 million prior to the acquisition, based on their December 31, 2009 fiscal year-end (see Note 5 to the consolidated financial statements).

The final allocation of the total purchase price of the net assets acquired, along with the source of funds, can be broken down as follows:

Net assets acquired ($’000)		**Source of funds ($’000)**	
Working capital	$ 16,797	Credit Facility	$ 16,711
Property, plant and equipment	8,498	Cash	12,102
Backlog	1,390	Promissory note, 5% repayable over 40 months	3,721
Goodwill	5,849		
	$ 32,534		**$ 32,534**

The Corporation drew, from its U.S. Credit Facility, $16.7 million (US$16.5 million) and used $12.1 million of cash in the first quarter of fiscal 2011 to finance this transaction.

Throughout this MD&A, Management has explained the consolidated results which include the results of Landing Gear USA. Last year's results for Landing Gear USA are for the period from April 28, 2010 to March 31, 2011, which is not a full year, when compared to this year. For all significant elements explained, Management has singled out this impact on this year's results to help readers understand the year-over-year change.

Foreign Exchange

The Corporation is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its foreign operations and from transactions denominated mainly in US dollars. Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions, but exclusive of forward foreign exchange contracts, while the statement of income of foreign operations is translated at the average exchange rate for the fiscal year. The closing rates translate monetary assets and liabilities denominated in foreign currencies and assets and liabilities of foreign operations. The year-end and average exchange rates were as follows at March 31, 2012 and 2011 and for the fiscal years then ended:

Canada / US Exchange Rates		2012	2011
Average rate for fiscal year ended	$ Canadian/ 1 US $ equivalent	0.9931	1.0164

Canada / US Exchange Rates		2012	2011
Closing rate at	$ Canadian/ 1 US $ equivalent	0.9975	0.9696

As shown above, the average value of the Canadian dollar when compared to its U.S. counterpart, year-over-year, increased by more than 2% and, naturally, added pressure to the US-denominated sales and results of the Corporation, including those from its Canadian operations. However, the variation in the closing rate since March 31, 2011 had a marginal favorable impact on the Corporation's U.S.-denominated balance sheet accounts at the end of this fiscal year, when compared to last year. Currency fluctuation impact on the Corporation's sales, gross profit and specific balance sheet elements can be found later in this MD&A.

The Corporation makes use of derivative financial instruments, in accordance with its hedging policy, to hedge foreign currency fluctuation exposure risks (Canadian dollar over US dollar) in an effort to mitigate these risks. At March 31, 2012, the Corporation had forward foreign exchange contracts to sell US$145.3 million at a weighted-average rate of 1.0620 maturing over the next three fiscal years, with the majority maturing over the next two fiscal years.

At March 31, 2012, the Corporation had also entered into forward foreign exchange contracts to sell US$4.7 million at a weighted-average rate of 1.2262 all maturing in fiscal 2014, to cover foreign exchange risks (Canadian dollar over US dollar) related to certain embedded derivatives.

Non-IFRS Measures

The Corporation uses earnings before interest, taxes, depreciation and amortization ("EBITDA") to assess its financial performance. EBITDA is a financial measure not prescribed by IFRS, nor

by Previous GAAP. However, the Corporation's management as well as investors, consider this metric to be useful information to assist them in evaluating the Corporation's profitability, liquidity and ability to generate funds to finance its operations and capital investment needs.

The computation of EBITDA using financial statements prepared under Previous GAAP ("EBITDA – Previous GAAP") differs somewhat from the computation of EBITDA using financial statements prepared under IFRS ("EBITDA – IFRS"). Listed below is a reconciliation of EBITDA – Previous GAAP to EBITDA – IFRS for the fiscal year ended March 31:

($'000)	**2011**
EBITDA – Previous GAAP	**54,830**
Adjustments:	
Finance leases	1,633
Pension plans	346
Graded method to amortize the cost of granted stock options	211
Time-related discounts applied to provisions	229
Interest accretion on pension plans	(154)
Total adjustments	2,265
EBITDA – IFRS	**57,095**

Selected Annual Financial Information

The following table presents selected financial information for the past three fiscal years:

Years ended March 31 **($'000, except per share data)**	**2012 (1)**	**2011 (1)**	**2010 (2)**
Sales	**380,336**	357,572	320,354
EBITDA	**64,722**	57,095	48,437
Net income	**26,481**	19,129	16,003
Earnings per share ($) – basic	**0.87**	0.64	0.52
Earnings per share ($) – diluted	**0.86**	0.63	0.52
Total assets	**499,107**	472,540	394,847
Long-term liabilities (including the current portion of long-term debt	**164,053**	152,663	107,796
Cash and cash equivalents	**62,007**	32,910	46,591

(1) Prepared in accordance with IFRS.

(2) Prepared in accordance with Previous GAAP.

The Corporation's EBITDA is calculated as follows:

Years ended March 31 ($'000)	**2012 [(1)]**	**2011 [(1)]**	**2010 [(2)]**
Net income	**26,481**	19,129	16,003
Income tax expense	**7,881**	7,045	6,498
Financial expenses	**6,307**	5,638	4,676
Amortization expense	**24,053**	24,646	21,260
EBITDA including restructuring charges	**64,722**	56,458	48,437
Restructuring charges	**-**	637	-
EBITDA	**64,722**	**57,095**	**48,437**

(1) Prepared in accordance with IFRS.

(2) Prepared in accordance with Previous GAAP.

The $7.6 million increase in EBITDA from fiscal 2011 to fiscal 2012 is essentially explained by an increase in net income and the related income tax expense as a result of higher sales volume and improved gross profit.

Consolidated Sales

Consolidated sales totalled $380.3 million, 6.4% higher than last year's sales of $357.6 million. This favourable variation in sales of $22.8 million includes the following:

- A $26.4 million or 7.4% increase in sales, mainly as a result of increased production rates in the commercial markets of the Aerospace segment and higher customer demand in the Industrial segment.
- A $4.4 million or 1.2% favourable impact as a result of having a full twelve-month period this year at Landing Gear USA (acquisition of Eagle Tool & Machine Co. and of its subsidiary, All Tool Inc., closed on April 28, 2010 in the last fiscal year).
- A partial offset of $8.0 million or 2.2%, caused by the unfavourable currency impact resulting from a stronger Canadian dollar, when compared to the US currency.

The Corporation's sales by segment were as follows:

	2012	**2011**	**Variance**	
	($'000)	**($'000)**	**($'000)**	**%**
Total Aerospace	**345,371**	331,993	13,378	4.0
Total Industrial	**34,965**	25,579	9,386	36.7
Total	**380,336**	**357,572**	**22,764**	**6.4**

This fiscal year, the increase in Aerospace sales of $13.4 million or 4.0% to $345.4 million, when compared to last year, is shown net of a negative US/CAD currency impact of $7.2 million or

2.2%. The increase in sales also includes the additional $4.4 million in sales resulting from having a full year in Landing Gear USA. As to the Industrial segment this fiscal year, sales increased by $9.4 million or 36.7% to $35.0 million, when compared to last year. This increase in Industrial sales is the result of increased heavy equipment and also gas turbine product sales.

Aerospace Segment

Sales for the Aerospace segment were as follows:

Product Lines	**2012**	**2011**	**Variance**	
	($'000)	**($'000)**	**($'000)**	**%**
Landing Gear	**242,283**	227,928	14,355	6.3
Aerostructure	**102,184**	103,465	(1,281)	(1.2)
Other aerospace products	**904**	600	304	50.7
Total	**345,371**	**331,993**	**13,378**	**4.0**

Landing Gear product line's sales increased by $14.4 million or 6.3% to $242.3 million, when compared to last year. This is the result of increased production rates on business jet and also large commercial programs, mainly the B-777 and A-320, and from higher military products customer requirements. This increase was partially offset by lower customer demand in regional jet and certain commercial helicopter markets and by the negative US/CAD currency impact on this product line's U.S.-denominated sales. This fiscal year's sales also include a $4.4 million or 1.9% favourable impact, as a result of having a full year in Landing Gear USA.

Aerostructure product line sales decreased by $1.3 million or 1.2% to $102.2 million, when compared to last year. The increase in sales resulting from the business jet programs, which include the new business on the Gulfstream (GV) program, the production ramp-ups on the Joint Strike Fighter ("JSF") F-35 and B-429 helicopter program were more than offset by the lower customer requirements on certain military programs and the lower production rates on the regional turboprop Dash 8 program and also by the negative US/CAD currency impact on this product line's U.S.-denominated sales.

Sales for the Aerospace segment can be broken down by sector as follows:

	2012	**2011**	**Variance**	
	($'000)	**($'000)**	**($'000)**	**%**
Military *(1)*	**210,861**	209,921	940	0.4
Commercial	**134,510**	122,072	12,438	10.2
Total Aerospace	**345,371**	**331,993**	**13,378**	**4.0**

(1): Includes military sales to civil customers and governments.

Military sales were $0.9 million or 0.4% higher this year to $210.9 million, when compared to last year. As mentioned above, military sales reflect the increase in JSF sales and include $4.4 million or a 2.1% favourable impact on sales, resulting from having a full year of Landing Gear

USA sales. This increase was partially offset by lower customer requirements mainly on the F-16 aftermarket program as well as the F-22 program which is coming to an end.

Commercial sales were $12.4 million or 10.2% higher this year to $134.5 million, despite the negative US/CAD currency impact. This increase is the result of higher production rates in large commercial, business jet and the B-429 helicopter programs, in addition to the new Gulfstream (GV) business partially offset by lower customer requirements in regional aircraft and in other helicopter programs.

Industrial Segment

Sales for the Industrial segment were as follows:

	2012	**2011**	**Variance**	
	($'000)	**($'000)**	**($'000)**	**%**
Gas Turbine	**14,748**	10,655	4,093	38.4
Other Industrial	**20,217**	14,924	5,293	35.5
Total	**34,965**	**25,579**	**9,386**	**36.7**

For the fiscal year ended March 31, 2012, Industrial sales were higher than last year, boosted by higher demand in the Gas Turbine sector, and by Other Industrial sales for heavy equipment in the mining industry.

Sales by Destination

The Corporation's sales by destination were as follows:

	2012 (%)	**2011 (%)**
Canada	**26**	26
US	**70**	70
International	**4**	4
Total	**100**	**100**

As shown above, there are no changes in the sales-by-destination mix year-over-year.

Gross Profit

Consolidated gross profit as a percentage of sales increased by 1.5% to 17.8% this fiscal year, when compared to last year. This mainly resulted from the Corporation's overall increase in sales, which allowed for an increased absorption of manufacturing overhead costs, a better product mix in the Aerospace segment combined with certain manufacturing cost improvements in both business segments of the Corporation. This fiscal year, the negative impact on gross profit for start-up costs incurred for the establishment of the new Mexico facility was $0.8 million or 0.2% of sales.

The US/CAD currency fluctuations negatively impacted the Corporation's gross profit in dollars this year by $3.5 million or 0.5%, when compared to last year and expressed as a percentage of sales. Besides the natural hedging from the purchase of raw material in US dollars, the Corporation mitigates the currency impact by the use of forward foreign exchange contracts.

In the Aerospace segment, Landing Gear product line's gross profit in dollars and as a percentage of sales was higher this fiscal year, compared to last year, mainly as a result of higher sales and a better product mix. The Aerostructure product line's gross profit in dollars and as a percentage of sales was lower this fiscal year, compared to last year, mainly resulting from the start-up costs incurred this year for the implementation of the new Mexico facility and higher initial manufacturing costs incurred in the production of components for certain new programs.

In the Industrial segment, the gross profit margins in dollars and as a percentage of sales improved significantly, when compared to last year. This is the result of the increase in sales and higher absorption of manufacturing overhead costs combined with the impact from the continuous manufacturing improvement initiatives realized this year.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	2012	**2011**
Selling and administrative expenses ($'000)	**26,961**	25,829
% of sales	**7.1**	7.2

Selling and administrative expenses stood at $27.0 million or 7.1% of sales for the fiscal year ended March 31, 2012, and include $0.5 million of costs incurred for the start-up of the new Mexico facility. In addition, this fiscal year's expenses reflect the impact of having a full year for Landing Gear USA, when compared to last year, and the increased professional fees incurred for certain specific projects. Selling and administrative expenses include a gain on currency translation on net monetary assets of $0.3 million this fiscal year, compared to a loss of $0.4 million last year.

Operating Income

Consolidated operating income stood at $40.7 million or 10.7% of sales for the fiscal year ended March 31, 2012, up $8.3 million or 1.6% of sales from $32.4 million or 9.1% of sales last year. This is the result of higher sales and gross profit in both Aerospace and Industrial segments, as explained above.

Aerospace Segment

Aerospace operating income was $32.4 million or 9.4% of sales this fiscal year, compared to $28.7 million or 8.7% of sales last year. Excluding the impact of the new Mexico facility start-up costs this year of $1.4 million, partially offset by the favourable impact of having a full year from Landing Gear USA of $0.2 million, the Aerospace segment's operating income was $33.6 million

or 9.7% of sales for the fiscal year ended March 31, 2012, an increase of $4.9 million or 1.0% of sales from last year's operating income. The increased operating income reflects the impact of increased sales and gross profit and a better product sales mix as already explained above.

Industrial Segment

Operating income increased to $8.2 million or 23.5% of sales, compared to $3.7 million or 14.5% of sales last year. The higher operating income this fiscal year reflects the increased gross margin resulting from higher sales, the better absorption of manufacturing overhead costs and the impact from the continuous manufacturing improvements already explained above.

Financial Expenses	**2012 ($'000)**	**2011 ($'000)**
Interest expense	**3,479**	3,095
Interest accretion on governmental authorities loans	**1,568**	1,330
Interest rate swap agreements buy-out	**-**	406
Amortization of deferred financing costs	**440**	350
Standby fees	**401**	220
Other interest accretion expense and discount rate adjustments	**595**	305
Gain on financial instruments classified as held-for-trading		
- Interest income	**(176)**	(68)
Total	**6,307**	**5,638**

Financial expenses stood at $6.3 million for the fiscal year, while it stood at $5.6 million last year. The additional financial expenses this fiscal year compared to last year, reflects the higher governmental authorities' loans and higher obligation under finance leases level year-over-year. It also reflects higher discount rate adjustments on provisions and a higher amortization of deferred financing costs and stand-by expenses, following the renewal of the Corporation's Credit Facility in March 2011 (see Note 19 to the consolidated financial statements). Last year's financial expenses included costs of $0.4 million associated to the buyout of two interest rate swap agreements when the Corporation's Credit facility was renewed.

Restructuring Charges

Last year, on May 13, 2010, the Corporation launched an initiative to optimize and consolidate production capacity in its Aerospace segment, while further enhancing productivity at its Québec-based facilities. Consequently, the Corporation's Rivière-des-Prairies, Québec, facility was closed in September 2010 and its production was transferred to the Corporation's other facilities in the Greater Montreal area. Last year, the Corporation recorded restructuring charges of $0.6 million ($0.4 million, net of income taxes). At March 31, 2012, the building related to this facility was classified as Asset held for sale in the Corporation's Consolidated Balance Sheets (see Note 8 to the consolidated financial statements).

Income Tax Expense

For the fiscal year ended March 31, 2012, the income tax expense stood at $7.9 million, compared to $7.0 million last year.

This fiscal year, the Corporation's effective income tax rate was 22.9%, compared to its Canadian blended statutory income tax rate of 27.4%. The effective income tax rate reflects the favourable impact from permanent differences ($1.6 million), and favourable deferred income tax adjustments ($0.8 million), partially offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries ($0.8 million).

Last year, the Corporation's effective income tax rate was 26.9%, compared to the Corporation's Canadian blended statutory income tax rate of 28.7%. The difference can be explained by the favourable impact on the Corporation's effective income tax rate coming from permanent differences ($0.5 million), by favourable tax adjustments, following the conclusion of a prior tax audit and changes in the Canadian income tax rate ($0.5 million) partially offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries ($0.5 million).

The reduction in the Corporation's blended statutory income tax rate this fiscal year, compared to last year, mainly reflects the reduction in the Federal income tax rate in Canada.

As at March 31, 2012 and 2011, there were no operating losses carried forward and no other temporary differences for which related income tax assets have not been recognized in the consolidated financial statements.

As at March 31, 2012, the Corporation had federal non-capital losses available for carry-forward of $5.4 million ($1.6 million as at March 31, 2011 and $7.2 million as at April 1, 2010), with the majority expiring in fiscal 2031.

Net Income

For the fiscal year ended March 31, 2012, the Corporation posted a net income of $26.5 million or 7.0% of sales, compared to a net income of $19.1 million or 5.3% of sales last year, reflecting the increased operating income in % of sales in both segments of the Corporation. Last year's net income is shown net of restructuring charges incurred for the closing of a facility, as already explained above. This fiscal year, net income includes $1.0 million of costs, net of taxes, incurred in conjunction with the start-up of the new Mexico facility. The Corporation began manufacturing the first production parts in this new facility and generated revenues of $0.7 million during the fourth quarter of this fiscal year.

	2012	**2011**
Net income ($ million)	**26.5**	19.1
Earnings per share – basic ($)	**0.87**	0.64
Earnings per share – diluted ($)	**0.86**	0.63

Basic earnings per share figures are based on year-to-date weighted-averages of 30,356,946 common shares outstanding for fiscal year 2012, and 30,112,464 common shares for last year,

while the diluted earnings per share figures are based on weighted-averages of 30,682,063 for fiscal 2012 and 30,219,597 for last year. The increase in the number of outstanding common shares this fiscal year is essentially due to the issuance of 223,656 common shares under the Corporation's stock option plan and 44,916 common shares under the Corporation's stock purchase and ownership incentive plan ("Stock Purchase Plan") (see Note 21 to the consolidated financial statements).

On May 24, 2012, the date of this MD&A, the Corporation had 30,449,495 common shares and 1,411,344 stock options outstanding with a weighted-average of 3.3 years to maturity.

Other accumulated comprehensive income ("OACI") and comprehensive income

For the fiscal year ended March 31, 2012, the appreciation of the US currency versus the Canadian currency had a positive impact on the Corporation's gain arising from translating the financial statements of foreign operations, while it had a negative impact on the net losses on the valuation of the Corporation's derivative financial instruments measured at fair value, and on the net losses on hedge of net investments in U.S. operations. In addition, the lower than expected return on plan assets of the Corporation's defined benefit pension plans and the lower interest rate to discount the defined benefit obligations negatively impacted the net actuarial losses. These variations significantly impacted the Corporation's OACI and the related comprehensive income for fiscal 2012.

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility and Cash and Cash Equivalents

In general terms, the Corporation has a healthy financial situation and is well positioned to face its financing needs. In March 2011, the Corporation renewed and increased its Senior Secured Syndicated Revolving Credit Facilities through one Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") with a syndicate of five Canadian Banks and their US affiliates or branches, and a Canadian branch of a U.S. Bank. This Credit Facility allows the Corporation and its subsidiaries to borrow up to $150 million, either in Canadian or US currency equivalent and will mature in March 2016 (see Note 19 to the consolidated financial statements). It also includes an accordion feature to increase the Credit Facility up to $225 million, during the term of the Credit Agreement, subject to approval by the lenders. To March 31, 2012, only CAD $59.4 million (US$59.5 million) had been drawn against this Credit Facility. Considering the Corporation's cash and cash equivalents position, its available Credit facility and level of expected capital investments and results, the Corporation's management does not expect any significant liquidity risk in the foreseeable future. At March 31, 2012, the Corporation had cash and cash equivalents of $62.0 million, compared to $32.9 million as at March 31, 2011, of which $39.9 million ($25.1 million at March 31, 2011) had been invested in short-term deposits with its syndicated banks.

Operating Activities

The Corporation generated cash flows from operations and used cash and cash equivalents for its operating activities as follows:

	2012 ($'000)	2011 ($'000)
Cash flows from operations	**55,905**	50,392
Net change in non-cash items related to operations	**(6,387)**	(19,580)
Cash flows related to operating activities	**49,518**	**30,812**

The $5.5 million increase in cash flows from operations for the fiscal year ended March 31, 2012 is essentially explained by the $7.4 million increase in net income, partially offset by a lower deferred income tax expense of $2.0 million.

The net change in non-cash items related to operations for fiscal year 2012 can be summarized as follows:

	2012 ($'000)	2011 ($'000)
Accounts receivable	**2,946**	(18,187)
Inventories	**(486)**	17,799
Progress billings	**(9,460)**	(16,785)
Provisions	**432**	(1,144)
All others	**181**	(1,263)
	(6,387)	**(19,580)**

For the fiscal year ended March 31, 2012, the decrease in accounts receivable mainly results from the decrease of days in accounts receivable, which is explained by the continued accounts receivable good collection effort. This decrease was partially offset by the impact of a higher US/CAD foreign exchange closing rate used to convert the U.S.-denominated accounts receivable year-end balances. The reduction in progress billings reflects a higher commercial funded backlog business mix, compared to military and a reduced backlog on certain military programs.

For the fiscal year ended March 31, 2011, the higher level of business activity in fiscal 2011, when compared to fiscal 2010, increased the year-over-year accounts receivable balance. The decrease in inventories and associated progress billings reflect the impact of a lower US/CAD foreign exchange closing rate used to convert the Corporation's U.S. subsidiaries' year-end balances and is also the result of manufacturing improvements made to reduce inventory levels.

Investing Activities

The Corporation's investing activities were as follows:

	2012 ($'000)	2011 ($'000)
Additions to property, plant and equipment	**(14,923)**	(19,646)
Net increase in finite-life intangible assets	**(8,196)**	(7,980)
Proceeds on disposal of property, plant and equipment	**438**	139
Business acquisition	**-**	(28,813)
Cash flows relating to investing activities	**(22,681)**	**(56,300)**

On April 28, 2010, the Corporation invested $28.8 million to acquire substantially all the net assets of Landing Gear USA (see Note 5 to the consolidated financial statements).

Additions to property, plant and equipment shown above can be reconciled as follows:

	2012 ($'000)	2011 ($'000)
Gross additions made during the year (see note 14 to the consolidated financial statements)	**25,661**	25,343
Government assistance	**(2,251)**	(1,569)
Additions, as per segment information (see note 28 to the consolidated financial statements)	**23,410**	23,774
Variation in unpaid additions included in Accounts payable – Other at year-end	**1,118**	(4,128)
Machinery and equipment acquired through finance leases	**(9,605)**	-
Additions, as per statements of cash flows	**14,923**	**19,646**

In fiscal 2012, the additions to property, plant and equipment include a $3.8 million investment in relation to the new Mexico facility and $2.9 million for the purchase of a new facility in Cleveland. The Landing Gear USA - Cleveland operations will be transferred from the current leased facility to the new building in the first quarter of fiscal 2013 and no major cost impact is anticipated, as a result of this transfer.

The additions to property, plant and equipment in fiscal 2011 include the costs associated to the JSF building extension at the Corporation's Arlington, Texas plant and the related machinery and equipment, and also the investment in a new test laboratory facility in St-Hubert, Quebec related to the Landing Gear testing equipment required to support Aerospace programs.

Capital expenditures for fiscal 2013 are expected to be about $25 million, including $3 million related to the new Mexico facility.

Increase in finite-life intangible assets represents capitalized development costs for long-term Aerospace contracts, essentially for business jet programs. Sales related to these programs are anticipated to begin in late fiscal 2013 and will gradually increase over the next five years.

Financing Activities

The Corporation's financing activities were as follows:

	2012 ($'000)	2011 ($'000)
Increase in long-term debt	**6,983**	23,727
Repayment of long-term debt	**(6,785)**	(6,641)
Increase in deferred financing costs	**-**	(2,198)
Repurchase of common shares	**-**	(3,570)
Issuance of common shares	**1,379**	1,474
Cash flows relating to financing activities	**1,577**	**12,792**

For the fiscal year ended March 31, 2012, the increase in long-term debt reflects new governmental authorities loans received mainly to support the Corporation's development costs for Aerospace programs. Last year's increase in long-term debt represents the drawing of US$16.5 million from the Corporation's Credit Facility to finance the acquisition of Landing Gear USA and governmental authorities loans received.

This year and last year's repayment of long-term debt includes the repayment of governmental authorities loans, finance leases for machinery and equipment and of a promissory note which was issued in relation to the acquisition of Landing Gear USA.

During the fiscal year ended March 31, 2012, the Corporation issued 223,656 common shares following the exercise of stock options for a total cash consideration of $1,061,000. The Corporation also issued 44,916 common shares under its stock purchase plan during the fiscal year ended March 31, 2012, for a total cash consideration of $318,000.

During the fiscal year ended March 31, 2011, the Corporation issued 245,221 common shares, following the exercise of stock options, for a cash consideration of $1,144,000, while it repurchased 617,700 common shares under the normal course issuer bid, launched in November 2009 ("NCIB") for a total cash consideration of $3,570,000. The Corporation also issued 60,802 common shares under its stock purchase plan for a total cash consideration of $330,000 (see Note 21 to the consolidated financial statements).

At March 31, 2012, the Corporation was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants through the next fiscal year.

Pension Plans

Some of the Corporation's employees are covered by defined benefit pension plans. The Corporation has registered and unregistered defined benefit pension plans. At March 31, the funded status of these plans is as follows:

	2012 ($'000)	**2011 ($'000)**	**2010 ($'000)**
Funded status of the plans (deficit)	**(8,061)**	(3,122)	(3,089)

The pension plan deficit of $8.1 million at March 31, 2012 excludes $4.7 million in pension plan obligations related to unregistered pension plans for former executives of Devtek Corporation, which was acquired by the Corporation in June 2000 and whose pension plan liability does not require funding. For this pension plan, funding occurs as pension benefits are paid to the retired executives.

During the fiscal year ended March 31, 2012, the Corporation decided to gradually fund certain unfunded defined benefit pension plans over a five-year period.

At March 31, 2012, the discount rate assumptions used to determine the defined benefit obligations for registered and unregistered defined benefit pension plans was 5.0%, compared to 5.6% a year earlier. This reduction in the discount rate increased the pension plan obligations by $2.4 million (see Note 24 to the consolidated financial statements).

At March 31, 2012, the contributions expected to be paid to all defined benefit pension plans in fiscal 2013 amount to $4.0 million, while the total minimum funding requirements for the registered defined benefit pension plans over the next five years represents $7.7 million.

Normal Course Issuer Bid

In fiscal 2010, on November 25, 2009, the Corporation launched a new NCIB, with the approval of the Toronto Stock Exchange (TSX). Under the terms of the NCIB, the Corporation could acquire up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding common shares of the Corporation as of November 19, 2009. The NCIB terminated on November 24, 2010. During that period, the Corporation repurchased 711,100 common shares at an average net price of $5.68 per share for a total cash consideration of $4.0 million (see Note 21 to the consolidated financial statements).

All common shares purchased by the Corporation through the NCIB were made on the open market through the facilities of the TSX or other Canadian marketplaces in accordance with the policies of the TSX, and were surrendered by the Corporation to its transfer agent for cancellation.

Capital Stock, Stock Option and Stock Purchase Plans

At March 31, 2012, the Corporation had 30,442,370 common shares outstanding (30,173,798 as at March 31, 2011).

During fiscal 2012, the Corporation issued 223,656 common shares following the exercise of stock options at a weighted-average price of $4.75 for a total cash consideration of $1,061,000

and also issued 44,916 common shares, under the Corporation's stock purchase plan at a weighted-average price of $7.08 for a total cash consideration of $318,000.

During fiscal 2011, the Corporation issued 245,221 common shares, following the exercise of stock options at a weighted-average price of $4.66 for a total cash consideration of $1,144,000 and also issued 60,802 common shares under the Corporation's stock purchase plan at a weighted-average price of $5.45 for a total cash consideration of $330,000.

At March 31, 2012, 1,411,344 stock options were issued and outstanding with a weighted-average of 3.5 years to maturity and a weighted-average exercise price of $6.48 (see Note 21 to the consolidated financial statements).

During the fiscal year ended March 31, 2012, the aggregate number of shares available for future granting or issuance under the Stock Option and Stock Purchase plans have been replenished, due to the limited number of common shares remaining under these plans and following the approval by the shareholders of the Corporation at the Annual and Special Meeting held on August 4, 2011. The total number of common shares available for future granting or to be issued under these plans, immediately following the approval of the Corporation's shareholders, were as follows:

Common Shares	Stock Option Plan	Stock Purchase Plan	Total Common Shares
Total shares	2,808,257	340,000	3,148,257

At March 31, 2012, 2,784,924 common shares had not been issued yet under the Stock Option Plan and 308,754 common shares had not been issued yet under the Stock Purchase Plan.

Stock Appreciation Right and Deferred Share Unit Plans

Until August 2010, the Corporation had a Stock Appreciation Right ("SAR") plan where rights were issued to its non-employee directors. Although the SAR plan has since been replaced by a Deferred Share Unit ("DSU") plan effectively approved in May 2011 by the Corporation's Board of Directors, outstanding SARs issued prior to August 2010 are still in effect. At March 31, 2012, 130,500 SARs were still outstanding at a weighted-average granted price of $6.32, which expire on various dates from fiscal 2013 to 2016. For the fiscal year ended March 31, 2012, 12,500 SARs were exercised at an exercise price of $5.00, since they were about to mature.

The DSU applies to the non-employee directors of the Corporation and is intended, on the one hand, to enhance the Corporation's ability to attract and retain high quality individuals to serve as members of the Board of Directors and participate in the Corporation's long-term success and, on the other hand, to promote a greater alignment of interests between the Corporation's non-employee directors and its shareholders.

The DSU enables the participants to receive compensation at the termination date, as a member of the Board of Directors, a cash amount equal to the quoted price of the Corporation's common share for each DSU. These DSUs are expensed on an earned basis and their costs are determined using a valuation model and re-measured at each reporting period. Each director can also elect,

each fiscal year, to have up to 50% of his director's annual retainer fees converted into DSUs. These DSUs vest over a one-year period.

During the fiscal year ended March 31, 2012, the Corporation issued 37,718 DSUs, including 15,172 DSUs related to fiscal 2011.

For the fiscal year ended March 31, 2012, SAR reversal of expense amounted to $43,000 (expense of $410,000 in 2011) while DSU expense amounted to $164,000 ($138,000 in 2011) (see Note 21 to the consolidated financial statements).

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2011 and March 31, 2012:

Item	Change ($ million)	Explanation
Cash and cash equivalents	29.1	See consolidated statements of cash flows.
Accounts receivable	(2.9)	Decrease of days in accounts receivable explained by the continued good accounts receivable collection effort. This decrease was partially offset by the impact of a higher US/CAD exchange rate used to convert U.S.-denominated accounts receivable, when compared to last year ($1.4 million).
Inventories	0.5	The increase mainly reflects the higher US/CAD exchange rate used to convert the inventories of the U.S. subsidiaries ($1.2 million).
Derivative financial instruments (current assets)	(4.5)	Reflects the variation in the Corporation's balance sheets of short-term derivative financial instruments measured at fair value. The decrease is mainly the result, year-over-year, of a lower differential between the weighted-average US/CAD rates of forward foreign exchange contracts on hand and the closing rate used, both as of the balance sheet dates.
Other current assets	1.8	This variation is mostly the result of an increase of $2.4 million in investment and other tax credits receivable, which is consistent with increased eligible development costs for Aerospace long-term contracts.

Item	Change ($ million)	Explanation
Property, plant and equipment, net	2.5	Due to: • Purchases of property, plant and equipment of $23.4 million; • A higher US/CAD exchange rate used to convert the net assets of U.S. subsidiaries ($1.5 million). Net of: • Amortization expense ($21.8 million); • Disposal of fixed assets ($0.6 million).
Finite-life intangible assets, net (includes a $2.1 million backlog, net)	6.0	Due to: • An increase in capitalized development costs for Aerospace long-term contracts ($7.6 million); • An increase in software ($0.6 million); • A higher US/CAD exchange rate used to convert the net assets of U.S. subsidiaries ($0.1 million). Net of: • Amortization expense on the underlying value of the backlog ($1.3 million); • Amortization expense of capitalized development costs and software ($1.0 million).
Derivative financial instruments (long-term assets)	(6.9)	Reflects the variation in the Corporation's balance sheets of long-term derivative financial instruments measured at fair value. The decrease is mainly the result, year-over-year, of a lower differential between the weighted-average US/CAD rates of forward foreign exchange contracts on hand and the closing rate used, both as of the balance sheet dates.
Accounts payable and accrued liabilities	3.7	Increase resulting from higher fourth quarter sales volume, when compared to last year, combined with the impact of a higher US/CAD exchange rate used to convert the U.S.-denominated accounts payable and accrued liabilities, when compared to last year ($0.6 million).
Accounts payable – other	(1.1)	Decrease reflecting lower unpaid portion of property, plant and equipment additions.

Item	Change ($ million)	Explanation
Progress billings (current and long-term)	(9.5)	The reduction in progress billings mainly reflects a higher commercial funded backlog business mix, compared to military and a reduced backlog on certain military programs. This reduction was partially offset by the impact of a higher US/CAD exchange rate used to convert the progress billings denominated in US dollars for the U.S. subsidiaries ($0.4 million).
Long-term debt (including current portion)	13.6	Due to: • Governmental authorities loans received to support Aerospace development program investments ($7.1 million); • New finance leases ($9.6 million); • Interest accretion on governmental authorities loans ($1.6 million); • Amortization of deferred financing costs related to the new financing structure ($0.4 million); • A higher US/CAD exchange rate used to convert the long-term debt denominated in US dollars ($1.7 million). Net of: • Capital repayments of long-term debt ($6.8 million).
Derivative financial instruments (long-term liabilities)	1.5	Reflects the variation in the Corporation's balance sheets of long-term derivative financial instruments measured at fair value. The increase is mainly the result of a lower interest rate used at year-end to evaluate the fair value of interest-rate swap agreements, when compared to last year.
Issued capital	2.1	Represents the common shares issued under the Corporation's Stock Option plan, following the exercise of stock options ($1.8 million) and under the Stock Purchase plan ($0.3 million).
Accumulated other comprehensive income	(7.4)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of foreign operations and on hedge of net investments in U.S. operations, combined with the net gains (losses), net of taxes, on the fair value of the financial instruments designated as cash flow hedges.
Retained earnings	25.1	The increase reflects the Corporation's net income for the fiscal year ended March 31, 2012, partially offset by the defined benefit actuarial losses and the net change in asset limit and minimum funding requirements of the Corporation's defined benefit pension plans for the fiscal year ended March 31, 2012.

At March 31, 2012 and March 31, 2011, the Corporation's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio[(1)] were as follows:

	March 31, 2012	March 31, 2011
Working capital ratio	**2.76:1**	2.52:1
Cash and cash equivalents	**$62.0 million**	$32.9 million
Long-term debt-to-equity ratio	**0.44:1**	0.44:1
Net debt-to-equity ratio[(1)]	**0.23:1**	0.32:1

(1): Defined as total long-term debt, including the current portion, less cash and cash equivalents, over shareholders' equity.

The summary of the following Corporation's contractual obligations includes payments due over the next five years and thereafter, is as follows:

	Payments due by period				
Contractual obligations ($'000)	**Total**	**1 year**	**2-3 years**	**4-5 years**	**After 5 years**
Governmental authorities loans (including the effective accumulated interest expense)	**48,595**	3,367	5,698	8,720	30,810
Finance leases (including interest expense)	**28,023**	7,661	11,420	6,202	2,740
Promissory note (including interest expense)	**1,596**	1,197	399	-	-
Credit Facility	**59,351**	-	-	59,351	-
Sub-Total	**137,565**	**12,225**	**17,517**	**74,273**	**33,550**
Building, machinery and equipment acquisition commitments	**2,843**	2,843	-	-	-
Operating leases – Buildings and facilities	**4,315**	929	1,117	669	1,600
Total contractual obligations	**144,723**	**15,997**	**18,634**	**74,942**	**35,150**

Government assistance

For fiscal 2012, the Corporation recorded as a reduction of cost of sales an amount of $4.9 million ($2.4 million last year), and as a reduction of the related capital expenditures or capitalized development costs, an amount of $5.1 million ($3.9 million last year) for government assistance.

This government assistance includes mainly the investment tax and other credits, grants and the discounted portion of the governmental authorities loans.

Derivatives, Off-Balance-Sheet Items and Commitments

As at March 31, 2012, the Corporation had operating lease obligations amounting to $4.3 million for buildings and facilities. These amounts are repayable over the next ten fiscal years. The Corporation also had machinery and equipment purchase commitments totalling $2.8 million (see Note 25 to the consolidated financial statements).

The fair value of derivative financial instruments in the consolidated balance sheets is established based on the Corporation's valuation models. These models project future cash flows and discount these future amounts to a present value using the contractual terms of the derivative financial instruments and factors observable in external market data, such as interest rates, currency rates and price and volatility factors, as applicable. They also take into account the credit quality of the underlying financial instruments.

At March 31, 2012, the Corporation had forward foreign exchange contracts with Canadian chartered banks to sell US$145.3 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.0620. These contracts relate mainly to its export sales, and mature at various dates between April 2012 and March 2015, but mainly over the next two fiscal years (see Note 31 to the consolidated financial statements). This compares to US$159.0 million in forward foreign exchange contracts held at March 31, 2011, at a weighted-average exchange rate of 1.1032.

At March 31, 2012, the Corporation had also entered into forward foreign exchange contracts to sell US$4.7 million at a weighted-average rate (Canadian dollar over US dollar) of 1.2262 ($US7.7 million at a weighted-average rate of 1.2343 at March 31, 2011). These contracts cover foreign exchange risks related to certain embedded derivatives and all mature in fiscal 2014.

In March 2011, following the renewal of the Corporation's Credit Facility and in order to limit the effect of interest rate variations over a portion of its long-term debt denominated in US currency in accordance with the Corporation's risk management policy, the Corporation entered into three interest-rate swap agreements for a total notional amount of US$40 million. The agreements that fix the Libor U.S. rate at 3.90% for an amount of US$20 million and at 3.91% for amounts totalling US$20 million, will mature in December 2015.

The credit and credit concentration risks related to these financial instruments are limited due to the fact that the Corporation deals exclusively with Canadian chartered banks and their U.S. subsidiaries or branches and, with a Canadian branch of a U.S. bank, which are high-grade financial institutions, based on the Corporation's investment policy. On that basis, the Corporation does not anticipate any breach of agreement by counterparties.

In March 2011, the Corporation designated certain long-term debt as hedge of its net investments in U.S. operations. This designation was still in effect as at March 31, 2012.

Financial and Economic Situation

Modest improvements in the global economy had a positive effect on most of the Corporation's strategic markets in its 2012 fiscal year. However, in the large commercial aircraft market, manufacturers have announced several production rate increases for leading programs stretching out to calendar 2014, while most of the Corporation's key industrial markets are gathering further momentum. Meanwhile, the military aerospace market has stabilized, as governments are addressing their deficits. However, the economy remains fragile because of the debt situation of several countries and geopolitical instability in certain regions. Consequently, Héroux-Devtek continues to carefully monitor its strategy and risk management.

While the Corporation's backlog remains strong, deferrals or cancellations of purchase orders could have an adverse impact on future results. The Corporation is striving to maintain a well-balanced portfolio between commercial and military Aerospace segment sales, as well as between new component manufacturing and aftermarket products and services. This balance should help reduce the risks associated with any potential slowdown in specific markets.

Furthermore, the rapid fluctuations in the value of the Canadian dollar, when compared to the US currency, may put additional pressure on upcoming results. As already mentioned, and as highlighted in the Outlook section, Management maintains its focus on operational efficiencies through continued lean manufacturing initiatives, cost reduction initiatives and forward foreign exchange contracts to remain competitive on a global basis.

From a financial standpoint, the Corporation has a healthy balance sheet and is presently in compliance with all of its financial covenants and expects to be so through the next fiscal year. The Corporation does not expect to have any liquidity issues, considering that the Banks' Credit Facility was extended with a syndicate of five Canadian banks and a Canadian branch of a U.S. bank, with high-grade credit ratings, and that the major customers of the Corporation are government or worldwide leaders in their respective fields. This Credit Facility was renewed and increased in fiscal 2011 and will mature in March 2016.

In light of the above, the Corporation maintains its near-term outlook (see Outlook section below) and does not foresee any significant short-term event that could jeopardize the going concern of its operations. That being said, and understanding that the Corporation operates, in part, in sectors subject to economic volatility, Management will remain prudent (see Risks and Uncertainties and Outlook sections below).

Critical Accounting Estimates

The preparation of the Corporation's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues (sales), expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require material adjustments to the carrying amount of assets or liabilities.

In the process of applying the Corporation's accounting policies, management has made judgments, estimates and assumptions. Key judgments, estimates and assumptions concerning the future and other sources of estimating uncertainty at the reporting date that may cause material adjustments to the carrying amounts of assets and liabilities, are discussed below.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or Corporation's cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets and observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the Corporation's three-year budget and strategic plan and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the perpetual growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in Note 16 to the consolidated financial statements.

Stock-based compensation

The Corporation measures the cost of stock options, DSU and SAR ("Stock-based awards") by reference to the fair value of the common shares at the date at which they are granted. Estimating fair value of the cost of Stock-based awards requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This can also require determining the most appropriate inputs to the valuation model including the expected life of the Stock-based awards, volatility and dividend yield of the common shares and making assumptions about them. The expected life of the Stock-based awards is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Deferred income tax assets

Deferred income tax assets are recognized for unused tax losses to the extent it is probable that taxable income will be available against which the losses can be utilized. Management's judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

Pensions and other retirement benefits

The defined benefit pension plans' cost is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. In determining appropriate discount rates, management considers the interest rates of high-quality corporate bonds. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The significant assumptions used to determine the defined benefit obligations and the pension expenses, including a sensitivity analysis, are further explained in Note 24 to the consolidated financial statements.

Capitalized development costs

Initial capitalization on development costs is based on management's judgment that economic feasibility is confirmed, usually when a product development project has reached a defined milestone in the project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Recovery of these costs is expected from related sales contracts through their amortization, based on pre-determined contract quantities. Production accounting quantities for a particular contract are essentially established at the inception of the contract or contract date, and are based on management's assessment of the anticipated demand for the related aircraft or product, taking into account mainly firm order and committed order backlog and options, as well as prevailing market and economic conditions. Management reviews this major assumption on a quarterly basis, and a more detailed review is made at fiscal year-end. The effect of any revision to this assumption is accounted for by way of a cumulative catch-up adjustment in the period or year in which the revision takes place.

Provisions

The Corporation has recorded provisions to cover cost exposures that could materialize in future periods. In determining the amount of the provisions, assumptions and estimates are made in relation to discount rates and the expected cost to settle such liabilities.

Financial instruments

Certain long-term debt including the current portion, at inception date, is estimated based on valuation models, using the discounted cash flow method in accordance with current financing arrangements. The discount rates used correspond to prevailing market rates for debt with similar terms and conditions.

The fair value of derivative financial instruments in the consolidated balance sheets is established based on the Corporation's valuation models. These models project future cash flows and discount these future amounts to a present value using the contractual terms of the derivative

financial instruments and factors observable in external market data, such as interest rates, currency rates and price and volatility factors, as applicable. They also take into account the credit quality of the underlying financial instruments.

FUTURE CHANGES IN ACCOUNTING POLICIES

The standards issued but not yet effective that may apply to the Corporation are the following:

IFRS 9 Financial Instruments

On November 12, 2009, the IASB issued IFRS 9 - *Financial Instruments* as the first step in its project to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 simplifies the measurement and classification for financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement. This standard will be effective for the Corporation's fiscal year beginning on April 1, 2015, with earlier application permitted.

IFRS 13 Fair Value Measurement

In May 2011, the IASB released IFRS 13, *Fair Value Measurement*. IFRS 13 will improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. This standard will be effective for the Corporation's fiscal year beginning on April 1, 2013, with earlier application permitted.

IAS 1 Financial Statement Presentation

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within Other Comprehensive Income ("OCI") that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 will be effective for the Corporation's fiscal year beginning on April 1, 2013, with earlier application permitted.

IAS 19 Employee Benefits

In June 2011, the IASB amended IAS 19, *Employee Benefits*. Amongst other changes, the amendments require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations (usually, the present value of defined benefit obligations less the fair value of plan assets). This amendment should result in a higher net financing cost for the Corporation. Furthermore, the amendments to IAS 19 enhance the disclosure requirements for defined benefit plans, providing additional information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The

amendment to IAS 19 will be effective for the Corporation’s fiscal year beginning on April 1, 2013, with earlier application permitted.

The Corporation is currently assessing the impact of adopting these new standards.

INTERNAL CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators’ Multilateral Instrument 52-109 (“MI 52-109”), the Corporation has filed certificates signed by the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) that, among other things, report on disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

Disclosure controls and procedures

The CEO and CFO have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Corporation has been made known to them and has been properly disclosed in the annual regulatory filings.

At March 31, 2012, an evaluation, under the supervision of the CEO and CFO, of the design and effectiveness of the Corporation’s disclosure controls and procedures was also carried out, as defined in MI 52-109. Based on this evaluation, the CEO and CFO concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation took into account the Corporation’s disclosure policy and its disclosure committee.

Internal controls over financial reporting

The Corporation's CEO and CFO have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

At March 31, 2012, an evaluation, under the supervision of the CEO and CFO, of the design and effectiveness of the Corporation’s internal controls over financial reporting was carried out, as defined in MI 52-109. Based on this evaluation, the CEO and CFO concluded that the design and effectiveness of these internal controls over financial reporting were effective to provide reasonable assurance that the Corporation’s financial reporting is reliable and that the Corporation’s consolidated financial statements were prepared in accordance with IFRS.

However, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Changes in internal controls over financial reporting

No changes were made to the Corporation's internal controls over financial reporting during the fiscal year ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments with a variety of risk factors and uncertainties that could have a material adverse effect on the Corporation's business, financial condition and results of operations. Such risks and uncertainties include, but are not limited to, those mentioned below.

Reliance on Large Customers

The Corporation has exposure due to its reliance on certain large contracts and customers. The Corporation's six largest customers account for approximately 59% of its sales. Any loss or delay in certain orders from any of these customers could have a negative impact on the Corporation's results.

The Corporation mitigates this risk through the increase of long-term sales contracts, when possible, with its main customers.

Availability and Cost of Raw Materials

The main raw materials purchased by the Corporation are aluminum, steel and titanium. Supply and cost of these materials is somewhat outside the Corporation's control. Difficulty in procuring raw materials in sufficient quantities and in a timely fashion, along with cost increases for these materials, could also have a material adverse effect on the Corporation's operations and financial condition.

In the current year, with the modest improvements of the global economy, the Corporation has continued to take steps to mitigate this risk. It includes clauses in its long-term sales contracts of importance to share the risk of raw materials availability and cost with its customers. It also negotiates certain long-term supply agreements with its suppliers of raw materials, and has increased its monitoring of the supply chain to ensure timely deliveries.

Operational Risks

The activities conducted by the Corporation are subject to operational risks that include competition from other businesses, performance of key suppliers, product performance warranties, regulatory risks, successful integration of new acquisitions, dependence on key personnel and reliance on information systems, all of which could affect the Corporation's ability to meet its obligations.

However, the Corporation has implemented certain risk-mitigation strategies and controls, in light of these operational risks, which include the following:

- Processes to ensure proper bid approvals, planning, execution and use of quality standards at all stages of new design or built-to-print products and assemblies, and repair and overhaul

services. This includes the risk assessment of achieving the targeted revenues (firm-fixed price contracts, escalation clauses, etc.) and related product costs as well as the development of long-term agreements and competitive bidding processes with main suppliers.

- Use of proper cash flow arrangements through the use of customer advances, with certain customers, and foreign exchange hedging.

Impact of Terrorist Activity and Political Instability

There continues to be uncertainty over the future impact in the commercial aerospace sector from the threat of terrorist activity and the ongoing situations in the Middle East. Such issues typically have a negative impact on commercial air traffic and a positive impact on defence spending.

General Economic Conditions

Unfavourable economic conditions may adversely affect the Corporation's business. For example, the large civil aerospace industry has experienced considerable uncertainty in prior years, especially the market for planes with more than 100 seats. Since fiscal 2006, the regional jet market has been negatively impacted by lower demand and the business jet market is closely related to the state of the economy. Furthermore, the industrial power generation market also collapsed with the recent economic downturn. This could adversely affect the Corporation's financial condition and results of operation. Although long-term growth is gradually resuming, these sectors will remain cyclical. In addition, curtailment of production activities due to unfavourable economic conditions could result in the Corporation incurring significant costs associated with temporary layoffs or termination of employees.

Military Spending

The military expenses are approved by government on a yearly basis and are subject to the political climate and changing priorities.

Foreign Currency Fluctuations

The Corporation is exposed to risks resulting from foreign currency fluctuations arising either from carrying on business in Canada in foreign currencies or through operations in the United States. In an effort to mitigate those risks, the Corporation makes use of derivative contracts to hedge this exposure.

The Corporation's foreign exchange hedging policy requires it to mitigate the foreign currency exposure, essentially to the US currency, arising from its Canadian operations.

The hedging policy requires the hedging of 50% to 75%, on average, of the identified foreign currency exposure, mainly over the next two fiscal years, of the forecasted cash inflows generated by sales in US currency made by its Canadian operations and related to long-term sales contracts, net of the forecasted cash outflows in US currency related essentially to its raw and certain other material costs. This hedging policy also applies to the net forecasted cash inflows/outflows as described above, for certain specific long-term sales contracts, on a very limited basis, for an additional period of one to three fiscal years.

Liquidity and Access to Capital Resources

The Corporation requires continued access to capital markets to support its activities. To satisfy its financing needs, the Corporation relies on long-term and short-term debt and cash flow from operations. Any impediments to the Corporation's ability to access capital markets, including significant changes in market interest rates, general economic conditions or the perception in the capital markets of the Corporation's financial condition or prospects, could have a material adverse effect on the Corporation's financial condition and results of operation.

Restrictive Debt Covenants

The indentures governing certain of the Corporation's indebtedness and, in particular, its Credit Facility, contain covenants that, among other things, restrict the Corporation's ability to:

- sell all or substantially all of its assets;
- incur secured indebtedness;
- engage in mergers or consolidations;
- engage in transactions with affiliates.

The Corporation is subject to various financial covenants under its Credit Facility which must be met on a quarterly basis. It includes financial covenants requiring a minimum EBITDA to debt service ratio, a maximum net funded debt to EBITDA ratio and a maximum net funded debt to capital ratio, all calculated on a consolidated basis. These terms and ratios are defined in the Credit Facility agreement and do not necessarily correspond to the Corporation's financial metrics or the specific terms used in the MD&A.

In addition, the Corporation is subject to various financial covenants under certain finance leases and governmental authorities loans. It includes financial covenants requiring minimum working capital ratio and maximum long-term debt to equity ratio based on the Corporation's consolidated balance sheet and also minimum equity requirements for certain subsidiaries of the Corporation.

These restrictions could impair the Corporation's ability to finance its future operations or its capital needs, or to engage in other business activities that may be in its interest.

Changing Interest Rates

The Corporation's profitability may be directly affected by the level of and fluctuations in interest rates. When appropriate, the Corporation considers using derivatives as an integral part of its asset/liability management program to mitigate or reduce its overall financial risk.

To mitigate these fluctuations, the Corporation has established a short-term investment policy that dictates the level and type of investments it should seek. The Corporation also maintains a well-balanced portfolio of financing, choosing between fixed and variable rates.

External Business Environment

The Corporation faces a number of external risk factors, specifically including general economic conditions, government policies and changing priorities or possible spending cuts by governments.

Warranty Casualty Claim Losses

The products manufactured by the Corporation are complex and sophisticated and may contain defects that are difficult to detect and correct. Errors may be found in the Corporation's products after they are delivered to the customers. If so, the Corporation may not be able to correct such errors. The occurrence of errors and failures in the Corporation's products could result in warranty claims or the loss of customers. Any claims, errors or failures could have an adverse effect on the Corporation's operating results and business. In addition, due to the nature of the Corporation's business, the Corporation may be subject to liability claims involving its products or products for which it provides services. The Corporation cannot be certain that its insurance coverage will be sufficient to cover one or more substantial claims. Furthermore, there can be no assurance that the Corporation will be able to obtain insurance coverage at acceptable levels and cost in the future. See under 'Operational Risks', above.

Environmental Matters

The Corporation's activities are subject to environmental laws and regulations associated with risks to human health and the environment. Changes to these laws and regulations could have a significant adverse effect on the Corporation's operations and financial situation. The Corporation monitors these risks through environmental management systems and policies.

Collective Bargaining Agreements

The Corporation is party to some collective bargaining agreements that expire at various times in the future. If the Corporation is unable to renew these agreements or others as they become subject to renegotiation from time to time, it could result in work stoppages and other labour disturbances, which could have a material adverse effect on the Corporation's business.

In April 2011 and December 2011, the Corporation renewed its collective agreements, respectively, with its Landing Gear Longueuil plant employees and Landing Gear Laval plant employees, both for three-year periods. The collective agreement for the Aerostructure Dorval plant employees will come up for renewal in May 2013.

Skilled Labour

Héroux-Devtek's ability to meet its future goals and objectives depends in part on its ability to attract and retain the necessary skilled labour. The skilled labour market in the aerospace industry is expected to continue to be highly competitive in the future. The Corporation's inability to attract and retain skilled labour, particularly engineers, machinists and programmers, could adversely affect its financial condition and results of operations.

The Corporation is addressing this risk by developing its human resource strengths internally and by working to retain the skilled employees that it currently has and attract the best talent by fostering a strong sense of corporate culture. Héroux-Devtek therefore does not anticipate a substantial increase in its manpower requirements over the next few years.

Pension Plan Liability

The economic cycles have a negative impact on the funding of the Corporation's defined benefit pension plans and the related expenditures. There is no guarantee that the expenditures and contributions required to fund these pension plans will not increase in the future and therefore negatively impact its operating results and financial position. Risks related to the funding of defined benefit plans may materialize if total obligations with respect to a pension plan exceed the total value of its trust fund. Shortfalls may arise due to lower-than-expected returns on investments, changes in the discount rate used to assess the pension plan's obligations, and actuarial losses. This risk is mitigated by policies and procedures instituted by the Corporation and its pension committee to monitor investment risk and pension plan funding.

SELECTED QUARTERLY FINANCIAL INFORMATION

($'000 except per share data)	**Total**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
For the fiscal year ended March 31, 2012					
Sales	**380,336**	91,873	86,002	93,412	109,049
EBITDA	**64,722**	14,948	13,578	16,905	19,291
Net income	**26,481**	5,797	4,812	6,910	8,962
Earnings per share ($) – basic	**0.87**	0.19	0.16	0.23	0.29
Earnings per share ($) – diluted	**0.86**	0.19	0.16	0.23	0.29
For the fiscal year ended March 31, 2011					
Sales	**357,572**	82,541	83,194	85,843	105,994
EBITDA	**57,095**	11,966	11,300	14,684	19,145
Net income	**19,129**	3,318	2,654	5,165	7,992
Earnings per share ($) – basic	**0.64**	0.11	0.09	0.17	0.26
Earnings per share ($) – diluted	**0.63**	0.11	0.09	0.17	0.26

Historically, the second quarter of a fiscal year has traditionally been somewhat a slower period owing to seasonal factors, such as plant shutdowns and summer vacations.

Fourth Quarter 2012 Results

The Corporation achieved record results for the quarter ended March 31, 2012, with sales of $109.0 million, up 2.9% from $106.0 million for the same period last year, despite the unfavourable $0.6 million US/CAD currency impact. These additional sales resulted from a $3.1 million sales increase in the Industrial segment, due to increased heavy equipment and gas turbine sales. In the Aerospace segment, commercial sales were $4.3 million higher than last year, as a result of new business on the Gulfstream (GV) program and higher production rates in the large commercial and business jet programs, but were partially offset by lower customers requirements in the regional aircraft programs. Military sales were $4.4 million lower than last

year, essentially as a result of lower F-16 customer aftermarket requirements and also lower F-22 sales, as this program is coming to an end.

For the quarter ended March 31, 2012, consolidated gross profit margin, as a percentage of sales, increased 0.7% to 19.6%, when compared to last year. This quarter, the negative impact on gross profit for start-up costs incurred this year for the establishment of the new Mexico facility was $0.3 million, representing 0.3% of sales, while the US/CAD currency fluctuations also negatively impacted the Corporation's gross profit in dollars by $0.5 million or 0.4% of sales. The increase in gross profit margin reflects the higher Industrial sales volume, the favourable sales mix in the Aerospace segment and the continued productivity improvements in both segments. Net income stood at $9.0 million or $0.29 per share, fully diluted, compared to net income of $8.0 million or $0.26 per share, fully diluted, last year.

Cash flow from operations yielded $18.6 million, compared to $17.4 million in the fourth quarter last year, mainly as a result of higher net income. The net change in non-cash items related to operations represented an outflow of $3.9 million, compared to an outflow of $14.5 million in the last quarter of last year. This quarter's outflow mainly resulted from higher accounts receivable ($12.4 million) and lower progress billings ($3.4 million), which was partially offset by lower inventories ($8.3 million) and higher accounts payable and accrued liabilities ($4.3 million), compared to the previous quarter ended December 31, 2011. These variations are the result of a record sales volume generated in the last quarter this year. Last year's outflow mainly resulted from higher accounts receivable ($25.0 million) and lower progress billings ($5.7 million), which was partially offset by lower inventories ($9.8 million) and higher accounts payable and accrued liabilities ($7.3 million), compared to the quarter ended December 31, 2010. These variations are the result of a significant increase in the fourth quarter's sales of last year.

OUTLOOK

Conditions are mostly favourable in the commercial aerospace market although uncertainty about the situation in Europe is resulting in lower projected air travel growth for calendar 2012. The IATA's most recent forecast calls for 4.2% growth in the passenger market for calendar 2012, versus a 5.9% increase in calendar 2011, while air cargo volume is expected to rise 2.2% in calendar 2012, after contracting slightly in calendar 2011.[10]

In the large commercial aircraft segment, manufacturers have announced several production rate increases on leading programs for calendar years 2012 to 2014[11]. Reflecting these increases, Boeing and Airbus are each forecasting higher deliveries in calendar 2012 than in the previous year. Furthermore, their backlogs remain strong, representing approximately seven years of production at current rates.

Although new business jet sales further declined in calendar 2011, certain indicators point to an imminent recovery, such as increased aircraft utilization and a reduction in the number of used aircraft for sale, as a percentage of the fleet. Despite the relatively weak economic recovery, business jet shipments are expected to increase modestly in calendar 2012, but industry sources

[10] Source : IATA Industry Financial Forecast March 2012

[11] Sources: Airbus press releases May 18, 2011; February 3, 2011. Boeing press releases June 15, 2011; Dec. 20, 2010.

are calling for subsequent acceleration and sustained growth over a period of possibly five years.[12]

The military aerospace market should remain stable, as governments address their deficits. Still, the Corporation believes its diversified military portfolio, balanced between new component manufacturing and aftermarket products and services, should lessen its exposure to defense budget cutbacks. As to the Joint Strike Fighter F-35 (JSF) program, the Corporation anticipates producing a similar number of shipsets in fiscal 2013, compared to fiscal 2012, given the revised program schedule.

Conditions remain favourable in the Corporation's main Industrial products markets. In the power generation industry, leading North American equipment manufacturers are reporting further increases in new orders. Backlogs also continue to rise for leading heavy equipment manufacturers.[13]

Capital expenditures for fiscal 2013 are expected to be approximately $25 million, including an investment of approximately $3 million related to the new facility in Mexico. The Corporation is in the process of ramping up production at its new facility in Mexico. This progress, combined with a healthy balance sheet and funds available under its Credit Facility, places Héroux-Devtek in a position to consider other strategic acquisitions that would complement its product portfolio and its technologies.

As at March 31, 2012, Héroux-Devtek's funded (firm orders) backlog stood at $493 million, versus $502 million at the end of the previous fiscal year. Despite this solid backlog and strong customer relationships, the Corporation will continue to enhance productivity and streamline its cost base to remain competitive in light of the increasingly global character of the aerospace industry.

Assuming the Canadian dollar remains at parity versus the US currency and considering forward foreign exchange contracts, the Corporation anticipates an internal sales growth of approximately 5% for the fiscal year ending March 31, 2013, compared to the year ended March 31, 2012. As many important programs will gradually ramp up in the next few fiscal years, the Corporation believes growth should be sustained over that period. Management is confident of achieving its long-term goal to grow internally and through strategic alliances at 10% per year, on average, assuming a stable currency environment.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee on May 23, 2012 and by the Board of Directors on May 24, 2012. Updated information on the Corporation can be found on the SEDAR website, at www.sedar.com.

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12 Sources: JETNET, FAA, Teal Group, Forecast International.

13 Sources : GE press release April 20, 2012; Caterpillar press release April 25, 2012