MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

For the year ended March 31, 2013

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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, 2012 and March 31, 2013. It also compares the operating results and cash flows for the fiscal year ended March 31, 2013 to those for the previous year.

This analysis should be read in conjunction with the Corporation's audited consolidated financial statements dated March 31, 2013. 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.

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 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

On August 31, 2012, the Corporation concluded the sale of substantially all of its Aerostructure and Industrial product line operations ("sale transaction") (See Discontinued operations below). Following this transaction, Héroux-Devtek and its subsidiaries mainly specialize in the design, development, manufacture, repair and overhaul of landing gear systems and components used principally in the Aerospace market. The Corporation has also built a strong, well-recognized design engineering team.

The Corporation is the third largest landing gear company in the world, supplying both the commercial and military sectors of the Aerospace market with new landing gear systems and components as well as aftermarket products and services (including spare parts and repair and overhaul services). 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. 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's head office is located in Longueuil, Québec with facilities in the Greater Montreal area (Longueuil, Laval and St-Hubert); Kitchener and Toronto, Ontario; as well as Springfield and Cleveland, Ohio. All facilities are involved in the fabrication of landing gear systems and components with the exception of the Toronto facility (“Magtron”), which manufactures electronic enclosures, heat exchangers and cabinets for airborne radar, electro-optic systems and aircraft controls. This facility provides competencies in vacuum and dips brazing metal joining technologies and became Canada's first facility to be Nadcap certified in aluminum vacuum brazing.

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 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 sells mainly to original equipment manufacturers (“OEMs”) such as United Technologies Airways System (UTAS), Messier-Dowty, Bombardier, Lockheed-Martin and Triumph, and into the aftermarket, where its main customer is the US Air Force (USAF). In fiscal 2013, sales to these six customers represented approximately 69% of total consolidated sales. More specifically, the Corporation has two customers representing 24% and 21% of its consolidated sales.

Business Management

The Corporation's Landing Gear product line and Magtron’s operations are managed through decentralized operations that encourage entrepreneurship and the involvement of every employee.

They have the management, engineering, manufacturing and marketing resources required to meet the needs of their specific markets. The growth and profitability of the Landing Gear product line and Magtron’s operations is the responsibility respectively, of the Landing Gear Vice-President - General Manager and Magtron’s General Manager. They report directly to the Corporation's President and Chief Executive Officer, while the Vice-President, Finance and Controllers report 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 the Landing Gear product line and Magtron’s operations support in establishing budget and strategic plans, developing new products and markets, and 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. 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 in its plant;
- 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; 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, for commercial and military aircraft OEMs; and
- Diversify the customer base, which generally means finding new OEM customers.

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 the elements which they measure:

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 will also be included in the Financial Highlights of the Corporation's fiscal 2013 Annual Report. Some of these KPIs are not publicly disclosed since they are of a competitive nature.

In fiscal year 2013, market trends had an obvious impact on the Corporation's capacity utilization due to the weaker U.S. military market, which added pressure to the cost absorption for some of the Corporation's business units. On-time delivery and non-quality costs are customers' satisfaction indicators that are closely monitored by Héroux-Devtek. The Corporation has improved these indicators over recent years and continues to pay close attention to quality matrix and quality reports from its 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 business unit. 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 2012, key indicators in the commercial air transport market were mixed. Demand in the passenger market continued to grow, with traffic expressed in Revenue Passenger Kilometers ("RPK") increasing 5.3% over calendar 2011, but freight traffic expressed in Freight Tonne Kilometers ("FTK") decreased 2.0%[1]. These trends have been sustained in the first three months of calendar 2013 with an increase of 4.2% in RPK and a 1.1% contraction in FTK[2].

Industry deliveries of large commercial aircraft reached a new record in calendar 2012, with 1,189 aircraft for Airbus and Boeing combined, while net new order inflow remained strong with an aggregate amount of 2,036 aircraft[3]. Both manufacturers are also proceeding with production rate increases on several leading programs scheduled for calendar years 2013 and 2014, although production of the B-747 will be slightly decreased in calendar 2014[4]. Based on current production rates, their respective backlogs continue to represent approximately seven years of production.

In the regional aviation market, Embraer delivered 105 aircraft in calendar year 2012[5], while Bombardier delivered 50 during the same period[6], including turboprops. While Bombardier's backlog increased during the year, Embraer experienced a decline.

Business jet deliveries declined slightly in calendar 2012, reaching 672 aircraft. However, certain positive signs continue to suggest improving conditions, such as a 0.7% increase in U.S. business aircraft movements and a year-over-year decrease of 0.4% in the proportion of the business aircraft fleet for sale[7].

The military market was weaker in calendar year 2012, as governments continued to address their deficits. In the U.S., proposed funding for the fiscal 2014 base defense budget is down marginally from enacted funding for fiscal 2013[8], including a 1.4% reduction in proposed funding for equipment, systems, research, technology development and weapons. As proposed funding for fiscal 2014 remains above budget limits set under sequestration, actual funding could be materially less if sequestration is not reversed.

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1 Source: IATA Financial Forecast, March 20, 2013
2 Source: IATA press releases April 30, 2013 and May 1, 2013
3 Sources: Airbus press release January 17, 2013; Boeing press release January 3, 2013
4 Sources: Airbus press releases April 4, 2013; May 18, 2011; February 3, 2011. Boeing press releases April 19, 2013; March 18, 2013; November 12, 2012; October 23, 2012; January 10, 2012; June 15, 2011.
5 Source: Embraer press release, January 14, 2013.
6 Source: Bombardier press release, January 8, 2013.
7 Sources: GAMA press release February 12, 2013; FAA January 2013 Business Jet Report, JetNet report January 30, 2013
8 Source: U.S. Department of Defense report, April 10, 2013

Major achievements of fiscal 2013

- Héroux-Devtek completed the sale of substantially all of its Aerostructure and Industrial Products operations to Precision Castparts Corp. (NYSE: PCP) for $297.8 million paid in cash. Taking into consideration related taxes and transaction costs, net proceeds amounted to $234.3 million. The gain of $163.0 million on the sale transaction, net of related taxes of $51.8 million amounted to $111.2 million (see Discontinued operations below).

- In connection with the sale transaction, the Board of Directors of Héroux-Devtek approved a special cash distribution to shareholders of $5.00 per common share ($157.5 million) paid on December 19, 2012. At a Special Meeting of Shareholders held on December 18, 2012, shareholders voted in favour of a special resolution to reduce the amount of the Corporation's issued share capital by $2.70 per share. As a result, the distribution consisted of a partial reduction and repayment of the Corporation's issued capital of $2.70 per share and of a dividend of $2.30 per share.

- Héroux-Devtek generated sales from continuing operations of $257.0 million in fiscal 2013, up 1.4% from a year earlier. A solid 17.5% increase in sales to the commercial aerospace market, which reached $111.0 million, was partially offset by an 8.2% decrease in sales to the military aerospace market to $146.0 million. Net income from continuing operations amounted to $13.8 million, or $0.44 per share on a diluted basis.

- Héroux-Devtek renewed an important long-term contract with the U.S. Air Force (USAF) to provide landing gear repair and overhaul (R&O) services for the C-130, E-3 and KC-135R aircraft. The contract is for a definite four-year term, extending to August 2016. Based on the Corporation's expectations, the contract is valued at up to $90 million. Under the terms of the agreement, Héroux-Devtek is also responsible for the manufacturing and delivery of aftermarket components for these aircraft.

- The Corporation received a license from The Boeing Company (NYSE: BA) ("Boeing") to service the H-47 Chinook aircraft landing gear in nearly a dozen countries. The license makes Héroux-Devtek eligible to offer its services to fabricate replacement parts and carry out repair and overhaul (R&O) services for the landing gear of all variants of Chinook aircraft. The agreement also includes option renewal periods beyond the initial five-year period. Héroux-Devtek also delivered, on schedule, its first H-47F complete landing gear to Boeing. Héroux-Devtek is under contract from Boeing to fabricate, assemble, test and deliver the landing gear for H-47F aircraft delivered to customers outside the United States.

- Héroux-Devtek was awarded a multi-year contract from Boeing to manufacture the landing gear for the H-47 Chinook medium-to-heavy-lift helicopter. Under the terms of the agreement, Héroux-Devtek will fabricate the landing gear for all Chinook aircraft destined for the U.S. Army. Landing gear deliveries are scheduled to begin in the first half of calendar 2014 and will be spread out over a five-year period. Current program expectations call for the delivery of 155 aircraft to the U.S. Army over the contracted period. The contract also includes options, exercisable at Boeing's discretion, to fabricate the landing gear for up to 150 additional aircraft over the same period.

- The Corporation contracted a $48.9 million repayable loan contribution, spreading over a five-year period, from Industry Canada. The funds will be used to support Héroux-Devtek's engineering efforts in connection with the research and development of new technologies for complete new landing gear systems. The investment will be over a five-year period and the contribution will become gradually repayable one year following the end of that period. The investment is being made through the Government of Canada's Strategic Aerospace and Defence Initiative (SADI), which supports strategic industrial research and pre-competitive development projects in the aerospace, defence, space and security industries.

Discontinued operations

On July 16, 2012, the Corporation executed a definitive agreement for the sale of substantially all of its Aerostructure and Industrial product line operations to Precision Castparts Corporation (“PCC”), a public company traded on the New York Stock Exchange. The net assets acquired by PCC include the Corporation’s Dorval (Quebec), Querétaro (Mexico) and Arlington (Texas) Aerostructure product line manufacturing sites, as well as the Cincinnati (Ohio) Industrial product line manufacturing sites.

The sale transaction was concluded on August 31, 2012 with gross sale proceeds, including post-closing adjustments, of $297.8 million paid in cash. Taking into consideration the related taxes and transaction related costs, the net proceeds amounted to $234.3 million. The gain of $163.0 million on the sale transaction, net of the related taxes of $51.8 million, amounted to $111.2 million. The gain from discontinued operations also includes a provision reversal of $1.0 million or $0.8 million, net of taxes, related to a business sold in prior years, as a result of the expiry of the prescribed legal delay.

Net income from discontinued operations and related to the sale transaction is comprised of the following:

($’000)	**2013**	**2012**
Net gain from the sale transaction	112,046	-
Net income from operations sold [(1)]	6,180	10,606
Net income from discontinued operations	**118,226**	**10,606**

[(1)] *Up to August 31, 2012.*

This fiscal year, concurrently to the sale transaction, the Corporation proceeded with a $16.0 million reduction of finance lease obligations and the repayment of a $1.0 million governmental authorities’ loan related to the businesses sold. The Corporation also proceeded with a partial repayment of US$37.5 million ($37.0 million) against the Syndicated Banks’ Credit Facility ("Credit Facility") and repurchased two of the three interest rate swap agreements in place, representing a total notional amount of US$30.0 million, for a total cost of $1.7 million which was recorded as transaction related costs to the sale transaction.

The sales, gross profit, operating income and EBITDA related to the continuing and discontinued operations represented the following amounts for the last fiscal year ended March 31, 2012:

	Total Consolidated ($'000)	Discontinued Operations ($'000)	Continuing Operations ($'000)
Sales	380,336	126,815	253,521
Gross profit	67,630	24,923	42,707
Operating income	40,669	16,841	23,828
EBITDA	64,722	27,275	37,447

Following the sale transaction explained above, income and expenses from discontinued operations before August 31, 2012 are reported separately from income and expenses from continuing operations, down to the level of net income in the consolidated statements of income for the fiscal year ended March 31, 2013 and for the last fiscal year.

Prior to the sale transaction, the Aerostructure product line was part of the Corporation's Aerospace segment, while the Industrial product line formed the Industrial segment. Therefore, all of the operations of the businesses sold are now excluded from the Corporation's segmented information. Following this sale transaction, the Corporation operates essentially in the Aerospace segment and is comprised of the landing gear product line and Magtron operations.

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 ("FFEC"), while the statement of income of foreign operations is translated at the average exchange rate for the fiscal year. FFEC, for the purpose of hedge accounting, are classified as cash flow hedges in accordance with the Corporation's accounting policies. 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, 2013 and 2012 and for the fiscal years then ended:

Canada / US Exchange Rates	2013	2012
Average rate for fiscal year ended March 31	1.0013	0.9931

Canada / US Exchange Rates	2013	2012
Closing rate at March 31	1.0160	0.9975

As shown above, the average value of the Canadian dollar when compared to its U.S. counterpart, year-over-year, was 0.8% lower, and therefore did not significantly impact the Corporation’s results for this fiscal year. However, the variation in the closing rate since March 31, 2012 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, 2013, the Corporation had FFEC to sell US$123.5 million at a weighted-average rate of 1.0325 maturing over the next three fiscal years, with the majority maturing over the next two fiscal years.

At March 31, 2013, the Corporation had also entered into FFEC 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. 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 Corporation’s EBITDA for continuing operations is calculated as follows:

Years ended March 31 ($’000)	**2013**	**2012**	**2011**
Net income	**13,819**	15,875	11,438
Income tax expense	**3,324**	4,207	3,093
Financial expenses	**3,344**	3,746	3,334
Amortization expense	**12,533**	13,619	14,248
EBITDA including restructuring charges	**33,020**	37,447	32,113
Restructuring charges	-	-	637
EBITDA	**33,020**	**37,447**	**32,750**

The $4.4 million decrease in EBITDA from fiscal 2012 to fiscal 2013 reflects the lower operating income this fiscal year, as explained in the following sections.

Selected Annual Financial Information

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

Years ended March 31 **($'000, except per share data)**	**2013**	**2012**	**2011**
Sales [(1)]	**257,022**	253,521	239,039
EBITDA [(1)]	**33,020**	37,447	32,750
Net income [(1)]	**13,819**	15,875	11,438
Earnings per share ($) – basic [(1)]	**0.45**	0.52	0.38
Earnings per share ($) – diluted [(1)]	**0.44**	0.52	0.38
Total assets	**389,115**	499,107	472,540
Long-term liabilities (including the current portion of long-term debt)	**96,466**	164,053	152,663
Cash and cash equivalents	**101,256**	62,007	32,910

(1) Continuing operations.

Consolidated Sales

Consolidated sales increased by $3.5 million or 1.4% to $257.0 million from $253.5 million last year. This increase is the result of a 17.5% or $16.5 million sales increase in the commercial sector, mainly resulting from higher production rates on large commercial and higher aftermarket sales, partially offset by lower aftermarket military sales. Exchange fluctuations reduced sales by $1.4 million or 0.6%, when compared to last year.

Sales can be broken down by sector as follows:

	2013	**2012**	**Variance**	
	($'000)	**($'000)**	**($'000)**	**%**
Military *(1)*	**146,035**	159,035	(13,000)	(8.2)
Commercial	**110,987**	94,486	16,501	17.5
Total	**257,022**	**253,521**	**3,501**	**1.4**

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

Military sales were $13.0 million or 8.2% lower to $146.0 million from $159.0 million last year. The decrease in sales is essentially the result of a lower customer demand, including customer push-outs on certain military programs and order cancellations on the C-5 program, and mainly reflecting the weaker U.S. military market, as evidenced by the reduced U.S. funding base defence budget and the sequestration situation. The decrease in military sales is also the result of lower electronic enclosure and cabinet sales at the Magtron operations.

Commercial sales were $16.5 million or 17.5% higher to $111.0 million from $94.5 million last year. This increase is the result of higher sales on large commercial programs, mainly from the higher production rates on the B-777 program and production ramp-up on the B-787 program. It also includes the impact of a higher production rate on certain business jet programs, mainly the Bombardier Challenger and Global programs, and of higher aftermarket sales for certain regional and helicopter programs and for the Bombardier LJ-45 and CL-415 programs.

Sales by Destination

The Corporation's sales by destination were as follows:

	2013 (%)	2012 (%)
Canada	**31**	27
US	**64**	69
International	**5**	4
Total	**100**	**100**

The year-over-year change in the sales by destination mix mainly reflects the impact of increased aftermarket commercial sales in Canada combined with lower aftermarket military sales in the U.S.

Gross Profit

Consolidated gross profit as a percentage of sales was 15.4% this fiscal year, a decrease of 1.4% from 16.8% last year.

The US/CAD currency fluctuations negatively impacted the Corporation's gross profit in dollars this fiscal year by $0.8 million or 0.2%, when 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 FFEC.

Consolidated gross profit was impacted by a higher under-absorption of manufacturing overhead costs that resulted from lower production volume due to lower military customer demand, including customer push-outs and order cancellations, and an unfavorable military aftermarket sales product mix. This fiscal year, non-recurring costs were also incurred in the development of a new landing gear system program. These negative impacts on gross profit were partially offset by a better product mix resulting from higher commercial spare part sales and certain lower non-quality costs, when compared to last year.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	2013	2012
Selling and administrative expenses ($'000)	**19,198**	18,879
% of sales	**7.5**	7.4

Selling and administrative expenses stood at $19.2 million or 7.5% of sales, an increase of $0.3 million or 0.1% of sales from $18.9 million or 7.4% of sales last year. This increase reflects the higher research and development expenses of $0.7 million incurred this year, when compared to last year, for the development of new technologies and manufacturing improvements related to landing gear systems which are not capitalized. In addition, the expense related to stock-based compensation was higher by $0.7 million, when compared to last year, reflecting the appreciation in the Corporation's stock price traded on the Toronto Stock Exchange ("TSE"). These increases were partially offset by lower professional fees, since last year, for expenses that were then incurred for certain specific projects. Selling and administrative expenses also include a negligible gain on currency translation on net monetary items denominated in foreign currencies this fiscal year, compared to a gain of $0.2 million last year.

Operating Income

Consolidated operating income stood at $20.5 million or 8.0% of sales for the fiscal year ended March 31, 2013, compared to $23.8 million or 9.4% of sales last year. The lower operating income in dollars and as a percentage of sales is mainly the result of the higher under-absorption of manufacturing overhead costs, due to reduced military sales and to non-recurring costs incurred in the development of a new landing gear system program, partially offset by lower non-quality costs, as explained above.

Financial Expenses

Financial expenses stood at $3.3 million for the fiscal year ended March 31, 2013, while it stood at $3.7 million last year. The lower financial expenses this fiscal year, compared to last year, mainly reflects the higher interest income resulting from the increased cash position of the Corporation, following the sale transaction net of the special distribution to shareholders (see section below), partially offset by the higher stand-by fees expenses, following this year's US$37.5 million repayment on the Credit Facility.

Income Tax Expense

For the fiscal year ended March 31, 2013, the income tax expense stood at $3.3 million, compared to $4.2 million last year.

This fiscal year, the Corporation's effective income tax rate was 19.4%, compared to its Canadian blended statutory income tax rate of 26.0%. The effective income tax rate reflects the favourable impact from permanent differences ($0.2 million) partially offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries ($0.1 million). It also includes a reduction in deferred income tax liabilities in light of changes in tax audit matters, jurisprudence and tax legislation ($1.0 million).

Last year, the Corporation's effective income tax rate was 20.9%, compared to the Corporation's Canadian blended statutory income tax rate of 27.3%. The difference can be explained by the favourable impact on the Corporation's effective income tax rate coming from permanent differences ($1.0 million) and favourable deferred income tax adjustments ($0.5 million), partially offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries ($0.2 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, 2013 and 2012, 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, 2013, the Corporation had no federal non-capital losses available carried forward ($5.4 million as at March 31, 2012).

Net Income

For the fiscal year ended March 31, 2013, the Corporation posted a net income from continuing operations of $13.8 million or 5.4% of sales, compared to a net income of $15.9 million or 6.3% of sales for the same period last year.

The net income of this fiscal year includes the net income of discontinued operations of $118.2 million, compared to $10.6 million last year. Net income from discontinued operations for the fiscal year ended March 31, 2013 includes a net gain from the sale transaction of $111.2 million, as explained above (see Note 5 to the consolidated financial statements).

	2013	**2012**
Net income from continuing operations ($'000)	**13,819**	15,875
Net income from discontinued operations ($'000)	**118,226**	10,606
Net income ($'000)	**132,045**	26,481
Earnings per share – basic ($)	**4.27**	0.87
Earnings per share – diluted ($)	**4.24**	0.86
Earnings per share for continuing operations – basic ($)	**0.45**	0.52
Earnings per share for continuing operations – diluted ($)	**0.44**	0.52

Basic earnings per share figures are based on year-to-date weighted-averages of 30,939,184 common shares outstanding for fiscal year 2013 and 30,356,946 common shares for the same period last year, while the diluted earnings per share figures are based on year-to-date weighted-averages of 31,114,439 for fiscal 2013 and 30,682,063 for last year. The increase in the weighted-average number of outstanding common shares is mainly related to the issuance of 1,034,543 common shares under the Corporation's stock option plan (see Note 19 to the consolidated financial statements).

On May 23, 2013, the date of this MD&A, the Corporation had 31,517,729 common shares and 259,101 stock options outstanding with a weighted-average of 3.7 years to maturity.

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

For the fiscal year ended March 31, 2013, the other comprehensive loss, included in the comprehensive income from continuing operations, is mainly the result of net gains on derivative financial instruments transferred to net income during this fiscal year, combined with net actuarial losses of the Corporation's defined benefit pension plans, resulting from the negative impact of a lower interest rate to discount the defined benefit pension plan obligations, net of the higher than expected return on plan assets. These negative variations on the comprehensive income were partially offset by a gain arising from translating the financial statements of foreign operations resulting from the appreciation of the US currency versus the Canadian currency and the net gains on valuation of derivative financial instruments.

Liquidity and Capital Resources

Special Distribution to Shareholders

On November 8, 2012, following the sale transaction, the Board of Directors of the Corporation approved a special cash distribution of $5.00 per share paid on December 19, 2012 to shareholders of record on November 20, 2012. The Board of Directors determined that it was appropriate to proceed with this special distribution to the shareholders, following the sale transaction mentioned above, and that the Corporation would still maintain a healthy financial situation, post-special distribution, considering among other things, the expected capital and other investment requirements and results of the Corporation.

The special distribution to shareholders of $5.00 per share which represented a cash distribution of $157.5 million (based on 31,498,905 common shares outstanding on November 20, 2012) made on December 19, 2012 was composed of and recorded as an issued capital reduction of $2.70 per share ($85.0 million) and of a special cash dividend of $2.30 per share ($72.5 million) recorded against the retained earnings of the Corporation. The capital reduction which reduced the Corporation's issued capital was approved by the shareholders at a special shareholder meeting held on December 18, 2012. The transaction costs related to this special distribution to shareholders amounting to $0.3 million ($0.2 million net of income taxes) were accounted for against the issued capital and retained earnings (see Note 19 to the consolidated financial statements).

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. Following the sale transaction on August 31, 2012 and the special distribution to shareholders on December 19, 2012, the Corporation had cash and cash equivalents of $101.3 million as at March 31, 2013, compared to $62.0 million at March 31, 2012, of which $10.0 million had been invested in short-term deposits ($39.9 million at March 31, 2012). The remaining cash and cash equivalents were held in investment accounts with three Canadian Banks and their U.S. affiliates or branches of the Corporation's syndicated banks.

In March 2011, the Corporation renewed and increased its Senior Secured Syndicated Revolving Credit Facility with a syndicate of five Canadian Banks and their U.S. 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 18 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. Immediately following the sale transaction, the Corporation proceeded with a partial repayment of US$37.5 million ($37.0 million) against the Credit Facility. As a result, the Corporation only had $22.4 million (US$22.0 million) drawn against the Credit Facility as at March 31, 2013 compared to $59.4 million as at March 31, 2012 (US$59.5 million). 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, the Corporation had the following net cash (debt) position, calculated as follows:

	2013 ($'000)	**2012 ($'000)**
Cash and cash equivalents	**101,256**	62,007
Less: Long-term debt, including current portion[(1)]	**(64,275)**	(120,874)
Net cash (debt) position	**36,981**	(58,867)

[(1)] *Excluding net deferred financing costs*

Operating Activities

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

	2013 ($'000)	**2012 ($'000)**
Cash flows from continuing operations	**29,043**	31,694
Net change in non-cash items related to continuing operations	**(8,395)**	(8,909)
Cash flows related to operating activities from continuing operations	**20,648**	22,785
Cash flows related to operating activities from discontinued operations	**8,273**	26,733
Cash flows related to operating activities	**28,921**	49,518

The $2.7 million decrease in cash flows from continuing operations, when compared with last year, essentially results from a $2.1 million lower net income and a gain of $0.3 million on sale of property, plant and equipment this fiscal year, compared to a loss of $0.2 million last year.

The net change in non-cash items related to continuing operations can be summarized as follows:

	2013 ($'000)	2012 ($'000)
Accounts receivable	**(4,026)**	(3,547)
Inventories	**3,591**	(2,461)
Progress billings	**(5,827)**	(4,831)
Income taxes payable and receivable	**(1,266)**	3,173
All others	**(867)**	(1,243)
	(8,395)	**(8,909)**

For the fiscal year ended March 31, 2013, the increase in accounts receivable from continuing operations mainly results from increased sales in the last month of this year, when compared to last year, combined with the impact of a higher US/CAD foreign exchange closing rate used to convert the U.S.-denominated accounts receivable year-end balances. The net reduction in inventories and progress billings mainly reflects the reduced backlog for certain military programs, partially offset by increased inventories related to the higher commercial funded backlog. The reduction in income tax payable and receivable mainly reflects a lower current income tax expense from continuing operations this fiscal year when compared to last.

For the fiscal year ended March 31, 2012, the increase in accounts receivable from continuing operations mainly resulted from increased sales in the last quarter of fiscal 2012 when compared to the previous fiscal year combined with the impact of a higher US/CAD foreign exchange closing rate used to convert the U.S.-denominated accounts receivable year-end balances. The increase in inventories reflected the increased production rates in the commercial sector while the reduction in progress billings reflected also a higher commercial funded backlog business mix, compared to military which reflects a lower backlog on certain military programs. The increase in income tax payable was the result of an increase in income before taxes from continuing operations in fiscal 2012 when compared to fiscal 2011.

Investing Activities

The Corporation's investing activities were as follows:

	2013 ($'000)	2012 ($'000)
Additions to property, plant and equipment [(1)]	**(11,464)**	(12,489)
Net increase in finite-life intangible assets [(1)]	**(5,470)**	(7,797)
Proceeds on disposal of property, plant and equipment [(1)]	**970**	388
Net proceeds from sale of discontinued operations [(2)]	**223,070**	-
Investing activities of discontinued operations	**(4,293)**	(2,783)
Cash flows relating to investing activities	**202,813**	**(22,681)**

(1) *From continuing operations.*

(2) *Gross proceeds of $297.8 million from the sale transaction, net of the reduction in finance lease obligations of $16.0 million related to the businesses sold and the taxes and related transaction costs paid totalling $58.7 million*

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

	2013 ($'000)	2012 ($'000)
Gross additions made during the year (see note 13 to the consolidated financial statements)	**11,609**	13,600
Government assistance	**(345)**	(2,229)
Additions to property, plant and equipment	**11,264**	11,371
Variation in unpaid additions included in Accounts payable – Other at year-end	**978**	1,118
Machinery and equipment acquired through finance leases	**(778)**	-
Additions, as per statements of cash flows	**11,464**	**12,489**

In fiscal 2013, the additions to property, plant and equipment for continuing operations stood at $11.6 million. It includes investments in the St-Hubert Engineering and Longueuil operations facilities to support requirements for the new aerospace development programs, along with maintenance capital expenditure requirements.

In fiscal 2012, the additions to property, plant and equipment included an investment for the purchase of a new Landing Gear USA facility in Cleveland along with maintenance capital expenditure requirements.

Capital expenditures for fiscal 2014 are expected to be about $16.0 million, including $3.0 million related to the Landing Gear USA - Cleveland operations and $2.0 million for the engineering facility.

The increase in finite-life intangible assets mainly represents capitalized development costs for long-term contracts, essentially for business jet design programs. Sales related to some of these programs are anticipated to begin in late fiscal 2014 and will gradually increase over the following years.

Net proceeds from sale of discontinued operations in fiscal 2013 are related to the sale transaction which includes the sale proceeds received in cash, net of the finance leases obligations reduction and the related income tax and transaction costs paid.

Financing Activities

The Corporation's financing activities were as follows:

	2013 ($'000)	**2012 ($'000)**
Increase in long-term debt	**5,649**	6,983
Repayment of long-term debt	**(45,383)**	(3,340)
Issuance of common shares	**6,362**	1,379
Special distribution to shareholders	**(157,688)**	-
Financing activities of discontinued operations	**(3,208)**	(3,445)
Cash flows relating to financing activities	**(194,268)**	**1,577**

For the fiscal years ended March 31, 2013 and 2012, the increase in long-term debt reflects new governmental authorities loans received mainly to support the Corporation's development costs for Aerospace programs.

This year's and last year's repayment of long-term debt includes the partial repayment of US$37.5 million ($37.0 million) this year against the Credit Facility, following the sale transaction (see Discontinued operations above) and the repayment of governmental authorities loans, finance leases for machinery and equipment and the promissory note.

During the fiscal year ended March 31, 2013, the Corporation issued 1,034,543 common shares following the exercise of stock options for a total cash consideration of $6,064,000. The Corporation also issued 34,533 common shares under the Corporation's stock purchase and ownership incentive plan ("stock purchase plan") during the fiscal year ended March 31, 2013, for a total cash consideration of $298,000.

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, 2013, the Corporation proceeded with the payment of a special distribution to shareholders of $157.5 million, as previously described. The amount presented in the cash flow also includes the $0.2 million transaction costs related to the special distribution, net of income taxes.

At March 31, 2013, 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:

	2013 ($'000)	**2012 ($'000)**	**2011 ($'000)**
Funded status of the plans (deficit)	**(8,810)**	(8,061)	(3,122)

At March 31, 2013, the pension plan deficit of $8.8 million excludes $4.2 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, 2013, the discount rate assumptions used to determine the defined benefit obligations for registered and unregistered defined benefit pension plans was 4.3%, compared to 5.0% a year earlier. This reduction in the discount rate increased the pension plan obligations by $4.6 million this year (see Note 22 to the consolidated financial statements).

At March 31, 2013, the contributions expected to be paid to all defined benefit pension plans in fiscal 2014 amount to $4.7 million, while the total minimum funding requirements for the registered defined benefit pension plans over the next five years represents $15.6 million, representing approximately $2.6 million to $3.3 million per year.

Capital Stock, Stock Option and Stock Purchase Plans

At March 31, 2013, the Corporation had 31,511,446 common shares outstanding (30,442,370 as at March 31, 2012).

During fiscal 2013, the Corporation issued 1,034,543 common shares following the exercise of stock options at a weighted-average price of $5.86 for a total cash consideration of $6,064,000 and also issued 34,533 common shares, under the Corporation's stock purchase plan at a weighted-average price of $8.63 for a total cash consideration of $298,000.

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.

At March 31, 2013, 259,101 stock options were issued and outstanding with a weighted-average of 3.9 years to maturity and a weighted-average exercise price of $3.30 (see below and Note 19 to the consolidated financial statements).

For the fiscal year ended March 31, 2013, the stock option plan expense and the stock purchase plan expense amounted to $374,000 and $160,000 respectively ($416,000 and $143,000 in 2012) (see Note 19 to the consolidated financial statements).

Last year, 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, 2013, 1,750,381 common shares had not been issued yet under the Stock Option Plan and 274,221 common shares had not been issued yet under the Stock Purchase Plan.

Stock Appreciation Right ("SAR") and Deferred Share Unit ("DSU") Plans

Until August 2010, the Corporation had a SAR plan where rights were issued to its non-employee directors. Although the SAR plan has since been replaced by a 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, 2013, 39,000 SARs were still outstanding (130,500 at March 31, 2012) at a weighted-average granted price of $2.78 ($6.32 at March 31, 2012), see below, which expire on various dates from fiscal 2014 to 2016. For the fiscal year ended March 31, 2013, 85,700 SARs were exercised at an average exercise price of $5.84 (12,500 SARs at an average exercise price of $5.00 in 2012), and 5,800 SARs were cancelled (none in 2012).

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.

At March 31, 2013, 75,302 DSUs were outstanding (37,718 at March 31, 2012). During the fiscal year ended March 31, 2013, the Corporation issued 45,674 DSUs - see below - (37,718 in 2012) and 8,090 DSUs were exercised (none in 2012) while no DSUs were cancelled this year or last year.

For the fiscal year ended March 31, 2013, SAR expense amounted to $494,000 (reversal of expense of $43,000 in 2012) while DSU expense amounted to $369,000 ($164,000 in 2012) (see Note 19 to the consolidated financial statements).

Adjustment to certain stock-based compensation

Following the special distribution to shareholders (see above) and considering its related impact on the Corporation's stock price, the Board of Directors of the Corporation approved on January 14, 2013 an adjustment to the exercise prices of the Corporation's outstanding stock options and SARs, while it issued additional DSUs. The adjustment was made in accordance with the Corporation's related stock-based compensation plans, and was approved by the TSE as required for the adjustment to the stock options. This adjustment represented the difference between the 5-day volume weighted-average price of the Corporation's stock price traded on the TSE, immediately prior to December 20, 2012 (being the date of commencement of ex-distribution trading of the Corporation's stock, following the special distribution to shareholders) and the 5-day volume weighted-average price beginning on December 20, 2012. The Corporation also issued additional DSUs on the same basis. The impact on the number and weighted-average exercise prices of the Corporation's stock options, SARs and DSUs represents the following:

	Before Adjustment		**After Adjustment**	
	Number	**Weighted-Average Exercise Price**	**Number**	**Weighted-Average Exercise Price**
Stock options	266,901	$7.90	266,901	$3.27
SARs	39,000	$7.39	39,000	$2.78
DSUs	47,871	N/A	75,302	N/A

This adjustment has no impact on the consolidated statements of income of the Corporation in the current fiscal year.

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2012 and March 31, 2013:

	March 31, 2012			March 31, 2013	Variation	Reference
	Consolidated	Held for Sale	Adjusted [1]			
	$'000	$'000	$'000	$'000	$'000	
ASSETS						
Current assets						
Cash and cash equivalents	62,007	-	62,007	101,256	39,249	A
Accounts receivable	59,677	(17,153)	42,524	46,550	4,026	B
Income tax receivable	1,500	(1,500)	-	858	858	
Inventories	135,323	(30,915)	104,408	100,817	(3,591)	C
Derivative financial instruments	6,471	-	6,471	2,935	(3,536)	D
Other current assets	16,492	(2,467)	14,025	12,577	(1,448)	
Total current assets	281,470	(52,035)	229,435	264,993	35,558	
Property, Plant and equipment, net	153,208	(74,785)	78,423	78,186	(237)	
Finite-life intangible assets, net	24,514	(2,688)	21,826	26,472	4,646	E
Derivative financial instruments	3,236	-	3,236	284	(2,952)	F
Goodwill	36,068	(16,986)	19,082	19,180	98	
Assets held for sale	611	146,494	147,105	-	(147,105)	G
Total assets	**499,107**	-	**499,107**	**389,115**	**(109,992)**	
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities						
Accounts payable and accrued liabilities	56,319	(15,478)	40,841	44,302	3,461	H
Accounts payable, other	3,010	(100)	2,910	2,378	(532)	
Provisions	12,157	(2,206)	9,951	8,901	(1,050)	
Progress billings	16,393	(4,846)	11,547	10,211	(1,336)	I
Income tax payable	2,381	576	2,957	2,549	(408)	
Derivative financial instruments	827	-	827	1,655	828	
Current portion of long-term debt	10,867	(4,364)	6,503	3,808	(2,695)	J
Liabilities directly associated with the assets of a disposal group classified as held for sale	-	51,006	51,006	-	(51,006)	G
Total current liabilities	101,954	24,588	126,542	73,804	(52,738)	
Long-term debt	108,249	(14,846)	93,403	59,149	(34,254)	J
Provisions	4,866	-	4,866	5,071	205	
Progress billings	7,512	(953)	6,559	2,068	(4,491)	I
Derivative financial instruments	2,700	-	2,700	909	(1,791)	K
Deferred income tax liabilities	17,071	(8,789)	8,282	12,425	4,143	L
Other liabilities	12,788	-	12,788	13,036	248	
Total liabilities	255,140	-	255,140	166,462	(88,678)	
Shareholders' equity						
Issued capital	102,202	-	102,202	25,365	(76,837)	M
Contributed surplus	3,059	-	3,059	1,222	(1,837)	
Accumulated other comprehensive income	2,515	800	3,315	2,647	(668)	
Accumulated other comprehensive income directly associated with the assets classified as held for sale	-	(800)	(800)	-	800	
Retained earnings	136,191	-	136,191	193,419	57,228	N
Shareholders' equity	243,967	-	243,967	222,653	(21,314)	
Total liabilities and shareholders' equity	**499,107**	-	**499,107**	**389,115**	**(109,992)**	

[1] Adjusted for held for sale accounts related to operations sold (see discontinued operations).

The following represents the explanations of significant balance sheet variations from continuing operations between March 31, 2012 and March 31, 2013 (see Reference in previous table):

A- The cash and cash equivalents increase of $39.2 million is mainly the result of:

- The cash proceeds from the sale transaction of $297.8 million, net of related debt repayment of $54.0 million, related income taxes paid of $50.6 million and expenses paid of $8.2 million for the sale transaction.
- The special distribution to the Corporation's shareholders of $157.5 million paid to the Corporation' shareholders in the third quarter.
- The cash flow related to operating activities from continuing operations of $20.6 million, net of additions to property, plant and equipment of $11.6 million.

Please refer to the consolidated statement of cash flows for more details.

B- The accounts receivable increase of $4.0 million mainly results from increased sales in the last month of this year, when compared to the last year, combined with the impact of a higher US/CAD exchange rate used to convert U.S.-denominated accounts receivable, when compared to March 31, 2012 (impact of $0.7 million).

C- The inventories decrease of $3.6 million mainly reflects the reduced backlog for certain military programs, partially offset by higher inventories related to commercial programs resulting from the increased production rates in the large commercial and business jet programs and the impact of the higher US/CAD exchange rate used to convert the inventories of the U.S. operations ($0.4 million).

D- The current assets derivative financial instrument decrease of $3.5 million 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 FFEC on hand and the closing rate used, both as of the balance sheet dates.

E- The finite-life intangible assets variation of $4.6 million reflects the increase in capitalized development costs for long-term contracts ($5.0 million, net of government assistance) and in software costs ($0.5 million), net of backlog ($0.1 million) and software ($0.8 million) amortization expense.

F- The long-term assets derivative financial instrument decrease of $3.0 million 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 FFEC on hand and the closing rate used, both as of the balance sheet dates.

G- The assets held for sale decrease reflects the assets disposed of and also liabilities assumed by the buyer, following the sale transaction, combined with the sale of the Corporation's Rivière-des-Prairies facility, for a gross proceed of $0.8 million.

H- The accounts payable and accrued liabilities increase of $3.5 million results from a higher sales volume in the last month of the fiscal year, 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 ($0.3 million).

I- The progress billings decrease of $5.8 million in current and long-term progress billings mainly reflects a higher commercial funded backlog business mix, compared to military, and a reduced backlog on certain military programs.

J- The long-term debt (including current portion) decrease of $36.9 million reflects:

- The partial repayment of US$37.5 million ($37.0 million) against the Credit Facility following the sale transaction, and the repayment of other long-term debt ($8.4 million);

Net of:

- Governmental loan received to support Aerospace development program investments ($5.6 million);
- New finance lease for equipment ($0.8 million);
- Interest accretion on governmental authorities' loans ($1.7 million);
- Amortization of deferred financing costs related to the Credit Facility ($0.4 million).

K- The long-term liabilities derivative financial instrument decrease of $1.8 million reflects the variation in the Corporation's balance sheets of long-term derivative financial instruments measured at fair value. The decrease mainly reflects the repurchase of two of the three interest rate swap agreements representing a notional amount of US$30 million for a total cost of $1.7 million, concurrently to the sale transaction (see Discontinued operations section).

L- The deferred income tax liabilities increase of $4.1 million mainly reflects the utilization this fiscal year of tax attributed from previous fiscal years.

M- The issued capital decrease of $76.8 million reflects the $85.0 million issued capital reduction made and paid to the Corporation's shareholders as part of the special distribution net of the related transaction costs of $0.1 million. It also reflects the common shares issued following the exercise of stock options ($8.0 million) and issuance of common shares under the Corporation's stock purchase and ownership incentive plan ($0.3 million).

N- The retained earnings increase of $57.2 million reflects the Corporation's net income of $132.0 million for the fiscal year ended March 31, 2013, partially offset by the $2.3 million actuarial loss on defined benefit pension plans, net of income taxes, recorded this fiscal year, and the $72.4 million dividend paid to the Corporation's shareholders as part of the special distribution and the related transaction costs of $0.1 million.

At March 31, 2013 and March 31, 2012, 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, 2013	March 31, 2012
Working capital ratio	**3.58:1**	2.76:1
Cash and cash equivalents	**$101.3 million**	$62.0 million
Long-term debt-to-equity ratio	**0.27:1**	0.44:1
Net debt-to-equity ratio[(1)]	**(0.17:1)**	0.23:1

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

The summary of the following contractual obligations of the Corporation includes payments due over the next five years and thereafter, and represents the following:

		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)	**50,516**	1,883	6,524	6,030	36,079
Finance leases (including interest expense)	**5,962**	1,801	3,533	463	165
Promissory note (including interest expense)	**406**	406	-	-	-
Credit Facility	**22,352**	-	22,352	-	-
Sub-Total	**79,236**	**4,090**	**32,409**	**6,493**	**36,244**
Building, machinery and equipment acquisition commitments	**1,176**	480	370	289	37
Operating leases – Buildings and facilities	**2,391**	2,391	-	-	-
Total contractual obligations	**82,803**	**6,961**	**32,779**	**6,782**	**36,281**

Government assistance

For fiscal 2013, the Corporation recorded as government assistance an amount of $2.8 million ($3.0 million last year) as a reduction of cost of sales, and an amount of $2.3 million ($5.1

million last year) as a reduction of the related capital expenditures or capitalized development costs, presented under Finite-life intangible assets.

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, 2013, the Corporation had operating lease obligations amounting to $1.2 million for buildings and facilities. These amounts are repayable over the next six fiscal years. The Corporation also had machinery and equipment purchase commitments totalling $2.4 million (see Note 23 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, 2013, the Corporation had FFEC with Canadian chartered banks to sell US$123.5 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.0325. These contracts relate mainly to its export sales, and mature at various dates between April 2013 and March 2016, but mainly over the next two fiscal years (see Note 29 to the consolidated financial statements). This compares to US$145.3 million in FFEC held at March 31, 2012, at a weighted-average exchange rate of 1.0620. The lower FFEC reflects the changes in the funded backlog.

At March 31, 2013 and 2012, the Corporation had also entered into FFEC to sell US$4.7 million at a weighted-average rate (Canadian dollar over US dollar) of 1.2262. These contracts cover foreign exchange risks related to certain embedded derivatives and all mature in fiscal 2014.

In August 2012, following the sale transaction and certain debt repayments, the Corporation repurchased two of the three interest rate swap agreements in place, representing a total notional amount of US$30 million, for a total cost of $1.7 million which was recorded as transaction related costs to the sale transaction. As a result, the Corporation only had one remaining interest-rate swap agreement that fixes the Libor U.S. rate at 3.91% for a notional amount of US$10 million at March 31, 2013 that 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, 2013.

Financial and Economic Situation

Continued modest improvements in the global economy had a positive effect on most of the Corporation's markets related to commercial aerospace in its 2013 fiscal year. In the large commercial aircraft market, Boeing and Airbus shipped a record combined total of 1,189 aircraft in calendar 2012. Both manufacturers are also proceeding with production rate increases for certain leading programs and backlogs remain strong, representing approximately seven years of production at current rates. While business jet shipments declined slightly in calendar 2012, certain positive signs continue to suggest improving conditions, such as an increase in aircraft movements and a decrease in the proportion of the business aircraft fleet for sale. However, the military aerospace market has weakened, as governments are addressing their deficits.

The global 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 healthy, 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 sector 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 FFEC to remain competitive on a global basis.

From a financial standpoint, the Corporation has a solid 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 15 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 cost of the defined benefit pension plans 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 22 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. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

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. The Corporation will adopt this new standard for its fiscal year beginning on April 1, 2013 and, this new standard will have a minimal impact on the consolidated financial statements.

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. The Corporation will adopt this new standard for its fiscal year beginning on April 1, 2013 and, this new standard will have an impact on the presentation of the consolidated statement of comprehensive income, while it will have no impact on the accumulated other comprehensive income.

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. The impact of this new standard, should it have been applied to the Corporation’s results for the fiscal year ended March 31, 2013, would have increased the pension expense by $433,000 ($318,000 net of income tax expense).

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, 2013, 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, 2013, 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, 2013 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 69% 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 steel, aluminum 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 last fiscal 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. 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 aerospace market remains uncertain, as governments address their deficits. Military expenses are approved by governments on a yearly basis and are subject to the political climate and changing priorities. Despite its diversified military portfolio, balanced between new component manufacturing and aftermarket products and services, the Corporation is affected by austerity measures, particularly in the U.S. military market. However, its diversification should lessen this impact.

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.

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

($'000 Except per share data)	TOTAL	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
For the fiscal year ended March 31, 2013					
Average exchange rate used to translate revenues (sales) and expenses (1) ($Canadian / 1 equivalent $US)	1.0013	1.0102	0.9948	0.9913	1.0089
Sales from continuing operations	257,022	63,780	57,684	61,742	73,816
EBITDA from continuing operations	33,020	8,253	6,972	7,654	10,141
Net Income from continuing operations	13,819	3,025	2,724	3,296	4,774
Net Income from discontinued operations	118,226	3,258	110,000	1,289	3,679
Net income	132,045	6,283	112,724	4,585	8,453
Earnings per share for continuing operations ($) - Basic	0.45	0.10	0.09	0.11	0.15
Earnings per share for continuing operations ($) - Diluted	0.44	0.10	0.09	0.11	0.15
Earnings per share ($) - Basic	4.27	0.21	3.68	0.15	0.27
Earnings per share ($) - Diluted	4.24	0.20	3.64	0.15	0.27

($'000 Except per share data)	TOTAL	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
For the fiscal year ended March 31, 2012					
Average exchange rate used to translate revenues (sales) and expenses (1) ($Canadian / 1 equivalent $US)	0.9931	0.9676	0.9802	1.0231	1.0012
Sales from continuing operations	253,521	61,292	55,464	61,988	74,777
EBITDA from continuing operations	37,447	8,494	7,300	10,241	11,412
Net Income from continuing operations	15,875	3,285	2,481	4,507	5,602
Net Income from discontinued operations	10,606	2,512	2,331	2,403	3,360
Net income	26,481	5,797	4,812	6,910	8,962
Earnings per share for continuing operations ($) - Basic	0.52	0.11	0.08	0.15	0.18
Earnings per share for continuing operations ($) - Diluted	0.52	0.11	0.08	0.15	0.18
Earnings per share ($) - 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

(1) Exclusive of forward foreign exchange contracts.

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 2013 Results

Consolidated sales decreased by $1.0 million or 1.3% to $73.8 million from $74.8 million last year. This decrease is the result of a $7.0 million or 14.4% decrease in military sales, partially offset by a $6.0 million or 23.0% sales increase in the commercial sector, mainly resulting from higher production rate on the B-777 large commercial program and higher commercial aftermarket sales for certain regional and helicopter programs and also, for the Bombardier CL-415 program. The lower military sales is explained by a lower throughput at Landing Gear Product Line due to certain manufacturing inefficiencies, combined with a lower military customer demand due to customer push-outs on certain military programs and order cancellations on the C-5 program, reflecting the weaker U.S. military market. Currency fluctuations reduced sales by $0.1 million or 0.1%, when compared to last year.

For the quarter ended March 31, 2013, consolidated gross profit as a percentage of sales was 16.3%, a decrease of 2.7% from 19.0% last year, including a 0.1% unfavorable impact resulting from US/CAD currency fluctuations. The decrease is the result of an unfavorable military aftermarket sales product mix and higher under-absorption of certain manufacturing overhead costs explained by the reduced sales volume explained above.

For the quarter ended March 31, 2013, consolidated operating income stood at $6.9 million or 9.4% of sales, a decrease of $1.2 million or 1.4% of sales from the $8.1 million or 10.8% of sales last year, mainly resulting from the reduced gross margin explained above. The Corporation posted a net income from continuing operations of $4.8 million or $0.15 per share, fully diluted, compared to $5.6 million or $0.18 per share, fully diluted, last year. Net income for the quarter ended March 31, 2013 amounted to $8.5 million or $0.27 per share, fully diluted, including $3.7 million from discontinued operations, mainly reflecting a final favorable adjustment of $2.8 million, net of income taxes, to the net gain from the sale transaction. Last year’s net income for the quarter ended March 31, 2012 of $9.0 million included net income of discontinued operations of $3.4 million.

Cash flows from continuing operations yielded $9.1 million, compared to $9.5 million in the fourth quarter last year, mainly as a result of a lower net income this year. The net change in non-cash items related to continuing operations represented an outflow of $0.3 million, compared to an inflow of $2.2 million in the last quarter of last year. This quarter’s outflow essentially resulted from higher accounts receivables ($10.1 million) partially offset by lower inventories ($7.9 million) and higher accounts payable and accrued liabilities, accounts payable – other, and other liabilities ($1.9 million), compared to the previous quarter ended December 31, 2012. Last year’s inflow mainly resulted from lower inventories ($8.1 million) combined with higher accounts payable and accrued liabilities, accounts payable – other, and other liabilities ($2.9 million) partially offset by higher accounts receivables ($8.9 million), compared to the quarter ended December 31, 2011. These variations are the result of higher sales volume in the fourth quarter, compared to the third quarter.

OUTLOOK

Conditions remain mostly favourable in the commercial aerospace market. The IATA's most recent forecast calls for 5.4% growth in the passenger market for calendar 2013, following a 5.3% increase in calendar 2012, while air cargo volume is expected to rise 2.7% in calendar 2013, after contracting by 2.0% in calendar 2012.[9]

In the large commercial aircraft segment, Boeing and Airbus are proceeding with production rate increases on several certain leading programs scheduled for calendar years 2013 and 2014, although production of the B-747 will be slightly decreased in calendar 2014[10]. Reflecting these new production rates, both manufacturers are forecasting higher deliveries in calendar 2013 than in the previous year. Their backlogs remain strong, representing approximately seven years of production at current rates.

In the business jet market, although deliveries declined slightly in calendar 2012, 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. More importantly, industry sources are calling for sustained growth over up to possibly five years, a period spanning the planned entry into service of several business jet models for which Héroux-Devtek has designed the landing gear.[11]

Conditions in the military aerospace market are expected to remain difficult, as governments are addressing their deficits. In the U.S., proposed funding for the fiscal 2014 base defense budget is down marginally from enacted funding for fiscal 2013[12], including a 1.4% in proposed funding reduction for equipment, systems, research, technology development and weapons. As proposed funding for fiscal 2014 remains above budget limits set under sequestration, actual funding could be materially less if sequestration is not reversed. The Corporation may be affected by U.S. defense cutbacks beyond the fiscal year ending March 31, 2014, despite having a diversified military portfolio, balanced between new component manufacturing and aftermarket products and services, that should lessen this impact.

The Corporation's balance sheet remains solid with cash and cash equivalents of $101.3 million as at March 31, 2013. This amount, combined with funds available under its Credit Facility, will allow Héroux-Devtek to fund expected capital expenditures of approximately $16 million in fiscal 2014 as well as to consider other strategic acquisitions that would complement its product portfolio and its technologies.

As at March 31, 2013, Héroux-Devtek's funded (firm orders) backlog stood at $361 million, versus $388 million, from continuing operations, at the end of the previous fiscal year. Despite this solid backlog and strong customer relationships, the Corporation will continue to enhance

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9 Source : IATA Industry Financial Forecast March 20, 2013

10 Sources: Airbus press releases April 4, 2013; May 18, 2011; February 3, 2011. Boeing press releases April 19, 2013; March 18, 2013; November 12, 2012; October 23, 2012; January 10, 2012; June 15, 2011.

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

12 Source: U.S. Department of Defense report, April 10, 2013

productivity and streamline its cost base to remain competitive in light of the increasingly global character of the aerospace industry.

Based on its backlog and current market trends, and assuming the Canadian dollar remains at parity versus the US currency and considering FFEC, the Corporation expects that internal sales growth for the fiscal year ending March 31, 2014 will be similar to that achieved in the fiscal year ended March 31, 2013. Driven by sustained strength in the large commercial aircraft segment and the recovery of the business jet market, commercial sales could grow by more than 10%, while military sales are expected to further decline as a result of U.S. budgetary restrictions. These restrictions could also affect the timing of military product and service sales. Over the long-term, Héroux-Devtek remains committed to its stated goal of growing, 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 22, 2013 and by the Board of Directors on May 23, 2013. Updated information on the Corporation can be found on the SEDAR website, at www.sedar.com.