MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL POSITION AND OPERATING RESULTS

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Management Discussion and Analysis of Financial Position and Operating Results

The purpose of this management discussion and analysis ("MD&A") is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. ("Héroux-Devtek" or the "Corporation") changed between March 31, 2010 and March 31, 2011. It also compares the operating results and cash flows for the year ended March 31, 2011 to those for the previous year.

This analysis should be read in conjunction with the audited consolidated financial statements dated March 31, 2011 available on the Corporation's website at www.herouxdevtek.com. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Corporation reports its results in Canadian dollars. 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 Canadian, US and international standard setters. Some of these factors are further discussed under Risks and Uncertainties in this MD&A. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

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

Overview

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

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

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

On April 28, 2010, the Corporation concluded the acquisition of U.S. based Eagle Tool & Machine Co. and its subsidiary, two privately-held Ohio-based manufacturers of landing gear products mainly for the military aerospace industry.

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

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

The Corporation's sales by segment are as follows:

	2011	**2010**
Aerospace	93%	93%
Industrial	7%	7%
	100%	100%

Héroux-Devtek sells mainly to original equipment manufacturers ("OEMs") such as Lockheed-Martin, Bombardier, Goodrich and Boeing, and into the aftermarket, where its main customers are the US Air Force (USAF) and US Navy. In fiscal 2011, sales to these six customers represented approximately 60% of total consolidated sales. More specifically, the Corporation has one customer representing 19% of its consolidated sales and two customers representing between 13% and 14% of its consolidated sales, all of them in the Aerospace segment.

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

Business Management

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

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

Business Strategy

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

In practice, this translates into:

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

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

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

Key Performance Indicators

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

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

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

Elements measured	**Profitability**	**Liquidity**	**Growth and competitive positioning**	**Customer satisfaction**	**Financial situation and returns**
KPIs	Gross profit	Earnings before interest, tax, depreciation and amortization (EBITDA)	Sales	On-time delivery	Working capital
	Operating income Earnings before interest and taxes (EBIT)	Free cash flow	Backlog (Purchase orders in hand)	Non-quality performance and costs	Long-term debt to equity ratio

	Cost reduction targets	Return on operating assets (RONA)	Market share in niche product markets where the Corporation evolves	-	Net-debt to equity ratio
	Manufacturing capacity utilization	-	Value added to products as a percentage of sales	-	Return on equity and RONA
What is being measured	Measures of operating performance	Measures of liquidity generation	Measures of growth, indicators of future revenue and measures of competitive positioning	Measures of commitments towards customers and product reliability	Measures of solidity of short- and long-term financial position and return to shareholders

Most of these KPIs are discussed later in this MD&A and are also included in the Financial Highlights of the Corporation’s fiscal 2011 Annual Report. Some of these KPIs are not publicly disclosed since they are of a competitive nature.

In last year’s fiscal 2010, the market trend had an obvious impact on the Corporation’s capacity utilization and added pressure on the cost absorption for some of the Corporation’s business units, while this year’s fiscal 2011 benefited from ongoing improvements in the commercial aerospace market, particularly in the second half of the year (see gross profit section below). On-time delivery and non-quality costs are customers’ satisfaction indicators that are closely monitored by Héroux-Devtek. The Corporation has steadily improved these indicators over recent years and continues to pay close attention to quality matrix and quality reports from its major customers.

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

Risk Management

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

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

MARKET TRENDS

As a result of the gradual improvement in the global economy in calendar 2010 and early in calendar 2011, demand in the commercial aerospace market has firmed up.

In calendar 2010, actual passenger traffic expressed in Revenue Passenger Kilometers (“RPK”) increased 8.2% over calendar 2009, while freight traffic expressed in Freight Tonne Kilometers (“FTK”) rose 20.6%[1]. These favourable trends have continued in the first three months of calendar 2011 with increases of 5.9% and 4.6%, respectively[2].

Large commercial aircraft manufacturers recorded another solid year in terms of deliveries in 2010, while net new orders increased significantly. Airbus delivered 510 aircraft and recorded 574 new orders[3], while Boeing delivered 462 aircraft and booked orders for 530[4]. Both manufacturers also announced several production rate increases on leading programs scheduled for calendar 2011, 2012 and 2013[5].

In the market for regional aircraft, Embraer delivered 100 units in 2010[6], while Bombardier delivered 97 in 2010-2011[7], including turboprops. Both manufacturers experienced lower regional jet deliveries in their last fiscal year and both have also ended their respective fiscal years with lower backlogs than a year earlier.

Business jet deliveries further declined 12.3% in calendar 2010, reaching 763 aircraft. However, positive signs that emerged during the year are indications the market has bottomed out. For instance, the number of business aircraft movements in the U.S. increased 11.0% and the proportion of the business aircraft fleet for sale declined by 1.5%[8].

The military market stabilized during calendar 2010 as governments have begun to address their deficits. As to the Joint Strike Fighter F-35 (JSF) program, the U.S. government put the short take-off and vertical landing (STOVL) variant on a two-year probation, but the ramp-up of other variants continues, albeit at a slightly more moderate pace over the short-term. In Canada, the

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1 Source: IATA press release February 2, 2011
2 Source: IATA press release May 3, 2011
3 Source: Airbus press release January 17, 2011
4 Source: Boeing press release January 6, 2011
5 Sources: Airbus press releases February 3, 2011; July 30, 2010; March 9, 2010. Boeing press releases Dec. 20, 2010; Sept. 16, 2010; June 15, 2010; May 17, 2010; March 19, 2010.
6 Source: Embraer press release, January 17, 2011.
7 Source: Bombardier press release, March 31, 2011.
8 Sources: GAMA press release February 22, 2011; FAA January 2011 Business Jet Report, JetNet report February 1, 2011

Government's decision to purchase 65 JSF aircraft should benefit the Canadian aerospace industry.

The North American power generation industry appears to have bottomed out, as leading equipment manufacturers continue to report rising new orders. In calendar 2010, demand for electricity in the U.S. grew 4.3%, reversing decreases experienced during the two previous years. However, demand is expected to remain relatively stable in calendar 2011[9].

Finally, the fluctuation of the Canadian dollar, which has risen above par at fiscal year-end versus its U.S. counterpart, continued to negatively impact the Corporation's results.

MAJOR ACHIEVEMENTS OF FISCAL 2011

- Héroux-Devtek signed a long-term agreement with French aircraft manufacturer Dassault Aviation to design, develop, fabricate, assemble, qualify and participate in the certification of the landing gear and actuation system for a new business jet program. This life-cycle mandate also includes the provision of spare parts;
- The Aerostructure product line received a seven-year contract from Bombardier Aerospace to fabricate, assemble and deliver over 300 structural detail components that encompass Bombardier's entire portfolio of commercial and business aircraft, including new programs such as the CSeries and the Learjet 85 business jet[10]. At anticipated aircraft production rates, the value of the contract is estimated at over $175 million;
- Triumph Aerostructures – Vought Aircraft Division awarded the Aerospace segment two new multi-year contracts with a combined value of more than $35.0 million:
    1. The Dorval and Texas Aerostructure business units will manufacture wing ribs and other machined components for the Gulfstream 550 business jet program,
    2. The Laval Landing Gear facility will fabricate torque tubes for the Boeing 737 program;
- The Landing Gear product line obtained a contract from Boeing to manufacture, assemble, test and deliver the landing gear retract actuators supporting new aircraft production and spare parts requirements for the Boeing 777 program;
- The Landing Gear product line was awarded additional orders for the manufacturing of landing gear components, essentially from the US Air Force and US Navy and mainly for the B-1B, C-130, C-5, F-15, F-16, KC-135R and P-3 aircraft;
- The Corporation successfully renewed its Credit Facility for a five-year term ending on March 15, 2016. The Credit Facility was also increased from $125 million to $150 million and, subject to lenders' consent, it could be increased by an additional amount of $75 million;
- Unionized employees of the Dorval Aerostructure facility voted in favour of a three-year collective agreement which extends through May 6, 2013. Just after the end of fiscal

[9] US Energy Information Administration – Short-term Energy Outlook, April 12, 2011.
[10] Learjet 85 and CSeries are registered or unregistered trademarks of Bombardier Inc. or its subsidiaries.

2011, the unionized employees of the Longueuil Landing Gear facility voted in favour of a three-year collective agreement which extends through May 1, 2014;

- Also shortly after the end of fiscal 2011, the Corporation announced the construction of a new manufacturing facility in the Querétaro Aerospace Park in Mexico. The first phase of the project consists of the erection of a 47,200 square-foot facility equipped with state-of-the-art machinery for the production of aerostructure components. Construction began during the second quarter of calendar 2011, and the facility should be ready to produce its first components early in calendar 2012. This first phase represents an investment of up to $20 million by Héroux-Devtek over the next three years. In due time, a subsequent phase could see the plant expanded to 150,000 square-feet. Such expansion would eventually provide the Corporation with the capability to manufacture and assemble aerostructure and landing gear systems.

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

As previously disclosed in our last year's audited consolidated financial statements, on April 28, 2010, the Corporation announced that it had concluded the acquisition, through a U.S. subsidiary, of substantially all the net assets of U.S. based Eagle Tool & Machine Co ("Eagle") and of its subsidiary All Tool Inc ("E2"), two privately owned manufacturers of precision machined products mainly for the military aerospace industry, with annual sales of approximately $40 million based on their December 31, 2009 fiscal year-end and of $45 million since the acquisition this year (see note 3 to the March 31, 2011 consolidated financial statements).

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

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

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

Throughout this MD&A, Management has explained the consolidated results for twelve-month periods ended March 31, 2011 which include the results of Eagle and E2. For all significant elements explained, Management has singled out the acquisition impact on the current year's results to help readers understand the year-over-year change excluding the acquisition. Please also keep in mind that results for Eagle and E2 are for the period following the acquisition which is April 28, 2010, to March 31, 2011, which is not a full twelve-month period.

Foreign Exchange

The Corporation is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its self-sustaining foreign operations and from transactions denominated mainly in US dollars. Average rates are used to translate sales (but exclusive of forward foreign exchange contracts) and expenses for the years mentioned, while closing rates translate assets and liabilities. The year-end and average exchange rates were as follows at March 31, 2011 and 2010 and for the fiscal years then ended:

Canada / US Exchange Rates		**2011**	**2010**
Year-end exchange rates used to translate assets and liabilities	1$ Canadian/ US $ equivalent	0.9696	1.0158
	1$ US/ Canadian $ equivalent	1.031	0.984
Average exchange rates used to translate revenues (sales) and expenses	1$ Canadian/ US $ equivalent	1.0164	1.0904
	1$ US/ Canadian $ equivalent	0.984	0.917

As shown above, the average value of the Canadian dollar when compared to its US counterpart, year-over-year, increased by more than 7% and, naturally, added pressure to the US-denominated sales and results of the Corporation, including those from its Canadian operations. The closing rate declined more than 4% since March 31, 2010, from 1.0158 to 0.9696 as at March 31, 2011, reducing the currency impact on the Corporation's US-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 U.S. dollar) in an effort to mitigate these risks. At March 31, 2011, the Corporation had forward foreign exchange contracts totalling US$159.0 million at a weighted-average exchange rate of 1.1032 maturing over the next four fiscal years, with the majority maturing over the next two fiscal years.

At March 31, 2011, the Corporation also entered into forward foreign exchange contracts totalling US$7.7 million at a weighted-average rate of 1.2343 maturing over the next three fiscal years, to cover foreign exchange risks (Canadian dollar over U.S. dollar) related to certain embedded derivatives (see under Derivatives, Off-Balance-Sheet Items and Commitments below).

Non-GAAP measures

Earnings before interest, taxes, depreciation and amortization (“EBITDA”) is a financial measure not prescribed by Canadian generally accepted accounting principles (“GAAP”) and is not likely to be comparable to similar measures presented by other issuers. Management, as well as investors, consider this 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.

Selected Annual Financial Information

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

Years ended March 31 ($’000, except per share data)	**2011**	**2010**	**2009**
Sales	357,572	320,354	337,635
EBITDA	54,830	48,437	54,559
Net income	18,527	16,003	21,363
Earnings per share ($) – basic	0.62	0.52	0.68
Earnings per share ($) – diluted	0.61	0.52	0.67
Total assets	443,875	394,847	417,174
Long-term liabilities (including the current portion of long-term debt	129,241	107,796	115,705
Cash and cash equivalents	32,910	46,591	39,759

The Corporation’s EBITDA is calculated as follows:

Years ended March 31 ($’000)	**2011**	**2010**	**2009**
Net income	18,527	16,003	21,363
Income tax expense	6,900	6,498	8,605
Financial expenses	5,156	4,676	4,485
Amortization	23,610	21,260	20,106
EBITDA including restructuring charges	54,193	48,437	54,559
Restructuring charges	637	-	-
EBITDA	**54,830**	**48,437**	**54,559**

The $6.4 million increase in EBITDA from fiscal 2010 to fiscal 2011 comes mainly from the inclusion of Eagle and E2 results following the acquisition, as it will be explained in more detail later.

Last year’s market downturn still impacted our results this year mainly in the first six months. Improved conditions in the aerospace commercial and industrial markets started having a favourable impact on results in the last six months of the current year.

Consolidated Sales

Consolidated sales for the year ended March 31, 2011 increased 11.6% to $357.6 million from $320.4 million last year. Excluding the $45.0 million sales of Eagle and E2 since the acquisition, consolidated sales were down by $7.8 million or 2.4%. The impact of the Canadian dollar, against the US currency, reduced consolidated sales by $11.7 million or 3.7% compared to last year. This impact was reduced by higher sales in the Industrial segment.

The Corporation's sales by segment were as follows:

	2011 ($'000)	2010 ($'000)	% Change
Total Aerospace	331,993	297,852	11.5
Total Industrial	25,579	22,502	13.7
Total	**357,572**	**320,354**	**11.6**

This year's Aerospace sales, excluding the acquisition of Eagle and E2 whose sales are included in the Aerospace segment, declined $10.9 million or 3.7% mainly as a result of the negative US/CAD currency impact of $9.8 million or 3.3% compared to last year. This year's Industrial sales, despite a lower exchange rate, increased by $3.1 million or 13.7%, compared to last year, due to increased heavy equipment product sales.

Aerospace Segment

Sales for the Aerospace segment were as follows:

Product Lines	2011 ($'000)	2010 ($'000)	% Change
Landing Gear	227,928	194,938	16.9
Aerostructure	103,465	101,719	1.7
Other aerospace products	600	1,195	(49.8)
Total	**331,993**	**297,852**	**11.5**

Landing Gear sales increased by 16.9% to $227.9 million but were actually lower than last year by 6.2% when excluding the sales from Eagle and E2. Sales were impacted by the negative US/CAD currency impact, lower production rates on large commercial programs, mainly on the B-777 program, and reduced military manufacturing sales as a result of reduced spare requirements. These negative variances were partially offset by new business on Fokker, B-787 and A-320 programs, higher business jet product requirements and increased throughput in repair and overhaul work.

Aerostructure sales increased 1.7% to $103.5 million despite the negative impact of a stronger Canadian dollar on this product line's US denominated sales and lower F-22 sales as this program is coming to an end. This increase in sales was driven by increased sales on F-16 after-market and F-18 programs, increased commercial business jet sales on Challenger 605 and 850 and increased commercial helicopter sales, as a result of the Bell 429 program ramping up.

Sales for the Aerospace segment, shown in the table above, can be broken down by sector as follows:

	2011 ($'000)	**2010 ($'000)**	**% Change**
Military *(1)*	209,921	183,604	14.3
Commercial	122,072	114,248	6.8
Total Aerospace	**331,993**	**297,852**	**11.5**

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

Excluding the impact from the Eagle and E2 acquisition, military sales were 7.8% lower this year than last year while commercial sales were 3.0% higher than last year. As mentioned above, military sales were impacted by lower F-22 and landing gear manufacturing spare parts requirements. This was partially offset by higher sales to the F-16 and F-18 programs, and higher throughput in repair and overhaul work. Despite lower production rates in large commercial programs and the negative impact of US/CAD currency exchange rates, commercial sales were up, as a result of new business on Fokker, A-320 and B-787 programs, increased production rates in the business jet market and the ramp-up in the B-429 Helicopter program.

Industrial Segment

Sales for the Industrial segment were as follows:

	2011 ($'000)	**2010 ($'000)**	**% Change**
Gas Turbine	10,655	12,076	(11.8)
Other Industrial	14,924	10,426	43.1
Total	**25,579**	**22,502**	**13.7%**

Other Industrial sales were higher than last year, boosted by higher demand for Heavy Equipment in the mining industry while Gas Turbine sales were down due to lower customer requirements in the first six months this year, when compared to last year.

Sales by Destination

Sales by destination remained almost at the same level as last year, as shown below:

	2011 (%)	**2010 (%)**
Canada	26	30
US	70	67
International	4	3
Total	**100**	**100**

The sales by destination mix mainly reflects the impact of increased sales in the US following the Eagle and E2 acquisition combined with the increased sales in the Industrial segment. It also reflects the impact of shipments to a new European customer (Stork – Fokker program).

Gross Profit

Consolidated gross profit increased from 15.7% to 16.0% of sales in fiscal 2011. When excluding the impact of the Eagle and E2 acquisition, this year's gross profit as a percentage of sales would have been 16.6%.

This is the result of the overall Corporation's increase in sales and also improved margin due to a more favourable sales mix. In the Aerospace segment, excluding the acquisition of Eagle and E2, Landing Gear gross profit in dollars was lower than last year, as a result of lower sales, but was slightly higher than last year as a percentage of sales due to a better product mix. Despite higher under-absorption of manufacturing overhead costs coming from lower than anticipated production requirements and the negative impact of a stronger Canadian dollar, the Aerostructure product line generated a higher gross profit in dollars and as a percentage of sales. In the Industrial segment, the Industrial product line improved significantly its gross profit margin boosted by higher sales in the Other Industrial markets which resulted in increased absorption of manufacturing overhead costs and continued improvement in manufacturing efficiency experienced in this segment, when compared to last year.

This year, the continued strengthening of the Canadian dollar negatively impacted the Corporation's gross profit in dollars by $1.6 million, but represented a favourable impact of less than 0.1%, 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 forward foreign exchange contracts.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	2011	**2010**
Selling and administrative expenses ($'000)	26,040	23,165
% of sales	7.3	7.2

Selling and administrative expenses of $26.0 million were $2.9 million higher than last year, and 0.1% higher as a percentage of sales. The increase is mainly attributable to the impact from the acquisition of Eagle and E2. The increase also reflects some fees and expenses incurred for the renewal of the Corporation's credit facility, which could not be capitalized. The selling and administrative expenses include a loss on currency translation on net monetary assets of $0.4 million this year, compared to a loss of $1.1 million last year. In fiscal 2010, selling and administrative expenses also included a $0.4 million non-recurring gain.

Operating Income

Consolidated operating income stood at $31.2 million or 8.7% of sales this year, an increase from last year's operating income of $27.2 million or 8.5% of sales. This is the result of higher sales and gross profit in the Aerospace segment resulting from the acquisition of Eagle and E2 combined with increased other industrial sales and gross profit in the Industrial segment.

Aerospace Segment

Aerospace operating income was $27.6 million or 8.3% of sales this year, compared to $24.7 million or 8.3% of sales last year. Excluding the acquisition of Eagle and E2, the Aerospace segment operating income was $24.6 million or 8.6% of sales.

Industrial Segment

Operating income increased to $3.6 million or 14.1% of sales this year from $2.4 million or 10.8% of sales last year, as a result of higher sales and gross profit in this segment, as explained above.

Financial Expenses	**2011 ($'000)**	**2010 ($'000)**
Interest	2,678	2,901
Interest accretion on governmental authorities loans	1,330	1,146
Interest rate swap agreements buy-out	406	-
Amortization of deferred financing costs	350	168
Standby fees	220	251
Accretion expense of asset retirement obligations	240	228
Gain on financial instruments classified as held-for-trading		
- Interest income	(68)	(18)
Total	**5,156**	**4,676**

Financial expenses stood at $5.2 million this year, $0.5 million higher than last year. The financial expenses this year reflect the impact from the increased drawings against the Corporation's Credit Facilities and the new Promissory note issued to finance the acquisition of Eagle and E2. It also includes the costs associated to the buy-out of two interest rate swap agreements for $0.4 million and the write-off of the unamortized deferred financing costs for $0.2 million, all related to the banks' Credit Facility, which was renewed last March for a five-year period (see Note 17 to the consolidated financial statements). The financial expenses also reflect the lower exchange rate impact coming from the Corporation's US debt.

Restructuring Charges

On May 13, 2010, the Corporation launched an initiative to optimize and consolidate production capacity in its Aerospace segment, while further enhancing productivity at its Québec-based facilities. Consequently, the Corporation's Rivière-des-Prairies, Québec, facility was closed in September 2010 and its production was transferred to the Corporation's other facilities in the Greater Montreal area. This year, the Corporation recorded restructuring charges of $0.6 million ($0.4 million, net of income taxes). The Corporation does not expect any significant additional restructuring charges related to the closure of this facility. As at March 31, 2011, the building related to this facility was classified in Other assets as Assets held for sale in the Corporation's Consolidated Balance Sheets.

Income Tax Expense

For the fiscal year ended March 31, 2011, the income tax expense stood at $6.9 million compared to $6.5 million last year.

The Corporation's effective income tax rate was 27.1% this year, compared to its Canadian blended statutory income tax rate of 28.7%. The effective income tax rate reflects the favourable impact from permanent differences ($0.5 million), the favourable tax adjustment including the conclusion of a prior tax audit ($0.3 million), and favourable impact from future income tax adjustments due to changes in the Canadian income tax rate ($0.2 million), partially offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries ($0.5 million) (see Note 20 to the consolidated financial statements).

The Corporation's effective income tax rate for fiscal 2010 was 28.9% compared to the Corporation's Canadian blended statutory income tax rate of 30%. The difference is coming from the favourable impact of permanent differences ($0.5 million) partially offset by the impact from a higher income tax rate for the Corporation's US subsidiaries.

In fiscal 2011, the reduction in the Corporation's blended statutory income tax rate, compared to last year, mainly reflects the reduction in the Federal income tax rate in Canada.

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

As at March 31, 2011, the Corporation has federal non-capital losses available for carry-forward of $1.6 million, the majority of which are expiring in fiscal 2029.

Net Income

For fiscal 2011, the Corporation posted net income of $18.5 million compared to net income of $16.0 million last year reflecting the increase in operating income from both segments of the Corporation, net of restructuring charges incurred this year, as explained above.

	2011	**2010**
Net income ($ million)	18.5	16.0
Earnings per share – basic ($)	0.62	0.52
Earnings per share – diluted ($)	0.61	0.52

Basic earnings per share figures are based on weighted-averages of 30,112,464 common shares outstanding for fiscal 2011 and 30,661,745 for the previous year while the diluted earnings per share figures are based on weighted-averages of 30,219,597 for fiscal 2011 and 30,721,952 for last year. This year's variance in the number of outstanding shares is essentially due to the issuance of 245,221 common shares under the stock option plan and 60,802 common shares under the Corporation's stock purchase and ownership incentive plan less the 617,700 common shares redeemed under the Corporation's normal course issuer bid (see Note 19 to the consolidated financial statements).

On May 26, 2011, the date of this MD&A, the Corporation had 30,180,467 common shares and 1,393,000 stock options outstanding with a weighted-average of 3.5 years to maturity.

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility and Cash and Cash Equivalent

In general terms, the Corporation has a healthy financial situation and is well positioned to face its financing needs. By year-end, the Corporation renewed and increased its Senior Secured Syndicated Revolving Credit Facilities into one Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") through a syndicate of five Canadian Banks, and their US affiliates or branches and, a Canadian branch of a U.S. bank. This five-year 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 17 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 the approval by the lenders. To March 31, 2011, only CAD $57.7 million (US$59.5 million) had been drawn against this Credit Facility, including US$16.5 million in April 2010 to finance the acquisition of Eagle and E2 described earlier. Considering the Corporation's cash and cash equivalent position, its available Credit facility and level of expected capital investments, Corporation management does not expect any liquidity risk in the foreseeable future. At March 31, 2011, the Corporation had cash and cash equivalents of $32.9 million, compared to $46.6 million a year earlier, of which $25.1 million ($32.4 million last year) had been invested in short-term deposits. It is worth mentioning that the Corporation used $12.1 million of its cash to finance the Eagle and E2 acquisition this year.

Operating Activities

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

	2011 ($'000)	**2010 ($'000)**
Cash flows from operations	48,754	45,867
Net change in non-cash working capital items related to operations	(19,155)	(8,121)
Cash flows relating to operating activities	**29,599**	**37,746**

The $2.9 million increase in cash flows from operations for fiscal 2011 is essentially explained by the $2.5 million increase in net income and $2.4 million increase in amortization expense, partially offset by a lower future income taxes expense of $2.5 million.

The net change in non-cash working capital items in fiscal 2011 can be summarized as follows:

	($'000)
Increase in accounts receivable due to higher fourth quarter sales than last year ($106 million this year compared to $85 million last year)	(18,187)
Increase in other receivables as a result of higher tax credits and other tax credits receivable and increased sales tax receivable (increased fourth quarter sales, compared to last year)	(2,402)
Inventory decrease resulting from increased deliveries in the fourth quarter this year and increased sales	1,014
Increase in accounts payable and accrued liabilities, and accounts payable – other, related to the increased fourth quarter sales volume	639
Higher income tax payable	1,484
Effect of changes in the exchange rate on US-denominated non-cash balance-sheet items	(2,107)
All others	404
	(19,155)

In fiscal 2010, the negative $8.1 million net change in non-cash working capital items can be explained by the reduced accounts payable and accrued liabilities of $20.5 million as the fiscal 2009 year-end balance included a significant purchase of raw material by fiscal year-end, the lower income tax payable of $3.1 million, and the increased investment tax credits and other tax credits receivable of $2.7 million. In addition, the effect of changes in the exchange rate on US-denominated non-cash balance-sheet items was $5.1 million. These negative impacts were partially offset by lower accounts receivable of $13.1 million resulting from improved collection and lower fourth quarter sales in fiscal 2010 and a decrease in inventory of $11.2 million mainly due to reduced commercial Aerospace segment sales and last year's cost reduction efforts (see Consolidated Balance Sheet section below).

Investing Activities

The Corporation's investing activities were as follows:

	2011 ($'000)	**2010 ($'000)**
Business acquisition	(28,813)	-
Additions to property, plant and equipment	(19,646)	(13,740)
Increase in finite-life intangible assets	(7,980)	(3,763)
Proceeds on disposal of property, plant and equipment	139	8
Cash flows relating to investing activities	**(56,300)**	**(17,495)**

As already discussed, the Corporation invested $28.8 million in the current fiscal year to acquire substantially all the net assets of Eagle and E2.

Additions to property, plant and equipment stood at $19.6 million in fiscal 2011, higher than the $13.7 million of last year. These fiscal 2011 additions include the costs associated to the JSF building extension at the Corporation's Arlington, Texas plant and the associated machinery and equipment included in the construction-in-progress. It also includes investment in a new test laboratory facility in St-Hubert, Quebec related to the Landing Gear testing equipment required to support our Aerospace programs currently in development. Additions to property, plant and equipment are shown net of $4.1 million relating to machinery and equipment which were delivered in this year's last quarter but not yet paid by the Corporation at March 31, 2011.

In fiscal 2010, additions to property, plant and equipment stood at $13.7 million. These fiscal 2010 additions, which were mostly for normal maintenance projects, are presented net of $7.6 million of capital investments that were made through capital leases.

Increase in finite-life intangible assets represents capitalized development costs for long-term Aerospace, mainly business jet contracts.

Capital expenditures for fiscal 2012 are expected to be about $26 million including $5 million investment in relation to the new Mexico facility project announced subsequent to the last fiscal year-end. This Mexico project could represent total capital investments of up to $20 million over the next three years.

Financing Activities

The Corporation's financing activities were as follows:

	2011 ($'000)	**2010 ($'000)**
Increase in long-term debt	23,727	2,404
Repayment of long-term debt	(5,428)	(5,292)
Increase in deferred financing costs	(2,198)	-
Repurchase of common shares	(3,570)	(3,470)
Issuance of common shares	1,474	322
Cash flows relating to financing activities	**14,005**	**(6,036)**

The increase in long-term debt includes the drawings of US$16.5 million from the Corporation's Credit Facility to finance the acquisition of Eagle and E2 and reflects new governmental authorities loans received to support the Corporation's development costs for Aerospace programs. The repayment of long-term debt included repayment of $2.7 million for capital leases, $1.7 million for governmental authorities loans, and $1.0 million for a promissory note (See Note 17 to the consolidated financial statements). In conjunction with the renewal of the Credit Facility, the Corporation incurred $2.2 million of financing costs which were capitalized at March 31, 2011 and will be amortized using the effective interest rate method over a five year period.

This year, the Corporation issued 245,221 common shares following the exercise of stock options for a cash consideration of $1,143,596 and 60,802 common shares under its stock purchase and ownership incentive plan for a cash consideration of $331,192 while it repurchased 617,700 common shares under the Normal Course Issuer Bid (NCIB) for a total cash consideration of $3,570,306. The Corporation's last Normal Course Issuer Bid terminated on November 24, 2010 (see Normal Course Issuer Bid below and Note 19 to the consolidated financial statements).

For fiscal 2010, the increase in long-term debt reflects a new governmental authorities loan received to support the Corporation's development costs for Aerospace programs, while the repayment of long-term debt was mostly for capital leases repayment. The Corporation issued 75,387 common shares under its stock purchase and ownership incentive plan for a cash consideration of $321,536 while it repurchased 761,600 common shares under the normal course issuer bids (in fiscal years 2010 and 2009) for a total cash consideration of $3,470,000.

At March 31, 2011, the Corporation was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants in fiscal 2012.

Pension Plans

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

	2011 ($'000)	**2010 ($'000)**
Deficit	11,448	10,790
Accrued benefit liability (included in other liabilities)	3,686	4,381

The pension plan deficit of $11.4 million at March 31, 2011 includes $5.1 million in pension plan obligations related to unregistered pension plans, primarily for former executives of Devtek Corporation, which was acquired by the Corporation in June 2000 and whose pension plan liability does not require funding. Funding occurs as pension benefits are paid to the retired executives. The Corporation modified the accrued benefit obligation discount rate for the Defined Registered Pension Plans (from 5.9% last year to 5.6% this year) which increased the deficit by $1.9 million (see Note 22 to the consolidated financial statements). The total minimum funding requirements for these pension plans over the next five years represented about $6 million at March 31, 2011.

Normal Course Issuer Bid

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

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

Capital Stock, Stock Option Plan and Stock Purchase and Ownership Incentive Plan (Stock Purchase Plan)

At March 31, 2011, the Corporation had 30,173,798 common shares outstanding (30,485,475 as at March 31, 2010).

During fiscal 2011, the Corporation issued 245,221 common shares following the exercise of stock options at a weighted-average price of $4.66 for a total cash consideration of $1,143,596 and 60,802 common shares under the Corporation's stock purchase plan at a weighted-average price of $5.45 for a total cash consideration of $331,192.

During fiscal 2010, the Corporation issued 75,387 common shares at a weighted-average price of $4.26 for a total cash consideration of $321,536, all under the Corporation's stock purchase plan.

At March 31, 2011, 1,393,000 stock options were issued and outstanding with a weighted-average of 3.5 years to maturity and a weighted-average exercise price of $6.00 (see Note 19 to the consolidated financial statements).

At March 31, 2011, the aggregate number of common shares reserved for issuance under the Stock Option Plan amounted to 2,808,257 of which 50,718 shares have not been granted yet. The aggregate number of common shares reserved for issuance under the Stock Purchase Plan amounted to 340,000 of which 29,976 have not been issued yet as of the same date.

Due to the limited number of common shares remaining under the plans mentioned above, the aggregate number of shares available for future granting or issuance under these plans will be increased, subject to the approval by the shareholders of the Corporation at the next Annual and Special Meeting to be held in August 2011.

Therefore, the total number of common shares that will be available for future granting or to be issued under these plans, subject to the approval of the Corporation's shareholders, will be as follows:

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

Stock Appreciation Right and Deferred Share Unit Plans

The Corporation has a Stock Appreciation Right (SAR) plan under which rights are issued to its non-employee directors (see Note 19 to the consolidated financial statements). In August 2010, the Board of Directors decided not to continue the SAR plan and replaced it with a Deferred Share Unit (DSU) plan, which was effectively approved, subsequent to the last fiscal year-end, in May 2011. Consequently, in fiscal 2011, no DSUs or SARs were granted to the directors. However, at March 31, 2011, on a cumulative basis, 143,000 SARS were still outstanding at a weighted-average granted value of $6.21 (150,500 SARS at $6.14 at March 31, 2010) which expire on various dates from fiscal 2012 to 2016.

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 by way of remuneration, but only at the termination date as a member of the Board of Directors, a cash amount equal to the market price of the Corporation’s common share for each DSU on the termination date. These DSUs are expensed on an earned basis and their costs determined on the basis of the Corporation’s common shares quoted market value. 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 will be vested over a one-year period.

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2011 and March 31, 2010:

Item	Change ($ million)	Explanation
Cash and cash equivalents	(13.7)	See consolidated statements of cash flows. As already mentioned, the Corporation utilized $12.1 million from its cash to finance the Eagle and E2 acquisition.
Accounts receivable	23.5	Increase coming from higher and strong fourth quarter sales, when compared to last year ($106 million vs. $85 million) and from the inclusion in the consolidated figures of the acquisition made this year ($5.4 million). This increase was partially offset by the impact of the stronger Canadian dollar, compared to last year, on US-denominated accounts receivable ($1.2 million).
Other receivables	1.1	This is mostly comprised of investment tax and other tax credits receivable which increased this year by $0.3 million over last year's balance. Sales tax receivable also increased by $0.5 million as a result of increased last quarter sales volume, compared to last year.
Inventories	17.1	This increase includes the impact from the Eagle and E2 acquisition ($18.1 million) reduced by the impact of the stronger Canadian dollar on the Corporation's U.S. self-sustaining subsidiaries' inventories ($1.7 million). It also reflects an improved inventory management by the Corporation.
Derivative financial instruments (current assets)	3.4	Reflects the variation in the Corporation's balance sheets of short-term derivative financial instruments measured at fair value.
Property, plant and equipment, net	7.4	Due to: • Acquisition of Eagle and E2 ($8.5 million) • Purchases of capital assets of $23.7 million of which $4.1 million of machinery and equipment not paid at year-end.

Item	Change ($ million)	Explanation
		Net of: • Amortization expense ($21.2 million); • Disposal of fixed assets ($0.4 million); • Reclassification to Other assets as Asset held for sale of a building following the closing of a facility ($0.6 million); • A lower US/CAD exchange rate used to convert the net assets of self-sustaining US subsidiaries ($2.6 million).
Finite-life intangible assets, net (includes a $3.3 million net backlog)	6.8	Due to: • An increase in finite-life intangible assets ($6.9 million), representing the increase in capitalized development costs for Aerospace long-term contracts; • Backlog associated to the acquisition of Eagle and E2 ($1.4 million); • Purchase of computer software ($1.1 million); Net of: - Amortization expense on the underlying value of the backlog ($1.5 million); - Amortization of the finite-life intangible assets ($0.9 million); - The lower US/CAD exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.2 million).
Other assets (long-term assets)	(1.7)	Reflects the variation in the Corporation's balance sheets of long-term derivative financial instruments measured at fair value ($2.3 million) net of a reclassification of a building as Asset held for sale ($0.6 million).
Goodwill	4.8	Includes $5.8 million of goodwill associated to the acquisition of Eagle and E2. It also includes $1.0 million negative impact from the lower US/CAD exchange rate used to convert the goodwill included in the Corporation's self-sustaining U.S. subsidiaries.
Accounts payable and accrued liabilities	10.8	Increase resulting from higher fourth quarter sales volume, when compared to last year and from the inclusion of accounts payable and accrued liabilities in the consolidated figures related to the acquisition made this year ($7.4 million). This increase was partially offset by the impact of the fluctuation of the Canadian dollar since March 31, 2010, on US-denominated payables which decreased accounts payable and accrued liabilities by $0.8 million.

Item	Change ($ million)	Explanation
Accounts payable – other	0.4	Reflects the increase in payables ($3.5 million) of machinery and equipment received in the last quarter of the fiscal year, offset by the decrease of $2.0 million in customers' advances and the variation in derivative financial instruments ($1.1 million) measured at fair value.
Long-term debt (including current portion)	18.5	Due to: • Drawing of US$16.5 million against the Corporation's US Credit facility to finance the Eagle and E2 acquisition ($16.7 million); • Governmental authorities loans to support Aerospace development program investments ($8.7 million); • Promissory note, following the acquisition, repayable to the seller ($3.7 million); • Interest accretion on governmental authorities loans ($1.3 million); • Amortization of deferred financing costs ($0.4 million); Net of: • Net capital repayment of long-term debt ($5.4 million); • Recognition in the Corporation's balance sheets of the impact of governmental authorities loans measured at fair value for the related long-term debt ($1.7 million); • Increase in deferred financing costs ($2.2 million); • A lower US/CAD exchange rate used to convert the long-term debt of self-sustaining US subsidiaries ($3.0 million).
Other liabilities	(1.8)	Mainly reflects the variation in the Corporation's balance sheets of long-term derivative financial instruments measured at fair value. It also includes the reduction of the accrued pension plan benefit liability this year.
Future income taxes (long-term liabilities)	4.8	Reflects mainly the increased future income tax related to property, plant and equipment ($2.8 million) and long-term derivative financial instruments measured at fair value ($1.2 million).
Capital stock	(0.5)	Represents the common shares issued under the Corporation's stock purchase and ownership plan and following the exercise of stock options ($1.5 million), net of the book value of the common shares repurchased under the Corporation's Normal Course Issuer Bid ($2.0 million).

Item	Change ($ million)	Explanation
Accumulated other comprehensive loss	(1.3)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries and the net gains (losses), net of taxes, on the fair value of the financial instruments designated as cash flow hedges.
Retained earnings	16.9	See consolidated statements of changes in shareholders' equity.

At March 31, 2011 and March 31, 2010, 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, 2011	March 31, 2010
Working capital ratio	2.63:1	2.66:1
Cash and cash equivalents	$32.9 million	$46.6 million
Long-term debt-to-equity ratio	0.41:1	0.35:1
Net debt-to-equity ratio(1)	0.29:1	0.16:1

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

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

	Payments due by period				
Contractual obligations ($'000)	**Total**	**1 year**	**2-3 years**	**4-5 years**	**After 5 years**
Governmental authorities loans (including the effective accumulated interest expenses)	**39,348**	1,409	6,081	8,318	23,540
Capital leases (including interest expenses)	**15,301**	3,386	6,724	4,980	211
Promissory note (including interest expenses)	**2,800**	1,200	1,600	-	-
Operating leases – Machinery and equipment	**4,816**	1,629	2,335	700	152
Operating leases – Buildings and facilities	**4,916**	909	1,259	718	2,030
Subtotal, contractual obligations	**67,181**	8,533	17,999	14,716	25,933
Credit Facility	**57,691**	-	-	57,691	-
Total contractual obligations	**124,872**	**8,533**	**17,999**	**72,407**	**25,933**

Government assistance

For fiscal 2011, the Corporation recorded as a reduction of cost of sales an amount of $2.4 million ($5.4 million in fiscal 2010), and as a reduction of the related capital expenditures or capitalized development costs an amount of $3.9 million ($2.1 million in fiscal 2010) for government assistance.

This government assistance includes mainly the investment tax and other credits and the discounted portion of the governmental authorities loans (see Note 2 to the consolidated financial statements).

Derivatives, Off-Balance-Sheet Items and Commitments

The Corporation had entered into operating leases amounting to $9.7 million as at March 31, 2011, for buildings and facilities, and machinery and equipment. These amounts are repayable over the next eleven fiscal years, but mainly over the next five years. At March 31, 2011, the Corporation also had machinery and equipment purchase commitments totalling $3.9 million (see Note 23 to the consolidated financial statements).

At March 31, 2011, the Corporation had forward foreign exchange contracts with Canadian chartered banks totalling US$159.0 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.1032. These contracts relate mainly to its export sales, and mature at various dates between April 2011 and March 2015 (see Note 4 to the consolidated financial statements). This compares to US$150.0 million in forward foreign exchange contracts held at March 31, 2010 at a weighted-average exchange rate of 1.1436.

At March 31, 2011, the Corporation also entered into forward foreign exchange contracts totalling US$7.7 million at a weighted-average rate (Canadian dollar over U.S. dollar) of 1.2343 maturing over the next three fiscal years, to cover foreign exchange risk related to certain embedded derivatives.

In March 2011, following the renewal of the Corporation's Credit Facility and in order to limit the effect of interest rate variations over a portion of its long-term debt denominated in U.S. currency in accordance with the Corporation's risk management policy, the Corporation entered into three interest-rate swap agreements for a total amount of US$40 million and repurchased, for a cost of $0.4 million, the two interest rate swap agreements in place related to the previous credit facilities. The new agreements that fix the Libor U.S. rate at 3.90% for an amount of US$20 million and at 3.91% for another amount of US$20 million, will mature in December 2015.

On March 31, 2011, the Corporation designated certain long-term debt as hedges of its net investments in self-sustaining U.S. operations (see Note 2 to the consolidated financial statements).

Impact of Financial and Economic Situation

Gradual improvements in the global economy throughout fiscal 2011 have reversed certain negative trends observed in the previous two fiscal years. In the large commercial aircraft markets, manufacturers have announced production rate increases for calendar years 2011, 2012 and 2013, while most of the Corporation's key industrial markets are gathering further momentum. Still, the Corporation continues to carefully monitor its strategy and risk management, as specific events, such as the situation in Japan and unrest in the Middle East and North Africa, can have negative short-term effects. Meanwhile, the military aerospace market has stabilized, as governments have begun to address their deficits.

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

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

From a financial standpoint, the Corporation has a healthy balance sheet and is presently in compliance with all of its financial covenants and expects to be so for the next twelve months. The Corporation does not expect to have any liquidity issues, considering that the banks' Credit

Facility is extended by 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 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 short-term elements 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

- *Inventories, capitalized development costs and cost of sales*

  Corporation management uses estimates to value inventory and cost of sales related to design-to-manufacture contracts and major assembly manufacturing contracts. A 1% change in the estimated future costs to complete the remaining quantities under the design-to-manufacture contracts and major assembly-manufacturing contracts would have an impact of approximately $0.7 million on the Corporation's cost of sales.

  The non-recurring costs (development, pre-production and tooling costs) are included in finite-life intangible assets. 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.

- *Goodwill and intangible assets*

  Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. The Corporation selected its fourth quarter as its annual testing period for goodwill. A goodwill impairment charge is recorded when the discounted value of the expected future cash flows of the entire related reporting unit is less than its carrying value. Future cash flows are forecast based on management's best estimates of revenues, production costs, manufacturing overhead and other costs. These estimates are made by reviewing existing contracts, expected future orders, current cost structure, anticipated cost variations, labour agreements and general market conditions, and are subject to review and approval by the Corporation's senior management. Future cash flows are discounted using an estimated weighted-average cost of capital rate.

- *Pension plans and other employee post-retirement benefits*

  Certain critical assumptions are used to determine pension plan and other employee post-retirement benefit costs and obligations. In particular, the discount rate and the expected long-term rate of return on plan assets are important assumptions used to measure these costs and obligations. Other assumptions include the rate of increase in employee compensation, as well as demographic factors such as employee retirement ages, mortality rates and turnover. These assumptions are reviewed annually.

  A lower discount rate increases benefit costs and obligations. A 1% change in the discount rate would have an impact of approximately $0.4 million and $4.8 million, respectively, on the Corporation's pension plan expense and accrued benefit obligations.

  A lower expected rate of return on pension plan assets also increases benefit costs. A 1% change in the return assumption would have an impact of approximately $248,800 on the Corporation's pension plan expense.

- *Income tax*

  The Corporation accounts for future income tax assets mainly from loss carry-forwards and deductible temporary differences. Corporation management assesses and reviews the realization of these future income tax assets at least annually, at year-end, to determine whether a valuation allowance is required. Based on that assessment, it determines whether it is more likely than not that all or a portion of the future income tax assets will be realized. Factors taken into account include future income based on internal forecasts, losses in recent years and their expiry dates, and a history of loss carry-forwards, as well as reasonable tax planning strategies.

FUTURE CHANGES IN ACCOUNTING POLICIES.

First-Time Adoption Of International Financial Reporting Standards In Canada

In February 2008, the Accounting Standard Board ("AcSB") confirmed that Canadian GAAP for publicly accountable entities will be converged with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, effective in calendar year 2011.

As a result, for its fiscal year 2012 interim consolidated financial statements starting April 1, 2011 and for its annual consolidated financial statements as at March 31, 2012, the Corporation will be required to report under IFRS and to provide IFRS comparative information for the 2011 fiscal year. Accordingly, the Corporation issued its last consolidated financial statements prepared in accordance with Canadian GAAP as of March 31, 2011.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

As part of the IFRS conversion project, the Corporation developed a phased changeover plan which comprised the following phases:

1. Identify differences between IFRS and Canadian GAAP
2. Assess the impact of applicable differences on the consolidated financial statements
3. Evaluate changes required to internal data-gathering and reporting processes
4. Implement system changes
5. Train personnel
6. Roll out transition

The Corporation has completed phases 1 to 5 and, accordingly, has modified its systems, processes and controls to meet the accounting and disclosure requirements of IFRS. As part of phase 6, the Corporation implemented processes to accommodate parallel recording of financial information in accordance with IFRS as at the transition date and for the interim periods which will be presented as comparative figures in its fiscal year 2012 IFRS consolidated financial statements.

Management has completed the preliminary measurement of material differences between IFRS and current Canadian GAAP for fiscal year 2011. The preliminary accounting impact of these material differences on consolidated shareholders' equity as at April 1, 2010 and as at March 31, 2011, is presented in Table 1 below. The related preliminary impact on consolidated net income and consolidated comprehensive income for the year ended March 31, 2011, is presented in Table 2.

Table 1

Reconciliation of consolidated shareholders' equity as at April 1, 2010 (date of transition) and as at March 31, 2011:

	Note		('000$)
Consolidated shareholders' equity under Canadian GAAP as at March 31, 2010			217,092
Adjustments:			
Cumulative translation adjustment	**E3**		-
Business acquisition	**E1**		(1,365)
Graded method to amortize the cost of stock options granted	**A4**		-
Unamortized net actuarial loss	**E2**		(3,642)
Unamortized past service cost and transitional obligation	**A3**		(1,060)
All Other	**A1, A2**		38
Total adjustments			(6,029)
Consolidated shareholders' equity under IFRS as at April 1, 2010			**211,063**

	Note		('000$)
Consolidated shareholders' equity under Canadian GAAP as at March 31, 2011			232,665
Adjustments:			
To consolidated shareholders' equity as at April 1, 2010	**Table 1**		(6,029)
To consolidated net income for the year ended March 31, 2011, which have an impact on the consolidated shareholders' equity at March 31, 2011	**Table 2**	602	
• Stock-based compensation expense included in net income		(211)	
			391
Adjustments to other comprehensive income for the year ended March 31, 2011 which have an impact on the consolidated shareholders' equity at March 31, 2011			
IFRIC 14	**Table 2**		(1,238)
Actuarial Loss	**Table 2**		(1,246)
Total adjustments			(8,122)
Consolidated shareholders' equity under IFRS as at March 31, 2011			**224,543**

Table 2

Reconciliation of consolidated net income and consolidated comprehensive income for the year ended March 31, 2011:

	Note	Canadian GAAP	Adjustment	IFRS
		('000$)	**('000$)**	**('000$)**
Sales		**357,572**		**357,572**
Cost of sales **(1)**	A1, A2, A3	300,312	(955)	299,357
Gross profit		**57,260**		**58,215**
Selling and administrative expenses	A4	26,040	(211)	25,829
		31,220		32,386
Financial expenses, net	A1, A2	5,156	420	5,576
Income before income tax expense and restructuring charges		**26,064**		**26,810**
Restructuring charges		637		637
Income before income tax expense		**25,427**		**26,173**
Income tax expense	A1, A2, A3	6,900	144	7,044
Net income		**18,527**	**602**	**19,129**
Other comprehensive income (loss), net of income taxes:		(1,253)		(1,253)
IFRIC 14	A3		(1,238)	(1,238)
Actuarial loss	A3		(1,246)	(1,246)
Total – Other comprehensive income		**(1,253)**	**(2,484)**	**(3,737)**
Comprehensive income		**17,274**	**(1,882)**	**15,392**

(1) Including amortization of $23,610 under Canadian GAAP and of $24,646 under IFRS.

Following are explanations of Canadian GAAP – IFRS adjustments in relation to Tables 1 and 2 above:

A. Exemptions applied

IFRS 1-*First-time Adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from the general requirement to apply IFRS, effective for the April 1, 2010 consolidated opening balance sheet. The Corporation will apply the following exemptions:

E1. IFRS 3-*Business Combinations* will be applied to acquisitions of subsidiaries that occurred after March 31, 2004. Accordingly, we have reviewed certain business acquisition purchase price determination and allocation. The effect is a decrease in the goodwill and consolidated shareholders' equity, at transition date.

E2. The Corporation has elected to recognize all unamortized cumulative actuarial losses on pensions and other post-retirement benefits. The effect is an increase of the other liabilities and a decrease in consolidated shareholders' equity, at transition date.

E3. As at April 1, 2010, the Corporation has elected to transfer the cumulative translation adjustment of $15,816 from accumulated other comprehensive income to retained earnings and therefore has no impact on consolidated shareholders' equity at that date.

B. Adjustments resulting from the transition from Canadian GAAP to IFRS

A1. Leases

Under Canadian GAAP, capital and operating leases are based on the quantitative tests for lease classification. IFRS requires a qualitative and quantitative assessment of lease classification and, as a result, certain leases for machinery and equipment accounted for as operating leases under Canadian GAAP are now accounted for as finance leases under IFRS. The main effect of the change is an increase of property, plant & equipment of $6,834 and an increase of long-term debt of $7,377. The effect on consolidated shareholders' equity as at March 31, 2010 is not significant.

A2. Provisions

The consolidated balance sheet includes provisions representing estimated amounts that the Corporation expects to pay in the future. Under Canadian GAAP, these amounts are not discounted to account for the time period in which these obligations will be settled. As required by IAS 37-*Provisions, Contingent Liabilities and Contingent Assets*, certain provision amounts have been discounted. The effect on consolidated shareholders' equity as at March 31, 2010 is not significant.

A3. Employee benefits

To conform to IAS 19-*Employee Benefits*, the Corporation:

- adopted the projected unit credit method to determine the actuarial value of accrued benefit obligations. Under Canadian GAAP, the Corporation used accrued benefit methods. The change of method had no significant effect on consolidated shareholders' equity.
- wrote-off unamortized vested past-service costs and transitional obligation. The change results in an increase of other liabilities and a decrease of the consolidated shareholders' equity.

Under Canadian GAAP, actuarial gains and losses are amortized through income using a corridor approach. Under IFRS, the Corporation has elected to recognize all actuarial gains and losses in Other Comprehensive Income as incurred. As a result of this election, variations arising from the effect of applying IFRIC 14 are recorded in Other Comprehensive Income in the period in which they occur. IFRIC 14-*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* limits the measurement of defined benefit assets and may also give rise to a liability.

A4. **Stock-based compensation**

In prior years, the Corporation amortized the cost of granted stock options using the straight-line method. In order to conform to IFRS 2 – *Share-based payment*, the Corporation will adopt the graded method to amortize the cost of stock options granted. The change of method results in an increase of contributed surplus and a corresponding decrease of retained earnings and thus has no impact on consolidated shareholders' equity.

C. Reclassifications resulting from the transition from Canadian GAAP to IFRS

A5. **Progress billings**

Under Canadian GAAP, progress billings received from customers are deducted from related costs in inventory. As required by IFRS, progress billings of $32,332 as at April 1, 2010 and $33,365 as at March 31, 2011, will be classified as short-term and long-term liabilities.

A6. **Provisions**

IFRS requires that provisions be presented separately in the balance sheet. Accordingly, certain provisions classified under Accounts payable and accrued liabilities and Other liabilities under Canadian GAAP, will be presented separately.

A7. **Derivative financial instruments - liabilities**

IFRS require that derivative financial instruments be presented separately in the consolidated balance sheet.

A8. **Deferred income taxes**

"Future income taxes" under Canadian GAAP are referred to as "deferred income taxes" under IFRS. Under Canadian GAAP, future income taxes were classified as current or non-current based on the classification of the liabilities and assets to which future income tax liabilities and assets were related. As required by IFRS, all deferred income tax assets and liabilities will be classified as non-current.

D. Presentation of financial statements

IAS 1 prescribes various formats and requirements with respect to statement presentation and disclosure. The Corporation expects the adoption of IAS 1 to result in several changes to the format of consolidated financial statements and in additional disclosure notes.

E. Functional currency

Under IFRS, the criteria used to determine the functional currencies of the Corporation's reporting entities differ in some respect from those used under Canadian GAAP. However, Management has determined that there will be no change in the Corporation's functional currencies as a result of the transition to IFRS. The functional currency of Héroux-Devtek

Inc. and the Canadian operations is the Canadian dollar. The functional currency of the US operations is the US dollar.

The Corporation may change its intentions or modify preliminary impacts in respect of potential changes to IFRS currently in development, or in light of other external factors that could arise between now and the date on which the first IFRS consolidated financial statements will be issued.

The effects on information technology, data systems, disclosure controls and procedures and internal controls over financial reporting have also been assessed, and the Corporation has made the preliminary modifications required for the conversion from Canadian GAAP to IFRS.

While we have not fully completed our conversion plan, we are not aware, at the present time, of any matter that would prevent the Corporation from meeting its full requirements for its first IFRS interim consolidated financial report.

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, 2011, 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 Canadian generally accepted accounting principles.

At March 31, 2011, 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 Canadian generally accepted accounting principles.

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 that were made to our internal controls over financial reporting during the year ended March 31, 2011, 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 60% of its sales. Any loss or delay in certain orders from any of these customers could have a negative impact on the Corporation's results.

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

Availability and Cost of Raw Materials

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

In the current year, as this situation has started to escalate with the improvement of the global economy and the growth of the Chinese economy in particular, the Corporation has begun to take steps to mitigate this risk. It now 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 long-term supply agreements with its suppliers of raw materials, and has increased its monitoring of the supply chain to ensure timely deliveries.

Operational Risks

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

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

- Processes to ensure proper bid approvals, planning, execution and use of quality standards at all stages of new design or built-to-print products and assemblies, and repair and overhaul services. This includes the risk assessment of achieving the targeted revenues (firm-fixed price contracts, escalation clauses, etc.) and related product costs as well as the development of long-term agreements and competitive bidding processes with main suppliers.

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

Impact of Terrorist Activity and Political Instability

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

General Economic Conditions

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

Military Spending

Although significant increases in military budgets, particularly in the United States, were announced in recent years, these expenses are approved by government on a yearly basis and are subject to the political climate and changing priorities.

Foreign Currency Fluctuations

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

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

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

Liquidity and Access to Capital Resources

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

Restrictive Debt Covenants

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

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

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

In addition, the Corporation is subject to various financial covenants under certain capital and operating 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 May 2010 and April 2011, the Corporation renewed its collective agreements, respectively, with its Aerostructure Dorval plant employees and its Landing Gear Longueuil plant employees, both for three-year periods. The Landing Gear Laval plant agreement will come up for renewal in December 2011.

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.

SELECTED QUARTERLY FINANCIAL INFORMATION

($'000 except per share data)	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
For the fiscal year ended March 31, 2011					
Sales	**357,572**	82,541	83,194	85,843	105,994
EBITDA	**54,830**	11,448	10,813	14,204	18,365
Net income	**18,527**	3,183	2,556	5,064	7,724
Earnings per share ($) – basic	**0.62**	0.11	0.09	0.17	0.26
Earnings per share ($) – diluted	**0.61**	0.10	0.08	0.17	0.25
For the fiscal year ended March 31, 2010					
Sales	**320,354**	82,160	76,570	76,659	84,965
EBITDA	**48,437**	12,762	11,723	11,685	12,267
Net income	**16,003**	4,542	3,518	3,538	4,405
Earnings per share ($) – basic	**0.52**	0.15	0.11	0.12	0.14
Earnings per share ($) – diluted	**0.52**	0.15	0.11	0.12	0.14

Fourth Quarter 2011 Results

The Corporation achieved record results for the quarter ended March 31, 2011 with sales of $106.0 million, up from $85.0 million for the same period last year. Excluding the $12.8 million sales of Eagle and E2, consolidated sales were up by $8.2 million or 9.7% despite the negative US/CAD currency impact of $2.3 million. In addition, sales were negatively impacted by lower landing gear military manufacturing sales as a result of lower spare part requirements, lower F-22 sales, as this program is coming to an end, and lower large commercial sales, mainly due to lower production rates on the B-777 program. Sales were boosted by increased F-16 after-market sales, new business on Fokker, B-787 and B-2 programs, higher business jet and helicopter product sales along with increased throughput in repair and overhaul work.

In the fourth quarter this year, increase on JSF (F-35) program sales also had a favourable impact on sales, while the sales for the year on this program were marginally higher, compared to last year.

Gross profit margin for the quarter was 18.6% this year compared to 15.8% last year. When excluding the impact of the Eagle and E2 acquisition, this year's gross profit as a percentage of sales would have been 19.5%. This quarter, all product lines improved their gross profit in dollars and percentage when compared to last year. The increase in overall Aerospace and Industrial sales, the favourable sales mix, along with the continued productivity improvement in the Industrial segment explained the significant increase in gross profit margin in the last quarter this year. Net income stood at $7.7 million or $0.25 per share, fully diluted, compared to net income of $4.4 million or $0.14 per share, fully diluted, last year.

Cash flow from operations yielded $16.7 million compared to $12.3 million for the fourth quarter last year, as a result of higher net income and higher amortization expense. The net change in non-cash working capital items represented an outflow of $14.1 million compared to a positive net change of $14.3 million in the last quarter of last year. This quarter's outflow came mainly from higher accounts receivables ($25.0 million) partially offset by lower inventories ($4.2 million) and higher accounts payable and accrued liabilities ($5.9 million), compared to the previous quarter ended December 31, 2010. These variations are the result of record sales volume made in the last quarter this year. Last year, the positive net change of $14.3 million came mainly from lower accounts receivables ($3.9 million) in line with last year's fourth quarter lower sales volume and lower inventories ($9.8 million) (see Consolidated Balance Sheet section above).

OUTLOOK

Conditions continue to be favourable in the commercial aerospace market. Despite high fuel prices and uncertainty following unrest in the Middle East and North Africa, as well as the situation in Japan, the IATA is forecasting growth in calendar 2011 of 5.6% for passenger markets and of 6.1% in air cargo.

In the large commercial aircraft segment, manufacturers have announced several production rate increases on leading programs for calendar 2011, 2012 and 2013[11]. Furthermore, new orders received in the first three months of calendar 2011 continue to exceed levels of the prior year and both Boeing and Airbus are forecasting higher deliveries for calendar 2011. Finally, Boeing and Airbus backlogs continue to represent approximately six years of production based on projected rates.

The business jet market is seeing further signs of recovery in early 2011. Aircraft utilization continues to increase and the proportion of used aircraft for sale is still declining. However, stronger global economic growth is only expected to yield a rebound in industry shipments in calendar 2012[12].

The military aerospace market is stabilizing as governments address their deficits. As to the JSF program, the U.S. government has put the short take-off and vertical landing (STOVL) variant on a two-year probation period, but the ramp-up of other variants continues, albeit at a slightly more moderate pace over the near term. This probation should result in the production of a slightly lower number of shipsets for Héroux-Devtek in fiscal 2012, compared to fiscal 2011. In Canada, the Government's decision to purchase 65 JSF aircraft should benefit the Canadian aerospace industry.

Conditions are favourable in the Corporation's main Industrial products markets. In the power generation industry, leading North American equipment manufacturers have reported increased new orders in the past quarters. Backlogs are also strongly rising for leading heavy equipment manufacturers[13].

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[11] Sources: Boeing press releases Dec. 20, 2010; Sept. 16, 2010; June 15, 2010; May 17, 2010; March 19, 2010. Airbus press releases February 3, 2011; July 30, 2010; March 9, 2010.

[12] Sources: JETNET, FAA.

[13] Sources : GE press release April 21, 2011; Caterpillar press release April 29, 2011

Capital expenditures for fiscal 2012 are expected to be approximately $26 million, including an investment of $5 million related to the new facility in Mexico.

The integration of Eagle and E2 is mostly completed and the priority for fiscal 2012 will be to optimize operations and maximize efficiencies by further specializing facilities. This progress, combined with a solid balance sheet and the recent increase in its credit facility, places Héroux-Devtek in a position to consider another strategic acquisition that would complement its product portfolio and its technologies.

As at March 31, 2011, Héroux-Devtek's funded (firm orders) backlog stood at $502 million, including the backlog of Eagle and E2, up from $423 million at the beginning of the year. Despite this solid backlog and strong customer relationships, the Corporation must seek further productivity gains and continue to streamline its cost base to remain globally competitive in light of the volatility of the Canadian dollar and the uncertainty surrounding its continuous fluctuation versus the US currency.

Assuming the Canadian dollar remains at parity versus the US currency and considering forward foreign exchange contracts, the Corporation anticipates an internal sales growth of approximately 5% for the fiscal year ending March 31, 2012.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee on May 25, 2011 and by the Board of Directors on May 26, 2011. Updated information on the Corporation can be found on the SEDAR website, at www.sedar.com.