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 ''Company'') changed between March 31, 2009 and March 31, 2010. It also compares the operating results and cash flows for the year ended March 31, 2010 to those for the previous year.

This analysis should be read in conjunction with the audited consolidated financial statements dated March 31, 2010. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (''GAAP''). The Company 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 Company'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 general 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 rates 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 Company 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 Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. Unless otherwise required by applicable securities laws, the Company 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 sectors. As such, a significant portion of the Company's sales are made to a limited number of customers mainly located in the United States and Canada.

The Company was founded in 1942 as Héroux Machine Parts Limited, and later changed its name to Héroux Inc. The Company 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 Company 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.

Héroux-Devtek serves two segments: Aerospace and Industrial. The Company 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 Company is active in the business jet, regional aircraft, helicopter and large commercial jet markets. On the military side, the Company provides parts and services for all major military aircraft, mainly in the United States.

Héroux-Devtek's main product for the Industrial segment is large components for power-generating equipment, with its largest customer being The General Electric Company ("GE"). It also sells precision components for other industrial applications such as the wind energy and heavy equipment industry markets.

The Company's sales by segment are as follows:

	2010	2009
Aerospace	93%	89%
Industrial	7%	11%
	100%	100%

As will be discussed later, the severe decline in the markets served by the Industrial segment in FY2010 explains the 5% year-over-year change in the Company's sales.

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 2010, sales to these six customers represented approximately 56% of total consolidated sales. More specifically, the Company has one customer representing 16% of its consolidated sales and two customers representing between 11% and 13% 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 (formerly referred to as Gas Turbine Components product line). The Landing Gear product line designs, manufactures, repairs and overhauls landing gears and has built a strong, well-recognized design engineering team. The Aerostructure product line manufactures airframe components ranging in size from small to large, for the commercial and military aerospace sectors. The Industrial product line manufactures large components for power generation, including the wind energy sector, and other industrial markets.

BUSINESS MANAGEMENT

The Company'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 Company's President and Chief Executive Officer, while the Vice-President Finance of each product line reports directly to the Company's Executive Vice-President and Chief Financial Officer.

The Company's Corporate Office is responsible for the Company's public 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 Company, 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 Company 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 Company;
- 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 completed 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 Company 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 company-wide basis through the following elements:

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

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

Elements measured	Profitability	Liquidity	Growth and competitive positioning	Customer satisfaction	Financial situation and returns
KPI's	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 costs and customer quality reports	Long-term debt to equity ratio

Elements measured	Profitability	Liquidity	Growth and competitive positioning	Customer satisfaction	Financial situation and returns
KPI	Cost reduction targets	Return on operating assets ("RONA")	Market share in niche product markets where the Company evolves	-	Net-debt to equity ratio
	Manufacturing capacity utilization	-	Value added to products as a percentage of sales	-	Return on equity
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 KPI's are discussed later in this MD&A and are also included in the Financial Highlights of the Company's fiscal 2010 Annual Report. Some of these KPI's are not publicly disclosed since they are of a competitive nature.

As already discussed, the recent market trend had an obvious impact on the Company's capacity utilization and added pressure on the cost absorption for some of the Company's business units (see gross profit section below). On-time delivery and non-quality costs are customers' satisfaction indicators that are closely monitored by Héroux-Devtek. The Company has steadily improved these indicators over the recent years and continues to pay close attention to quality matrix and quality reports from its major customers.

Furthermore, the Company'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 Company'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 Company has included risk management activities and controls in the operational responsibilities of management in each product line. The Company's Board of Directors is ultimately responsible for identifying and assessing the Company'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 Company operates in markets subject to various risks and uncertainties. Some of these risks are inherent to the nature of the Company's operations. See "Risks and Uncertainties" below.

MARKET TRENDS

A year ago, uncertainty in the Aerospace market reached its peak. It can now be said that we have a clearer view of the market.

In calendar 2009, passenger demand was down 3.5%[1] for the full year while freight transport saw a decline of 10.1% for the year. Nevertheless, at the end of 2009 and beginning of 2010, we saw improvement in passenger and freight traffic, particularly in Asia, Latin America and the Middle East[2] which is expected to continue through the year.

Regarding aircraft manufacturers' deliveries, in 2009 Airbus delivered 498[3] aircraft compared to Boeing which delivered 481[4]. Despite a weak economy, both Airbus and Boeing had a record year for deliveries in 2009. But they also both announced production rate reductions in 2009, which will materialize in 2010.

Several economic factors are now showing improvement in the economy compared to the situation one year ago. Although there is still significant uncertainty, both Boeing[5] and Airbus[6] recently announced production rate increases for calendar 2011 on platforms such as the B-777, B-747, and the A-320 and for calendar 2012 on the B-737 program. Moreover, initial deliveries of the B-787 are scheduled for late calendar 2010. These are signs that commercial aerospace is beginning to plan for the upturn.

In the market for regional aircraft, Embraer delivered 122[7] units in 2009, while Bombardier delivered 121[8] in 2009-2010, including turboprops. Both manufacturers saw their regional jet deliveries decline in the last fiscal year, and both are also forecasting a lower number of commercial aircraft to be delivered in the current fiscal year.

After hitting delivery records in 2008 of 1,313 units, the business jet market saw its output diving in calendar 2009, with deliveries of 870[9] units, a 34% decrease. After the decline, the industry began to see positive signs. The number of used aircraft for sale is slowly coming down and the number of flying hours is increasing. Although the recovery is not expected to happen in 2010, the industry believes that we are now at the bottom of the cycle.

The military market remained solid in calendar 2009. The U.S. administration recently announced support for important programs such as the Joint Strike Fighter F-35 ("JSF"). Other programs such as the F-22 are being phased out as expected.

The power generation market suffered significantly from the downturn of the economy in calendar 2009 where the demand for electricity in the U.S. decreased by 3%[10] in that calendar year. Despite the positive signs emerging from the worldwide economy, this market is not expected to begin its recovery before 2011.

Finally, the fluctuation of the Canadian dollar, which is almost at par at fiscal year-end versus its U.S. counterpart, continued to negatively impact the Company's results.

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1. IATA press release, January 27, 2010
2. IATA financial forecast, March 2010
3. Source: Airbus press release, January, 2010
4. Source: Boeing press release, January 7, 2010.
5. Boeing press release March 19, 2010
6. Airbus press release March 9, 2010
7. Source : Embraer press release, January 12, 2010.
8. Source : Bombardier press release, February 5, 2010.
9. Source : GAMA, Statistical Databook, 2009.
10. Source : US Energy Information Administration – Annual energy outlook 2010 .

MAJOR ACHIEVEMENTS OF FISCAL 2010

- The Company's Aerostructure Progressive business unit announced a multi-year (CAD $50 million) contract to manufacture structural aluminum components for all three variants of the JSF;
- The Aerostructure Magtron business unit was awarded by Noranco Inc. a multi-year contract (CAD $10 million) related to electronic chassis components for the F-35 Lightning II aircraft (Joint Strike Fighter);
- The Company's Landing Gear product line was awarded additional orders (CAD $11.3 million) for the manufacturing of landing gear components, essentially from the US Air Force and US Navy and mainly for the B-1B, B-52, E-3 and P-3 aircraft;
- The Company's Landing Gear product line signed a Memorandum of Understanding (MOU) with the Boeing Company to manufacture the landing gear for the H-47F Chinook heavy-lift helicopter, including the CH-147 as it is known for the Canadian forces;
- The Landing Gear product line renewed an important multi-year contract with Goodrich Corporation – Landing Gear to manufacture various landing gear components for a number of important large commercial aircraft programs;
- The Company announced that Brazilian aircraft manufacturer Embraer had awarded the Aerospace segment's landing gear products operations the Embraer Supplier Award – ESC 2009 in the Development Program category;
- Just after the end of fiscal 2010, on April 28, 2010, the Company announced that it had completed the acquisition of substantially all the net assets of US based Eagle Tool & Machine Co. ("Eagle") and of its subsidiary E-2 Precision Products ("E-2"), two privately-owned manufacturers of precision machined components mainly for the military aerospace industry (see "Subsequent Events" section below and note 23 to the consolidated financial statements); and
- On May 13, 2010, the Company announced that it was launching initiatives to optimize and consolidate production capacity, while further enhancing productivity of its Québec-based facilities. By doing so, the Company Rivière-des Prairies, Québec, facility will close in September 2010 and its production transferred to the Company's other facilities in the Greater Montréal area (see "Subsequent Events" section below and Note 23 to the consolidated financial statements).

FOREIGN EXCHANGE

The Company 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 in foreign currency. 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, 2010 and 2009 and for the fiscal years then ended:

Canada/US Exchange Rates		2010	2009
Year-end exchange rates used to translate assets and liabilities	$1 Canadian/ US $ equivalent	**1.0158**	1.2613
	$1 US/ Canadian $ equivalent	**0.984**	0.793
Average exchange rates used to translate revenues (sales) and expenses	$1 Canadian/ US $ equivalent	**1.0904**	1.1274
	$1 US/ Canadian $ equivalent	**0.917**	0.887

As shown above, the average value of the Canadian dollar when compared to its US counterpart, year-over-year, increased by more than 3% and, naturally, added pressure on the US denominated results of the Company, including those from its Canadian operations. The closing rate declined sharply since March 31, 2009, from 1.2613 to 1.0158 as at March 31, 2010, reducing the currency impact on the Company's US denominated balance sheet accounts at the end of this fiscal year. Currency fluctuation impact on the Company's sales, gross profit and specific balance sheet elements can be found later in this MD&A.

The Company makes use of derivative contracts, in accordance with its hedging policy, to hedge foreign currency fluctuation exposure risks in an effort to mitigate these risks. At March 31, 2010, the Company had forward foreign exchange contracts totalling US$150.0 million at a weighted-average exchange rate of 1.1436 maturing over the next four fiscal years, with the majority maturing over the next two fiscal years.

At March 31, 2010, the Company also entered into forward foreign exchange contracts totalling US$11.3 million at a weighted-average rate of 1.2396 maturing over the next four fiscal years, the majority of which over the next two fiscal years, to cover foreign exchange risk related to certain embedded derivatives (see "Off-Balance-Sheet Items and Commitments" below).

NON-GAAP MEASURES

Earnings before interest, taxes, depreciation and amortization ("EBITDA") and cash flows from operations are financial measures not prescribed by Canadian generally accepted accounting principles ("GAAP") and are not likely to be comparable to similar measures presented by other issuers. Management, as well as investors, considers these to be useful information to assist them in evaluating the Company'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 financial years:

Years ended March 31 ($'000, except per share data)	**2010**	2009	2008
Sales	**320,354**	337,635	307,882
EBITDA	**48,437**	54,559	44,286
Net income	**16,003**	21,363	19,019
Earnings per share ($) – basic	**0.52**	0.68	0.60
Earnings per share ($) – diluted	**0.52**	0.67	0.59
Total assets	**394,847**	417,174	356,454
Long-term liabilities (including the current portion of long-term debt	**107,796**	115,705	95,670
Cash and cash equivalents	**46,591**	39,759	24,431

The Company's EBITDA is calculated as follows:

Years ended March 31 ($'000)	**2010**	2009	2008
Net income	**16,003**	21,363	19,019
Income tax expense	**6,498**	8,605	3,750
Financial expenses	**4,676**	4,485	4,999
Amortization	**21,260**	20,106	16,518
EBITDA	**48,437**	54,559	44,286

The $6.1 million reduction in fiscal 2010 EBITDA comes mainly from the reduced year-over-year net income which, as it will be explained in more detail later, was affected by the lower Industrial market sales and the stronger Canadian dollar.

The market downturn was severe; more so in the Industrial segment but also in the Aerospace commercial side. The Landing Gear product line was the only operation to post improved year-over-year sales, gross profit and net income.

CONSOLIDATED SALES

Overall, the Company's sales declined when compared with last year. The worldwide economic situation had a continued impact this year on the commercial market of the Company. Certain Aerospace programs won by the Company in recent years, such as the Learjet 85 and Embraer Legacy series will not affect the Company's sales top line until two to three years from now when they will go into production. On the other hand, the Company's investment for the Joint Strike Fighter ("JSF") program is starting to pay dividends as planes are now well into the low rate initial production phase.

The Company's sales by segment were as follows:

	2010 ($'000)	2009 ($'000)	% Change
Total Aerospace	**297,852**	299,418	(0.5)
Total Industrial	**22,502**	38,217	(41.1)
Total	**320,354**	337,635	(5.1)

Consolidated sales for the year ended March 31, 2010 declined 5.1% to $320.4 million from $337.6 million last year, due mainly to reduced business jet sales and lower industrial market sales. The impact of the Canadian dollar, against the US currency, reduced sales by $1.9 million or 0.6% compared to last year.

Aerospace Segment

Sales for the Aerospace segment were as follows:

Product Lines	2010 ($'000)	2009 ($'000)	% Change
Landing Gear	**194,938**	190,701	2.2
Aerostructure	**101,719**	107,563	(5.4)
Other aerospace products	**1,195**	1,154	3.6
Total	**297,852**	299,418	(0.5)

Landing Gear sales increased 2.2% driven by new business on the A-320, DC-10/MD-11 and Fokker programs along with new repair and overhaul work on Sikorsky helicopters, P-3 and C-130 programs. This product line also benefited from increased throughput on military work along with a favourable impact coming from the currency conversion, considering the forward foreign exchange contracts delivered in fiscal 2010. These were partially offset by reduced work on some commercial programs such as the A-330/340, but also from reduced regional and business jet sales and commercial helicopter sales.

Aerostructure sales decreased 5.4% to $101.7 million for the twelve months ended March 31, 2010, when compared to the same period last year with reduced F-16 sales, including after-market sales, reduced business jet sales and the impact of the stronger Canadian dollar on this product line's US denominated sales. These negative variances were somewhat counterbalanced by increased JSF sales and increased commercial helicopter (Bell 429) sales.

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

	2010 ($'000)	2009 ($'000)	% Change
Military[1]	**183,604**	169,141	8.6
Commercial	**114,248**	130,277	(12.3)
Total Aerospace	**297,852**	299,418	(0.5)

1. Includes military sales to civil customers and to governments.

For fiscal 2010, military sales remained robust with both manufacturing and repair and overhaul increases. As previously mentioned, the JSF program added about $10.0 million to the Military sector total for fiscal 2010 while Commercial sales were dampened by the business jet, regional jet and helicopter market volumes.

Industrial Segment

Sales for the Industrial segment were as follows:

	2010 ($'000)	2009 ($'000)	% Change
Gas Turbine	**12,076**	17,630	(31.5)
Other Industrial	**10,426**	20,587	(49.4)
Total	**22,502**	38,217	(41.1)

Industrial sales were almost half of what they were a year ago. Both sub-segments were negatively impacted as the Industrial Gas Turbine and Other Industrial, including Wind energy and heavy equipment sales, all showed double digit decline in fiscal 2010.

SALES BY DESTINATION

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

	2010 (%)	2009 (%)
Canada	**30**	33
US	**67**	66
International	**3**	1
Total	**100**	100

The sales by destination mix is somewhat similar to last year and includes the impact of the start of shipments to a new European customer (Stork – Fokker program).

GROSS PROFIT

The lower volumes already explained and the continued strengthening of the Canadian dollar negatively impacted the Company's gross profit margin for fiscal 2010. Besides the natural hedging from the purchase of raw material in US dollars, the Company mitigates the currency impact by the use of forward foreign exchange contracts. Furthermore, the Company launched, early in fiscal 2010, a company-wide cost reduction program to offset the negative impact coming from these lower volumes. This program was especially successful at our Industrial product line, where management was able to lower the cost base and, in spite of a greater than 40% sales decline, posted positive net results.

Consolidated gross profit declined from 16.9% to 15.7% of sales in fiscal 2010. Excluding the negative impact attributable to the continued strength of the Canadian dollar relative to the US currency, during the year, gross profit as a percentage of sales would have been 17.4% this fiscal year.

Again, Landing Gear was the only one of the three product lines to show gross profit margin improvement for the year. Besides increased volumes on new products, the effort made through the cost reduction program and improvements on the manufacturing processes helped to attenuate the currency impact on gross margins throughout fiscal 2010. The Aerostructure product line was not as successful with cost reduction initiatives in fiscal 2010 and also suffered from the 5.4% sales volume decline. It is also worth mentioning that the Aerostructure product line benefited, in fiscal 2009, from a much more favourable sales mix in aftermarket sales.

SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses were as follows:

	2010	2009
Selling and administrative expenses ($'000)	23,165	22,466
% of sales	7.2	6.7

Selling and administrative expenses of $23.2 million were $0.7 million higher than last year, and 0.5% higher as a percentage of sales. The selling and administrative expenses include a loss on currency translation on net monetary assets of $1.1 million compared to a loss last year of $1.2 million. Furthermore, selling and administrative expenses in fiscal 2010 includes a $0.4 million non-recurring gain. The increase also reflects fees and expenses from the acquisition transaction concluded after year-end which were not capitalized (see "Subsequent Events" section below and notes 2 and 23 to the consolidated financial statements).

OPERATING INCOME

Consolidated operating income decreased from $34.5 million or 10.2% of sales last year to $27.2 million or 8.5% of sales this year.

Aerospace Segment

Aerospace operating income was $24.7 million or 8.3% of sales this year, compared to $29.3 million or 9.8% of sales last year. The reduction in sales from push-outs and programs deceleration in the commercial market and the impact of the stronger Canadian dollar already discussed was not totally offset by cost reduction effort.

Industrial Segment

Operating income decreased to $2.4 million or 10.8% of sales this year from $5.2 million or 13.5% of sales last year, in line with the more than 40% sales decrease in this segment.

FINANCIAL EXPENSES

	2010 ($'000)	2009 ($'000)
Interest	2,901	3,230
Interest accretion on governmental authorities loans	1,146	1,147
Amortization of deferred financing costs	168	168
Standby fees	251	210
Accretion expense of asset retirement obligations	228	210
Gain on financial instruments classified as HFT - Interest income	(18)	(480)
Total	4,676	4,485

Financial expenses, at $4.7 million were $0.2 million higher than last year. The lower interest rate had a positive impact on the interest expense and an offsetting impact on the interest revenue. The reduction in interest expense also reflects the lower exchange rate impact coming from the Company's US debt.

INCOME TAX EXPENSE

For the fiscal year ended March 31, 2010, the income tax expense stood at $6.5 million compared to $8.6 million last year. The Company's effective income tax rate was 28.9% this year, compared to 28.7% last year and compared to the Company's Canadian blended statutory income tax rate of 30%. The fiscal 2010 effective income tax rate reflects the favourable impact from permanent differences and the lower income, taxed at a higher rate, coming from the Company's US subsidiaries.

The income tax expense for fiscal 2009 stood at $8.6 million. The Company's effective income tax rate for fiscal 2009 was 28.7% compared to the Company's Canadian blended statutory income tax rate of 31.2%, the difference coming from the favourable impact of permanent differences ($0.9 million) and the recognition ($0.2 million) of income tax benefits from the utilization of tax losses carried forward for which no income tax benefits had been recognized in prior years. These were somewhat offset by the income tax rate difference coming from the Company's US subsidiaries which are taxed at a higher rate (see Note 17 to the consolidated financial statements).

As at March 31, 2010, 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, 2010, the Company has federal non-capital losses available for carry-forward of $7.2 million the majority of which are expiring in fiscal 2030.

NET INCOME

For fiscal 2010, the Company posted net income of $16.0 million compared to net income of $21.4 million last year reflecting the decrease in operating income from the Company's Aerospace and Industrial segments, as explained above.

	2010	2009
Net income ($ million)	16.0	21.4
Earnings per share – basic ($)	0.52	0.68
Earnings per share – diluted ($)	0.52	0.67

Basic earnings per share figures are based on weighted-averages of 30,661,745 common shares outstanding for fiscal 2010 and 31,583,173 for the previous year while the diluted earnings per share figures are based on weighted-averages of 30,721,952 for fiscal 2010 and 31,782,780 for last year. Since most of the outstanding options are not in the money this fiscal year, the basic and diluted earnings per share are the same. This year's variance in the number of outstanding shares is essentially due to the issuance of 75,387 common shares under the Company's stock purchase and ownership incentive plan less the 761,600 shares redeemed under the Company's normal course issuer bids (see Note 16 to the consolidated financial statements).

After year-end, on May 11, 2010, the Company repurchased, as a block, 480,000 common shares, under its normal course issuer bid, at a price of $5.82 for a total net cash consideration of $2.8 million.

On May 27, 2010, the date of this MD&A, the Company had 29,991,867 common shares and 1,555,221 stock options outstanding with a weighted-average of 3.8 years to maturity.

LIQUIDITY AND CAPITAL RESOURCES

In general terms, the Company has a healthy financial position and is well-positioned to face its financing needs. The Company has Senior Secured Syndicated Revolving Credit Facilities ("Credit Facilities") extended by a syndicate of four Canadian Banks and their US affiliates or branches. These Credit Facilities can extend up to $125 million, either in Canadian or US currency equivalent. To March 31, 2010, only CAD $43.7 million had been drawn against these Credit Facilities. These Credit Facilities will mature in October 2011. Considering the Company's cash and cash equivalent position, its available Credit facilities and level of expected capital investments, it does not expect any liquidity risk in the foreseeable future. At March 31, 2010, the Company had cash and cash equivalents of $46.6 million, compared to $39.8 million a year earlier, of which $32.4 million ($15.8 million last year) had been invested in short-term deposits.

Operating Activities

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

	2010 ($'000)	2009 ($'000)
Cash flows from operations	45,867	48,042
Net change in non-cash working capital items related to operations	(8,121)	(2,783)
Cash flows relating to operating activities	37,746	45,259

The $2.2 million decrease in cash flows from operations for fiscal 2010 can mainly be explained by the $5.4 million decrease in net income, a $1.2 million increase in amortization and a $1.7 million increase in future income taxes.

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

	($'000)
Improved accounts receivable collection and lower fourth quarter sales	13,105
Inventory decrease, mainly due to reduced commercial Aerospace segment sales and cost reduction efforts	11,239
Reduced accounts payable and accrued liabilities – Last year's balance included significant raw material received late in the fourth quarter	(20,472)
Lower income tax payable	(3,103)
Effect of changes in the exchange rate on US-denominated non-cash balance-sheet items	(5,101)
New investment tax credits and other tax credits receivable	(2,715)
All others	(1,074)
	(8,121)

In fiscal 2009, the $2.8 million net change in non-cash working capital items can be explained by a $7.3 million increase in accounts receivable, in line with the strong sales volume at the end of the fourth quarter and an increase of $14.5 million in inventories which also reflects the higher business activity and new aerospace programs. These were partially offset by the higher accounts payable and accrued liabilities and other liabilities ($9.7 million) in line with the increased business activities and the effect of changes ($5.2 million) in the exchange rate on US-denominated non-cash balance-sheet items (see "Consolidated Balance Sheet" section below).

Investing Activities

The Company's investing activities were as follows:

	2010 ($'000)	2009 ($'000)
Additions to property, plant and equipment	(13,740)	(23,489)
Increase in finite-life intangible assets	(3,763)	(3,721)
Proceeds on disposal of property, plant and equipment	8	18
Cash flows relating to investing activities	(17,495)	(27,192)

Additions to property, plant and equipment stood at $13.7 million in fiscal 2010, lower than the $23.5 million of last year. These fiscal 2010 acquisitions, which were mostly for normal maintenance projects, are presented net of $7.6 million of capital investments which were made through capital leases.

In fiscal 2009, additions to property, plant and equipment stood at $23.5 million. These investments were made to complete the plating facility modernization at our Landing Gear Longueuil plant and to add machinery and equipment following the award last fiscal year of a $115 million, 10-year contract to manufacture major landing gear components for the Boeing B-787, Airbus A-320 and Sukhoi RRJ programs. These additions to property, plant and equipment were net of $9.9 million for fiscal 2009 relating to machinery and equipment which were delivered late last year and not yet paid by the Company, as of fiscal 2009 year-end. The $23.5 million purchases of property, plant and equipment are also shown net of machinery and equipment of $5.3 million which were acquired through capital leases.

In fiscal 2010, the Company wrote off $30.8 million in fully amortized property, plant and equipment no longer in use. This had no impact on the Company's financial results and net book value of property, plant and equipment.

Capital expenditures for fiscal 2011 are expected to be about $25.0 million including normal maintenance projects and the extension of the facility dedicated for the JSF program. This amount excludes any capital investment that could be required following the acquisition, concluded on April 28, 2010, of Eagle and E-2 (see "Subsequent Events" section below and Note 23 to the consolidated financial statements).

Financing Activities

The Company's financing activities were as follows:

	2010 ($'000)	2009 ($'000)
Increase in long-term debt	2,404	8,268
Repayment of long-term debt	(5,292)	(15,387)
Repurchase of common shares	(3,470)	(2,099)
Issuance of common shares	322	321
Other	-	273
Cash flows relating to financing activities	(6,036)	(8,624)

The increase in long-term debt comes mostly from new government authorities loans related to the Company's eligible development and engineering costs associated to new Aerospace programs while the repayment of long-term debt is mostly for capital leases (See Note 14 to the consolidated financial statements).

The Company issued 75,387 common shares ($321,536) under its stock purchase and ownership incentive plan while it repurchased 761,600 ($3.5 million) common shares under the normal course issuer bids (see Normal Course Issuer Bid below and Note 16 to the consolidated financial statements).

For fiscal 2009, the increase in long-term debt comes mostly from two new governmental authorities loans related to the Company's eligible development and engineering costs associated to new programs and technologies while the capital repayment includes the $9.0 million repayment of the Canadian Credit facility and of capital leases. The Company issued 66,669 ($320,842) common shares under its stock purchase and ownership incentive plan while it redeemed 534,000 ($2.1 million) common shares under the normal course issuer bid.

At March 31, 2010, the Company was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants in fiscal 2011.

PENSION PLANS

Some of the Company's employees are covered by defined benefit pension plans. The funded status of these plans is as follows:

	2010 ($'000)	2009 ($'000)
Deficit	**10,790**	9,601
Accrued benefit liability (included in other liabilities)	**4,381**	5,288

The pension plan deficit of $10.8 million at March 31, 2010 includes $5.5 million in pension plan obligations related to unregistered pension plans, primarily for former executives of Devtek Corporation, which was acquired by the Company in June 2000 and whose pension plan deficit does not require funding. Funding occurs as pension benefits are paid to the retired executives. In accordance with Canadian GAAP, the Company modified the accrued benefit obligation discount rate (from 7.5% last year to 5.9% this year) which increased the deficit by $2.3 million (see Note 19 to the consolidated financial statements).

NORMAL COURSE ISSUER BID

In November 2008, the Company announced that it was launching a normal course issuer bid ("NCIB") in which the Company could acquire up to 1,500,000 of its common shares until November 23, 2009. For the duration of this program, the Company repurchased 1,202,200 common shares at an average net price of $4.23 per share for a total of $5.1 million.

On November 23, 2009, the Company announced that it implemented a new NCIB, with the approval of the Toronto Stock Exchange ("TSX"). Under the terms of the NCIB, the Company may acquire up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding common shares of the Company as of November 19, 2009. The repurchase of common shares commenced on November 25, 2009, and will end on November 24, 2010.

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

To March 31, 2010, and following the renewal of its NCIB, the Company had repurchased an additional 93,400 common shares at an average net price of $5.14 per share for a total of $480,385 (See Note 16 to the consolidated financial statements).

CAPITAL STOCK, STOCK OPTION PLAN AND STOCK PURCHASE AND OWNERSHIP INCENTIVE PLAN (STOCK PURCHASE PLAN)

At March 31, 2010, the Company had 30,485,475 common shares outstanding (31,171,688 as at March 31, 2009).

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

During fiscal 2009, the Company issued 66,669 common shares at a weighted-average price of $4.81 for a total cash consideration of $320,842, all under the Company's stock purchase plan.

At March 31, 2010, 1,555,221 stock options were issued and outstanding with a weighted-average of 3.8 years to maturity and a weighted-average exercise price of $5.83 (see Note 16 to the consolidated financial statements).

CONSOLIDATED BALANCE SHEETS

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2010 and March 31, 2009:

Item	Change ($ million)	Explanation
Cash and cash equivalents	6.8	See consolidated statements of cash flows.
Accounts receivable	(13.1)	Decrease mainly coming from improved accounts receivable collection, lower 4th quarter sales and the impact of the strengthening of the Canadian dollar since March 31, 2009, on US-denominated accounts receivable ($5.1 million).
Other receivables	2.0	This balance sheet account is mostly made-up of investment tax and other tax credits receivable, the increase coming from additional investment tax credits from fiscal 2010. These investment tax credits are collectible against the Company's taxable income and will be utilized in line with the Company's upcoming results and tax strategy.
Inventories	(11.2)	This reduction comes from tighter controls and better working capital management efforts throughout the year. The impact of the stronger Canadian dollar also decreased inventories for the Company's US self-sustaining subsidiaries by $4.5 million.
Future income taxes (short-term assets)	(6.0)	Reflects mainly the future income tax impact of the recognition in the Company's balance sheets of the derivative financial instruments measured at fair value.
Derivative financial instruments (short-term assets)	7.6	Reflects the variation in the Company's balance sheets of short-term derivative financial instruments measured at fair value.
Property, plant and equipment, net	(17.8)	Due to: • Purchases of capital assets ($13.7 million); Net of: • Amortization expense ($19.5 million); • Loss on disposal of fixed assets ($0.3 million); • A lower US/CAD exchange rate used to convert the net assets of self-sustaining US subsidiaries ($11.7 million).
Finite-life intangible assets, net (includes a $3.6 million net backlog)	0.5	Mainly due to: • An increase in finite-life intangible assets ($3.2 million), representing the increase in capitalized Aerospace development costs for long-term contracts; • Purchase of computer software ($0.5 million); Net of: - Amortization expense on the underlying value of the backlog ($0.8 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 ($1.5 million);
Derivative financial instruments (long-term assets)	12.0	Reflects the variation in the Company's balance sheets of long-term derivative financial instruments measured at fair value.

Item	Change ($ million)	Explanation
Goodwill	(4.4)	Represents the lower US/CAD exchange rate used to convert the goodwill included in the Company's self-sustaining US subsidiaries.
Accounts payable and accrued liabilities	(20.7)	Reflects reduced late inventory purchases which were received by year-end and included in the accounts payable at year-end last year and, the tighter credit conditions mainly from raw material suppliers. The impact of the Canadian dollar since March 31, 2009, on US-denominated accounts payable and accrued liabilities at March 31, 2010 ($2.3 million) also decreased this caption.
Accounts payable – Other	(14.8)	Essentially reflects the payment of property, plant and equipment received an accounted for in the last quarter of fiscal year 2009 ($9.9 million) and, the variation in the Company's balance sheets of short-term derivative financial instruments measured at fair value. It also includes $2.0 million in customers' advances received this fiscal year.
Long-term debt (including current portion)	(6.2)	Due to: • Governmental authorities loans ($4.1 million) to support new eligible development and engineering costs related to Aerospace segment programs; • New capital lease obligations related to equipment ($7.6 million); • Interest accretion on governmental authorities loans ($1.1 million); Net of: • Net capital repayment of long-term debt ($5.3 million); • Recognition in the Company's balance sheets of the impact of governmental authorities loans measured at fair value for the related long-term debt ($1.4 million); • A lower US/CAD exchange rate used to convert the long-term debt of self-sustaining US subsidiaries ($12.3 million).
Other liabilities	(9.0)	Essentially reflects the variation in the Company's balance sheets of long-term derivative financial instruments measured at fair value.
Capital stock	(2.2)	Represents the common shares issued under the Company's stock purchase and ownership plan ($0.3 million), net of the book value of the common shares repurchased under the Company's Normal Course Issuer Bid ($2.5 million).
Accumulated other comprehensive loss	7.5	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self sustaining US subsidiaries and the unrealized net gains (losses), net of taxes, on the fair value of the financial instruments designated as cash flow hedges.
Retained earnings	15.0	See consolidated statements of changes in shareholders' equity.

At March 31, 2010 and March 31, 2009, the Company'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, 2010	March 31, 2009
Working capital ratio	**2.66:1**	1.92:1
Cash and cash equivalents	**$46.6 million**	$39.8 million
Long-term debt-to-equity ratio	**0.35:1**	0.42:1
Net debt-to-equity ratio[1]	**0.16:1**	0.24:1

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

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

		Payments due by period			
Contractual obligations ($'000)	**Total**	Less than 1 year	1-3 years	4-5 years	After 5 years
Governmental authorities loans (including the effective accumulated interest expenses)	**26,905**	1,678	2,788	4,944	17,495
Capital leases (including interest expenses)	**19,116**	3,463	6,899	6,687	2,067
Operating leases – Machinery and equipment	**6,633**	1,666	4,075	367	525
Operating leases – Buildings and facilities	**1,633**	564	1,069	-	-
Subtotal, contractual obligations	**54,287**	7,371	14,831	11,998	20,087
Credit Facilities	**43,679**	-	43,679	-	-
Total contractual obligations	**97,966**	7,371	58,510	11,998	20,087

GOVERNMENT ASSISTANCE

For fiscal 2010, the Company recorded as a reduction of cost of sales an amount of $5.4 million ($2.9 million in fiscal 2009), and as a reduction of the related capital expenditures or development costs an amount of $2.1 million ($1.4 million in fiscal 2009) for government assistance.

This government assistance includes mainly the investment tax credits and the discounted portion of the governmental authorities loans (see Note 3 to the consolidated financial statements).

DERIVATIVES, OFF-BALANCE-SHEET ITEMS AND COMMITMENTS

The Company had entered into operating leases amounting to $8.3 million as at March 31, 2010, mainly for machinery and equipment. All these amounts are repayable over the next seven years. At March 31, 2010, the Company also had building, machinery and equipment and purchase commitments totalling $5.2 million (see Note 20 to the consolidated financial statements).

At March 31, 2010, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US$150.0 million at a weighted-average exchange rate of 1.1436. These contracts relate mainly to its export sales, and mature at various dates between April 2010 and March 2014 (see Note 4 to the consolidated financial statements). This compares to US$162.8 million in forward foreign exchange contracts held at March 31, 2009 at a weighted-average exchange rate of 1.1396.

At March 31, 2010, the Company also entered into forward foreign exchange contracts totalling US$11.3 million at a weighted-average rate of 1.2396 maturing over the next four fiscal years, the majority of which over the next two fiscal years, to cover foreign exchange risk related to certain embedded derivatives.

In July 2007 and March 2009, in order to limit the effect of interest rate variations over a portion of its long-term debt denominated in U.S. currency, the Company entered into a four-year interest-rate swap agreement and a two-year interest-rate swap agreement for an amount of US$15 million and US$10 million, respectively, that fix the Libor US rate at 5.53% and 1.75%, respectively. Both interest-rate swap agreements mature on August 1, 2011.

SUBSEQUENT EVENTS

On April 28, 2010, the Company announced that it had concluded the acquisition through a US subsidiary of substantially all the net assets of US based Eagle Tool & Machine Co and of its subsidiary All Tools, Inc.(E-2 Precision Products), two privately-owned manufacturers of precision machined products mainly for the military aerospace industry, with annual sales of approximately $40 million.

The preliminary allocation of the total purchase price of the net assets acquired, along with the means of financing, can be broken down as follows:

Net assets acquired ($'000)		Source of funds ($'000)	
Working capital	16,797	Credit Facilities	16,711
Capital assets	8,498	Cash	12,102
Backlog	1,390	Promissory note	3,721
Goodwill	5,849		
	32,534		32,534

The promissory note is repayable to the seller over 40 months, starting on April 30, 2010, bears a fixed interest rate of 5% and is guaranteed by the Company.

The underlying value of the backlog which relates to specific sales contracts will be amortized on a pro rata basis over the life of the related sales contracts and units delivered.

As stated in the source of funds above, the Company drew, from its US Credit Facility, US$16.5 million subsequent to its fiscal 2010 year-end to finance this transaction.

On May 13, 2010, the Company announced that it was launching initiatives to optimize and consolidate production capacity, while further enhancing productivity of its Québec-based facilities. Consequently, the Company's Rivière-des Prairies, Québec, facility will close in September 2010 and its production transferred to the Company's other facilities in the Greater Montréal area. The Company will record restructuring charges throughout fiscal 2011 of approximately $1.1 million ($0.8 million net of income tax) related to these initiatives.

CHANGES IN ACCOUNTING POLICIES

ADOPTED IN FISCAL YEAR 2010

GOODWILL AND INTANGIBLE ASSETS

In February 2008, the Accounting Standard Board ("AcSB") issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets" and which resulted in the withdrawal of Section 3450, "Research and Development Costs" and of Emerging Issues Committee ("EIC") Abstract 27, "Revenues and Expenditures during the pre-operating period", and which also resulted in the amendment of Accounting Guideline ("AcG") 11, "Enterprises in the Development Stage". This Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with IFRS IAS 38, "Intangible Assets".

BUSINESS COMBINATIONS, CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

In January 2009, the AcSB released Section 1582, "Business Combinations", which resulted in the withdrawal of Section 1581, "Business Combinations". It provides the Canadian equivalent to IFRS 3, "Business Combinations".

In January 2009, the AcSB also released Section 1601, "Consolidated Financial Statements" and Section 1602, Non-"Controlling Interest", which resulted in the withdrawal of Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements of the parent, subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of IAS 27, "Consolidated and Separate Financial Statements".

The Company has applied these new standards on its consolidated financial statements starting April 1, 2009. The fees and expenses from the acquisition transaction concluded after year-end were expensed in fiscal 2010 and had no significant impact on the Company's results.

IMPACT OF THE INTERNATIONAL FINANCIAL CRISIS AND ECONOMIC SITUATION

In light of the financial and economic situation the Company experienced through fiscal 2010, the Company is carefully monitoring its strategy and risk management. Although results remain positive, this economic situation prompted Management to adopt a more conservative approach in its daily decisions.

For the fiscal year ended March 31, 2010, the Company's results were impacted by certain decelerations of production schedules and push-outs on commercial Aerospace segment programs as well as by the impact from softer conditions in industrial markets. While the Company's backlog remains strong, especially considering the $125 million backlog coming from the Company's recent acquisition (see Subsequent Events section above), the prevailing business environment, and deferrals or cancellations of additional purchase orders, could have an adverse impact on upcoming results. The Company 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. This being said, the impact of OEM announcements over recent quarters will continue to adversely impact the Aerospace segment commercial market while the military side of the Company's business remains solid. Furthermore, the strengthening 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, cost reduction initiatives and forward foreign exchange contracts strategy to mitigate the negative currency fluctuations.

From a financial standpoint, the Company 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. Capital expenditure requirements are closely monitored by Management. The Company does not expect to have any liquidity issues, considering that the banks' Credit Facilities are extended by a syndicate of four Canadian banks, with high-grade credit ratings, and that the major customers of the Company are worldwide leaders in their respective fields. These Credit Facilities will mature in October 2011.

In light of the above, the Company 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 Company does not have all the visibility it usually has in its markets, it will remain prudent and will continue to closely monitor the situation (see Risks and Uncertainties and Outlook sections below).

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the Accounting Standard Board ("AcSB") confirmed that Canadian GAAP for publicly accountable entities will be converged with IFRS effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

First reporting under IFRS is required for the Company's interim and annual financial statements beginning on April 1, 2011. The Company has developed a changeover plan to convert its Consolidated Financial Statements to IFRS, as described in its fiscal year 2009 Annual Report. The Company's IFRS project is progressing according to plan.

In the period leading up to the changeover, the AcSB is expected to continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standards Board ("IASB") will also continue to issue new accounting standards during the conversion period. The Company continues to monitor standards to be issued by the IASB, but it is difficult to predict the IFRS that will be effective at the end of its first IFRS reporting period, as the IASB work plan anticipates the completion of several projects in calendar years 2010 and 2011. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all the applicable IFRS at the conversion date are known.

The adoption of IFRS brings about several changes from Canadian GAAP. Following is the Company's non-exhaustive preliminary assessment of certain main differences that may have some impact on its consolidated financial statements:

Area	IFRS requirement	Potential key impact
Provisions	Provisions with predictable settlement dates must be discounted.	This could result in a reduction of certain provisions in accounts payable and accrued liabilities with a corresponding net after tax increase of Shareholders' equity.
Property, plant and equipment	Breakdown assets by major components based on useful life, for the calculation of amortization.	The Company is already, in all material respects, in compliance with this requirement with no material impact on amortization cost.
Impairment of long-lived assets	Impairment tests must be based on discounted future cash flows. Under certain circumstances, previous impairment taken (other than goodwill), if any, is required to be reversed.	No significant impact is expected.
Leases	IFRS requires a qualitative and quantitative assessment of lease classification while the Canadian GAAP requirement is based on quantitative tests.	Certain operating leases have to be accounted for as finance leases, leading to an increase in assets and liabilities.
Borrowing costs	Borrowing costs will be capitalized as part of the cost of certain inventories or development costs, and when certain criteria are respected.	No significant impact is expected.

Area	IFRS requirement	Potential key impact
Defined pension plan	The projected unit credit method must be applied for the measurement of pension plan obligations.	No significant impact is expected.
	IFRS allows recognition of all actuarial gains and losses directly in Shareholders' equity, through Other Comprehensive Income ("OCI") with no impact to income.	We elected to immediately recognize all actuarial gains and losses in OCI. Pension cost will no longer include the amortization component of the net actuarial losses at transition and future actuarial gains and losses will be recorded directly in OCI.
	The past service costs must be fully recognized at the time they are vested, while they are currently amortized over the estimated weighted-average remaining service life of plan participants.	An increase in accrued benefit liabilities and a decrease in Shareholders' equity, at transition date. Plan amendments for vested past service costs will be recorded as pension plan cost when granted.
	Under certain circumstances, an additional minimum liability will be recognized under the rules of IFRIC 14, these circumstances are the limit of a defined benefit asset, minimum funding requirements and their interaction. Changes to this amount will be recorded directly to OCI.	An increase in accrued benefit liabilities and a decrease in Shareholders' equity, at transition date. Volatility in accrued benefit assets and liabilities and OCI will arise as a result of this change.
Income taxes	Various changes in accounting policy under IFRS will also impact the corresponding deferred tax asset or liability. Tax consequences of a transaction recorded in OCI or directly in equity in previous period must be recorded in OCI or directly in Shareholders' equity.	The impact will depend on the net amount of all differences in accounting policies.

In addition, IFRS 1 requires that first-time adopters select accounting policies that comply with each IFRS effective at the end of its first IFRS reporting period (March 31, 2012 for the Company), and apply those policies to all periods presented in its first IFRS financial statements.

However, IFRS 1 provides selected optional exemptions to the full retrospective application. The following are the Company's non-exhaustive, key IFRS 1 optional exemptions:

Optional exemptions	Company's action items
Business combinations	Review of certain business acquisition purchase price determination and allocation. A decrease in the goodwill and a decrease in equity, at transition date.
Long-lived assets	Determination of the value (cost or fair value) of its property, plant and equipment. The Company elected to record (and consequently keep) these long-lived assets at cost at transition date.
Defined pension plan	The Company elected to recognize the cumulative net actuarial gains and losses and transitional obligations at the transition date.
Cumulative translation adjustment ("CTA")	The Company elected to eliminate the CTA balance at the transition date.

At this time, the comprehensive impact of the changeover plan on the Company's future financial position and results of operations has not yet been finalized yet.

As the project progresses, the Company could alter its intentions and the milestones communicated at the time of reporting as a result of changes to international standards currently in development, or in light of new information or other external factors that could arise from now until the changeover has been completed.

The Company also continues to provide training to key employees and monitor the impact of the transition on its business practices, systems and internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

Inventories, Capitalized Development Costs and Cost of Sales

Company 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 $0.3 million on the Company's cost of sales.

The non recurring costs (development, pre-production and tooling costs) are now 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 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 Company 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 Company'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 $0.1 million and $3.7 million, respectively, on the Company'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 $0.2 million on the Company's pension plan expense.

Income Tax

The Company accounts for future income tax assets mainly from loss carry-forwards and deductible temporary differences. Company 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

"International Financial Reporting Standards (IFRS)" – See section above.

INTERNAL CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' Multilateral Instrument 52-109 ("MI 52-109"), the Company has filed certificates signed by the Chief Executive Officer and Chief Financial Officer 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 Chief Executive Officer and Chief Financial Officer 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 Company has been made known to them and has been properly disclosed in the annual regulatory filings.

At March 31, 2010, an evaluation of the design and effectiveness of the Company's disclosure controls and procedures was also carried out, as defined in MI 52-109. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation took into account the Company's disclosure policy and its disclosure committee.

Internal Controls over Financial Reporting

The Company's Chief Executive Officer and Chief Financial Officer 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, 2010, the evaluation of the design and effectiveness of the Company's internal controls over financial reporting was carried out, as defined in MI 52-109. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and effectiveness of these internal controls over financial reporting were effective to provide reasonable assurance that the Company's financial reporting is reliable and that the Company'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 were made to our internal controls over financial reporting that occurred during the year ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments subject to various risks and uncertainties that could have a material adverse effect on the Company's business, financial condition and results of operations. These risks and uncertainties include, but are not limited to, those mentioned below.

Reliance on Large Customers

The Company has exposure due to its reliance on certain large contracts and customers. The Company's six largest customers account for approximately 56% of its sales. Any loss or delay in certain orders from any of these customers could have a negative impact on the Company's results.

The Company 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 Company are aluminium, steel and titanium. Supply and cost of these materials is somewhat outside the Company'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 Company's operations and financial condition.

In the past two years, as this situation has escalated with the improvement of the global economy and the explosive growth of the Chinese economy in particular, the Company has begun to take steps to mitigate this risk. It now includes clauses in certain of 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 certain of 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 Company 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 Company's ability to meet its obligations.

However, the Company 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 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

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 defense spending.

General Economic Conditions

Unfavourable economic conditions may adversely affect the Company'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 Company's financial condition and results of operation. Although long-term growth will likely eventually resume, the timing of that resumption is uncertain, and these sectors will remain cyclical. In addition, curtailment of production activities due to unfavourable economic conditions could result in the Company 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 Company 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 Company makes use of derivative contracts to hedge this exposure.

The Company'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 Company requires continued access to capital markets to support its activities. To satisfy its financing needs, the Company relies on long-term and short-term debt and cash flow from operations. Any impediments to the Company'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 Company's financial condition or prospects, could have a material adverse effect on the Company's financial condition and results of operation.

Restrictive Debt Covenants

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

- sell all or substantially all of its assets;
- incur secured indebtedness;
- engage in mergers or consolidations;
- invest in capital expenditures over a certain amount per year; or
- engage in transactions with affiliates.

These restrictions could impair the Company'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 Company's profitability may be directly affected by the level of and fluctuations in interest rates. When appropriate, the Company 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 Company has established a short-term investment policy that dictates the level and type of investments it should seek. The Company also maintains a well-balanced portfolio of financing, choosing between fixed and variable rates.

External Business Environment

The Company 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 Company are complex and sophisticated and may contain defects that are difficult to detect and correct. Errors may be found in the Company's products after they are delivered to the customers. If so, the Company may not be able to correct such errors. The occurrence of errors and failures in the Company's products could result in warranty claims or the loss of customers. Any claims, errors or failures could have an adverse effect on the Company's operating results and business, and financial condition. In addition, due to the nature of the Company's business, the Company may be subject to liability claims involving its products or products for which it provides services. The Company 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 Company will be able to obtain insurance coverage at acceptable levels and cost in the future. (see "Operational Risks" section above).

Environmental Matters

The Company'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 Company's operations and financial condition. The Company monitors these risks through environmental management systems and policies.

Collective Bargaining Agreements

The Company is party to some collective bargaining agreements that expire at various times in the future. If the Company 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 Company's business.

On May 10, 2010, the Company renewed its collective agreement with its Aerostructure Dorval plant employees for a three-year period. Renewal of its Landing Gear Longueuil plant collective agreement is scheduled for the spring of 2011, while the Landing Gear Laval plant agreement comes-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 Company's inability to attract and retain skilled labour, particularly engineers, machinists and programmers, could adversely affect its financial condition and results of operations.

The Company 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

($'000 except per share data)	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
For the fiscal year ended March 31, 2010					
Sales	**320,354**	82,160	76,570	76,659	84,965
EBITDA	**48,437**	12,762	11,723	11,685	12,267
Net income	**16,003**	4,542	3,518	3,538	4,405
Earnings per share ($) – basic	**0.52**	0.15	0.11	0.12	0.14
Earnings per share ($) – diluted	**0.52**	0.15	0.11	0.12	0.14
For the fiscal year ended March 31, 2009					
Sales	**337,635**	82,571	77,340	85,578	92,146
EBITDA	**54,559**	14,467	11,621	13,102	15,369
Net income	**21,363**	5,698	4,056	5,178	6,431
Earnings per share ($) – basic	**0.68**	0.18	0.13	0.16	0.20
Earnings per share ($) – diluted	**0.67**	0.18	0.13	0.16	0.20

FOURTH QUARTER 2010 RESULTS

The Company's results for the quarter ended March 31, 2010, are lower than last year's, continuing the trend seen all year long. It is worth mentioning that last year's results, and especially last year's fourth quarter results, were exceptionally high. Gross profit margin for the quarter was 15.8% this year compared to 17.3% last year. Contrary to the full year results, the fourth quarter saw the Landing Gear product line post lower results than for the fourth quarter last year, mainly from the negative currency impact, while the Industrial and Aerostructure product lines posted improved gross profit margins when compared to the quarter ended March 31, 2009. Net income stood at $4.4 million or $0.14 per share, fully diluted, compared to net income of $6.4 million or $0.20 per share, fully diluted, last year.

Cash flow from operations yielded $12.3 million compared to $14.1 million for the fourth quarter last year. Working capital management efforts paid off and posted a positive net change of $14.3 million compared to an outflow of $1.4 million last year. This $14.3 million inflow came mainly from lower accounts receivables ($3.9 million) in line with the lower fourth quarter sales and lower inventories ($9.8 million) (see "Consolidated Balance Sheet" section above).

OUTLOOK

Conditions have improved in the commercial aerospace market, but the recovery remains fragile and existing orders can be deferred or cancelled, which could alter production schedules. In the large commercial aircraft segment, Boeing and Airbus have confirmed that calendar 2010 deliveries would be near 2009 levels. More importantly, both have recently announced production rate increase for calendar 2011 on platforms such as the B-777, B-747, and A-320 and for calendar 2012 on the B-737 program. Moreover, initial deliveries of the B-787 are scheduled for late calendar 2010. Finally, backlogs remain strong with more than six years of production at current rates. The business jet market appears to have bottomed out and the industry is beginning to see positive signs. The number of used aircraft for sale is slowly coming down and flying hours are increasing. Finally, in the market for regional aircraft, Bombardier and Embraer are both forecasting a lower number of commercial aircraft to be delivered in the current fiscal year.

The military aerospace market remains solid, as evidenced by a new contract to manufacture the landing gear for the CH-47 Chinook helicopter and orders for the C-130J Super Hercules aircraft. The ramp-up of the JSF program is progressing, although it has been announced that this ramp-up will occur at a slightly more moderate pace over the near term. While funding was increased for the US Department of Defense 2010 fiscal year budget and a further increase is being proposed for fiscal 2011, subsequent budget funding may be reduced as the US administration must address its overall deficit.

The power generation industry appears to have bottomed out, but is not expected to experience any significant recovery before calendar 2011. In the wind energy market, low power demand and price have slowed down the rate of new installations since the beginning of calendar 2010, but the market still holds considerable potential over the mid-term.

Capital expenditures for fiscal 2011 are expected to be about $25 million including normal maintenance projects and the extension of the facility dedicated for the JSF program in Texas. This amount excludes $3 million of expected capital investments that could be required in regards to the acquisition concluded on April 28, 2010, of Eagle and E-2.

The integration of these companies, which generated combined sales of approximately US$38 million in calendar 2009, will be a main priority in fiscal 2011. Excluding the contribution of the newly-acquired companies, Héroux-Devtek is anticipating sales to remain relatively stable in comparison with the previous year, assuming no significant change in the average exchange rate, exclusive of forward foreign exchange contracts. Finally, the Company expects an accretion to earnings per share of up to 10% in the first year following the acquisition.

As at March 31, 2010, Héroux-Devtek's funded (firm orders) backlog stood at $423 million and remains well diversified. The acquisition of Eagle and E-2, concluded after year-end, will add approximately $125 million to the Company's backlog. Despite this solid backlog and strong customer relationships, the Company must seek further productivity gains and 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.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee on May 26, 2010 and by the Board of Directors on May 27, 2010. Updated information on the Company can be found on the SEDAR website, at www.sedar.com.