MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

For the fiscal years ended March 31, 2014 and 2013

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Management Discussion and Analysis of Financial Position and Operating Results

The purpose of this management discussion and analysis ("MD&A") is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries ("Héroux-Devtek" or the "Corporation") evolved between March 31, 2013 and March 31, 2014. It also compares the operating results and cash flows for the fiscal year ended March 31, 2014 to those for the previous year.

This analysis should be read in conjunction with the Corporation's audited consolidated financial statements dated March 31, 2014. This MD&A is based on these consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), using the Canadian dollar as the reporting currency. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

In the interest of providing shareholders and potential investors with information regarding Héroux-Devtek, including Management's assessment of future plans and operations, certain statements in this MD&A (including those presented in the Outlook section) 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; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity prices; foreign exchange or interest rate fluctuations; stock market volatility; and the impact of accounting policies issued by international standard setters. Some of these factors are further discussed under Risks and Uncertainties in this MD&A. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

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

Overview

Héroux-Devtek and its subsidiaries mainly specialize in the design, development, manufacture, repair and overhaul of landing gear systems and components used principally in the Aerospace market. The Corporation has also built a strong, well-recognized design engineering team.

The Corporation is the third largest landing gear company in the world, supplying both the commercial and military sectors of the Aerospace market with new landing gear systems and components as well as aftermarket products and services (including spare parts and repair and overhaul services).

On February 3, 2014, the Corporation acquired the entire share capital of U.K.-based APPH Limited and U.S.-based APPH Wichita, Inc. (together "APPH"), subsidiaries of BBA Aviation Plc. APPH is an integrated provider of landing gear and hydraulic systems and assemblies for original equipment manufacturer ("OEM") and aftermarket applications. APPH Limited's main operations are based in Runcorn and Nottingham, United Kingdom and APPH Wichita, Inc. in Wichita, Kansas. Following the acquisition, the Corporation covers North American and European markets and has further increased and diversified its customer base.

In the commercial sector, the Corporation is active in the large commercial and business jet, regional aircraft and helicopter markets. On the military side, the Corporation provides parts and services for all major military aircraft, in the United States and in Europe, following the acquisition of APPH. As such, a significant portion of the Corporation's sales are made to a limited number of customers located in Canada, the United States and Europe.

The Corporation's head office is located in Longueuil, Québec with facilities in the Greater Montreal area (Longueuil, Laval and St-Hubert); Kitchener and Toronto, Ontario; as well as Springfield and Cleveland, Ohio; Wichita, Kansas; as well as Bolton, Runcorn and Nottingham in the United Kingdom. All facilities are involved in the fabrication of landing gear systems and components with the exception of the Toronto facility ("Magtron"), which manufactures electronic enclosures, heat exchangers and cabinets for airborne radar, electro-optic systems and aircraft controls, and the Bolton facility ("Bolton"), which manufactures fluid filters for aircraft engines.

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

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

Héroux-Devtek sells mainly to OEMs such as Boeing, Bombardier, Lockheed-Martin, UTC Aerospace Systems ("UTAS"), Messier-Bugatti-Dowty, and into the aftermarket, where its main customer is the US Air Force (USAF). In fiscal 2014, sales to these six customers represented approximately 65% of total consolidated sales. More specifically, the Corporation has two customers representing 19% and 18% of its consolidated sales.

Business Management

The Corporation's product line operations are managed through decentralized operations that encourage entrepreneurship and the involvement of every employee. They have the management, engineering, manufacturing and marketing resources required to meet the needs of their specific markets. The growth and profitability of the Landing Gear product line and Bolton's operations is the responsibility, respectively, of the Landing Gear Vice-President - General Manager together with the APPH Managing Director, while the growth and profitability of Magtron's operations is the responsibility of Magtron's General Manager. They report directly to the Corporation's President and Chief Executive Officer, while the Vice-President, Finance, Finance Director and Controllers report directly to the 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 supports operations in establishing budget and strategic plans, developing new products and markets, and assistance for public relations, financial controls and reporting, legal counsel, tax, human resources and information technology.

Business Strategy

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

In practice, this translates into:

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

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

- Develop value-added, proprietary products through design engineering;

- Establish or enhance its presence in certain product markets, such as the after-market repair and overhaul of commercial and military landing gear, design and manufacturing of small to large landing gear, for commercial and military aircraft OEMs; and
- Diversify the customer base, which generally means to develop new OEM customers.

Key Performance Indicators

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

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

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

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

Most of these KPIs are discussed later in this MD&A and will also be included in the Financial Highlights of the Corporation's fiscal 2014 Annual Report. Some of these KPIs are not publicly disclosed since they are of a competitive nature.

In fiscal year 2014, market trends had an obvious impact on the Corporation's capacity utilization due to the weaker U.S. military market, which added pressure to the cost absorption for some of the Corporation's business units. On-time delivery and non-quality costs are customers' satisfaction indicators that are closely monitored by Héroux-Devtek. The Corporation has improved these indicators over recent years and continues to pay close attention to quality matrix and quality reports from its customers.

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

Risk Management

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

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

Market Trends

Key indicators in the commercial air transport market were positive in calendar 2013 driven by further improvement in the global economy. Demand in the passenger market continued to grow, with traffic expressed in Revenue Passenger Kilometers ("RPK") increasing 5.3% over calendar 2012, while freight traffic expressed in Freight Tonne Kilometers ("FTK") increased 1.4%[1]. These trends have been sustained in the first three months of calendar 2014 with increases of 5.6% and 4.4% in RPK and FTK, respectively[2].

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[1] Source: IATA Financial Forecast, March 2014

[2] Source: IATA press releases May 6, 2014 and May 5, 2014

Industry deliveries of large commercial aircraft reached a new record in calendar 2013 with 1,274 aircraft for Airbus and Boeing combined, while net new order inflow remained strong with an aggregate amount of 2,858 aircraft[3]. Both manufacturers are also continuing to proceed with production rate increases on several leading programs scheduled for calendar years 2014 through 2017, although production of the B-747 will decrease through calendar 2015[4]. Based on current production rates, their respective backlogs represent approximately eight years of production.

In the regional aviation market, Embraer delivered 90 aircraft in calendar year 2013[5], while Bombardier delivered 55 aircraft during the same period[6], including turboprops. While Bombardier's backlog remained relatively stable during the year, Embraer experienced a significant increase driven by the launch of the E-2 jet program.

Business jet deliveries increased slightly in calendar 2013, reaching 678 aircraft. More importantly, positive signs continue to suggest further improvement in market conditions, such as a 2.3% increase in U.S. business aircraft movements and a year-over-year decrease of 0.9% in the proportion of the business aircraft fleet for sale[7].

The military market remained weak in calendar year 2013, as governments continued to address their deficits. In the U.S., the Corporation's largest military market, the situation was further aggravated by Sequestration and a partial government shutdown during the year. The U.S. Department of Defense fiscal year 2015 budget request calls for a base funding of US$495.6 billion, similar to funding of US$496.0 billion enacted for FY 2014. While the Bi-Partisan Budget Act of 2013 eliminated sequestration defense cuts of approximately US$20 billion that would have been enforced in January 2014, current requests for FY 2016 through FY 2019 exceed current budget caps by a total of approximately US$115 billion[8].

The Outlook section at the end of this MD&A discusses the various effects of these market trends on the Corporation's business.

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[3] Sources: Airbus press release January 13, 2014; Boeing press release January 6, 2014.

[4] Sources: Airbus press releases February 24, 2014; April 4, 2013. Boeing press releases March 20, 2014; January 24, 2014; October 31, 2013; October 18, 2013; May 9, 2013.

[5] Source: Embraer press release, January 15, 2014.

[6] Source: Bombardier press release, January 20, 2014.

[7] Sources: GAMA press release February 19, 2014; FAA January 2014 Business Jet Report, JetNet report February 7, 2014.

[8] Source: U.S. Department of Defense press release March 4, 2014.

Major Achievements of Fiscal 2014

- Héroux-Devtek generated sales from continuing operations of $272.0 million in fiscal 2014, up 5.8% from a year earlier. Excluding approximately two months of sales representing $14.7 million from the acquisition of APPH, organic sales were relatively stable. Adjusted EBITDA, which excludes acquisition-related costs of $5.0 million and restructuring charges of $1.9 million, stood at $35.8 million, or 13.2% of sales, up from $33.0 million, or 12.8% of sales, a year earlier. Adjusted net income from continuing operations amounted to $15.3 million, or $0.48 per share on a diluted basis, compared with $13.4 million, or $0.43 per share on a diluted basis, last year.

- In December 2013, Héroux-Devtek's wholly-owned subsidiary HDI Landing Gear USA Inc. signed a long-term contract with The Boeing Company ("Boeing") to supply complete landing gear systems for the Boeing 777 and 777X programs ("Boeing B-777 contract"). This contract is the largest ever awarded to Landing Gear operations (see below).

- In December 2013, the 110 unionized Landing Gear product line employees at the Laval, Québec facility, the Corporation's Center of Excellence specialized in manufacturing small and medium size complex components for landing gear systems, agreed to an advanced four-year extension to the current collective agreement, which now extends through December 31, 2018. The changes agreed to as part of this new labour agreement will make the Laval site more productive and competitive and will allow Héroux-Devtek to proceed with new investments in state-of-the-art automated systems and equipment. Certain complex components for the Boeing 777 contract awarded to Héroux-Devtek will be manufactured at the Laval facility following these investments in new systems and equipment.

- On February 3, 2014, the Corporation acquired the entire share capital of APPH, an integrated provider of landing gear and hydraulic systems and assemblies for original equipment manufacturer ("OEM") and aftermarket applications for US$124.2 million ($138.7 million). For the 12-month period ended December 31, 2013, APPH generated sales of approximately US$77 million and an adjusted EBITDA of approximately US$12.5 million (see below).

- At fiscal year-end, on March 31, 2014, Héroux-Devtek reached an agreement with a syndicate of banks to amend and restate its existing Credit Facility (the "Facility"). Under the terms of the agreement, the Facility has been extended for a three-year period with a new maturity date set for March 16, 2019. The authorized amount has been increased from $150 million to $200 million, while the Facility could also be increased by an additional amount of $75 million, subject to lenders' consent.

  This Facility will be used for working capital, capital expenditures and other general corporate purposes of Héroux-Devtek and its subsidiaries, including acquisitions. This Facility will be secured by all assets of the Corporation and its subsidiaries, and will be subject to certain restrictive covenants and corporate guarantees granted by the Corporation and its subsidiaries.

Discontinued Operations and Special Distribution

On July 16, 2012, last fiscal year, the Corporation executed a definitive agreement for the sale of substantially all of its Aerostructure and Industrial product line operations to Precision Castparts Corporation (“PCC”), a public company traded on the New York Stock Exchange (“sale transaction”). The net assets acquired by PCC include the Corporation’s Dorval (Quebec), Querétaro (Mexico) and Arlington (Texas) Aerostructure product line manufacturing sites, as well as the Cincinnati (Ohio) Industrial product line manufacturing sites. Prior to the sale transaction, the Aerostructure product line was part of the Corporation’s Aerospace segment, while the Industrial product line formed the Industrial segment. Therefore, all of the operations of the businesses sold are excluded from the Corporation’s segmented information. Following this sale transaction, the Corporation is operating only in the Aerospace segment.

The sale transaction was concluded on August 31, 2012 with gross sale proceeds, including post-closing adjustments, of $297.8 million paid in cash. Taking into consideration the related taxes and transaction related costs, the net proceeds amounted to $234.3 million. The gain of $163.0 million on the sale transaction, net of the related taxes of $51.8 million, amounted to $111.2 million.

Last fiscal year, concurrently to the sale transaction, the Corporation proceeded with a $16.0 million reduction of finance lease obligations and the repayment of a $1.0 million governmental authorities’ loan related to the businesses sold. The Corporation also proceeded with a partial repayment of US $37.5 million ($37.0 million) against the Syndicated Banks’ Credit Facility ("Credit Facility") and repurchased two of the three interest rate swap agreements in place, representing a total notional amount of US $30 million, for a total cost of $1.7 million which was recorded as transaction related costs to the sale transaction.

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

Following the sale transaction, the Board of Directors of the Corporation approved, on November 8, 2012, a special cash distribution of $5.00 per share which was effectively paid on December 19, 2012 to shareholders of record on November 20, 2012. The special distribution to shareholders of $5.00 per share which represented a cash distribution of $157.5 million made on December 19, 2012, was composed of and recorded as an issued capital reduction of $2.70 per share ($85.0 million) and of a special cash dividend of $2.30 per share ($72.5 million) recorded against the retained earnings of the Corporation (see Liquidity and Capital Resources section below).

Acquisition of APPH

On February 3, 2014, the Corporation signed an agreement to acquire the entire share capital of U.K. - based APPH Limited and U.S. - based APPH Wichita Inc. (collectively "APPH"), from BBA Aviation Plc (LSE : BBA), for a consideration of US$124.2 million ($138.7 million), net of US$3.8 million ($4.3 million) of cash acquired. APPH is an integrated provider of landing gear and hydraulic systems and assemblies for OEM and aftermarket applications.

APPH specializes in the design, engineering, manufacturing and aftermarket support of landing gear and hydraulic systems and assemblies for fixed and rotary wing civil and military aircraft. Héroux-Devtek acquired four plants located in the United Kingdom and one plant in Wichita, Kansas. These plants have a combined workforce of approximately 400 employees, including a design engineering department staffed with 40 professionals. APPH's main design programs include landing gear systems for the Hawk, SAAB 340, SAAB 2000, SAAB Gripen, AW101, C27J Spartan and EC175 aircraft.

APPH expands the Corporation's geographical footprint into the European market, provides the Corporation with significant content on several leading programs, further increases and diversifies the Corporation's customer base, and provides greater exposure to the attractive aftermarket business. With a majority of its revenues coming from programs where it holds design authority rights on life-cycle mandates, APPH will also provide Héroux-Devtek with an increased proportion of proprietary programs compared to built-to-print activities.

For the year ended March 31, 2014, the acquisition contributed sales was $14.7 million and EBITDA and net income from operations were, respectively, $2.3 million and $1.3 million. If the acquisition had occurred on April 1, 2013, the sales, EBITDA and net income for the full year from APPH would have been $82.5 million, $12.7 million and $4.9 million, respectively. In determining these amounts, Management assumed that the fair value adjustments that arose on the date of acquisition would have been the same as if the acquisition had occurred on April 1, 2013.

Acquisition-related costs amounting to $5.0 million representing professional fees and transaction fees and expenses have been recognized as an expense in the Consolidated statement of income for the fiscal year ended March 31, 2014. The transaction was financed with the Corporation's available cash for US$58.7 million ($65.6 million) and existing Credit Facility for US$69.3 million ($77.4 million).

The preliminary purchase price allocation that reflects the fair value of the assets acquired and liabilities assumed with any excess allocated to goodwill at February 3, 2014 was as follows:

	($'000)
Cash	4,264
Accounts receivable	15,548
Inventories	39,310
Other current assets	854
	59,976
Property, plant and equipment	14,896
Finite-life intangible assets [(1)]	25,469
Deferred income tax assets	1,098
	41,463
Accounts payable and accrued liabilities	12,535
Accounts payable - other and other liabilities [(2)]	1,698
Provisions	5,611
	19,844
Other liabilities [(2)]	3,306
Net identifiable assets and liabilities	78,289
Goodwill on acquisition	64,713
Total consideration	143,002
Cash acquired	4,264
Net cash outflow	**138,738**

[(1)] *Mainly customer relationships and contracts representing $25.1 million.*

[(2)] *Essentially deferred revenue.*

This purchase price allocation is preliminary, the final purchase price allocation could result in changes to the fair value of assets acquired and liabilities assumed. The final purchase price allocation is expected to be completed as soon as management has gathered all the significant information available and considered necessary in order to finalize this allocation. The goodwill of $64.7 million has been mainly allocated to the Landing Gear product line.

Throughout this MD&A, Management has explained the consolidated results for the fiscal year ended March 31, 2014 which include the results of APPH. 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 APPH are for the period following the acquisition which is February 3, 2014 to March 31, 2014, which is not a full twelve-month period.

Boeing 777 and 777X Contract

In December 2013, Héroux-Devtek's wholly-owned subsidiary HDI Landing Gear USA Inc. signed a long-term contract with The Boeing Company to supply complete landing gear systems for the Boeing B-777 and B-777X programs. This contract is the largest ever awarded to Landing Gear operations.

Under the terms of the long-term contract, HDI Landing Gear USA Inc. will supply complete landing gear systems, including the main and nose landing gear, and the nose landing gear drag strut. The contract includes manufacturing parts for Boeing to sell in the aftermarket. Under the multi-year contract, deliveries will begin in early calendar 2017, with an option to extend the contract through 2028.

In order to successfully carry out this important long-term contract, the Corporation has put in place an investment plan of approximately $90 million, spanning essentially the Corporation's fiscal years ending on March 31, 2015 and 2016, directly related to this contract. The investments will include the expansion of the existing facility network as well as investments in leading-edge machinery and equipment for component manufacturing and system assembly. The investments are in addition to planned regular maintenance capital investments currently projected at approximately $30 million over this two-year period.

Financing for the investment plan will be essentially secured by the Corporation's available cash and its existing Credit Facility and through new finance leases.

Non-IFRS Measures

The Corporation uses EBITDA, adjusted EBITDA, adjusted net income from continuing operations and adjusted earnings per share from continuing operations to assess its financial performance. These financial measures are not prescribed by IFRS. However, the Corporation's management, as well as investors, consider these metrics to be useful information to assist them in evaluating the Corporation's profitability, liquidity and ability to generate funds to finance its operations and capital investment needs.

The Corporation's EBITDA and adjusted EBITDA from continuing operations for the fiscal years ended March 31, are calculated as follows:

($'000)	**2014**	**2013**	**2012**
Net income from continuing operations	**9,236**	13,406	15,875
Income tax expense	**2,567**	3,172	4,207
Financial expenses	**3,816**	3,852	3,746
Amortization expense	**13,280**	12,533	13,619
EBITDA	**28,899**	32,963	37,447
Acquisition-related costs	**5,017**	—	—
Restructuring charges	**1,884**	—	—
Adjusted EBITDA	**35,800**	32,963	37,447

The $2.8 million increase in adjusted EBITDA from fiscal 2013 to fiscal 2014 mainly reflects APPH EBITDA, as explained in the following sections.

The Corporation's adjusted net income and adjusted earnings per share from continuing operations for the fiscal years ended March 31, are calculated as follows:

($'000, except per share data)	2014	2013	2012
Net income from continuing operations	**9,236**	13,406	15,875
Acquisition-related costs, net of taxes of $370	**4,647**	—	—
Restructuring charges, net of taxes of $509	**1,375**	—	—
Adjusted net income from continuing operations	**15,258**	13,406	15,875
Earnings per share from continuing operations	**0.29**	0.43	0.52
Acquisition-related costs, net of taxes	**0.15**	—	—
Restructuring charges, net of taxes	**0.04**	—	—
Adjusted earnings per share from continuing operations - basic & diluted	**0.48**	0.43	0.52

Selected Annual Financial Information

The following table presents selected financial information for the past three fiscal years ended March 31:

($'000, except per share data)	2014	2013	2012
Sales [1]	**272,034**	257,022	253,521
EBITDA[1]	**28,899**	32,963	37,447
Adjusted EBITDA [1]	**35,800**	32,963	37,447
Net income[1]	**9,236**	13,406	15,875
Adjusted net income[1]	**15,258**	13,406	15,875
Earnings per share ($) - basic & diluted[1]	**0.29**	0.43	0.52
Adjusted earnings per share ($) - basic & diluted[1]	**0.48**	0.43	0.52
Total assets	**513,967**	389,115	499,107
Long-term liabilities (including the current portion of long-term debt)	**176,015**	96,466	164,053
Cash and cash equivalents	**47,347**	101,256	62,007

[1] *Continuing operations.*

Foreign Exchange

The Corporation is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its foreign operations and from transactions denominated mainly in US dollars. Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions, but exclusive of forward foreign exchange contracts ("FFEC"), while the statement of income of foreign operations is translated at the average exchange rate for the fiscal year. FFEC, for the purpose of hedge accounting, are classified as cash flow hedges in accordance with the Corporation's accounting policies. The closing rates translate monetary assets and liabilities denominated in foreign currencies and assets and liabilities of foreign operations. The year-end and average exchange rates were as follows at March 31, 2014 and 2013 and for the fiscal years then ended:

	2014	**2013**
Canada / US Exchange Rates:		
Average rate for fiscal year ended March 31	**1.0538**	1.0013
Closing rate at March 31	**1.1055**	1.0160
Canada / British Pound Rates:		
Average rate from acquisition date to March 31	**1.8262**	n/a
Closing rate at March 31	**1.8430**	n/a

As shown above, the average value of the Canadian dollar when compared to its U.S. counterpart, year-over-year, was 5.2% lower, and had a positive impact on the U.S.-denominated sales and results of the Corporation, exclusive of FFEC fluctuations, including those from its Canadian operations. The variation in the closing rate since March 31, 2013 had a favorable impact on the Corporation's U.S.-denominated balance sheet accounts at the end of this fiscal year, when compared to last year. Currency fluctuation impact on the Corporation's sales, gross profit and specific balance sheet elements can be found later in this MD&A.

The Corporation makes use of derivative financial instruments, in accordance with its hedging policy, to hedge foreign currency fluctuation exposure risks (Canadian dollar over US dollar) in an effort to mitigate these risks. At March 31, 2014, the Corporation had FFEC totaling US$127.4 million at a weighted-average rate of 1.0628 maturing at various dates between April 2014 and March 2017, with the majority maturing over the next two fiscal years.

Consolidated Sales

Consolidated sales increased by $15.0 million or 5.8% to $272.0 million from $257.0 million last year. Excluding approximately two months of sales representing $14.7 million from the acquisition of APPH, consolidated sales were stable at $257.3 million. Exchange fluctuations increased sales by $2.8 million or 1.1%, when compared to last year.

Sales can be broken down by sector as follows:

	2014	2013	Variance	
	($'000)	($'000)	($'000)	%
Military [1]	**150,279**	146,035	4,244	2.9
Commercial	**121,755**	110,987	10,768	9.7
Total	**272,034**	257,022	15,012	5.8

[1] *Includes military sales to civil customers and governments.*

Military sales were $4.2 million or 2.9 % higher to $150.3 million from $146.0 million last year, but $3.6 million or 2.4% lower to $142.5 million, when excluding military sales of APPH. The decrease in sales is the result of a slowdown in repair and overhaul activities with the U.S. government partially offset by a new contract with Boeing on the CH-47 helicopter program. The decrease in military sales is also the result of lower electronic enclosure and cabinet sales at the Magtron operations resulting from lower customer requirements. The lower military sales reflect the weaker U.S. military market, as evidenced by the reduced funding of the U.S. base defense budget and the continued sequestration situation.

Commercial sales were $10.8 million or 9.7% higher to $121.8 million from $111.0 million last year and $3.9 million or 3.5% higher to $114.9 million, when excluding commercial sales of APPH. This increase is the result of higher sales on large commercial programs, essentially resulting from new actuator business with Boeing on the B-777 program and production rate increases on the B-777 program, partially offset by lower sales in the regional jet market combined with lower aftermarket sales on the Bombardier CL-415 program.

Sales by Destination

The Corporation's sales by destination were as follows:

	2014	2013
	(%)	(%)
Canada	**29**	31
US	**62**	64
Other countries	**9**	5
Total	**100**	100

The year-over-year change in the sales by destination mix mainly reflects the impact of increased sales to other countries, mainly to European customers, as a result of the APPH acquisition.

Gross Profit

Consolidated gross profit as a percentage of sales was 15.6% this fiscal year, an increase of 0.1% from 15.5% last year. When excluding the impact of the APPH acquisition, this year's gross profit as a percentage of sales would have remained the same at 15.6%.

The US/CAD currency fluctuations negatively impacted the Corporation's gross profit in dollars this fiscal year by $1.0 million or 0.6%, when expressed as a percentage of sales. Besides the natural hedging from the purchase of raw material in US dollars, the Corporation mitigates the currency impact by the use of FFEC.

Excluding the acquisition of APPH, the Corporation's consolidated gross profit in dollars was higher, compared to last year, mainly due to a favorable military aftermarket product mix, combined with lower non-quality costs, partially offset by a higher under-absorption of manufacturing overhead costs at the Longueuil facility resulting from the slowdown in repair and overhaul activities, as explained above. This year's consolidated gross profit was also impacted by non-recurring costs incurred in the development of a new landing gear system program.

Selling and Administrative Expenses

Selling and administrative expenses for the fiscal years ended March 31, were as follows:

	2014	**2013**
Selling and administrative expenses ($'000)	**19,908**	19,326
% of sales	**7.3**	7.5

Selling and administrative expenses stood at $19.9 million or 7.3% of sales, compared to $19.3 million or 7.5% of sales last year. The increase in dollars essentially reflects the impact from the acquisition of APPH. Selling and administrative expenses also include a gain on currency translation on net monetary items denominated in foreign currencies of $1.1 million this fiscal year, compared to a negligible gain last year. The year-over-year impact of $1.1 million from this gain was offset by expenses incurred for certain specific projects, including the new Boeing B-777 contract, and by higher research and development expenses incurred this year, when compared to last year, for the development of new technologies and manufacturing improvements related to landing gear systems which are not capitalized.

Acquisition-related costs

The Corporation's acquisition-related costs were $5.0 million for the fiscal year ended March 31, 2014 (none in 2013). These costs mainly pertain to professional fees and transaction fees and expenses incurred for the acquisition of APPH, as explained above.

Operating Income

Consolidated operating income stood at $17.5 million or 6.4% of sales for the fiscal year ended March 31, 2014, compared to $20.4 million or 7.9% of sales last year. Excluding the acquisition-related costs and the results of APPH since the acquisition date, consolidated operating income stood at $20.8 million or 8.1% of sales, as a result of a higher gross profit, as explained above.

Financial Expenses

Financial expenses stood at $3.8 million for the fiscal year ended March 31, 2014, while it stood at $3.9 million last year. The lower financial expenses this fiscal year, compared to last year, mainly resulted from a favorable discount rate adjustment of $0.2 million recorded on the provision for asset retirement obligations, reflecting the increase in the discount rate this year, while last year it represented an unfavorable discount rate adjustment of $0.3 million. This favorable year-over-year impact of discount rate adjustments on financial expenses was partially offset by the additional interest expense resulting from the increased drawings against the Corporation's Credit Facility to finance the acquisition of APPH, combined with a lower interest income due to the lower level of cash and cash equivalents, compared to last year, as last year's balance included the cash proceeds received from the sale transaction before the special cash distribution to shareholders amounting to $157.5 million.

Restructuring Charges

On January 16, 2014, given the substantial demand reduction for military aftermarket products with the U.S. government, the Corporation announced a plan to optimize and consolidate manufacturing capacity, while further enhancing productivity throughout the organization. These initiatives are in line with the Corporation's operating strategy of focusing on specialized centers of excellence.

These restructuring charges should result in a total charge of approximately $5.0 million before income taxes. For the year ended March 31, 2014, the Corporation recorded restructuring charges of $1.9 million which include employee termination benefits of $1.4 million, the write-down of equipment for $0.2 million which will no longer be used in its operations and other associated costs of $0.3 million. The remaining restructuring charges of $3.1 million are expected to be incurred during the first half of the fiscal year 2015. The unpaid portion of the restructuring charges recorded as at March 31, 2014 is presented under litigations and other in the short-term provisions for $0.9 million and in pension and other retirement benefit plans in other liabilities for $0.3 million in the Corporation’s Consolidated balance sheets (see Note 10 to the consolidated financial statements).

Income Tax Expense

For the fiscal year ended March 31, 2014, the income tax expense stood at $2.6 million, compared to $3.2 million last year.

This fiscal year, the Corporation’s effective income tax rate was 21.7%, compared to its Canadian blended statutory income tax rate of 26.7%. The effective income tax rate reflects the favorable impact from permanent differences ($0.6 million) and a reduction in deferred income tax liabilities in light of changes in tax audit matters, jurisprudence and tax legislation ($1.1 million) partially offset by the negative impact of the non-tax deductible portion of the acquisition-related costs ($1.0 million), combined with a higher U.S. income tax rate for the Corporation’s U.S. subsidiaries ($0.1 million).

Last year, the Corporation’s effective income tax rate was 19.1%, compared to the Corporation’s Canadian blended statutory income tax rate of 26.0%. The difference can be explained by the

favorable impact on the Corporation's effective income tax rate coming from permanent differences ($0.2 million) partially offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries ($0.1 million). It also included a reduction in deferred income tax liabilities in light of changes in tax audit matters, jurisprudence and tax legislation ($1.0 million).

The increase in the Corporation's combined statutory income tax rate this fiscal year, compared to last year, is mainly due to the change in the Corporation's provincial allocation.

As at March 31, 2014 and 2013, 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, 2014, the Corporation had $0.4 million in federal non-capital losses available carried forward (none as at March 31, 2013).

Net Income

For the fiscal year ended March 31, 2014, the Corporation posted a net income from continuing operations of $9.2 million or 3.4% of sales (net of acquisition-related costs of $4.6 million and restructuring charges of $1.4 million, both net of taxes), compared to a net income from continuing operations of $13.4 million or 5.2% of sales for the same period last year.

Last year's net income also included the net income from discontinued operations of $118.2 million, which is comprised of the net income from the operations sold up to August 31, 2012 of $6.2 million and the net gain from the sale transaction of $111.2 million, as explained above, combined with a gain of $0.8 million, net of taxes, resulting from a provision reversal related to a business sold in prior years, as a result of the expiry of the prescribed legal delay (see Note 6 to the consolidated financial statements).

	2014	**2013**
Net income from continuing operations ($'000)	**9,236** [(1)]	13,406
Net income from discontinued operations ($'000)	—	118,226
Net income ($'000)	**9,236**	131,632
Earnings per share - basic ($)	**0.29**	4.25
Earnings per share - diluted ($)	**0.29**	4.23
Earnings per share from continuing operations - basic ($)	**0.29**	0.43
Earnings per share from continuing operations - diluted ($)	**0.29**	0.43

[(1)] *Net of acquisition-related costs of $4.6 million and restructuring charges of $1.4 million, both net of taxes.*

Basic earnings per share figures are based on year-to-date weighted-averages of 31,536,316 common shares outstanding for fiscal year 2014 and 30,939,184 common shares for the same period last year, while the diluted earnings per share figures are based on year-to-date weighted-averages of 31,661,839 for fiscal 2014 and 31,114,439 for last year. The increase in the weighted-average number of outstanding common shares is mainly related to last fiscal year's issuance of 1,034,543 common

shares under the Corporation's stock option plan (see Note 24 to the consolidated financial statements).

On May 28, 2014, the date of this MD&A, the Corporation had 31,625,827 common shares and 686,001 stock options outstanding with a weighted-average of 5.8 years to maturity.

Accumulated Other Comprehensive Income ("AOCI") and Comprehensive Income

For the fiscal year ended March 31, 2014, the other comprehensive income, included in the comprehensive income from continuing operations, is mainly the result of a gain arising from the translation of the financial statements of foreign operations resulting from the appreciation of the US currency versus the Canadian currency, combined with gains from remeasurement of the Corporation's defined benefit pension plans resulting from a higher than expected return on plan assets and a higher interest rate to discount the defined benefit pension plan obligations. These favorable variations on the comprehensive income were partially offset by net losses on the valuation of derivative financial instruments resulting from the appreciation of the US currency versus the Canadian currency and net losses on hedge of net investment in foreign operations.

Liquidity and Capital Resources

Special Distribution to Shareholders

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

The special distribution to shareholders of $5.00 per share which represented a cash distribution of $157.5 million (based on 31,498,905 common shares outstanding on November 20, 2012) made on December 19, 2012 was composed of and recorded as an issued capital reduction of $2.70 per share ($85.0 million) and of a special cash dividend of $2.30 per share ($72.5 million) recorded against the retained earnings of the Corporation. The capital reduction which reduced the Corporation's issued capital was approved by the shareholders at a special shareholder meeting held on December 18, 2012. The transaction costs related to this special distribution to shareholders amounting to $0.3 million ($0.2 million net of income taxes) were accounted for against the issued capital and retained earnings (see Note 24 to the consolidated financial statements).

Credit Facility and Cash and Cash Equivalents

In general terms, the Corporation has a healthy financial situation and is well positioned to face its financing needs. On March 31, 2014, the Corporation reached an agreement to amend and increase its existing Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") with five Canadian syndicated banks, and their U.S. affiliates or branches and a Canadian branch of a U.S. bank. Under the terms of the agreement, the Credit Facility has been extended for a three-year period with a new maturity set for March 16, 2019. The authorized amount has been increased from $150 to $200 million, either in Canadian, US currency, British Pound or Euro equivalent. It also includes an accordion feature to increase the Credit Facility up to $275 million, during the term of the Credit Agreement, subject to the approval of the lenders.

As at March 31, 2014, the Corporation had $100.9 million (US$91.3 million) drawn against the Credit Facility, including the US$69.3 million ($77.4 million) drawing to finance the acquisition of APPH described earlier, compared to $22.4 million (US$22.0 million) as at March 31, 2013. At March 31, 2014, the Corporation had cash and cash equivalents of $47.3 million, compared to $101.3 million at March 31, 2013, that were held in investment accounts with three Canadian banks and their U.S. affiliates or branches of the Corporation's syndicated banks. During the fiscal year ended March 31, 2014, the Corporation used $61.3 million (net of $4.3 million of cash acquired) of cash and cash equivalents, for the acquisition of APPH. Considering the Corporation's cash and cash equivalents position, its available Credit Facility and level of expected capital investments and results, the Corporation's management does not expect any significant liquidity risk in the foreseeable future.

At March 31, the Corporation had the following net cash (debt) position, calculated as follows:

	2014	**2013**
	($'000)	($'000)
Cash and cash equivalents	**47,347**	101,256
Less: Long-term debt, including current portion[(1)]	**150,466**	64,275
Net cash (debt) position	**(103,119)**	36,981

[(1)] *Excluding net deferred financing costs of $1.6 million ($1.3 million in 2013).*

Operating Activities

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

	2014	**2013**
	($'000)	($'000)
Cash flows from continuing operations	**20,935**	28,986
Net change in non-cash items related to continuing operations	**8,897**	(8,396)
Cash flows related to operating activities from continuing operations	**29,832**	20,590
Cash flows related to operating activities from discontinued operations	**(3,792)**	8,273
Cash flows related to operating activities	**26,040**	28,863

The $8.1 million decrease in cash flows from continuing operations, when compared to last year, is mainly the result of transaction-related costs of $5.0 million incurred for the acquisition of APPH, combined with a higher deferred income tax recovery this year, when compared to last year.

For the fiscal year ended March 31, 2014, cash flows from discontinued operations include the final payment of taxes for the last fiscal year ended March 31, 2013.

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

	2014	**2013**
	($'000)	($'000)
Accounts receivable	**(3,944)**	(4,026)
Inventories	**6,079**	3,591
Progress billings	**(4,569)**	(5,827)
Customer advances	**9,409**	—
Income taxes payable and receivable	**2,283**	(1,266)
All others including effect of changes in exchange rate	**(361)**	(868)
	8,897	(8,396)

For the fiscal year ended March 31, 2014, the increase in accounts receivable from continuing operations mainly reflects the impact of a higher US/CAD foreign exchange closing rate used to convert the U.S.-denominated accounts receivable year-end balances. The net reduction in inventories and progress billings mainly reflects the reduced backlog for certain military programs, partially offset by increased inventories related to the higher commercial funded backlog. The increase in customer advances this year, compared to last year, mainly reflects payments received from a customer in relation to a long-term contract. The reduction in income tax payable and receivable mainly reflects a higher current income tax expense from continuing operations this fiscal year when compared to last year, net of the final payment made this year for the previous year's income taxes.

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

Investing Activities

The Corporation's investing activities were as follows:

	2014	**2013**
	($'000)	($'000)
Business acquisition	**(138,738)**	—
Additions to property, plant and equipment[1]	**(9,726)**	(11,464)
Deposits on machinery and equipment [1]	**(12,634)**	58
Net increase in finite-life intangible assets [1]	**(7,942)**	(5,470)
Proceeds on disposal of property, plant and equipment[1]	**192**	970
Net proceeds from sale of discontinued operations[2]	—	223,070
Investing activities of discontinued operations	—	(4,293)
Cash flows relating to investing activities	**(168,848)**	202,871

(1) From continuing operations.

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

As already mentioned, the Corporation invested $138.7 million for the acquisition of APPH during the fiscal year ended March 31, 2014.

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

	2014	**2013**
	($'000)	($'000)
Gross additions made during the year (see note 16 to the consolidated financial statements)	**12,622**	11,609
Government assistance	**(1,771)**	(345)
Additions to property, plant and equipment	**10,851**	11,264
Variation in unpaid additions included in Accounts payable - Other and other payables at year-end	**32**	978
Machinery and equipment acquired through finance leases	**(1,157)**	(778)
Additions, as per statements of cash flows	**9,726**	11,464

The deposits on machinery and equipment of $12.6 million for the fiscal year ended March 31, 2014 are essentially related to the contract signed with Boeing to supply complete landing gear systems for the B-777 program.

In fiscal 2014 and 2013, the additions to property, plant and equipment for continuing operations stood at $10.9 million and $11.3 million respectively. For both fiscal years, it mainly includes capital investments in the St-Hubert Engineering and Longueuil facilities to support certain aerospace development programs, along with maintenance capital expenditure requirements.

Capital expenditures for fiscal 2015 are expected to be about $75.0 million, including $58.0 million related to the Boeing B-777 contract.

The increase in finite-life intangible assets mainly represents capitalized development costs for long-term contracts, essentially for business jet design programs. In fiscal 2014, the Corporation delivered the first production units to Embraer. Sales related to other business jet programs are anticipated to begin in fiscal 2015 and will gradually increase over the following years.

Last year's net proceeds from the sale of discontinued operations were related to the sale transaction and included the sale proceeds received in cash, net of the finance lease obligations reduction and the related income tax and transaction expenses paid.

Financing Activities

The Corporation's financing activities were as follows:

	2014	**2013**
	($'000)	($'000)
Increase in long-term debt	**85,650**	5,649
Repayment of long-term debt	**(3,838)**	(45,383)
Increase in deferred financing costs	**(716)**	—
Issuance of common shares	**575**	6,362
Special distribution to shareholders	**—**	(157,688)
Financing activities of discontinued operations	**—**	(3,208)
Cash flows relating to financing activities	**81,671**	(194,268)

For the fiscal years ended March 31, 2014 and 2013, the increase in long-term debt includes the US$69.3 million ($77.4 million) drawing from the Corporation's Credit Facility to finance the acquisition of APPH and $8.3 million of new governmental authorities' loans received mainly to support Aerospace development program investments.

This year and last year's repayment of long-term debt includes the scheduled repayment of governmental authorities' loans, finance leases for machinery and equipment and a final payment on the promissory note. Last year's repayments also included the partial repayment of US$37.5 million ($37.0 million) against the Credit Facility, following the sale transaction.

In conjunction with the amendment and increase of the Credit Facility, the Corporation incurred $0.7 million in financing costs which are capitalized at March 31, 2014 and will be amortized using the effective interest rate method over a five-year period.

During the fiscal year ended March 31, 2014, the Corporation issued 75,600 common shares following the exercise of stock options for a total cash consideration of $298,000. The Corporation also issued 33,436 common shares under the Corporation's stock purchase and ownership incentive plan ("stock purchase plan"), for a total cash consideration of $277,000.

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

During the fiscal year ended March 31, 2013, the Corporation proceeded with the payment of a special distribution to shareholders of $157.5 million, as previously described. The amount presented in the cash flows also includes the $0.2 million transaction costs related to the special distribution, net of income taxes.

At March 31, 2014, the Corporation was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants through the current fiscal year.

Pension Plans

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

	2014	**2013**	**2012**
	($'000)	($'000)	($'000)
Funded status of the plans (deficit)	**(3,062)**	(8,810)	(8,061)

At March 31, 2014, the pension plan deficit of $3.1 million excludes $3.6 million in pension plan obligations related to unregistered pension plans for former executives of Devtek Corporation, which was acquired by the Corporation in June 2000 and whose pension plan liability does not require funding. For this pension plan, funding occurs as pension benefits are paid to the retired executives.

At March 31, 2014, the discount rate assumptions used to determine the defined benefit obligations for registered and unregistered defined benefit pension plans was 4.4%, compared to 4.3% a year earlier. The higher discount rate this year, compared to last year, decreased the pension plan obligations by $0.7 million this year, while changes in demographic assumptions increased the pension plan obligations by $1.3 million this year (see Note 27 to the consolidated financial statements).

At March 31, 2014, the contributions expected to be paid to all defined benefit pension plans in fiscal 2015 amount to $2.9 million, while the total minimum funding requirements for the registered defined benefit pension plans over the next five years represents $11.5 million, representing approximately $2.0 million to $2.8 million per year.

Capital Stock, Stock Option and Stock Purchase Plans

At March 31, 2014, the Corporation had 31,620,482 common shares outstanding (31,511,446 as at March 31, 2013).

During fiscal 2014, the Corporation issued 75,600 common shares following the exercise of stock options at a weighted-average price of $3.94 for a total cash consideration of $298,000 and also issued 33,436 common shares, under the Corporation's stock purchase plan at a weighted-average price of $8.28 for a total cash consideration of $277,000.

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

During the fiscal year ended March 31, 2014, the Corporation granted 502,500 stock options to officers and key employees (none in 2013). At March 31, 2014, 686,001 stock options were issued and outstanding with a weighted-average of 5.9 years to maturity and a weighted-average exercise price of $9.39 - see Note 24 to the consolidated financial statements.

For the fiscal year ended March 31, 2014, the stock option plan expense and the stock purchase plan expense amounted to $272,000 and $128,000 respectively ($374,000 and $160,000 in 2013) - see Note 24 to the consolidated financial statements.

At March 31, 2014, 1,674,781 common shares had not been issued yet under the Stock Option Plan and 240,785 common shares had not been issued yet under the Stock Purchase Plan.

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

Until August 2010, the Corporation had a SAR plan where rights were issued to its non-employee directors. Although the SAR plan has since been replaced by a DSU plan effectively approved in May 2011 by the Corporation's Board of Directors, outstanding SARs issued prior to August 2010 are still in effect.

At March 31, 2014, 17,000 SARs were still outstanding (39,000 at March 31, 2013) at a weighted-average granted price of $1.72 ($2.78 at March 31, 2013) and expire on various dates from fiscal 2015 to 2016. For the fiscal year ended March 31, 2014, 22,000 SARs were exercised at an average exercise price of $3.60 (85,700 SARs at an average exercise price of $5.84 in 2013), and no SARs were cancelled (5,800 in 2013).

The DSU applies to the non-employee directors of the Corporation and is intended, on the one hand, to enhance the Corporation's ability to attract and retain high quality individuals to serve as members

of the Board of Directors and participate in the Corporation's long-term success and, on the other hand, to promote a greater alignment of interests between the Corporation's non-employee directors and its shareholders.

The DSU enables the participants to receive compensation at the termination date, as a member of the Board of Directors, of a cash amount equal to the quoted price of the Corporation's common share for each DSU. These DSUs are expensed on an earned basis and their costs are determined using a valuation model and re-measured at each reporting period. Each director can also elect, each fiscal year, to have up to 50% of his director's annual retainer fees converted into DSUs. These DSUs vest over a one-year period.

At March 31, 2014, 64,825 DSUs were outstanding (75,302 at March 31, 2013). During the fiscal year ended March 31, 2014, the Corporation issued 17,565 DSUs (45,674 in 2013) and 27,084 DSUs were exercised (8,090 in 2013) while 958 DSUs were cancelled this year (none last year).

For the fiscal year ended March 31, 2014, SAR expense amounted to $81,000 ($494,000 in 2013) while DSU expense amounted to $371,000 ($369,000 in 2013) - see Note 24 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, 2014 and March 31, 2013:

Item	March 31, 2014 ($ million)	March 31, 2013 ($ million)	Change ($ million)	APPH [1] ($ million)	Net Change ($ million)	Explanation
Cash and cash equivalents	47.3	101.3	(54.0)	4.3	(58.3)	See consolidated statements of cash flows. As already mentioned, the Corporation utilized US$58.7 million ($65.6 million) for the acquisition of APPH.
Accounts receivable	66.0	46.6	19.4	15.5	3.9	Mainly reflects a higher US/CAD exchange rate used to convert the U.S.-denominated accounts receivable, when compared to March 31, 2013 (impact of $3.0 million).
Inventories	134.0	100.8	33.2	39.3	(6.1)	Mainly reflects the reduction in inventories reflecting the reduced backlog for certain military programs net of increased inventories related to the higher commercial funded backlog partially offset by a higher US/CAD exchange rate used to convert the inventories of the U.S. operations ($1.4 million).

[1] *Reflecting APPH preliminary purchase price allocation as of February 3, 2014 (see above).*

Item	March 31, 2014 ($ million)	March 31, 2013 ($ million)	Change ($ million)	APPH [1] ($ million)	Net Change ($ million)	Explanation
Derivative financial instruments (current and non-current assets)	0.6	3.2	(2.6)	—	(2.6)	Reflects the variation in the Corporation's balance sheets of derivative financial instruments measured at fair value. The decrease is mainly the result of a lower differential between the weighted-average US/CAD rates of forward foreign exchange contracts on hand and the closing rates of conversion used, as of both balance sheet dates.
Other current assets	26.9	12.6	14.3	0.9	13.4	Mainly reflects increased deposits made on machinery and equipment of $12.6 million essentially in relation to the Boeing B-777 contract.
Property, plant and equipment, net (PPE)	92.3	78.2	14.1	14.9	(0.8)	Mainly reflects the amortization expense ($12.3 million) and the write-down of PPE ($0.2 million), partially offset by additions ($10.9 million, net of government assistance) and a higher US/CAD exchange rate used to convert the PPE of the U.S. operations ($1.0 million).
Finite-life intangible assets, net	59.1	26.5	32.6	25.5	7.1	Reflects essentially the increase in capitalized development costs for long-term contracts ($7.8 million, net of government assistance) and in software costs ($0.4 million), net of amortization expense ($1.0 million).
Goodwill	84.4	19.2	65.2	64.7	0.5	Essentially reflects the higher US/CAD exchange rate used to convert the goodwill of the U.S. operations.
Accounts payable and accrued liabilities	57.6	44.3	13.3	12.5	0.8	Mainly reflects the impact of a higher US/CAD exchange rate used to convert U.S.-denominated accounts payable and accrued liabilities, when compared to March 31, 2013 (impact of $1.7 million).
Provisions (current and long-term)	19.8	14.0	5.8	5.6	0.2	
Progress billings (current and long-term)	7.7	12.3	(4.6)	—	(4.6)	The reduction in progress billings mainly reflects a reduced backlog on certain military programs.
Customer Advances	9.4	—	9.4	—	9.4	Reflects a payment received from a customer in relation to a long-term contract.
Income tax payable	0.7	2.5	(1.8)	—	(1.8)	Decrease mainly reflecting the final income tax payments made this year related to the balance due from the last fiscal year.

[1] *Reflecting APPH preliminary purchase price allocation as of February 3, 2014 (see above).*

Item	March 31, 2014 ($ million)	March 31, 2013 ($ million)	Change ($ million)	APPH [1] ($ million)	Net Change ($ million)	Explanation
Derivative financial instruments (current and long-term liabilities)	7.3	2.6	4.7	—	4.7	Reflects the variation in the Corporation's balance sheets of derivative financial instruments measured at fair value. The increase is mainly the result of a higher differential between the closing rates of conversion used and the weighted-average US/CAD rates of forward foreign exchange contracts on hand, as of both balance sheet dates.
Long-term debt (including current portion)	148.9	63.0	85.9	—	85.9	Reflects the US$69.3 million ($77.4 million) drawing on the Credit Facility to finance the acquisition of APPH, new governmental loans received this year to support Aerospace development program investments ($8.3 million) and new finance lease put in place to finance an equipment ($1.2 million). It also reflects the interest accretion on increased governmental authorities' loans ($1.7 million), the impact of a higher US/CAD exchange rate used to convert U.S.-denominated long-term debt ($1.4 million) and the amortization of deferred financing costs related to the Credit Facility ($0.4 million), net of scheduled payments of long-term debt ($3.8 million) and increase in deferred financing costs, following the extension of the Credit Facility ($0.7 million).
Deferred income tax liabilities	8.6	12.4	(3.8)	—	(3.8)	Mainly reflects a reduction in deferred income tax liabilities in light of changes in tax audit matters ($1.1 million) and a reduction of outside basis difference in subsidiary ($2.2 million).
Other liabilities	10.0	13.0	(3.0)	3.3	(6.3)	Decrease mainly resulting from gains on remeasurement of the Corporation's defined benefit pension plans ($4.5 million, as already explained above), combined with scheduled payments made this year.
Retained earnings	205.9	193.4	12.5	—	12.5	The increase reflects the Corporation's net income of $9.2 million for the fiscal year ended March 31, 2014, combined with the defined benefit net gains from remeasurement of $3.3 million on the Corporation's defined benefit pension plans recorded this fiscal year.

[1] *Reflecting APPH preliminary purchase price allocation as of February 3, 2014 (see above).*

At March 31, 2014 and March 31, 2013, 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:

	2014	2013
Working capital ratio	**2.71:1**	3.59:1
Cash and cash equivalents	**$ 47.3 million**	$101.3 million
Long-term debt-to-equity ratio	**0.60:1**	0.27:1
Net debt-to-equity ratio[1]	**0.43:1**	(0.17:1)

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

The summary of the following contractual obligations of the Corporation includes payments due over the next five years and thereafter, and represents the following at March 31, 2014:

		Payments due by period			
Contractual obligations ($'000)	**Total**	**1 year**	**2-3 years**	**4-5 years**	**After 5 years**
Governmental authorities' loans (including the effective accumulated interest expense)	60,376	1,879	7,178	10,701	40,618
Finance leases (including interest expense)	5,507	2,004	2,465	649	389
Credit facility	109,436	1,716	3,432	104,288 [2]	—
Sub-Total	175,319	5,599	13,075	115,638	41,007
Building, machinery and equipment acquisition commitments	42,203	36,557	5,646	—	—
Operating leases - Buildings and facilities	2,549	1,136	853	560	—
Total contractual obligations[1]	**220,071**	**43,292**	**19,574**	**116,198**	**41,007**

[1] Excluding defined benefit pension plan obligations presented in a previous section.

[2] Credit Facility matures on March 16, 2019.

Government Assistance

For fiscal 2014, the Corporation recorded as government assistance for continuing operations an amount of $3.2 million ($2.8 million last year) as a reduction of cost of sales and selling and administrative expenses, and an amount of $4.3 million ($2.3 million last year) as a reduction of the related property, plant and equipment or capitalized development costs and software, presented under Finite-life intangible assets.

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

Commitments, Derivatives, Off-Balance-Sheet Items and Contingencies

Commitments

As at March 31, 2014, the Corporation had operating lease obligations amounting to $2.5 million for buildings and facilities. These amounts are repayable over the next five fiscal years. The Corporation also had machinery and equipment purchase commitments totaling $42.2 million (see Note 28 to the consolidated financial statements of which $38.5 million is related to the Boeing B-777 contract).

Derivatives, Off-Balance-Sheet Items

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

At March 31, 2014, the Corporation had FFEC with Canadian chartered banks to sell US$127.4 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.0628. These contracts relate mainly to its export sales, and mature at various dates between April 2014 and March 2017, with the majority maturing over the next two fiscal years (see Note 34 to the consolidated financial statements). This compares to U$123.5 million in FFEC held at March 31, 2013, at a weighted-average exchange rate of $1.0325.

At March 31, 2013, the Corporation had entered into an interest-rate swap agreement for a total notional amount of US$10 million. The agreement fixed the Libor U.S. rate at 2.04% for an amount of US$10 million, maturing in December 2015.

In 2014, the Corporation entered into two additional interest-rate swap agreements for a total notional amount of US$15 million in order to hedge a portion of the variable interest cash flow on the US$69.3 million drawn on the credit facility during fiscal 2014. These interest-rate swap agreements fix the Libor U.S. rate until their maturity in December 2018 at 1.65% for the first tranche of US$5 million commencing on March 2014, and at 2.38% for the second tranche of US$10 million commencing in December 2015.

The interest-rate swap rates mentioned per above excludes the additional bank relevant margin (see note 22 to the consolidated financial statements). The cash flows related to the interest-rate-swaps are expected to occur in the same periods as they are expected to affect the net income.

The credit and credit concentration risks related to these financial instruments are limited due to the fact that the Corporation deals exclusively with Canadian chartered banks and their U.S. subsidiaries or branches, and with a Canadian branch of a U.S. bank, which are high-grade financial institutions,

based on the Corporation's investment policy. On that basis, the Corporation does not anticipate any breach of agreement by counterparties.

In March 2011 and February 2014, the Corporation designated certain long-term debt as hedge of its net investments in foreign operations. This designation was still in effect as at March 31, 2014.

Contingencies

On February 5, 2014, Goodrich Corporation, member of UTC Aerospace Systems ("UTAS") group, filed a request for arbitration against the Corporation to the ICC International Court of Arbitration based on an alleged violation of a non-compete covenant contained in an agreement between Goodrich Corporation and Devtek Aerospace Inc. relating to the manufacturing of pistons. The arbitration date has not been set yet.

The Corporation disagrees with the Goodrich Corporation's position and believes that it is acting in conformity with its agreements and accordingly no provision was recorded as of March 31, 2014. While the Corporation cannot predict the final outcome of this arbitration, the Corporation intends to defend its position in this matter and has strong and serious grounds of defense to oppose within the arbitration process.

The Corporation is involved in other litigations and claims in the normal course of business. Management is of the opinion that any resulting settlements would not materially affect the financial position and operating results of the Corporation.

Critical Accounting Estimates

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

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

Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or Corporation's cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets and observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the Corporation's five-year budget and strategic plan and do not include restructuring activities that the Corporation is not yet committed to, or

significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the perpetual growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in Note 18 to the consolidated financial statements.

Deferred Income Tax Assets

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Corporation establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

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

Pensions and Other Retirement Benefits

The cost of the defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. In determining appropriate discount rates, management considers the interest rates of high-quality corporate bonds. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The significant assumptions used to determine the defined benefit obligations and the pension expenses, including a sensitivity analysis, are further explained in Note 27 to the consolidated financial statements.

Capitalized Development Costs

Development costs are capitalized in accordance with the accounting policy described in Note 3 to the consolidated financial statements. Initial capitalization is based on management's judgment that economic feasibility is confirmed, usually when a product development project has reached a defined milestone in the project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied, the expected period of benefits and contract quantities.

Provisions

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

CHANGES IN ACCOUNTING POLICIES

On April 1st, 2013, the Corporation adopted retrospectively the standards below in accordance with required changes from the International Accounting Standard Board. The adoption of these new standards did not have a material impact on prior periods' comparative figures.

IAS 1 *Presentation of Financial Statements*

The amended IAS 1, *Presentation of Financial Statements* was adopted retrospectively effective April 1st, 2013. The principal change resulting from the amendments to IAS 1 is the requirement to present separately other comprehensive income items that may be reclassified to income from other comprehensive items that will not be reclassified to income in the consolidated statement of comprehensive income.

IFRS 13 *Fair Value Measurements*

The IFRS 13, *Fair Value Measurements* was adopted retrospectively effective April 1st, 2013, and is a new and comprehensive standard that sets out a framework for measuring at fair value and that provides guidance on required disclosures about fair value measurements.

IAS 19 *Employee Benefits*

The amended IAS 19, *Employee Benefits* was adopted retrospectively effective April 1st, 2013. Amongst other changes, the amendments require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations (usually, the present value of defined benefit obligations less the fair value of plan assets). Also, the net interest cost is now presented in the financial expenses. Furthermore, the amendments to IAS 19 enhance the disclosure requirements for defined benefit plans, providing additional information about the characteristics of defined benefit plans and the risks that entities are exposed to, through participation in those plans. The changes in accounting policy have been accounted for retrospectively in accordance with the transition rules of the amended IAS 19.

The impact of the adoption of the amended IAS 19, *Employee Benefits* on the consolidated statement of income and consolidated statement of comprehensive income for the fiscal year ended March 31, 2013 is as follows:

	($'000)
● Decrease of cost of sales	(71)
● Increase of selling and administrative expenses	128
● Increase of financial expenses	508
● Decrease of income tax expense	(152)
● Decrease of net income from continuing operations and net income	(413)
● Decrease of remeasurement losses, net of income taxes	413
● Increase of other comprehensive income from continuing operations and other comprehensive income	413

FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9 *Financial Instruments*

The IFRS 9, *Financial Instruments* simplifies the measurement and classification of financial assets by reducing the number of measurement categories in IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard also provides for a new hedge accounting model more closely aligned with risk management activities undertaken by Corporations. The effective date of these amendments will be determined by the IASB when the entire IFRS 9 project is closer to completion. The Corporation has not yet assessed the impact of these amendments.

IFRIC 21 Levies

IFRIC 21 clarifies the timing of accounting for a liability for outflow of resources that is imposed by governments in accordance with legislation, based on the activity that triggers the payment. Levies is required to be applied retrospectively for periods beginning April 1, 2014. The Corporation has not yet assessed the impact of these amendments.

INTERNAL CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' Regulation 52-109, the Corporation has filed certifications 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, 2014, 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 Regulation 52-109. Based on this evaluation, the CEO and CFO concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation took into account the Corporation's disclosure policy and its disclosure committee.

Internal controls over financial reporting

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

At March 31, 2014, 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 Regulation 52-109. Based on this evaluation, the CEO and CFO concluded that the design and effectiveness of these internal controls over financial reporting were effective to provide reasonable assurance that the Corporation's financial reporting is reliable and that the Corporation's consolidated financial statements were prepared in accordance with IFRS.

Management's assessment and conclusion on the design of disclosure controls and procedures and internal controls over financial reporting excludes the controls, policies and procedures of APPH which was acquired 8 weeks prior to the Corporation's fiscal year-end. APPH's results since the acquisition date are included in the March 31, 2014, consolidated financial statements of Héroux-Devtek and constituted approximately 33% of total assets as of March 31, 2014, and approximately 5% of revenue for the year then ended. Please refer to Note 5 to the consolidated financial statements for further details of the acquisition.

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

Changes in internal controls over financial reporting

No changes were made to the Corporation's internal controls over financial reporting during the fiscal year ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

RISKS AND UNCERTAINTIES

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

Reliance on Large Customers

The Corporation has exposure due to its reliance on certain large contracts and customers. The Corporation's six largest customers account for approximately 65% of its sales. Any loss or delay in certain orders from any of these customers could have a negative impact on the Corporation's results. The Corporation mitigates this risk through the increase of long-term sales contracts, when possible, with its main customers.

Availability and Cost of Raw Materials

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

The Corporation mitigates this risk with the inclusion of clauses in its long-term sales contracts of importance to share the risk of raw materials availability and cost with its customers. It also negotiates certain long-term supply agreements with its suppliers of raw materials, and monitors 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 and in particular, for proprietary products and major sales contracts, 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.

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

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, particularly in the Middle East and Ukraine. Such issues typically have a negative impact on commercial air traffic and a positive impact on defence spending.

General Economic Conditions

Unfavorable 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. In addition, the business jet market is closely related to the state of the economy. This could adversely affect the Corporation's financial condition and results of operation. Although long-term growth is gradually resuming, these sectors will remain cyclical. In addition, curtailment of production activities due to unfavorable economic conditions could result in the Corporation incurring significant costs associated with temporary layoffs or termination of employees.

Military Spending

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

Foreign Currency Fluctuations

The Corporation is exposed to risks resulting from foreign currency fluctuations arising either from carrying on business in Canada in foreign currencies or through operations in the United States and United Kingdom. The rapid fluctuations in the value of the Canadian dollar, when compared to the U.S. or British Pound currencies, may add volatility to the results of the Corporation. 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 or European 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 or European 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 and a maximum net funded debt to EBITDA ratio, all calculated on a consolidated basis. These terms and ratios are defined in the Credit Facility agreement and do not necessarily correspond to the Corporation's financial metrics or the specific terms used in the MD&A.

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

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

Changing Interest Rates

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

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

External Business Environment

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

Warranty Casualty Claim Losses

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

Environmental Matters

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

Collective Bargaining Agreements

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

In April 2014 and in December 2013, the Corporation renewed its collective agreements, respectively, with its Landing Gear Longueuil plant employees for three years and Landing Gear Laval plant employees for five years.

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.

Pension Plan Liability

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

SELECTED QUARTERLY FINANCIAL INFORMATION

($'000 Except per share data)	TOTAL	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
For the fiscal year ended March 31, 2014					
Sales from continuing operations	272,034	62,972	56,402	61,448	91,212
EBITDA from continuing operations	28,899	7,747	6,254	7,170	7,728
Adjusted EBITDA from continuing operations [2]	35,800	7,747	6,518	8,286	13,249
Net Income from continuing operations	9,236	2,814	2,584	2,608	1,230
Adjusted Net Income from continuing operations [2]	15,258	2,814	2,794	3,697	5,953
Earnings per share from continuing operations ($) - Basic & Diluted	0.29	0.09	0.08	0.08	0.04
Adjusted Earnings per share from continuing operations ($) - Basic & Diluted [2]	0.48	0.09	0.08	0.12	0.19
For the fiscal year ended March 31, 2013					
Sales from continuing operations	257,022	63,780	57,684	61,742	73,816
EBITDA from continuing operations [1]	32,963	8,271	6,989	7,672	10,031
Net Income from continuing operations [1]	13,406	2,946	2,645	3,216	4,599
Net Income from discontinued operations	118,226	3,258	110,000	1,289	3,679
Net income [1]	131,632	6,204	112,645	4,505	8,278
Earnings per share from continuing operations - Basic & Diluted [1]	0.43	0.10	0.09	0.10	0.15
Earnings per share ($) - Basic [1]	4.25	0.20	3.68	0.14	0.26
Earnings per share ($) - Diluted [1]	4.23	0.20	3.64	0.14	0.26

[1] *Restated, see note 3 to the consolidated financial statements.*

[2] *See Non-IFRS measures above.*

Fourth Quarter 2014 Results

Consolidated sales increased by $17.4 million or 23.6% from $73.8 million last year. Excluding the $14.7 million sales of APPH since the acquisition, consolidated sales increased $2.7 million or 3.7%, essentially as a result of currency fluctuations which increased sales by $2.4 million, when compared to last year.

Military sales were $11.6 million or 28.0% higher to $53.2 million from $41.6 million last year, and $3.8 million or 9.2% higher to $45.4 million when excluding military sales of APPH. The increased military sales are resulting from higher spares requirements mainly on the P-3 and C-130 programs combined with the favorable impact of currency fluctuations.

Commercial sales were $5.8 million or 17.9% higher to $38.0 million from $32.2 million last year but $1.1 million or 3.5% lower to $31.1 million, when excluding commercial sales of APPH. The increase in large commercial programs, mainly from new actuator business on the B-777 program, was offset by lower sales in the regional jet market combined with lower aftermarket sales on the Bombardier CL-415 program.

For the last quarter ended March 31, 2014, consolidated gross profit as a percentage of sales was 16.9%, an increase of 0.6% from 16.3% last year. When excluding the impact of the APPH acquisition, this year's gross profit as a percentage of sales would have been 17.1%, or 0.8% higher than last year, despite a 0.3% unfavorable impact resulting from US/CAD currency fluctuations. This increase in gross profit as a percentage of sales is reflecting a favorable military aftermarket product mix and lower non-quality costs, partially offset by a higher under-absorption of manufacturing overhead costs at the Longueuil facility resulting from the slowdown in military repair and overhaul activities.

For the quarter ended March 31, 2014, consolidated operating income stood at $5.8 million or 6.3% of sales compared to $6.8 million or 9.2% of sales last year. Excluding the acquisition-related costs of $3.6 million incurred in the fourth quarter of this year and the results of APPH since the acquisition date, consolidated operating income would have been $7.6 million or 10.0% of sales, essentially as a result of the higher gross profit explained above.

For the quarter ended March 31, 2014, the corporation posted a net income of $1.2 million, net of restructuring charges and acquisition-related costs of respectively $1.4 million and $3.3 million, both net of taxes. Last year, net income from continuing operations for the quarter ended March 31, 2013 was $4.6 million and net income of discontinued operations was $3.7 million.

Cash flow from continuing operations was lower this year at $4.4 million, compared to $9.0 million in the fourth quarter of last year, essentially as a result of transaction related-costs of $3.3 million, net of taxes, incurred this year for the acquisition of APPH. The net change in non-cash items related to continuing operations represented an inflow of $15.3 million, compared to an outflow of $0.3 million in the fourth quarter of last year. This quarter's inflow is mainly the result of increased customer advances ($9.4 million) reflecting a payment received from a customer in relation to a long-term contract, combined with a reduction in inventories ($8.2 million) and higher accounts payable and accrued liabilities, accounts payable - other and other liabilities ($6.4 million) partially offset by higher accounts receivable ($11.6 million), compared to the quarter ended December 31,

2013. These variations are the result of higher sales volume in the fourth quarter, compared to the third quarter of this year.

OUTLOOK

Conditions remain mostly favorable in the commercial aerospace market. The IATA's most recent forecast calls for 5.8% growth in the passenger market for calendar 2014, following a 5.3% increase in calendar 2013, while air cargo volume is expected to rise 4.0% in calendar 2014, after a modest 1.4% increase in calendar 2013[9].

In the large commercial aircraft segment, Boeing and Airbus are proceeding with production rate increases on several certain leading programs scheduled for calendar years 2014 through 2017, although production of the B-747 will be decreased through calendar 2015[10]. Their backlogs remain strong, representing approximately eight years of production at current rates.

In the business jet market, deliveries increased slightly in calendar 2013, reaching 678 aircraft and positive signs continue to suggest further improvement in market conditions, such as a 2.3% increase in U.S. business aircraft movements and a year-over-year decrease of 0.9% in the proportion of the business aircraft fleet for sale. More importantly, industry sources are calling for sustained growth over up to possibly five years, a period spanning the planned entry into service of several business jet models for which Héroux-Devtek has designed the landing gear.[11]

Conditions in the military aerospace market are expected to remain difficult, as governments address their deficits. In the U.S., the Department of Defense FY 2015 budget request calls for a base funding of US$495.6 million, similar to funding of US$496.0 million enacted for FY 2014. Although sequestration cuts were eliminated through the U.S. Government's 2015 fiscal year, current funding requests beyond that horizon exceed planned budget limits, which could affect the Corporation over its ensuing fiscal years. However, as APPH reduces the Corporation's relative exposure to the U.S. military market, a more geographically diversified military portfolio, mainly composed of leading programs, and also balanced between new component manufacturing and aftermarket products and services, should lessen any impact.

The Corporation's balance sheet remains healthy with cash and cash equivalents of $47.3 million as at March 31, 2014. This amount, combined with funds available under its Credit Facility, will allow Héroux-Devtek to fund expected capital expenditures of approximately $75 million in fiscal 2015, including initial investments of about $58 million related to the Boeing 777 landing gear contract.

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[9] Source : IATA Industry Financial Forecast March 2014

[10] Sources: Airbus press releases February 24, 2014; April 4, 2013. Boeing press releases March 20, 2014; January 24, 2014; October 31, 2013; October 18, 2013; May 9, 2013.

[11] Sources: JETNET, FAA, Teal Group.

As at March 31, 2014, Héroux-Devtek's funded (firm orders) backlog stood at $456 million, including $93 million from APPH, up from $361 million at the end of the previous fiscal year. Despite this solid backlog and strong customer relationships, the Corporation will continue to enhance productivity and streamline its cost base to remain competitive in light of the increasingly global character of the aerospace industry.

In the current fiscal year ending March 31, 2015, Héroux-Devtek will benefit from a full-year contribution from APPH, while internal sales should be relatively stable compared with the year just ended. As forces driving its main markets are not expected to evolve materially, the Corporation anticipates an increase in internal sales to the commercial aerospace market to be offset by lower internal sales to the military aerospace market. Over a longer-term horizon, Héroux-Devtek's performance will be driven by the initial contribution and subsequent growth of European operations, the start-up of the Boeing 777 contract, the ramp-up of its landing gear design programs, large aircraft manufacturers achieving scheduled production rate increases, a sustained recovery in the business jet market and stable military conditions beyond fiscal 2015.

With these key drivers, the Corporation believes that it can achieve sales of approximately $500 million within the next five years, assuming no further acquisition and stable exchange rates between the Canadian dollar, the US dollar and the British pound, as well as considering its FFEC.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee on May 27, 2014 and by the Board of Directors on May 28, 2014. Updated information on the Corporation can be found on the SEDAR website, at www.sedar.com.