HÉROUX-DEVTEK
QUARTERLY REPORT
FIRST QUARTER
ENDED JUNE 30, 2011

A WORLD-CLASS PRESENCE

HÉROUX DEVTEK

MESSAGE TO SHAREHOLDERS
First quarter ended June 30, 2011

On behalf of the Board of Directors, I am pleased to present the financial results for Héroux-Devtek's first quarter ended June 30, 2011. These results are the first presented by the Corporation following its adoption for reporting purposes, on April 1, 2011, of International Financial Reporting Standards ("IFRS"). Results for the prior year have been restated. Results include the contribution of Eagle Tool & Machine Co. and of its subsidiary All Tools Inc. ("Landing Gear USA") for the entire period, versus only two months in the prior year.

Héroux-Devtek's first quarter results clearly highlight the positive momentum that is driving most of its strategic markets. Our sales increase reflects higher activity for the Aerostructure and Industrial product lines as well as an additional contribution of $5.3 million from Landing Gear USA. More importantly, this greater volume and further efficiency gains have resulted in a significant increase in profitability and cash flow.

Consolidated sales were $91.9 million, up 11.3% from $82.5 million for the same period last year. Aerospace sales were $84.6 million in the first quarter of fiscal 2012 compared with $76.0 million last year. Landing Gear product sales increased 9.5% to $59.4 million reflecting the additional one-month contribution from Landing Gear USA. Excluding this factor, sales were essentially stable as increased activity for certain large commercial aircraft, mainly the B-777, and business jet programs were offset by currency fluctuations and reduced customer requirements for certain helicopter and regional jet programs. Aerostructure product sales grew 15.0% to $24.9 million due to higher sales for business jet programs, the ramp-up of the Bell 429 helicopter program and increased JSF sales, which more than offset currency fluctuations. Industrial sales totalled $7.2 million in the first three months of fiscal 2012, up from $6.5 million a year earlier. This increase reflects higher demand for heavy equipment in the mining industry and, to a lesser extent, higher sales to the power generation sector.

Fluctuations in the value of the Canadian dollar versus the US currency decreased first quarter sales by $3.4 million, or 4.2%, compared with last year, and reduced gross profit by $0.7 million, or 0.2% of sales. The impact of currency movements on the Corporation's gross profit is mitigated by the use of forward foreign exchange sales contracts and the natural hedging from the purchase of materials made in U.S. dollars.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") were $14.9 million, or 16.3% of sales, compared with $12.0 million, or 14.5% of sales. This improvement mainly results from a better absorption of manufacturing overhead costs due to higher Aerostructure and Industrial volumes. Operating income stood at $9.1 million, or 9.9% of sales, up from $5.9 million, or 7.1% of sales last year.

Net income amounted to $5.8 million, or $0.19 per share, fully diluted, compared with $3.3 million, or $0.11 per share, fully diluted, a year ago. Results for the first quarter of 2012 include expenses of $180,000 net of income tax, or $0.01 per share, related to the start-up of the new facility in Mexico, while the first quarter of fiscal 2011 contained restructuring charges of $258,000 net of income tax, or $0.01 per share, related to the closure of the Rivière-des-Prairies facility.

During the quarter, Héroux-Devtek was awarded a seven-year contract by Lockheed Martin Aeronautics Company to manufacture the landing gear for the C-130J Super Hercules aircraft. Under the terms of the agreement, Héroux-Devtek will manufacture and assemble the landing gear for Lockheed Martin's global production of C-130J aircraft and provide spare parts over a seven-year period beginning in January 2012. Based on current program expectations, the contract has a potential total value of approximately $70 million.

As at June 30, 2011, Héroux-Devtek's funded (firm orders) backlog stood at $509 million, up from $502 million three months earlier, and remains well diversified.

Conditions remain favourable in the commercial aerospace market. Large commercial aircraft manufacturers have announced several production rate increases on leading programs up to calendar 2014, new orders have significantly increased in the first half of 2011 and both Boeing and Airbus are forecasting higher deliveries for calendar 2011. The business jet market continues to see positive signs, such as greater aircraft utilization and fewer used aircraft for sale, but a significant recovery in deliveries is only expected in calendar 2012. The military aerospace market has stabilized as governments address their deficits. As to the JSF program, despite the two-year probation on the short take-off and vertical landing (STOVL) variant, the Corporation anticipates to produce a higher number of shipsets in fiscal 2012, compared to fiscal 2011. This results from the ramp-up of the other two variants, combined with a higher share of total production. Finally, the Corporation's main industrial markets are showing further momentum, as new orders and backlogs for its main customers continue to increase.

As the economy continues to progress, Héroux-Devtek is well positioned to leverage the strengths of its world-class organization by further broadening its product and service offering. Encouraging advances in our markets support an optimistic outlook despite the strong Canadian dollar. We are also looking forward to the start-up of our facility in Mexico, which should produce its first components early in calendar 2012, while a sound balance sheet enables us to consider other strategic acquisitions that would enhance our product portfolio and our technologies. In the mean time, we continue to anticipate an internal sales growth of approximately 5% for the current fiscal year, assuming the Canadian dollar remains at parity versus the U.S. currency. It is also important to remember that the second quarter has traditionally been a somewhat slower period owing to seasonal factors, such as plant shutdowns and summer vacations. However, as many important programs will ramp-up beyond this fiscal year, we are confident to achieve our long-term goal to grow internally and through strategic alliances at 10% per year, on average.

Gilles Labbé
President and Chief Executive Officer
August 4, 2011

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

First Quarter ended June 30, 2011

Héroux-Devtek Inc.

Notice of Disclosure of Non-Auditor Review of Interim Financial Statements for the quarters ended June 30, 2011 and 2010.

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if the external auditors have not performed a review of the financial statements, the financial statements must be accompanied by a notice indicating that they have not been reviewed by the external auditors.

The accompanying unaudited interim condensed consolidated financial statements of the Corporation for the quarters ended June 30, 2011 and 2010, have been prepared in accordance with the International Accounting Standard 34, Interim Financial Reporting, and the requirements of the International Financial Reporting Standard 1, first-time Adoption of International Financial Reporting Standards, and are the responsibility of the Corporation's management.

The Corporation's external auditors, Ernst & Young LLP, have not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of financial statements by the external auditors of an entity.

August 4, 2011.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(For the quarters ended June 30, 2011 and 2010)

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CONSOLIDATED BALANCE SHEETS
As at June 30, 2011, March 31, 2011 and April 1, 2010
(In thousands of Canadian dollars) (Unaudited)

	Notes	June 30, 2011	March 31, 2011	April 1, 2010
Assets	6, 16			
Current assets				
Cash and cash equivalents	10	$ 40,111	$ 32,910	$ 46,591
Accounts receivable		44,964	62,623	39,085
Income tax receivable		428	716	1,349
Inventories	11	134,456	134,837	116,740
Derivative financial instruments	12	10,290	10,923	7,568
Other current assets	13	16,784	14,738	13,325
		247,033	256,747	224,658
Property, plant and equipment, net	5, 14	148,153	150,677	144,504
Finite-life intangible assets, net	5	19,957	18,486	11,698
Derivative financial instruments	12	9,268	10,132	12,408
Goodwill		35,873	35,887	31,110
Other assets	8	2,111	611	-
Total assets		$ 462,395	$ 472,540	$ 424,378
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and accrued liabilities	15	$ 41,397	$ 52,577	$ 42,292
Accounts payable - other		3,269	4,128	2,570
Provisions		11,312	11,786	11,653
Progress billings		25,034	24,555	24,529
Income tax payable		1,399	1,622	138
Derivative financial instruments	12	763	852	2,021
Current portion of long-term debt	16	8,216	6,353	5,462
		91,390	101,873	88,665
Long-term debt	16	97,128	99,155	82,973
Provisions		4,979	4,805	4,855
Progress billings		5,773	8,810	7,803
Derivative financial instruments	12	1,662	1,158	1,716
Deferred income tax liabilities		18,582	18,931	16,315
Other liabilities	17	12,369	13,265	10,988
		231,883	247,997	213,315
Shareholders' equity				
Issued capital	18	101,825	100,136	100,641
Contributed surplus		2,736	3,330	3,145
Accumulated other comprehensive income	20	6,540	7,463	11,198
Retained earnings		119,411	113,614	96,079
		230,512	224,543	211,063
		$ 462,395	$ 472,540	$ 424,378

Commitments (Note 22)

The accompanying notes, including Note 24 – *Conversion to International Financial and Reporting Standards*, are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
For the quarters ended June 30, 2011 and 2010
(In thousands of Canadian dollars, except per share data) (Unaudited)

	Notes		2011		2010
	6				
Sales		$	91,873	$	82,541
Cost of sales	5, 7, 11		76,394		70,705
Gross profit			15,479		11,836
Selling and administrative expenses	7		6,396		5,964
Operating income			9,083		5,872
Financial expenses	16		1,443		1,200
Income before income tax expense and restructuring charges			7,640		4,672
Restructuring charges	8		-		368
Income before income tax expense			7,640		4,304
Income tax expense			1,843		986
Net income		$	5,797	$	3,318
Earnings per share – basic	9	$	0.19	$	0.11
Earnings per share – diluted	9	$	0.19	$	0.11

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the quarters ended June 30, 2011 and 2010
(In thousands of Canadian dollars) (Unaudited)

	Notes		2011		2010
	20				
Net income		$	5,797	$	3,318
Other comprehensive income:					
Gain (loss) arising from translating the financial statements of foreign operations			(391)		3,865
Cash flow hedges:					
Net gains (losses) on valuation of derivative financial instruments, net of taxes of $518 and of $1,581, respectively			1,579		(3,671)
Net gains (losses) on derivative financial instruments transferred to net income, net of taxes of $1,029 and of $524, respectively			(2,882)		(1,477)
Net gains (losses) on hedge of net investments in U.S. operations			367		-
Defined benefit pension plans:					
Actuarial gains (losses) net of taxes of $243 and of $474, respectively			(632)		(1,219)
Net change in asset limit and minimum funding requirements, net of taxes of $399 and of $nil, respectively			1,036		-
Other comprehensive income			(923)		(2,502)
Comprehensive income		$	4,874	$	816

The accompanying notes, including Note 24 – *Conversion to International Financial and Reporting Standards*, are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the quarters ended June 30, 2011 and 2010
(In thousands of Canadian dollars) (Unaudited)

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income ("AOCI")	Retained earnings	Shareholders' equity
Balance at March 31, 2011		$100,136	$3,330	$7,463	$113,614	$224,543
Common shares:	18					
Issued under the stock option plan		1,611	(657)	-	-	954
Issued under the stock purchase and ownership incentive plan		78	-	-	-	78
Stock-based compensation expense	18	-	63	-	-	63
Net income		-	-	-	5,797	5,797
Other comprehensive income		-	-	(923)	-	(923)
Balance at June 30, 2011		$101,825	$2,736	$6,540	$119,411	$230,512

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income ("AOCI")	Retained earnings	Shareholders' equity
Balance at April 1, 2010		$100,641	$3,145	$11,198	$96,079	$211,063
Common shares:	18					
Issued under the stock option plan		142	-	-	-	142
Issued under the stock purchase and ownership incentive plan		87	-	-	-	87
Repurchased under the Corporation's normal course issuer bid		(1,742)	-	-	(1,426)	(3,168)
Stock-based compensation expense	18	-	55	-	-	55
Net income		-	-	-	3,318	3,318
Other comprehensive income		-	-	(2,502)	-	(2,502)
Balance at June 30, 2010		$99,128	$3,200	$8,696	$97,971	$208,995

The accompanying notes, including Note 24 – *Conversion to International Financial and Reporting Standards*, are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the quarters ended June 30, 2011 and 2010
(In thousands of Canadian dollars) (Unaudited)

	Notes	2011	2010
Cash and cash equivalents provided by (used for):			
Operating activities			
Net income		$ 5,797	$ 3,318
Items not requiring an outlay of cash:			
Amortization expense		5,865	6,094
Deferred income taxes		465	692
Loss on sale of property, plant and equipment		28	-
Amortization of deferred financing costs	16	110	42
Interest accretion expense	16	483	391
Stock-based compensation expense	18	63	55
Cash flows from operations		12,811	10,592
Net change in non-cash items related to operations	21	1,522	(8,622)
Cash flows related to operating activities		14,333	1,970
Investing activities			
Additions to property, plant and equipment		(4,206)	(3,195)
Net increase in finite-life intangible assets		(2,037)	(2,150)
Proceeds on disposal of property, plant and equipment		32	25
Increase in other assets		(1,500)	-
Business acquisition	6	-	(28,813)
Cash flows related to investing activities		(7,711)	(34,133)
Financing activities			
Increase in long-term debt	6, 16	1,493	17,566
Repayment of long-term debt	6, 16	(1,797)	(1,923)
Repurchase of common shares	18	-	(3,168)
Issuance of common shares	18	1,032	229
Cash flows related to financing activities		728	12,704
Effect of changes in exchange rates on cash and cash equivalents		(149)	1,616
Change in cash and cash equivalents during the period		7,201	(17,843)
Cash and cash equivalents at beginning of period		32,910	46,591
Cash and cash equivalents at end of period		$ 40,111	$ 28,748
Interest and taxes reflected in operating activities:			
Interest paid		$ 828	$ 605
Income taxes paid		$ 1,678	$ 261

The accompanying notes, including Note 24 – *Conversion to International Financial and Reporting Standards*, are an integral part of these consolidated financial statements.

Note 1. Nature of activities and corporate information

Héroux-Devtek Inc. is incorporated under the laws of Québec. Its head office and registered office are domiciled at Complexe St-Charles, 1111 St-Charles Street West, suite 658, East Tower, Longueuil (Québec), Canada. Héroux-Devtek Inc. and its subsidiaries (the "Corporation") specialize in the design, development, manufacture, repair and overhaul of systems and components used principally in the aerospace and industrial segments.

Note 2. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments that have been measured at fair value.

Statement of compliance

On April 1, 2011, the Corporation adopted International Financial Reporting Standards ("IFRS") as the basis of preparation and presentation of its consolidated financial statements. Prior to the current fiscal year 2012, the consolidated financial statements were prepared and presented on the basis of generally accepted accounting principles then in effect in Canada ("Previous GAAP").

Accordingly, these consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* and in accordance with the accounting policies that the Corporation expects to adopt in its annual consolidated financial statements for the year ending March 31, 2012, which are described in Note 3. Since these are the Corporation's first consolidated financial statements prepared in accordance with IFRS, IFRS 1 - *First-time Adoption of International Financial Reporting Standards* has been applied. The consolidated financial statements of the fiscal year ended March 31, 2011 (and of periods ended during the fiscal year ended March 31, 2011), as well as the opening balance sheet as at April 1, 2010, have been restated to conform with IFRS. These restatements are explained in Note 24.

The preparation of consolidated financial statements in accordance with IFRS requires the use of critical accounting estimates. It also requires management to exercise judgment in applying the Corporation's accounting policies. The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

These consolidated financial statements were approved for issue by the Board of Directors of the Corporation on August 3, 2011.

Basis of consolidation

The consolidated financial statements include the accounts of Héroux-Devtek Inc. and its subsidiaries, all of which are wholly owned.

The principal wholly owned subsidiaries included in these consolidated financial statements are:

- McSwain Manufacturing Corporation
- Progressive Incorporated
- Devtek Aerospace Inc.
- HDI Landing Gear (USA) Inc.
- Héroux-Devtek Mexico S.A. de C.V. (since fiscal year 2012)

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as Héroux-Devtek Inc., using consistent accounting policies.

All inter-company transactions and account balances are eliminated in full.

Note 3. Summary of significant accounting policies

A. Foreign currency

The consolidated financial statements are presented in Canadian dollars. Each entity in the Corporation accounts for transactions in its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

The functional currency of Héroux-Devtek Inc. and of the Canadian and Mexican operations is the Canadian dollar. The functional currency of the U.S. operations is the U.S. dollar. The functional currency is the currency that is representative of an operation's primary economic environment.

a. Conversion of transactions and account balances

Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the reporting date. All differences are included in the consolidated statements of income.

Non-monetary items denominated in foreign currencies are translated at the exchange rate at the date of the transactions.

b. Translation of financial statements of foreign operations

Assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange at the reporting date and the consolidated statements of income is translated at the average exchange rate for the fiscal year. Exchange differences arising from the translation are recognized in other comprehensive income and remain in accumulated other comprehensive income until the disposal of the related net investment, at which time they are recognized in the consolidated statements of income.

B. Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash and cash equivalents as previously defined.

C. Inventories

Inventories include raw materials, direct labour and related manufacturing overhead costs. If applicable, they include the amount of amortization of capitalized development costs of the related sales contracts.

Inventories consist of raw materials, work-in-progress and finished goods which are valued at the lower of cost (unit cost method) and net realizable value.

The unit cost method is the cost method under which the actual production costs are charged to each unit produced and recognized in the consolidated statements of income as the unit is delivered. Estimates of net realizable value are based on the most reliable evidence available,of the amount for which the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the reporting period to the extent that such events confirm conditions existing at the end of the reporting period.

D. Property, plant and equipment

- Assets acquired

  Property, plant and equipment are stated at cost less accumulated amortization and accumulated impairment losses, if any (see H). Such cost includes the cost of replacing a major part of the property, plant and equipment. Cost also includes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (see F).

Amortization is calculated on a straight-line basis over the useful life of the asset as follows:

- Buildings and leasehold improvements - 5 to 50 years,
- Machinery and equipment - 3 to 15 years,
- Tooling related to specific contracts - based on pre-determined contract quantities, not exceeding the lower of ten years or the useful life. Contract quantities are assessed at the beginning of the production stage considering, among other factors, existing firm orders and options. The Corporation's management conducts quarterly and annual reviews.
- Standard and general tooling - 5 years.
- Automotive equipment – 3 to 10 years.
- Computer and office equipment – 3 to 15 years.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of income in the fiscal year the asset is derecognized. The asset's residual value, useful life and method of amortization are reviewed and adjusted annually at year-end, or when warranted by specific circumstances.

The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to section L – Provisions of this note and Significant accounting judgments, estimates and assumptions (Note 4) for further information about the recorded decommissioning provision.

- Assets leased

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Corporation as a lessee

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A finance lease is capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, computed by using the implicit interest rate of the lease contract. Lease payments are apportioned between finance charges and the reduction of the lease liability. Finance charges are reflected in the consolidated statements of income. Capitalized lease assets are accounted for in the categories of property, plant and equipment corresponding to their nature. Capitalized leased assets are amortized over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Corporation will obtain ownership by the end of the lease term.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Operating lease payments are recognized as an expense as incurred.

E. Finite-life intangible assets

Finite-life intangible assets include capitalized development costs, backlog and software. They are measured on initial recognition at cost. The cost of these intangible assets acquired in a business combination is fair value at the date of acquisition. Following initial recognition, they are carried at cost less accumulated amortization and impairment losses, if any.

Development costs on an individual sales contract are capitalized as an intangible asset when the Corporation can demonstrate:

- the feasibility of completing the intangible asset so that it will be available for use or sale,
- its intention to complete,
- its ability to use or sell the asset,
- how the asset will generate future economic benefits,
- the availability of resources to complete the asset, and
- the ability to measure reliably the expenditure during the development phase.

Capitalized development costs (design engineering and manufacturing engineering costs) related to sales contracts are amortized based on predetermined contract quantities. They are presented net of related government assistance and amounts contributed by customers.

Contract quantities are established based on management's assessment at the beginning of the production stage for each contract, taking into consideration, among other factors, existing firm orders and options. The Corporation's management conducts quarterly reviews as well as a detailed annual review in the fourth quarter of the contract quantities and its capitalized development costs, and their recoverability.

Following initial recognition of capitalized development costs as an asset, the asset is carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization begins when development is complete and the asset is available for use. During the period of development, the asset is tested for impairment annually.

Finite-life intangible assets are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite-life are reviewed at least at each fiscal year-end or when warranted by specific circumstances. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied are accounted for as changes in accounting estimates (Note 4).

Software is amortized over 3 to 5 years. Backlog is amortized based on the units delivered of related sales contracts.

The gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the consolidated statements of income.

F. Borrowing costs

Borrowing costs are recognized as an expense when incurred, except when they are capitalized as part of the cost of a qualifying asset. Borrowing costs are capitalized when the Corporation:

- incurs expenditures for the asset;
- incurs borrowing costs; and
- undertakes activities that are necessary to prepare the asset for its intended use or sale, to the extent that these activities are performed over a period exceeding the normal operating cycle of the Corporation (12 months).

Conversely, the Corporation ceases capitalizing borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are completed.

G. Business combinations and goodwill

Business combinations are accounted for using the acquisition method.

The cost of an acquisition is measured as the fair value of assets given, equity instruments issued and liabilities assumed at the date of acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed are measured initially at fair value at the date of acquisition. Acquisition costs incurred are expensed and included in selling and administrative expenses.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses, if any. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Corporation's cash generating units ("CGU") or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

H. Impairment of goodwill and other non-financial assets

Goodwill is tested for impairment, annually and when warranted by specific circumstances. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. A CGU's recoverable amount is the higher of a CGU's fair value less costs to sell and its value in use and is determined for a CGU. The Corporation uses the discounted cash flow method to estimate value in use, consisting of future cash flows derived from the most recent three-year budget and strategic plan approved by the Corporation's management and Board of Directors. These future cash flows consider each CGU's past performance, market share as well as economic trends, along with specific and market industry trends and corporate strategies. A perpetual growth rate is used for cash flows beyond this three-year period. The perpetual growth rate is determined with regard to the specific markets in which the CGUs participate. The discount rate used by the Corporation for cash flows is a pre-tax rate based on the weighted-average cost of capital pertaining to each CGU, which reflects the current market assessment of (i) the time value of money, and (ii) the risks specific to the assets. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

For non-financial assets other than goodwill, the Corporation assesses at each reporting date whether there is an indication that the carrying value may be impaired. If any such indication exists, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, the recoverable amount is determined by reference to the CGU's value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

For non-financial assets other than goodwill, a previously recognized impairment loss is reversed if there has been a change in the estimated recoverable amount since the last impairment loss was recognized. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income.

I. Financial assets

Assets at fair value

At initial recognition, financial assets are classified either as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables ("L&R") or effective hedging instruments ("Hedges").

When financial assets are recognized initially, they are measured at fair value, plus directly attributable transaction costs. Purchases and sales of financial assets are recognized on the transaction date, which is the date that the Corporation commits to purchase or sell the assets.

FVTPL

FVTPL are acquired for the purpose of selling in the near term. They include cash and cash equivalents, derivative financial instruments, except those that are designated as Hedges. FVTPL are carried at fair value with gains and losses recognized in the consolidated statements of income. The Corporation assesses whether embedded derivative financial instruments are required to be separated from host contracts when the Corporation first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

L&R

L&R are non-derivative financial assets with fixed or determinable payments not quoted in an active market. L&R are comprised of trade and other receivables excluding governmental receivables included in the other current assets. L&R are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statements of income. If there is objective evidence that an impairment loss on L&R has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the consolidated statements of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Corporation will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account.

Hedges

These include forward foreign exchange contracts and interest rate swap agreements. They are carried at fair value. The change in the fair value of the effective portion of hedges is recognized in other comprehensive income, while the ineffective portion is recognized in the consolidated statements of income.

The Corporation assesses at each reporting date whether any financial asset is impaired.

Derecognition of financial assets

A financial asset is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Corporation retains the right to receive cash flows from the asset, but has assumed an obligation to pay these cash flows in full without material delay to a third party under a "pass through" arrangement; or
- the Corporation has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impaired receivables are derecognized when they are assessed as uncollectible.

J. Financial liabilities

Liabilities at fair value

Financial liabilities classified at fair value through profit or loss (FVTPL) are comprised of derivative financial instruments, except those that are designated as Hedges. They are carried at fair value with gains and losses recognized in the consolidated statements of income. Gains and losses on Hedges are recognized in other comprehensive income.

Other financial liabilities

All debts, borrowings, accounts payable and accrued liabilities are initially recognized at fair value less directly attributable transaction costs, and have not been designated as FVTPL.

After initial recognition, they are subsequently measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation underlying the liability is discharged, cancelled or has expired.

K. Derivative financial instruments and hedges

Derivative financial instruments

The Corporation uses derivative financial instruments such as forward foreign exchange contracts and interest rate swap agreements to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into. They are subsequently measured at fair value. Derivative financial instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of forward foreign exchange contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap agreements is determined by reference to market values for similar instruments.

Cash flow hedges

For the purpose of hedge accounting, all hedges are classified as cash flow hedges except for hedges of net investments in U.S. operations (see below). Hedging exposure to variability in cash flows is attributable to a risk associated with a recognized liability or a highly probable forecast transaction in foreign currency.

At the inception of a hedge relationship, the Corporation formally designates and documents the hedge relationship to which the Corporation wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument’s effectiveness. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed quarterly to determine that they actually have been highly effective throughout the designated periods.

The change in the fair value of the effective portion of hedges is recognized in other comprehensive income, while the ineffective portion is recognized in the consolidated statements of income. Amounts recognized in other comprehensive income are transferred to the consolidated statements of income when the hedged transaction affects income, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in accumulated other comprehensive income are transferred to the consolidated statements of income.

Hedge of net investments in U.S. operations

The Corporation designates certain long-term debt as a hedge of its net investments in U.S. operations. The portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in other comprehensive income, while the ineffective portion is recorded in the consolidated statements of income. The amounts recognized in other comprehensive income are reclassified in the consolidated statements of income upon disposal of the net investments.

L. Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) 1) as a result of a past event, 2) when it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation and 3) a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is accounted for in the consolidated statements of income, net of any reimbursement.

If the expected settlement date exceeds twelve months from the date of recognition, provisions are discounted using a current pre-tax interest rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financial expense. Provisions are reviewed periodically and adjusted as appropriate.

Onerous contracts
These represent anticipated negative margins on contracts in progress or in the funded backlog (firm purchase orders).

Asset retirement obligations
The Corporation's asset retirement obligations represent essentially environmental rehabilitation costs related to the Corporation's manufacturing plant in Longueuil, Québec. The fair value of these obligations is measured in the year in which they are identified and when a reasonable estimate of their fair value can be made. The fair value of the obligations is determined as the sum of the estimated discounted future cash flows of the legal obligations associated with the future retirement of these rehabilitation costs. These asset retirement costs are capitalized as part of the property, plant and equipment and amortized over the relevant assets' useful lives, while changes to the present value of the obligations are reflected in the consolidated statements of income.

Product warranty
This provision covers the cost of known or anticipated defects on products under terms of guarantee.

Litigations
Due to the nature of its business activities including the purchase or sale of businesses, the Corporation is exposed to the risks of technical and business litigations. On the basis of information at its disposal at the reporting date, the Corporation carried out a review of the financial risks to which the Corporation could be exposed. The recorded provision covers the risks associated with these litigations.

M. Progress billings

Progress billings represent amounts received from customers for costs incurred on specific contracts. These amounts are reversed to sales at such time as the related units are delivered and billed to customers.

N. Deferred financing costs

Deferred financing costs related to long-term debt are amortized using the effective interest rate method over a five-year period which represents the duration of the related long-term debt.

O. Pensions and other retirement benefits

The Corporation has defined contribution pension plans as well as funded and unfunded defined benefit pension plans that provide pension benefits to its employees.

With respect to defined benefit pension plans, retirement benefits are based on either years of service and flat amount or years of service and final average salary, or set out by individual agreements.

The actuarial determination of defined benefit obligations for pensions uses the projected unit credit method which incorporates management's best estimate of future salary levels, when applicable, other cost escalations, retirement ages of employees and other actuarial factors.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains (losses) arise from the difference between the actual rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period and from changes in actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains (losses) are accounted for in other comprehensive income.

Vested past service costs arising from plan amendments are recognized immediately in the consolidated statements of income. Non-vested past service costs are recognized on a straight-line basis over the average period until the benefits become vested.

Recognition of a defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan and any cumulative unrecognized non-vested past service costs. In addition, minimum funding requirements may restrict the availability of refunds or reductions in future contributions, and may even trigger a liability. Adjustments arising from the asset limit and minimum funding requirements are recognized in full immediately in other comprehensive income.

P. Stock-based payments

Stock option plan
The Corporation has a stock option plan where options to purchase common shares are issued essentially to officers and key employees. The Corporation uses the binomial valuation model to determine the fair value of stock options. The cost of stock options is amortized to income over their earned period, using the graded amortization method. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in contributed surplus.

Stock purchase and ownership incentive plan
The Corporation has a stock purchase and ownership incentive plan allowing key management employees to subscribe, by salary deduction, to a number of common shares issued by the Corporation. The subscription price of the common shares represents 90% of the average closing quoted price (based on the five preceding days) of the Corporation's common share on the Toronto Stock Exchange ("TSX"). The common share issuance is accounted for in issued capital. Also, the Corporation matches 50% of the employee's contribution, which cannot exceed 10% of the employee's annual base salary, by awarding to the employee, additional common shares acquired on the TSX at market price. However, the Corporation's matching award cannot exceed 4% of the employee's annual base salary. Common shares purchased by the Corporation on behalf of the employee are accounted for as a compensation expense which is included in selling and administrative expenses.

Stock appreciation right ("SAR") plan
Until August 2010 (see below), 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 deferred share unit ("DSU") plan, outstanding SARs issued prior to August 2010 are still in effect. The SAR enables the participants to receive by way of bonus, on the exercise date of a SAR, a cash amount equal to the excess of the quoted price of a common share on the exercise date of the SAR over its granted price. The SARs are expensed on an earned basis and their costs are determined using a valuation model and remeasured at each reporting period. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in accounts payable and accrued liabilities until the SARs are exercised or cancelled.

In August 2010, the Board of Directors decided not to continue the SAR plan and replaced it with a DSU plan (see below), which was effectively approved in May 2011.

Deferred share unit plan
Since May 2011, the Corporation has a DSU plan, which replaced the SAR plan (see above), under which rights are issued to its non-employee directors. The DSU enables the participants to receive compensation at the termination date, as a member of the Board of Directors, representing 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 remeasured 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. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in accounts payable and accrued liabilities.

Q. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding sales tax and duty. The following specific recognition criteria must also be met before revenue is recognized.

Sale of goods
Revenue from the sale of goods, which includes repair & overhaul works, is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenues from the sale of aerospace and industrial products are recognized as the related units are delivered, the sale price is determinable and collectability is reasonably assured.

Interest income
Revenue is recognized as interest accrues, using the effective interest rate method. Interest income is presented as a deduction of financial expenses (see Note 16).

R. Government assistance

Government assistance, which mainly includes investment and other tax credits and the discount portion of the governmental authorities loans, is recognized where there is reasonable assurance that it will be received and all related conditions will be complied with. When the government assistance relates to an expense item, it is recognized as a reduction of expense over the period necessary to match the government assistance on a systematic basis to the costs that it is intended to compensate. Where the government assistance relates to an asset, it is deducted from the cost of the related asset (property, plant and equipment, capitalized development costs or inventories).

Forgivable loans from governmental authorities are accounted for as government assistance when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.

Benefits derived from governmental authorities loans with below-market interest rates are measured at the inception of the loans as the difference between the cash received and the amount at which the loans are initially recognized in the consolidated balance sheets. At initial recognition, the fair value of a loan with a below-market rate of interest is estimated as the present value of all future cash disbursements, discounted using a prevailing market rate of interest for a similar instrument with a similar credit rating.

S. Income taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognized directly in shareholders' equity is recognized in shareholders' equity and not in the consolidated statements of income.

Deferred income tax

Deferred income tax is provided for using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income or loss nor taxable income or loss;

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward or unused tax credits and unused tax losses to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date.

Deferred income tax assets and liabilities are measured at the income tax rates that are expected to apply to the fiscal year when the asset is realized or the liability is settled, based on income tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized directly in shareholders' equity are recognized directly in shareholders' equity.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

All deferred income tax assets and liabilities are classified as non-current.

Sales tax

Sales, expenses and assets are recognized net of the amount of sales tax, except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of other current assets or accounts payable and accrued liabilities in the consolidated balance sheets.

T. Earnings per share

The earnings per share amounts are determined using the weighted-average number of common shares outstanding during the year. The calculation of diluted earnings per share takes into consideration the exercise of all dilutive elements. This method assumes that the proceeds of the Corporation's in-the-money stock options would be used to purchase common shares at the average market price during the year.

U. Standards issued but not yet effective

IFRS 9 *Financial Instruments*

On November 12, 2009, the IASB issued IFRS 9 - *Financial Instruments* as the first step in its project to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 simplifies the measurement and classification for financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement. This standard will be effective for the Corporation's fiscal year beginning on April 1, 2013, with earlier application permitted.

IFRS 13 *Fair Value Measurement*

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

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

Note 4. Significant accounting judgments, estimates and assumptions

The preparation of the Corporation's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, 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.

A. *Impairment of non-financial assets*

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets and observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the Corporation's three-year budget and strategic plan and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the perpetual growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in Note 24.

B. *Stock-based compensation*

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

C. *Deferred income tax assets*

Deferred income tax assets are recognized for unused tax losses to the extent it is probable that taxable income will be available to use against those losses. 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.

D. *Pensions and other retirement benefits*

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. In determining appropriate discount rates, management considers the interest rates of high-quality corporate bonds. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

E. *Capitalized development costs*

Development costs are capitalized in accordance with the accounting policy in Note 3. 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 and the expected period of benefits.

F. *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.

G. *Financial instruments*

The carrying amount of cash and cash equivalents (classified as FVTPL), at inception date, accounts receivable and other receivables (classified as L&R), accounts payable and accrued liabilities and accounts payable – other (classified as other than FVTPL) approximates their fair value since these items will be realized within one year or are collectible or due on demand.

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

Derivative financial instruments

The Corporation has considered the following value hierarchy that reflects the significance of the inputs used in measuring these financial instruments accounted for at fair value in the consolidated balance sheets:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable external market data for the asset or liability, either directly or indirectly;
- Level 3: inputs that are not based on observable market data.

The fair value of derivative financial instruments in the consolidated balance sheets is established based on the Corporation's valuation models, usually the level 2. 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 (Level 2 inputs). They also take into account the credit quality of the underlying financial instruments.

Note 5. Government assistance

During the quarter ended June 30, 2011, the Corporation recorded as government assistance an amount of $325 as a reduction of cost of sales ($620 for the quarter ended June 30, 2010) and an amount of $1,243 ($436 for the quarter ended June 30, 2010) as a reduction of the related property, plant and equipment or capitalized development costs.

Note 6. Business acquisition

On April 28, 2010, the Corporation announced that it had concluded the acquisition through a U.S. subsidiary of substantially all the net assets of U.S. based Eagle Tool & Machine Co. and of its subsidiary All Tools, Inc. (E-2 Precision Products), two privately-owned manufacturers of precision machined products mainly for the military aerospace industry, with annual sales of approximately $40,000 prior to the acquisition, based on their fiscal year ended December 31, 2009 and sales of $45,044 for eleven months in fiscal year 2011.

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

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

The identifiable intangible assets related to the business acquisition, which amounted to $1,390, was attributed to the backlog. The backlog value was determined using a discounted cash flow method. The excess of the purchase price over the fair value of the net tangible assets acquired and the acquired backlog represents the goodwill, which amounted to $5,849.

The promissory note is repayable to the seller over 40 months, from April 30, 2010, bears a fixed interest rate of 5% and is guaranteed by the Corporation. The underlying value of the backlog, which relates to specific sales contracts, is amortized on a pro rata basis over the life of the related sales contracts and units delivered.

Note 7. Cost of sales, selling and administrative expenses

The main components for the quarters ended June 30, are as follows:

		2011		2010
Raw materials and purchased parts	$	32,905	$	29,411
Employee costs		32,365		29,194
Amortization		5,865		6,094
Others		11,655		11,970
	$	82,790	$	76,669

Note 8. Restructuring charges

On May 13, 2010, the Corporation launched an initiative to optimize and consolidate production capacity in its Aerospace segment, while further enhancing productivity at its Québec-based facilities. Consequently, the Corporation’s Rivière-des-Prairies, Québec, facility was closed in September 2010 and its production was transferred to the Corporation’s other facilities in the Greater Montreal area. During the quarter ended June 30, 2010, the Corporation recorded restructuring charges of $368. At June 30, 2011 and March 31, 2011, the value of the building related to this facility amounts to $611, is classified as an asset held for sale, and is under Other assets in the consolidated balance sheets.

Note 9. Earnings per share

The following table sets forth the elements used to compute basic and diluted earnings per share for the quarters ended June 30:

		2011		2010
Net income	$	5,797	$	3,318
Weighted-average number of common shares outstanding		30,214,742		30,236,562
Effect of dilutive stock options of the Corporation		300,846		213,898
Weighted-average number of common diluted shares outstanding		30,515,588		30,450,460

The diluted earnings per share calculation does not take into consideration the potential dilutive effect of certain stock options of the Corporation since their impact is anti-dilutive. During the quarter ended June 30, 2011, 335,000 options of the Corporation’s plan (340,000 in 2010), were excluded from the diluted earnings per share calculation.

Note 10. Cash and cash equivalents

		June 30, 2011		March 31, 2011		April 1, 2010
Cash at banks	$	10,391	$	7,787	$	14,229
Short-term deposits		29,720		25,123		32,362
	$	40,111	$	32,910	$	46,591

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods up to three months and earn interest at the respective short-term deposit rates.

Note 11. Inventories

		June 30, 2011		March 31, 2011		April 1, 2010
Raw materials	$	46,271	$	51,615	$	47,327
Work-in-progress		82,835		77,498		57,995
Finished goods		5,350		5,724		11,418
	$	134,456	$	134,837	$	116,740

The amounts of inventories recognized as cost of sales for the quarters ended June 30, are as follows:

		2011		2010
Aerospace	$	63,925	$	59,536
Industrial		5,268		4,477
	$	69,193	$	64,013

Write-downs related to inventories for the quarters ended June 30, are as follows:

		2011		2010
Write-downs recognized as cost of sales	$	1,342	$	1,506
Reversal of prior-period write-downs recognized as a reduction of cost of sales	$	974	$	799

The reversal of inventory write-downs results from the revaluation, at each reporting date, of the net realizable value of inventories, based on related sales contracts and production costs. It also includes the charges against this reserve for products delivered during the period for which a net realizable value reserve was required and recorded in prior periods.

Note 12. Derivative financial instruments

	Current						Long-term					
		June 30, 2011		March 31, 2011		April 1, 2010		June 30, 2011		March 31, 2011		April 1, 2010
Assets												
Forward foreign exchange contracts and embedded derivative financial instruments	$	10,290	$	10,867	$	7,568	$	9,268	$	9,926	$	12,408
Interest rate swap agreements		-		56		-		-		206		-
	$	10,290	$	10,923	$	7,568	$	9,268	$	10,132	$	12,408
Liabilities												
Forward foreign exchange contracts and embedded derivative financial instruments	$	620	$	852	$	1,180	$	1,167	$	1,158	$	1,436
Interest rate swap agreements		143		-		841		495		-		280
	$	763	$	852	$	2,021	$	1,662	$	1,158	$	1,716

Forward foreign exchange contracts

At June 30, 2011, the Corporation had forward foreign exchange contracts totalling US$158.4 million at a weighted-average rate of 1.0900 (Canadian dollar over U.S. dollar, “cad/usd”). At March 31, 2011 and April 1, 2010, these contracts totalled US$159.0 million at a weighted-average rate of 1.1032 cad/usd and US$150.0 million at a weighted-average rate of 1.1436 cad/usd, respectively. These contracts mature over the next four fiscal years, with the majority maturing over the next two fiscal years.

At June 30, 2011, the Corporation had also entered into forward foreign exchange contracts totalling US$6.5 million at a weighted-average rate of 1.2320 cad/usd. At March 31, 2011 and April 1, 2010, these contracts totalled US$7.7 million at a weighted-average rate of 1.2343 cad/usd and US$11.3 million at a weighted-average rate of 1.2396 cad/usd, respectively. These contracts mature over the next three fiscal years to cover foreign exchange risk related to certain embedded derivative financial instruments.

Interest rate swap agreements

At June 30, 2011 and March 31, 2011, the Corporation had entered into three interest rate swap agreements for a total amount of US$40 million, which fix the Libor rate at 3.90% for an amount of US$20 million and at 3.91% for another amount of US$20 million, and will mature in December 2015.

At April 1, 2010, the Corporation had entered into two interest rate swap agreements for an amount of US$15 million and US$10 million, respectively, which fix the Libor rate at 5.53% and 1.75%, respectively. These two interest rate swap agreements have been repurchased in March 2011.

Note 13. Other current assets

		June 30, 2011		March 31, 2011		April 1, 2010
Investment and other tax credits receivable	$	9,449	$	8,427	$	8,096
Sales tax receivable		2,386		1,713		1,195
Deposits on machinery and equipment (Note 22)		429		223		772
Prepaid expenses		2,641		2,498		2,151
Others		1,879		1,877		1,111
	$	16,784	$	14,738	$	13,325

Note 14. Property, plant & equipment

At June 30, 2011, the cost of property, plant and equipment and tooling included assets acquired through finance leases amounting to $37,430 ($37,521 at March 31, 2011 and $38,307 at April 1, 2010), with accumulated amortization of $13,205 ($12,455 at March 31, 2011 and $10,160 at April 1, 2010).

All property, plant and equipment, other than those acquired through finance leases, is subject to a first charge to secure the Corporation's Senior Secured Syndicated Revolving Credit Facility (see Note 16).

Note 15. Accounts payable and accrued liabilities

		June 30, 2011		March 31, 2011		April 1, 2010
Trade payables(1)	$	25,777	$	32,495	$	24,825
Accrued liabilities(2)		15,620		20,082		17,467
	$	41,397	$	52,577	$	42,292

(1) Trade payables are normally settled on 30 to 60-day terms.

(2) Accrued liabilities mainly include payroll-related liabilities.

Note 16. Long-term debt

	June 30, 2011	March 31, 2011	April 1, 2010
Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") of up to $150,000 ($125,000 as at April 1, 2010) - either in Canadian or U.S. currency equivalent, maturing on March 15, 2016, which bears interest at Libor plus 1.875% as at June 30, 2011 and March 31, 2011 (Libor plus 1% at April 1, 2010) representing an effective interest rate of 2.1% (2.2% at March 31, 2011 and 1.2% at April 1, 2010). At June 30 and March 31, 2011, the Corporation used US$59,500 ($43,000 as of April 1, 2010) on the Credit Facility.	$ 57,388	$ 57,691	$ 43,679
Governmental authorities loans, repayable in variable annual instalments, with various expiry dates until 2026.	29,042	27,707	21,040
Obligations under finance leases, all bearing fixed interest rates between 4.2% and 9.3% maturing from November 2012 to July 2016, with amortization periods ranging from five to eight years, secured by the related property, plant and equipment, net of interest of $2,188 ($2,299 at March 31, 2011 and $3,605 at April 1, 2010).	18,724	19,760	24,066
Promissory note, repayable in monthly instalments over 40 months up to July 2013, bearing fixed interest at 5% and guaranteed by the Corporation (Note 6).	2,278	2,548	-
Deferred financing costs, net	(2,088)	(2,198)	(350)
	105,344	105,508	88,435
Less: current portion	8,216	6,353	5,462
	$ 97,128	$ 99,155	$ 82,973

Senior Secured Syndicated Revolving Credit Facility

In March 2011, the Corporation renewed and increased its Senior Secured Syndicated Revolving Credit Facilities through one Senior Secured Syndicated Revolving Credit Facility with a syndicate of five Canadian Banks and their U.S. subsidiaries or branches and, with a Canadian branch of a U.S. Bank.

This five-year Credit Facility allows the Corporation and its subsidiaries to borrow up to $150 million (either in Canadian or U.S. currency equivalent) and is used for working capital, capital expenditures and other general corporate purposes. It is secured by all assets of the Corporation and its subsidiaries, and is subject to certain covenants and corporate guarantees granted by the Corporation and its subsidiaries. The Credit Facility also includes an accordion feature to increase the Credit Facility up to $225 million, during the term of the Credit Agreement, subject to the approval of the lenders. This Credit Facility will mature on March 15, 2016.

Interest rates vary based on prime, bankers' acceptance, Libor or U.S. base rates plus a relevant margin depending on the level of the Corporation's indebtedness and cash flows.

Governmental authorities loans

Governmental authorities loans represent essentially government assistance for the purchase of specialized equipment or tooling, for the modernization or additions to the Corporation's facilities or for development costs capitalized or expensed for aerospace programs. They were granted as incentives under certain federal programs and provincial industrial programs to promote the development of the industry in Canada. These loans are either repayable according to certain specific terms, in particular depending on the Corporation's aerospace sales and the Corporation's sales of certain predetermined aircraft products within specific timeframes, and/or based on fixed repayment schedules. The conditional loan repayments are reviewed at least annually based on the latest estimate of the related sales.

Governmental authorities loans usually bear no or below-market interest. They are measured at a discounted value using a corresponding market rate of interest each time they are received, and the related discount is accreted to income using the effective interest rate method and included in the consolidated statements of income as a financial expense.

The effective interest rates for these loans are in the range of 3.9% to 7.2%.

Covenants

Long-term debt is subject to certain general and financial covenants related, among others, to the working capital, indebtedness, cash flows and equity of the Corporation and/or certain subsidiaries. At June 30, 2011, the Corporation had complied with all covenants.

Financial expenses

Financial expenses for the periods ended June 30 comprise the following:

		2011		2010
Interest expense	$	845	$	749
Interest accretion on governmental authorities loans		390		316
Amortization of deferred financing costs		110		42
Standby fees		29		20
Other interest accretion expense		93		75
		1,467		1,202
Gain on financial instruments classified as FVTPL – Interest income		24		2
	$	1,443	$	1,200

Note 17. Other liabilities

The Corporation's other liabilities are summarized as follows:

		June 30, 2011		March 31, 2011		April 1, 2010
Pensions and other retirement benefits	$	12,254	$	13,135	$	10,790
Others		115		130		198
	$	12,369	$	13,265	$	10,988

Note 18. Issued capital

Authorized

Voting common shares, without par value	Unlimited
First preferred shares, issuable in series, without par value	Unlimited
Second preferred shares, issuable in series, without par value	Unlimited

The rights, privileges, restrictions and conditions related to the preferred shares are established by the Board of Directors.

For the quarter ended June 30, 2011 and the fiscal year ended March 31, 2011, variations in common shares issued are as follows:

	June 30, 2011			March 31, 2011		
	Number		Issued capital	Number		Issued capital
Common shares issued and fully paid						
Opening balance	30,173,798	$	100,136	30,485,475	$	100,641
Issued for cash on exercise of stock options	200,323		1,611	245,221		1,144
Issued for cash under the Stock purchase and ownership incentive plan	9,975		78	60,802		330
Repurchased under the Corporation's normal course issuer bid	-		-	(617,700)		(1,979)
Closing balance	30,384,096	$	101,825	30,173,798	$	100,136

Issuance of common shares

During the quarter ended June 30, 2011, the Corporation issued 210,298 common shares at a weighted-average price of $4.91 for a total cash consideration of $1,032. This includes 200,323 common shares which were issued following the exercise of stock options for a total cash consideration of $954. The initial fair value of the stock options, amounting to $657, was credited to share capital and debited to contributed surplus. The remainder of 9,975 common shares were issued under the Corporation's stock purchase and ownership incentive plan for a total cash consideration of $78.

During the quarter ended June 30, 2010, the Corporation issued 52,185 common shares at a weighted-average price of $4.38 for a total cash consideration of $229. This includes 35,000 common shares which were issued following the exercise of stock options for a total cash consideration of $142. The remainder of 17,185 common shares were issued under the Corporation's stock purchase and ownership incentive plan for a total cash consideration of $87.

Normal course issuer bid

On November 25, 2009, the Corporation launched a normal course issuer bid ("NCIB") under which the Corporation could repurchase up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding shares. The NCIB terminated on November 24, 2010.

During the quarter ended June 30, 2010, the Company repurchased 546,000 shares at an average price of $5.80 for a total cash consideration of $3,168 under the NCIB. The excess ($1,426) of the cost of the common shares over their average book value ($1,742) is accounted for as a reduction of retained earnings.

A. Stock option plan

The aggregate number of common shares reserved for issuance under the plan is 2,808,257 of which 43,718 shares had not been granted at June 30, 2011.

During the quarters ended June 30, the number of stock options varied as follows:

	2011		2010	
	Weighted-average exercise price	Number of stock options	Weighted-average exercise price	Number of stock options
Balance at beginning of quarter	$6.00	1,393,000	$5.83	1,555,221
Granted	8.72	7,000	-	-
Exercised	4.76	(200,323)	4.06	(35,000)
Cancelled / forfeited	-	-	7.43	(28,000)
Balance at end of quarter	$6.22	1,199,677	$5.85	1,492,221

Stock option expense amounted to $63 for the period ended June 30, 2011 ($55 for the quarter ended June 30, 2010).

B. Stock purchase and ownership incentive plan

During the quarter ended June 30, 2011, 9,975 common shares were issued (17,185 in 2010) and 4,040 common shares were attributed to the participating employees (6,666 in 2010), under the stock purchase and ownership incentive plan. For the quarter ended June 30, 2011, the expense related to the attributed common shares amounted to $35 ($38 in 2010).

Under this plan, the Corporation cumulatively issued 319,994 common shares and 134,867 common share were attributed.

C. Stock appreciation right (SAR) plan

At June 30, 2011, on a cumulative basis, 143,000 SARs were still outstanding (150,500 at June 30, 2010) at a weighted-average granted value of $6.21 ($6.14 at June 30, 2010) which expire on various dates from fiscal 2012 to 2016.

SAR reversal of expense amounted to $75 for the quarter ended June 30, 2011 (expense of $73 in 2010).

During the quarter ended June 30, 2010, no SARs were granted, exercised or cancelled.

D. Deferred share unit (DSU) plan

During the quarter ended June 30, 2011, for the first time, the Corporation issued 15,171 DSUs. DSU expense amounted to $125.

Note 19. Pensions and other retirement benefits

Total pensions and other retirement benefit costs for the quarters ended June 30 are as follows:

	2011	2010
Defined contribution pension costs	$ 641	$ 547
Defined benefit pension costs	543	312
	$ 1,184	$ 859

Note 20. Accumulated other comprehensive income

Changes in accumulated other comprehensive income are as follows:

	Exchange differences on translation of foreign operations	Cash flow hedges	Hedge of net investments in U.S. operations	Defined benefit pension plans	Total
Balance at April 1, 2010	$ -	$ 11,198	$ -	$ -	$ 11,198
Other comprehensive income (loss)	3,865	(5,148)	-	(1,219)	(2,502)
Balance at June 30, 2010	$ 3,865	$ 6,050	$ -	$ (1,219)	$ 8,696
Balance at March 31, 2011	$ (3,573)	$ 12,930	$ 590	$ (2,484)	$ 7,463
Other comprehensive income (loss)	(391)	(1,303)	367	404	(923)
Balance at June 30, 2011	$ (3,964)	$ 11,627	$ 957	$ (2,080)	$ 6,540

Note 21. Net change in non-cash items related to operations

For the quarter ended June 30, the net change in non-cash items related to operations is detailed as follows:

	2011	2010
Accounts receivable	$ 17,659	$ 475
Income tax receivable	288	(367)
Inventories	381	4,757
Other current assets	(800)	(650)
Accounts payable and accrued liabilities, and other liabilities	(11,855)	(7,973)
Accounts payable - other	(859)	186
Provisions	(300)	(1,195)
Progress billings	(2,557)	(5,776)
Income tax payable	(223)	219
Effect of changes in exchange rate[(1)]	(212)	1,702
	$ 1,522	$ (8,622)

[(1)] Reflects the total impact of changes in exchange rate during the related period on non-cash items listed above for the Corporation's U.S. subsidiaries.

Note 22. Commitments

The Corporation has released purchase orders relating to new additions of facilities and machinery and equipment which have not yet been delivered to the Corporation's facilities. These outstanding purchase orders at June 30, 2011 amounted to $5,299 ($3,938 at March 31, 2011 and $5,205 at April 1, 2010) for which an amount of $429 ($223 at March 31, 2011 and $772 at April 1, 2010) in deposits on machinery and equipment were made and are included in other current assets.

Note 23. Segment information

Based on the nature of the Corporation's markets (customers, manufacturing techniques and regulatory requirements), there are two main operating segments: Aerospace and Industrial. The Aerospace segment includes the design, development, manufacture, repair and overhaul and sale of systems and components for military and civil aviation, while the Industrial segment represents essentially the manufacture and sale of gas turbine components and other high precision machined products for the wind energy and heavy equipment industries.

The accounting policies used to account for the operating segments are the same as those described in the summary of significant accounting policies. The Corporation accounts for intersegment and related-party sales and transfers, if any, at the exchange amount which represents the amount of consideration established and agreed to by the parties.

The Landing Gear and Aerostructure CGUs have been aggregated to form the Aerospace reporting segment. For the purpose of allocating resources and assessing performance, management monitors the results of its operating units in relation to the results of the reporting segment to which they pertain. The Corporation evaluates the performance of its operating segments based on operating income before financial expenses and income tax expense. Financial expenses and income tax expense are managed on a Corporation basis.

	2011			2010		
Quarters ended June 30	Aerospace	Industrial	Total	Aerospace	Industrial	Total
Sales	$ 84,645	$ 7,228	$ 91,873	$ 76,042	$ 6,499	$ 82,541
Results						
Operating income	7,598	1,485	9,083	5,137	735	5,872
Financial expenses (unallocated)			1,443			1,200
Income before income tax expense and restructuring charges			7,640			4,672
Assets	437,608	24,787	462,395	430,071	26,234	456,305
Liabilities	226,100	5,783	231,883	241,455	5,854	247,309
Other segment information:						
Additions to property, plant and equipment	3,439	767	4,206	3,019	176	3,195
Net increase of finite-life intangible assets	2,037	-	2,037	2,150	-	2,150
Amortization expense	5,299	566	5,865	5,435	659	6,094

Geographic information

	2011			2010		
Quarters ended June 30	Canada	U.S.	Total	Canada	U.S.	Total
Sales	$ 58,325	$ 33,548	$ 91,873	$ 55,836	$ 26,705	$ 82,541
Property, plant and equipment, net	91,063	57,090	148,153	91,914	61,544	153,458
Finite-life intangible assets, net	16,402	3,555	19,957	9,911	5,064	14,975
Goodwill	15,093	20,780	35,873	15,093	23,035	38,128
Export sales[(1)]	$ 34,085			$ 31,849		

During the quarters ended June 30, 2011 and 2010, 68% and 66% of sales respectively, were made to U.S. customers.

[(1)] Export sales are attributed to countries based on customer location.

Note 24. Conversion to International Financial Reporting Standards

The Canadian Accounting Standards Board has mandated the adoption of IFRS effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 for Canadian publicly accountable profit-oriented enterprises.

Consequently, on April 1, 2011, the Corporation adopted IFRS as the basis of preparation and presentation of its consolidated financial statements. The Corporation has thus prepared its consolidated financial statements for the quarter ended June 30, 2011 in conformity with IFRS. The consolidated financial statements of the current fiscal year ending March 31, 2012 (and for periods ending during the current fiscal year ending March 31, 2012) are and will be prepared in accordance with IFRS. The consolidated financial statements of the fiscal year ended March 31, 2011, the quarter ended June 30, 2010, as well as the opening balance sheet as at April 1, 2010 (transition date), have been restated to conform to IFRS (see below).

Prior to current fiscal year 2012, the consolidated financial statements were prepared and presented on the basis of generally accepted accounting principles then in effect in Canada ("Previous GAAP").

Reconciliations of Previous GAAP to IFRS

IFRS 1 requires an entity to reconcile shareholder's equity, net income, comprehensive income and cash flows for prior periods. The impact of converting to IFRS on the Corporation's consolidated statements of cash flows compared with its Previous GAAP consolidated statements of cash flows is directly related to the impacts on the consolidated statements of net income, consolidated statements of comprehensive income and the consolidated balance sheets as described below. The line items of the consolidated financial statements of cash flows most affected by the conversion to IFRS are: Net income, Amortization expense, Deferred income taxes, Interest accretion expense and Repayment of long-term debt.

The following represents the reconciliations from Previous GAAP to IFRS for the respective periods noted for the consolidated balance sheets, shareholders' equity, net income and comprehensive income:

24.1 Reconciliation of the consolidated balance sheets as at April 1, 2010 (transition date) and March 31, 2011:

	Reference	March 31, 2011 Previous GAAP	March 31, 2011 Adjustments	March 31, 2011 IFRS	April 1, 2010 Previous GAAP	April 1, 2010 Adjustments	April 1, 2010 IFRS
Current assets							
Cash and cash equivalents		$ 32,910	$ -	$ 32,910	$ 46,591	$ -	$ 46,591
Accounts receivable		62,623	-	62,623	39,085	-	39,085
Income tax receivable		716	-	716	1,349	-	1,349
Other receivables		12,240	(12,240)	-	11,174	(11,174)	-
Inventories	A5	101,472	33,365	134,837	84,408	32,332	116,740
Derivative financial instruments		10,923	-	10,923	7,568	-	7,568
Prepaid expenses		2,498	(2,498)	-	2,151	(2,151)	-
Deferred income tax assets	A8	5,819	(5,819)	-	5,124	(5,124)	-
Other current assets		-	14,738	14,738	-	13,325	13,325
		$ 229,201	$ 27,546	$ 256,747	$ 197,450	$ 27,208	$ 224,658
Property, plant and equipment, net	A1	$ 145,047	$ 5,630	$ 150,677	$ 137,670	$ 6,834	$ 144,504
Finite-life intangible assets, net		18,486	-	18,486	11,698	-	11,698
Derivative financial instruments	A7	-	10,132	10,132	-	12,408	12,408
Goodwill	E1	40,398	(4,511)	35,887	35,621	(4,511)	31,110
Other assets	A7	10,743	(10,132)	611	12,408	(12,408)	-
Total assets		$ 443,875	$ 28,665	$ 472,540	$ 394,847	$ 29,531	$ 424,378
Liabilities and shareholders' equity							
Current liabilities							
Accounts payable and accrued liabilities	E2, A6	$ 68,893	$ (16,316)	$ 52,577	$ 58,069	$ (15,777)	$ 42,292
Accounts payable - other	A7	4,980	(852)	4,128	4,591	(2,021)	2,570
Provisions	E1, A2, A6	-	11,786	11,786	-	11,653	11,653
Progress billings	A5	-	24,555	24,555	-	24,529	24,529
Income tax payable		1,622	-	1,622	138	-	138
Derivative financial instruments	A7	-	852	852	-	2,021	2,021
Deferred income tax liabilities	A8	6,474	(6,474)	-	7,161	(7,161)	-
Current portion of long-term debt	A1	5,136	1,217	6,353	4,250	1,212	5,462
		$ 87,105	$ 14,768	$ 101,873	$ 74,209	$ 14,456	$ 88,665
Long-term debt	A1	$ 94,376	$ 4,779	$ 99,155	$ 76,807	$ 6,166	$ 82,973
Provisions	A2, A6	-	4,805	4,805	-	4,855	4,855
Progress billings	A5	-	8,810	8,810	-	7,803	7,803
Derivative financial instruments	A7	-	1,158	1,158	-	1,716	1,716
Deferred income tax liabilities	A8	20,547	(1,616)	18,931	15,791	524	16,315
Other liabilities	E2, A3, A6, A7	9,182	4,083	13,265	10,948	40	10,988
		$ 211,210	$ 36,787	$ 247,997	$ 177,755	$ 35,560	$ 213,315
Shareholders' equity							
Issued capital		$ 100,136	$ -	$ 100,136	$ 100,641	$ -	$ 100,641
Contributed surplus	A4	2,010	1,320	3,330	1,615	1,530	3,145
Accumulated other comprehensive income (loss)	E3	(5,871)	13,334	7,463	(4,618)	15,816	11,198
Retained earnings		136,390	(22,776)	113,614	119,454	(23,375)	96,079
		$ 232,665	$ (8,122)	$ 224,543	$ 217,092	$ (6,029)	$ 211,063
Total liabilities & shareholders' equity		$ 443,875	$ 28,665	$ 472,540	$ 394,847	$ 29,531	$ 424,378

24.2 Reconciliation of shareholders' equity as at April 1, 2010 (transition date), March 31, 2011 and June 30, 2010:

		Reference		
24.2.1	Shareholders' equity under Previous GAAP as at March 31, 2010			217,092
	Adjustments:			
	Exchanged differences on translation of foreign operations	E3		-
	Business acquisition	E1		(1,365)
	Graded method to amortize the cost of granted stock options	A4		-
	Unamortized net pension plan actuarial loss	E2		(3,642)
	Unamortized pension plan past-service costs and transitional obligation	A3		(1,060)
	Others	A1, A2		38
	Total adjustments			(6,029)
	Shareholders' equity under IFRS as at April 1, 2010			211,063

		Note		
24.2.2	Shareholders' equity under Previous GAAP as at March 31, 2011			232,665
	Adjustments:			
	On shareholders' equity as of April 1, 2010	24.2.1		(6,029)
	On net income for the year ended March 31, 2011, which have an impact on the shareholders' equity as at March 31, 2011	24.4	602	
	• Stock-based compensation expense included in the consolidated statements of income		(211)	391
	Adjustments to other comprehensive income for the year ended March 31, 2011 which have an impact on shareholders' equity at March 31, 2011:			
	• Pension plans - Asset limit and minimum funding requirements	24.4		(1,238)
	• Pension plans - Actuarial loss	24.4		(1,246)
	Total adjustments			(8,122)
	Shareholders' equity under IFRS as at March 31, 2011			224,543

		Note		
24.2.3	Shareholders' equity under Previous GAAP as at June 30, 2010			216,170
	Adjustments:			
	On shareholders' equity as of April 1, 2010	24.2.1		(6,029)
	On net income for the quarter ended June 30, 2010, which have an impact on shareholders' equity as at June 30, 2010	24.3	135	
	• Stock-based compensation expense included in the consolidated statements of income		(60)	75
	Adjustments to other comprehensive income for the quarter ended June 30, 2010 which have an impact on shareholders' equity as at June 30, 2010			
	• Pension plans - Asset limit and minimum funding requirements	24.3		-
	• Pension plans - Actuarial loss	24.3		(1,219)
	• Other	24.3		(2)
	Total adjustments			(7,175)
	Shareholders' equity under IFRS as at June 30, 2010			208,995

24.3 Reconciliation of net income and comprehensive income for the quarter ended June 30, 2010:

	Reference	Previous GAAP	Adjustments	IFRS
Sales		82,541	-	82,541
Cost of sales(1)	A1, A2, A3	70,934	(229)	70,705
Gross profit		11,607	229	11,836
Selling and administrative expenses	A4	6,024	(60)	5,964
		5,583	289	5,872
Financial expenses	A1, A2	1,078	122	1,200
Income before income tax expense and restructuring charges		4,505	167	4,672
Restructuring charges		368	-	368
Income before income tax expense		4,137	167	4,304
Income tax expense	A1, A2, A3	954	32	986
Net income		3,183	135	3,318
Other comprehensive income (loss), net of income taxes:		(1,281)	(2)	(1,283)
Pension plans - Actuarial loss	A3	-	(1,219)	(1,219)
Total – Other comprehensive income		(1,281)	(1,221)	(2,502)
Comprehensive income		1,902	(1,086)	816

(1) Including amortization of $5,865 under Previous GAAP and of $6,094 under IFRS.

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

	Reference	Previous GAAP	Adjustments	IFRS
Sales		357,572	-	357,572
Cost of sales(1)	A1, A2, A3	300,312	(1,018)	299,294
Gross profit		57,260	1,018	58,278
Selling and administrative expenses	A4	26,040	(211)	25,829
		31,220	1,229	32,449
Financial expenses	A1, A2	5,156	482	5,638
Income before income tax expense and restructuring charges		26,064	747	26,811
Restructuring charges		637	-	637
Income before income tax expense		25,427	747	26,174
Income tax expense	A1, A2, A3	6,900	145	7,045
Net income		18,527	602	19,129
Other comprehensive income (loss), net of income taxes:		(1,253)	-	(1,253)
Pension plans - Asset limit and minimum funding requirements	A3	-	(1,238)	(1,238)
Pension plans - Actuarial loss	A3	-	(1,246)	(1,246)
Total – Other comprehensive income		(1,253)	(2,484)	(3,737)
Comprehensive income		17,274	(1,882)	15,392

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

Following are explanations of Previous GAAP – IFRS adjustments in relation to the above reconciliations (Reference):

A. Exemptions ("E") applied

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

E1. IFRS 3-*Business Combinations* is applied to acquisitions of subsidiaries that occurred after March 31, 2004. Accordingly, the Corporation has reviewed certain business acquisition purchase price determinations and allocations. The effect is a decrease in the goodwill and shareholders' equity, at transition date.

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

E3. As of April 1, 2010, the Corporation has elected to transfer the exchange differences on translation of foreign operations of $15,816 from accumulated other comprehensive income to retained earnings. This has no impact on shareholders' equity at that date.

B. Adjustments ("A") resulting from the transition from Previous GAAP to IFRS

A1. Leases

Under Previous GAAP, capital and operating leases were based on quantitative tests for lease classification. IFRS requires qualitative and quantitative assessments of lease classification and, as a result, certain leases for machinery and equipment accounted for as operating leases under Previous GAAP are now accounted for as finance leases under IFRS.

A2. Provisions

The consolidated balance sheet includes provisions representing estimated amounts that the Corporation expects to pay in the future. Under Previous GAAP, these amounts were not discounted to account for the time period in which these obligations will be settled. As required by IAS 37-*Provisions, Contingent Liabilities and Contingent Assets,* certain provision amounts have been discounted. The effect on shareholders' equity at June 30, 2010 is not significant.

A3. Pensions and other retirement benefits

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

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

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

A4. Stock-based compensation

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

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

A5. Progress billings
Under Previous GAAP, progress billings received from customers were deducted from related inventories. As required by IFRS, progress billings of $32,332 at April 1, 2010 and $33,365 at March 31, 2011, are classified as short-term and long-term liabilities.

A6. Provisions
IFRS requires that provisions be presented separately in the consolidated balance sheet. Accordingly, certain provisions classified under accounts payable and accrued liabilities and other liabilities under Previous GAAP, are presented separately.

A7. Derivative financial instruments – assets and liabilities
IFRS require that derivative financial instruments be presented separately in the consolidated balance sheet.

A8. Deferred income taxes
Under Previous GAAP, "future income taxes" are referred to as "deferred income taxes" under IFRS. Under Previous GAAP, future income taxes were classified as current or non-current based on the classification of assets and liabilities to which future income tax assets and liabilities were related. As required by IFRS, all deferred income tax assets and liabilities are classified as non-current.

Additional annual disclosures under IFRS

Certain additional annual disclosures required under IFRS have been provided below for the year ended March 31, 2011, taking into consideration the adjustments made from Previous GAAP to reconcile with IFRS, as discussed above. Certain disclosures normally included in a set of annual consolidated financial statements under IFRS have been omitted or condensed, as the Corporation does not consider such information necessary to the understanding of the impact of IFRS on the interim consolidated financial statements.

(1) Property, plant & equipment

	Land	Buildings and leasehold improvements	Machinery, equipment and tooling	Other	Construction in progress	Total
Cost:						
At April 1, 2010	$ 3,679	$ 50,983	$ 219,156	$ 5,973	$ 2,710	$ 282,501
Additions	498	8,008	15,089	1,191	1,682	26,468
Government assistance	-	-	(1,569)	-	-	(1,569)
Construction in progress	-	2,033	677	-	(2,710)	-
Business acquisition	423	2,980	4,781	314	-	8,498
Disposals	(137)	(832)	(4,873)	(236)	-	(6,078)
Effect of changes in exchange rate	(93)	(1,125)	(3,528)	(98)	-	(4,844)
At March 31, 2011	$ 4,370	$ 62,047	$ 229,733	$ 7,144	$ 1,682	$ 304,976
Accumulated amortization:						
At April 1, 2010	$ -	$ 17,764	$ 116,239	$ 3,994	$ -	$ 137,997
Amortization	-	2,408	19,160	668	-	22,236
Disposals	-	(295)	(3,302)	(170)	-	(3,767)
Effect of changes in exchange rate	-	(197)	(1,935)	(35)	-	(2,167)
At March 31, 2011	-	19,680	$ 130,162	$ 4,457	$ -	$ 154,299

At March 31, 2011 and April 1, 2010, construction in progress is related to the cost of the extension of a facility and new machinery and equipment being installed as of these dates (see Note 22).

(2) Finite-life intangible assets and goodwill

	Finite-life intangible assets				
	Capitalized Development Costs	Software	Backlog	Total	Goodwill
Cost:					
At April 1, 2010	$ 6,730	$ 13,154	$ 7,408	$ 27,292	$ 31,110
Additions	9,264	426	-	9,690	-
Government assistance	(2,334)	-	-	(2,334)	-
Business acquisition	-	624	1,390	2,014	5,849
Effect of changes in exchange rate	(11)	(461)	-	(472)	(1,072)
At March 31, 2011	$ 13,649	$ 13,743	$ 8,798	$ 36,190	$ 35,887
Accumulated amortization					
At April 1, 2010	$ 266	$ 11,505	$ 3,823	$ 15,594	$ -
Amortization	137	726	1,547	2,410	-
Effect of changes in exchange rate	-	(453)	153	(300)	-
At March 31, 2011	$ 403	$ 11,778	$ 5,523	$ 17,704	$ -

(3) Provisions

	Onerous contracts	Asset retirement obligations	Product warranty	Litigations and other	Total
At April 1, 2010	$ 3,053	$ 5,019	$ 1,289	$ 7,147	$ 16,508
Arising during the year	879	-	1,638	-	2,517
Business acquisition	907	-	320	-	1,227
Interest accretion expense	32	270	-	-	302
Utilized	(968)	(61)	(287)	(131)	(1,447)
Reversed	(1,291)	-	(843)	(305)	(2,439)
Discount rate adjustments	-	3	-	-	3
Effect of changes in exchange rate	(42)	-	(38)	-	(80)
At March 31, 2011	2,570	5,231	2,079	6,711	16,591
Less: current portion	1,832	1,164	2,079	6,711	11,786
Long-term portion	$ 738	$ 4,067	$ -	$ -	$ 4,805

(4) Goodwill

At March 31, 2011, the net carrying amount of goodwill is allocated to the following CGUs:

	March 31, 2011
CGU	
Aerospace	
Landing Gear	$16,928
Aerostructure	18,091
	35,019
Industrial	868
	$35,887

The following key assumptions were used to determine recoverable amounts in the most recent impairment tests performed at March 31, 2011.

CGU	Pre-tax discount rate (WACC)[1]	Perpetual growth rate
Aerospace		
Landing Gear	12.6%	3.2%
Aerostructure	13.3%	3.1%
Industrial	14.0%	2.0%

Sensitivity of recoverable amounts

The following table presents, for each CGU, the change in the discount rate and in the perpetual growth rate used in the most recently performed tests that would have been required to recover the carrying value of CGU at March 31, 2011:

CGU	Incremental increase in pre-tax discount rate (WACC) [1]	Incremental decrease in perpetual growth rate
Aerospace		
Landing Gear	3.6%	5.0%
Aerostructure	5.4%	8.1%
Industrial	29.2%	15.0%

(1) Weighted-average cost of capital before taxes.

(5) Deferred income taxes

Temporary differences and loss carry-forwards, which give rise to deferred income tax liabilities, under IFRS, were as follows:

	March 31, 2011	April 1, 2010
Deferred income tax liabilities		
Non-deductible reserves	$ 108	$ (921)
Inventories	(4,278)	(2,613)
Receivables	(690)	(794)
Derivative financial instruments	4,250	3,847
Tax and other credits	1,869	2,134
Property, plant and equipment, net	14,793	11,916
Goodwill	3,335	2,992
Governmental authorities loans	626	1,276
Income tax benefits from tax losses	(1,082)	(1,522)
	$ 18,931	$ 16,315

(6) Pensions and other retirement benefits

		March 31, 2011		April 1, 2010
Defined benefit obligation	$	38,817	$	35,044
Plan assets		27,369		24,254
(Deficit)		(11,448)		(10,790)
Asset limit and minimum funding requirements		(1,687)		-
Pensions and other retirement benefits (Note 17)	$	(13,135)	$	(10,790)

Elements of defined benefit pension costs recognized for the fiscal year:

		2011
In the consolidated statements of income		
Current service cost	$	908
Interest cost on defined benefit obligations		1,956
Expected return on plan assets		(1,617)
Expense recognized in income	$	1,247
In other comprehensive income		
Net actuarial gain (loss)	$	(1,699)
Effect of limit and minimum funding requirements		(1,687)
Other comprehensive income (loss)	$	(3,386)

The Corporation’s contributions to pension plans expected to be paid in fiscal year 2012 amounts to $2,712.

MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL POSITION AND OPERATING RESULTS

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Management Discussion and Analysis of Financial Position and Operating Results

The purpose of this management discussion and analysis ("MD&A") is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries ("Héroux-Devtek" or the "Corporation") evolved between April 1, 2011 and June 30, 2011. It also compares the operating results and cash flows for the first quarter ended June 30, 2011 to those for the same period in the previous year.

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended June 30, 2011 and the audited consolidated financial statements and MD&A for the year ended March 31, 2011, both of which are available on the Corporation's website at www.herouxdevtek.com. The Corporation reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

This MD&A is based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), using the Canadian dollar as the reporting currency.

Effective April 1, 2011, the Corporation adopted IFRS as the Corporation's basis of financial reporting, using April 1, 2010 as the transition date. As such, the Corporation's first quarter 2011 unaudited consolidated financial statements and the accompanying notes, form part of the first annual interim condensed consolidated financial statements to be prepared in accordance with IFRS for the year ending March 31, 2012. These first quarter 2011 unaudited interim condensed consolidated financial statements have been prepared in accordance with the International Accounting Standard 34, Interim Financial Reporting, and the requirements of the International Financial Reporting Standard 1, first-time Adoption of International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB"). Except where otherwise noted, all prior period comparative figures have been restated to conform to IFRS.

For details on the most significant adjustments to the financial statements of prior periods, see Note 24 – *Conversion to International Financial Reporting Standards* – to the unaudited interim condensed consolidated financial statements of the three-month period ended June 30, 2011.

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

Note that the unaudited interim condensed consolidated financial statements for the three-month period ended June 30, 2011, referred to in this MD&A, do not contain all disclosures required by IFRS for annual financial statements and, accordingly, should also be read in conjunction with the most recently prepared annual audited consolidated financial statements for the year ended March 31, 2011, which have been prepared in accordance with Canadian generally accepted accounting principles then in effect ("Previous GAAP").

Non-IFRS Measures

The Corporation uses earnings before interest, taxes, depreciation and amortization ("EBITDA") to assess its financial performance. EBITDA is a financial measure not prescribed by IFRS, nor by Previous GAAP. However, the Corporation’s management as well as investors, consider these to be useful information to assist them in evaluating the Corporation's profitability, liquidity and ability to generate funds to finance its operations and capital investment needs.

The computation of EBITDA using financial statements prepared under Previous GAAP ("EBITDA – Previous GAAP") differs somewhat from the computation of EBITDA using financial statements prepared under IFRS ("EBITDA – IFRS"). Listed below is a reconciliation of EBITDA – Previous GAAP to EBITDA – IFRS for the quarter ended June 30, 2010 and for the fiscal year ended March 31, 2011:

($’000)	**Quarter ended June 30, 2010**	**Fiscal year ended March 31, 2011**
EBITDA – Previous GAAP	**11,448**	**54,830**
Adjustments:		
Time-related discounts applied to provisions	-	229
Finance leases	411	1,633
Graded method to amortize the cost of granted stock options	60	211
Pension plans	86	346
Interest accretion on pension plans	(39)	(154)
Total adjustments	518	2,265
EBITDA – IFRS	**11,966**	**57,095**

The Corporation’s EBITDA is calculated as follows:

Quarter ended June 30 ($’000)	**2011**	**2010**
Net income	5,797	3,318
Income tax expense	1,843	986
Financial expenses	1,443	1,200
Amortization	5,865	6,094
EBITDA including restructuring charges	14,948	11,598
Restructuring charges	-	368
EBITDA	**14,948**	**11,966**

The $3.0 million increase in EBITDA in the first quarter ended June 30, 2011, compared to last year's first quarter, is essentially explained by an increase in net income of $2.5 million, with a related increase in the income tax expense of $0.9 million.

Forward-Looking Statements

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

Such factors include, but are not limited to: the impact of worldwide general economic conditions and, in particular, economic conditions in Canada and the United States; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity prices; foreign exchange or interest rate fluctuations; stock market volatility; and the impact of accounting policies issued by Canadian, U.S. and international standard setters. Some of these factors are further discussed under Risks and Uncertainties in this MD&A. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

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

Overview

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

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

Héroux-Devtek's main products for the Industrial segment are large components for power-generating and heavy equipment, with its largest customers being The General Electric

Company (GE) and Caterpillar. It also sells precision components for other industrial applications such as the wind energy market.

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

For the first quarter ended June 30, 2011, most of the Corporation's strategic markets have shown positive momentum. Sales increased in all three product lines, despite the negative impact of an increase in the value of the Canadian dollar versus the U.S. currency. This higher sales volume led to a better absorption of manufacturing overhead costs and to higher profitability. As the economy continues to progress, the Corporation anticipates an internal sales growth of approximately 5% for the current fiscal year, assuming the Canadian dollar remains at parity versus the U.S. currency.

RESULTS OF OPERATIONS

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

As previously disclosed in last year's audited consolidated financial statements, on April 28, 2010, the Corporation announced that it had concluded the acquisition, through a U.S. subsidiary, of substantially all the net assets of U.S.-based Eagle Tool & Machine Co ("Eagle") and of its subsidiary, All Tool Inc ("E2"), two privately owned manufacturers of precision machined products mainly for the military aerospace industry (now referred to as "Landing Gear USA"), with annual sales of approximately $40 million, prior to the acquisition, based on their December 31, 2009 fiscal year-end and of $45 million for an eleven-month period in the Corporation's 2011 fiscal year. (see note 6 to the interim condensed consolidated financial statements).

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

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

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

Throughout this MD&A, Management has explained the consolidated first quarter results which include the results of Landing Gear USA. Last year's first quarter results for Landing Gear USA are for the period from April 28, 2010 to June 30, 2010, which is not a full quarter, when compared to this year's first quarter. For all significant elements explained, Management has singled out this impact on the first quarter results to help readers understand the year-over-year change.

Foreign Exchange

The Corporation is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its self-sustaining foreign operations and from transactions denominated mainly in U.S. dollars. Average rates are used to translate sales (but exclusive of forward foreign exchange contracts) and expenses for the years mentioned, while closing rates translate monetary assets and liabilities denominated in foreign currencies and assets and liabilities of foreign operations.

Canada / US Exchange Rates		**June 30, 2011**	**June 30, 2010**
Average rate for quarter ended	1$ Canadian/ US $ equivalent	0.9676	1.0276

Canada / US Exchange Rates		**June 30, 2011**	**March 31, 2011**
Closing rate at	1$ Canadian/ US $ equivalent	0.9645	0.9696

As shown above, the average value of the Canadian dollar for the quarter ended June 30, 2011, when compared to its U.S. counterpart, year-over-year, increased by more than 6% and, naturally, added pressure to the U.S.-denominated sales and results of the Corporation, including those from its Canadian operations. The variation in the closing rate since March 31, 2011 was minimal, reducing the currency impact on the Corporation’s U.S.-denominated balance sheet accounts at the end of this quarter, when compared to year-end balances. Currency fluctuation impact on the Corporation’s sales, gross profit and specific balance sheet elements can be found later in this MD&A.

The Corporation makes use of derivative financial instruments, in accordance with its hedging policy, to hedge foreign currency fluctuation exposure risks (Canadian dollar over U.S. dollar) in an effort to mitigate these risks. At June 30, 2011, the Corporation had forward foreign exchange contracts totalling US$158.4 million at a weighted-average exchange rate of 1.0900 maturing over the next four fiscal years, with the majority maturing over the next two fiscal years.

At June 30, 2011, the Corporation had also entered into forward foreign exchange contracts totalling US$6.5 million at a weighted-average rate of 1.2320 maturing over the next three fiscal years, to cover foreign exchange risks (Canadian dollar over U.S. dollar) related to certain embedded derivatives.

Consolidated Sales

Consolidated sales for the three months ended June 30, 2011 increased 11.3% to $91.9 million from $82.5 million last year. This 11.3% increase includes a $5.3 million additional contribution from Landing Gear USA, representing an increased throughput combined with the impact of having full quarter results this year, when compared to last year. In addition, sales were higher in the Aerospace segment, as production rates are ramping up with commercial customers and also in the Industrial segment. The impact of the Canadian dollar, against the U.S. currency, reduced consolidated sales by $3.4 million or 4.2% compared to last year.

The Corporation's sales by segment were as follows:

	Quarters ended June 30			
	2011	2010	Variance	
	($'000)	($'000)	($'000)	%
Total Aerospace	84,645	76,042	8,603	11.3
Total Industrial	7,228	6,499	729	11.2
Total	**91,873**	**82,541**	**9,332**	**11.3**

This year's Aerospace sales, excluding the additional $5.3 million sales contribution of Landing Gear USA, increased $6.3 million or 8.3%, when compared to last year. This increase was partially offset by a negative US/CAD currency impact of $3.0 million or 3.9%. The Industrial sales increased by $1.1 million or 17.4%, excluding the unfavourable currency impact of $0.4 million or 6.2%, as a result of increased heavy equipment product sales.

Aerospace Segment

Sales for the Aerospace segment were as follows:

	Quarters ended June 30			
Product Lines	2011	2010	Variance	
	($'000)	($'000)	($'000)	%
Landing Gear	59,404	54,274	5,130	9.5
Aerostructure	24,939	21,694	3,245	15.0
Other aerospace products	302	74	228	308.1
Total	**84,645**	**76,042**	**8,603**	**11.3**

Sales of the Landing Gear product line increased by 9.5% or $5.1 million, mainly as a result of additional sales from Landing Gear USA. Sales resulting from increased production rates in large commercial markets, mainly the B-777 program and business jet markets, were partially offset by the negative US/CAD currency impact and reduced customer requirements in certain helicopter and regional jet programs.

Aerostructure product line sales increased 15.0% or $3.2 million for the first quarter ended June 30, 2011, despite the negative impact of a stronger Canadian dollar on this product line's US denominated sales and lower customer requirements on F-16, F-18 and F-15 military programs. This increase in sales was driven by increased sales to the JSF F-35 and B-429 helicopter programs, as production rates are ramping up, along with new business from the Gulfstream (GV) program and higher business jet product requirements.

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

	Quarters ended June 30			
	2011	2010	Variance	
	($'000)	($'000)	($'000)	%
Military [(1)]	50,253	46,369	3,884	8.4
Commercial	34,392	29,673	4,719	15.9
Total Aerospace	**84,645**	**76,042**	**8,603**	**11.3**

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

Excluding the additional sales from Landing Gear USA, military sales were 2.0% lower than last year while commercial sales were 15.1% higher than last year. As mentioned above, military sales reflect the increase in JSF sales, offset by the negative impact of a stronger Canadian dollar and by lower customer requirements on the F-16, F-18 and F-15 programs. The commercial sales increase is the result of higher production rates on the B-777, B-429 and business jet programs, in addition to the new Gulfstream (GV) business.

Industrial Segment

Sales for the Industrial segment were as follows:

	Quarters ended June 30			
	2011	2010	Variance	
	($'000)	($'000)	($'000)	%
Gas Turbine	3,320	3,159	161	5.1
Other Industrial	3,908	3,340	568	17.0
Total	**7,228**	**6,499**	**729**	**11.2**

Industrial sales were higher than last year, boosted by higher demand for Heavy Equipment in the mining industry and, to a lesser degree, in the Gas Turbine sector.

Sales by Destination

The Corporation’s sales by destination were as follows:

	Quarters ended June 30	
	2011 (%)	**2010 (%)**
Canada	28	30
US	68	66
International	4	4
Total	**100**	**100**

The sales by destination mix mainly reflects the impact of increased sales in the U.S., as a result of increased Landing Gear USA sales, combined with increased sales in the Industrial segment.

Gross Profit

Consolidated gross profit increased from 14.3% to 16.8% of sales for the three months ended June 30, 2011. This mainly resulted from the Corporation’s overall increase in sales, which allowed for an increased absorption of manufacturing overhead costs.

This quarter, Landing Gear USA had almost no impact on the Corporation’s overall gross profit as a percentage of sales, as opposed to a negative impact of 0.5% for the same period last year.

The continued strengthening of the Canadian dollar this year negatively impacted the Corporation’s gross profit in dollars by $0.7 million or 0.2% when expressed as a percentage of sales. Besides the natural hedging from the purchase of raw materials in US dollars, the Corporation mitigates the currency impact by the use of forward foreign exchange contracts.

In the Aerospace segment, Landing Gear product line gross profit in dollars was higher than last year, mainly as a result of higher throughput in Landing Gear USA. This quarter, Landing Gear USA had a positive impact of 0.2% on Landing Gear product line gross profit, compared to a 0.9% negative impact for the same period last year. Compared to last year, the Aerostructure product line significantly improved its gross profit in dollars and as a percentage of sales. This is in line with the sales increase and the related increased production volume that resulted in higher absorption of manufacturing overhead costs, combined with expected improvement in manufacturing efficiency. Last year, the Aerostructure product line was negatively impacted by a lower production volume, which had an unfavourable impact on its gross profit. In the Industrial segment, the gross profit margin in dollars and as a percentage of sales also improved significantly, boosted by higher sales for Heavy Equipment which also resulted in increased absorption of manufacturing overhead costs, when compared to last year.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	Quarters ended June 30	
	2011	**2010**
Selling and administrative expenses ($’000)	6,396	5,964
% of sales	7.0	7.2

Selling and administrative expenses of $6.4 million were $0.4 million higher than last year, and 0.2% higher as a percentage of sales. The increase is mainly attributable to expenses incurred this year in relation to the start-up of the new Mexico facility ($0.2 million), in addition to having full quarter results for Landing Gear USA this year, when compared to last year. The selling and administrative expenses include a loss on currency translation on net monetary assets of $0.1 million this year, compared to a loss of $0.2 million last year.

Operating Income

Consolidated operating income stood at $9.1 million or 9.9% of sales this year, an increase from last year’s operating income of $5.9 million or 7.1% of sales. This is the result of higher sales and gross profit in both Aerospace and Industrial segments, as explained above.

Aerospace Segment

Aerospace operating income was $7.6 million or 9.0% of sales this year, compared to $5.1 million or 6.8% of sales last year. Excluding Landing Gear USA, this year’s Aerospace segment operating income was $6.1 million or 8.4% of sales, an increase from last year’s operating income of $4.7 million or 6.9% of sales. The increased operating income reflects the impact of increased sales and gross profit already explained above.

Industrial Segment

Operating income increased to $1.5 million or 20.5% of sales this year from $0.7 million or 11.3% of sales last year, as a result of higher sales and gross profit in this segment, as explained above.

Financial Expenses

Financial expenses stood at $1.4 million for the quarter, while it stood at $1.2 million for the three months ended June 30, 2010. The difference in the financial expenses of this year compared to last year mainly reflects the impact of having a higher portion of the Credit Facility being fixed through interest swap agreements at a higher rate than the short-term interest rate. It also reflects a higher amortization of deferred financing costs following the renewal of the Credit Facility and higher interest accretion mainly due to increased governmental authorities loans.

Restructuring Charges

Last year, on May 13, 2010, the Corporation launched an initiative to optimize and consolidate production capacity in its Aerospace segment, while further enhancing productivity at its Québec-based facilities. Consequently, the Corporation’s Rivière-des-Prairies, Québec, facility was closed in September 2010 and its production was transferred to the Corporation’s other facilities in the Greater Montreal area. The Corporation recorded restructuring charges of $0.4 million during the quarter ended June 30, 2010 and $0.6 million for the fiscal year ended March 31, 2011. At June 30, 2011 and March 31, 2011, the building related to this facility was classified in Other assets as an asset held for sale in the Corporation’s Consolidated Balance Sheets.

Income Tax Expense

For the quarter ended June 30, 2011, the income tax expense stood at $1.8 million compared to $1.0 million last year.

The Corporation’s effective income tax rate for the three months ended June 30, 2011 was 24.1%, compared to its Canadian blended statutory income tax rate of 27.1%. The effective income tax rate reflects the favourable impact from permanent differences ($0.3 million), and favourable deferred income tax adjustments ($0.1 million), partially offset by the negative impact of a higher U.S. income tax rate for the Corporation’s U.S. subsidiaries ($0.2 million).

For the quarter ended June 30, 2010, the Corporation’s effective income tax rate was 22.9% compared to the Corporation’s Canadian blended statutory income tax rate of 28.4%. The difference can be explained by the favourable impact on the Corporation’s effective income tax rate coming from permanent differences ($0.2 million) and by a favourable tax adjustment following the conclusion of a prior year tax audit ($0.2 million) somewhat offset by the negative impact of a higher U.S. income tax rate for the Corporation’s U.S. subsidiaries ($0.1 million).

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

Net Income

For the first quarter of fiscal 2012, the Corporation posted net income of $5.8 million compared to $3.3 million in last year's first quarter, reflecting the increased operating income in both segments of the Corporation. This quarter's net income includes $0.2 million of costs, net of taxes, incurred in conjunction with the start-up of the Mexico facility. The Corporation anticipates producing its first components early in calendar year 2012. Last year's net income is shown net of restructuring charges incurred for the closing of a facility, as already explained above.

	Quarters ended June 30	
	2011	**2010**
Net income ($'000)	5,797	3,318
Earnings per share – basic ($)	0.19	0.11
Earnings per share – diluted ($)	0.19	0.11

Basic earnings per share figures are based on weighted-averages of 30,214,742 common shares outstanding for the first quarter ended June 30, 2011, and 30,236,562 for the same period last year, while the diluted earnings per share figures are based on weighted-averages of 30,515,588 for this quarter and 30,450,460 for last year. This quarter's variance in the number of outstanding common shares is essentially due to the issuance of 200,323 common shares under the stock option plan and 9,975 common shares under the Corporation's stock purchase and ownership incentive plan.

On August 3, 2011, the date of this MD&A, the Corporation had 30,387,791 common shares and 1,199,677 stock options outstanding with a weighted-average of 3.6 years to maturity.

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility and Cash and Cash Equivalent

In general terms, the Corporation has a healthy financial situation and is well positioned to face its financing needs. In March 2011, the Corporation renewed and increased its Senior Secured Syndicated Revolving Credit Facilities through one Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") with a syndicate of five Canadian Banks and their US affiliates or branches, and a Canadian branch of a U.S. Bank. This five-year Credit Facility allows the Corporation and its subsidiaries to borrow up to $150 million, either in Canadian or US currency equivalent and will mature in March 2016. It also includes an accordion feature to increase the Credit Facility up to $225 million, during the term of the Credit Agreement, subject to approval by the lenders. To June 30, 2011, only CAD $57.4 million (US$59.5 million) had been drawn against this Credit Facility, including US$16.5 million in April 2010 to finance the acquisition of Eagle and E2 described earlier. Considering the Corporation's cash and cash equivalents position, its available Credit facility and level of expected capital investments and results, the Corporation's management does not expect any liquidity risk in the foreseeable future. At June 30, 2011, the Corporation had cash and cash equivalents of $40.1 million, compared to $32.9 million as at March 31, 2011, of which $29.7 million ($25.1 million at March 31, 2011) had been invested in short-term deposits with Banks.

Operating Activities

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

	Quarters ended June 30	
	2011 ($'000)	**2010 ($'000)**
Cash flows from operations	12,811	10,592
Net change in non-cash items related to operations	1,522	(8,622)
Cash flows related to operating activities	**14,333**	**1,970**

The $2.2 million increase in cash flows from operations for the first quarter ended June 30, 2011 is essentially explained by the $2.5 million increase in net income, partially offset by a lower amortization expense of $0.2 million and a lower deferred income taxes expense of $0.2 million.

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

	Quarters ended June 30 2011 ($'000)	2010 ($'000)
Accounts payable and accrued liabilities, accounts payable – other, and other liabilities	(12,714)	(7,787)
Accounts receivable	17,659	475
Inventories	381	4,757
Progress billings	(2,557)	(5,776)
All others	(1,247)	(291)
	1,522	**(8,622)**

For the first quarter ended June 30, 2011, the $17.7 million decrease in accounts receivable and the $12.7 million decrease in accounts payable and accrued liabilities, accounts payable – other, and other liabilities are mainly the result of a lower sales volume in this year's first quarter, compared to last year's fourth quarter, which is historically the best quarter of the year. The $2.6 million reduction in progress billings results from a lower funded backlog for military aftermarket landing gear business in line with reduced customers' requirements.

For the first quarter ended June 30, 2010, the reduction in accounts payable and accrued liabilities, accounts payable – other, other liabilities, progress billings, and inventories resulted from a reduced level of business activity in last year's first quarter.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended June 30 2011 ($'000)	2010 ($'000)
Additions to property, plant and equipment	(4,206)	(3,195)
Net increase in finite-life intangible assets	(2,037)	(2,150)
Proceeds on disposal of property, plant and equipment	32	25
Business acquisition	-	(28,813)
Others	(1,500)	-
Cash flows relating to investing activities	**(7,711)**	**(34,133)**

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

Additions to property, plant and equipment stood at $4.2 million ($3.2 million in last year's first quarter) and were mostly related to normal maintenance projects. Capital expenditures for fiscal 2012 are expected to represent about $26 million including a $5 million investment in relation to the new Mexico facility. The Mexico project could represent total capital investments of up to $20 million over the next three years.

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

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended June 30	
	2011 ($'000)	**2010 ($'000)**
Increase in long-term debt	1,493	17,566
Repayment of long-term debt	(1,797)	(1,923)
Repurchase of common shares	-	(3,168)
Issuance of common shares	1,032	229
Cash flows relating to financing activities	**728**	**12,704**

The increase in long-term debt this year reflects new governmental authorities loans received to support the Corporation's development costs for Aerospace programs, while the increase last year represents the drawing of US$16.5 million from the Corporation's Credit Facility to finance the acquisition of Eagle and E2 last year. The $1.8 million ($1.9 million last year) repayment of long-term debt includes repayment of finance leases, governmental authorities loans and a promissory note.

During the first quarter ended June 30, 2011, the Corporation issued 200,323 common shares following the exercise of stock options for a total cash consideration of $954,000, and 9,975 common shares under its stock purchase and ownership incentive plan for a cash consideration of $78,000.

During the quarter ended June 30, 2010, the Corporation repurchased 546,000 common shares under the normal course issuer bid launched in November 2009 ("NCIB") at an average price of $5.80 for a total cash consideration of $3,168,000 (see Normal Course Issuer Bid below and Note 18 to the interim condensed consolidated financial statements).

At June 30, 2011, the Corporation was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants through fiscal 2012.

Normal Course Issuer Bid

On November 25, 2009, the Corporation launched a second NCIB, with the approval of the Toronto Stock Exchange (TSX). Under the terms of the NCIB, the Corporation could acquire up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding common shares of the Corporation as of November 19, 2009. The NCIB terminated on November

24, 2010. During that period, the Corporation repurchased 711,100 common shares at an average net price of $5.68 per share for a total cash consideration of $4.0 million.

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

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

At June 30, 2011, the Corporation had 30,384,096 common shares outstanding (30,173,798 as at March 31, 2011).

During the three months ended June 30, 2011, the Corporation issued 200,323 common shares following the exercise of stock options at a weighted-average price of $4.76 for a total cash consideration of $954,000 and 9,975 common shares under the Corporation's stock purchase plan at a weighted-average price of $7.80 for a total cash consideration of $78,000.

During the first quarter ended June 30, 2010, the Corporation issued 17,185 common shares at a weighted-average price of $5.04 for a total cash consideration of $87,000, under the Corporation's stock purchase plan. The Corporation also issued 35,000 common shares pursuant to the exercise of stock options. These shares were issued at an average price of $4.06 for a total cash consideration of $142,000.

During the first quarter ended June 30, 2011, 7,000 stock options were granted (none last year) while no stock options were cancelled (28,000 last year).

At June 30, 2011, 1,199,677 stock options were issued and outstanding with a weighted-average of 3.6 years to maturity and a weighted-average exercise price of $6.22 (see Note 18 to the interim condensed consolidated financial statements).

At June 30, 2011, the aggregate number of common shares reserved for issuance under the Stock Option Plan amounted to 2,808,257 of which 43,718 shares have not been granted yet. The aggregate number of common shares reserved for issuance under the Stock Purchase Plan amounted to 340,000 of which 20,006 have not been issued yet as of the same date.

Due to the limited number of common shares remaining under the Stock Option and Stock Purchase and Ownership Incentive plans, the aggregate number of shares available for future granting or issuance under these plans will be replenished, subject to the approval by the shareholders of the Corporation at the next Annual and Special Meeting to be held on August 4, 2011.

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

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

Stock Appreciation Right and Deferred Share Unit Plans

Until August 2010, the Corporation had a Stock Appreciation Right (SAR) plan where rights were issued to its non-employee directors. Although the SAR plan has since been replaced by a Deferred Share Unit ("DSU") plan effectively approved in May 2011, outstanding SARs issued prior to August 2010 are still in effect. At March 31, 2011 and at June 30, 2011, 143,000 SARs were still outstanding at a weighted-average granted price of $6.21, which expire on various dates from fiscal 2012 to 2016.

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

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

During the quarter ended June 30, 2011, for the first time, the Corporation issued 15,171 DSUs (see Note 18 to the interim condensed consolidated financial statements). DSU expense amounted to $125,000.

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between June 30, 2011 and March 31, 2011:

Item	Change ($ million)	Explanation
Cash and cash equivalents	7.2	See consolidated statements of cash flows.
Accounts receivable	(17.7)	Decrease coming from lower sales in the first quarter this year, compared to last year's fourth quarter sales and decrease in days in receivables explained by the continued good accounts receivable collection effort. It also included the impact of the stronger Canadian dollar since March 31, 2011 on U.S.-denominated accounts receivable ($0.2 million).
Other current assets	2.0	This variation is mostly the result of an increase of $1.0 million in investments and other tax credits receivable, which is consistent with increased eligible development costs and an increase of $0.7 million in sales tax receivable.
Property, plant and equipment, net	(2.5)	Due to: • Purchases of property, plant and equipment of $3.3 million, excluding a variation of $0.9 million in unpaid capital assets at June 30, 2011, when compared to March 31, 2011. Net of: • Amortization expense ($5.3 million); • Disposal of fixed assets ($0.1 million); • A lower US/CAD exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries ($0.4 million).

Item	Change ($ million)	Explanation
Finite-life intangible assets, net (includes a $2.9 million backlog, net)	1.5	Due to: • An increase in finite-life intangible assets ($2.0 million), representing the increase in capitalized development costs for Aerospace long-term contracts. Net of: • Amortization expense on the underlying value of the backlog ($0.3 million); • Amortization of the finite-life intangible assets ($0.2 million).
Accounts payable and accrued liabilities	(11.2)	Decrease resulting from lower sales in the first quarter this year compared to last year's fourth quarter sales. This decrease also includes the impact of the stronger Canadian dollar since March 31, 2011 on U.S.-denominated accounts payable and accrued liabilities ($0.1 million).
Long-term debt (including current portion)	(0.2)	Due to: • Governmental authorities loans received to support Aerospace development program investments ($1.5 million); • Interest accretion on governmental authorities loans ($0.4 million); • Amortization of deferred financing costs ($0.1 million); Net of: • Net capital repayment of long-term debt ($1.8 million); • A lower US/CAD exchange rate used to convert the long-term debt denominated in US dollars ($0.4 million).
Progress billings (current and long-term)	(2.6)	The reduction in progress billings mainly reflects a lower backlog on military aftermarket business and a lower US/CAD exchange rate used to convert the progress billings denominated in U.S. dollars for the U.S. subsidiaries ($0.1 million).
Capital stock	1.7	Represents the common shares issued under the Corporation's stock purchase and ownership plan ($0.1 million) and following the exercise of stock options ($1.6 million).
Retained earnings	5.8	The increase reflects the Corporation's net income for the first quarter of fiscal 2012.

At June 30, 2011 and March 31, 2011, the Corporation's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio[(1)] were as follows:

	June 30, 2011	March 31, 2011
Working capital ratio	2.70:1	2.52:1
Cash and cash equivalents	$40.1 million	$32.9 million
Long-term debt-to-equity ratio	0.42:1	0.44:1
Net debt-to-equity ratio[(1)]	0.28:1	0.32:1

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

Government assistance

For the first quarter ended June 30, 2011, the Corporation recorded as a reduction of cost of sales an amount of $0.3 million ($0.6 million last year), and as a reduction of the related capital expenditures or capitalized development costs, an amount of $1.2 million ($0.4 million last year) for government assistance.

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

Derivatives, Off-Balance-Sheet Items and Commitments

The Corporation had operating leases amounting to $5.7 million as at June 30, 2011, for buildings and facilities. These amounts are repayable over the next eleven fiscal years. At June 30, 2011, the Corporation also had machinery and equipment purchase commitments totalling $5.3 million (see Note 22 to the interim condensed consolidated financial statements).

At June 30, 2011, the Corporation had forward foreign exchange contracts with Canadian chartered banks totalling US$158.4 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.0900. These contracts relate mainly to its export sales, and mature at various dates between June 2011 and March 2015 (see Note 12 to the interim condensed consolidated financial statements). This compares to US$159.0 million and US$149.9 million in forward foreign exchange contracts held at March 31, 2011 and June 30, 2010 respectively, at a weighted-average exchange rate of 1.1032 and 1.1388.

At June 30, 2011, the Corporation also entered into forward foreign exchange contracts totalling

US$6.5 million at a weighted-average rate (Canadian dollar over U.S. dollar) of 1.2320 ($US7.7 million at a weighted-average rate of 1.2343 at March 31, 2011 and $US10.3 million at a weighted-average rate of 1.2386 at June 30, 2010) maturing over the next three fiscal years, to cover foreign exchange risk related to certain embedded derivatives.

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

On March 31, 2011, the Corporation designated certain long-term debt as hedge of its net investments in self-sustaining U.S. operations.

Financial and Economic Situation

Gradual improvements in the global economy throughout fiscal 2011 and early in fiscal 2012 have reversed certain negative trends of the previous two fiscal years. In the large commercial aircraft markets, manufacturers have announced production rate increases for calendar years 2011 to 2014, while most of the Corporation's key industrial markets are gathering further momentum. Still, the Corporation continues to carefully monitor its strategy and risk management, as unforeseen events, such as the tsunami in Japan and unrest in the Middle East and North Africa, can have negative short-term effects. Meanwhile, the military aerospace market has stabilized, as governments address their deficits.

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

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

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

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

FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9 Financial Instruments

On November 12, 2009, the IASB issued IFRS 9 - *Financial Instruments* as the first step in its project to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 simplifies the measurement and classification for financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement. This standard will be effective for the Corporation’s fiscal year beginning on April 1, 2013, with earlier application permitted.

IFRS 13 Fair Value Measurement

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

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

INTERNAL CONTROLS AND PROCEDURES

The purpose of internal controls over financial reporting is to provide reasonable assurance as to the reliability of the Corporation’s financial reporting and the preparation of its financial statements in accordance with International Financial Reporting Standards.

No changes were made to our internal controls over financial reporting during the quarter ended June 30, 2011, except for those required to support the preparation of the Corporation’s financial statements under IFRS, 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, which are more fully described in the Corporation's MD&A for the year ended March 31, 2011.

- Reliance on Large Customers
- Availability and Cost of Raw Materials
- Operational Risks
- Impact of Terrorist Activity and Political Instability
- General Economic Conditions
- Military Spending
- Foreign Currency Fluctuations
- Liquidity and Access to Capital Resources
- Restrictive Debt Covenants
- Changing Interest Rates
- External Business Environment
- Warranty Casualty Claim Losses
- Environmental Matters
- Collective Bargaining Agreements
- Skilled Labour

OUTLOOK

Conditions continue to be favourable in the commercial aerospace market. Despite high fuel prices and uncertainty following unrest in the Middle East and North Africa, as well as the tsunami in Japan, the IATA is forecasting growth of 5.5% for passenger markets and of 4.4% for air cargo in calendar 2011.[1]

In the large commercial aircraft segment, manufacturers have announced several production rate increases on leading programs for calendars 2011 to 2014[2]. Furthermore, new orders received in the first half of calendar 2011 exceed levels of the prior year and both Boeing and Airbus are forecasting higher deliveries for the year.

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1 Source: IATA Air Transport Market Analysis, May 2011

2 Sources: Boeing press releases June 15, 2011; Dec. 20, 2010; Sept. 16, 2010; June 15, 2010; May 17, 2010; March 19, 2010. Airbus press releases May 18, 2011; February 3, 2011; July 30, 2010; March 9, 2010.

The business jet market is seeing further signs of recovery in 2011. Aircraft utilization continues to increase and the proportion of used aircraft for sale is still declining. However, stronger global economic growth is only expected to yield a rebound in industry shipments in calendar 2012.[3]

The military aerospace market is stabilizing as governments address their deficits. Still, the proposed U.S. Defense budget for the fiscal year ending September 30, 2012, calls for an overall funding increase of 4% and of nearly 8% for procurement. As to the JSF program, despite the two-year probation on the short take-off and vertical landing (STOVL) variant, the Corporation anticipates to produce a higher number of shipsets in fiscal 2012, compared to fiscal 2011. This results from the ramp-up of the other two variants, combined with a higher share of total production. In Canada, the Government's decision to purchase 65 JSF aircraft should benefit the Canadian aerospace industry.

Conditions remain favourable in the Corporation's main Industrial products markets. In the power generation industry, leading North American equipment manufacturers have reported increased new orders in the past quarters. Backlogs are also strongly rising for leading heavy equipment manufacturers.[4]

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

The integration of Landing Gear USA is mostly completed and the priority for fiscal 2012 will be to optimize operations and maximize efficiencies by further specializing facilities. This progress, combined with a healthy balance sheet and the recent increase in its Credit Facility, places Héroux-Devtek in a position to consider other strategic acquisitions that would complement its product portfolio and its technologies.

As at June 30, 2011, Héroux-Devtek's funded (firm orders) backlog stood at $509 million, up from $502 million at the beginning of the year. Despite this solid backlog and strong customer relationships, the Corporation must seek further productivity gains and continue to streamline its cost base to remain globally competitive in light of the volatility of the Canadian dollar and the uncertainty surrounding its continuous fluctuation versus the US currency.

Assuming the Canadian dollar remains at parity versus the US currency and considering forward foreign exchange contracts, the Corporation anticipates an internal sales growth of approximately 5% for the fiscal year ending March 31, 2012. As many important programs will ramp up more significantly beyond this fiscal year, the Corporation is confident of achieving its long-term goal to grow internally and through strategic alliances at 10% per year, on average, assuming a stable currency environment.

3 Sources: JETNET, FAA.

4 Sources : GE press release July 22, 2011; Caterpillar press release July 22, 2011

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee and by the Board of Directors on August 3, 2011. Updated information on the Corporation can be found on the SEDAR website, at www.sedar.com.