ANNUAL
REPORT
2010-2011

A WORLD-CLASS PRESENCE

ABOUT HÉROUX-DEVTEK INC.

Héroux-Devtek Inc. (TSX: HRX), a Canadian company, serves two main market segments: Aerospace and Industrial products, specializing in the design, development, manufacture and repair and overhaul of related systems and components. Héroux-Devtek Inc. supplies both the commercial and military sectors of the Aerospace segment with landing gear systems (including spare parts, repair and overhaul services), airframe structural components and assemblies. The Corporation also supplies the Industrial segment with large components for power generation equipment and precision components for other industrial applications. Approximately 70% of the Corporation's sales are outside Canada, mainly in the United States. The Corporation's head office is located in Longueuil, Québec with facilities in the Greater Montreal area (Longueuil, Dorval, Laval and St-Hubert); Kitchener and Toronto, Ontario; Arlington, Texas; as well as Springfield, Cleveland and Cincinnati, Ohio.

GROWTH STRATEGY

HÉROUX-DEVTEK SEEKS GROWTH EXTERNALLY THROUGH ACQUISITIONS THAT CAN BE INTEGRATED INTO ITS EXISTING OPERATIONS OR THAT BRING COMPLEMENTARY TECHNOLOGY, LEADING TO GREATER ADDED VALUE.

INTERNALLY, THE CORPORATION AIMS TO:

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

FINANCIAL HIGHLIGHTS

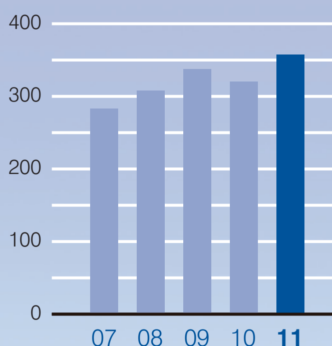
FISCAL YEARS ENDED MARCH 31 (in millions of dollars, except per share data and ratios)

	2011	2010	2009	2008	2007
OPERATING RESULTS					
Sales	**357.6**	320.4	337.6	307.9	283.3
Gross profit	**57.3**	50.3	56.9	46.6	32.0
Margin	**16.0%**	15.7%	16.9%	15.2%	11.3%
EBITDA(1)	**54.8**	48.4	54.6	44.3	31.1
Margin	**15.3%**	15.1%	16.2%	14.4%	11.0%
Net income	**18.5**	16.0	21.4	19.0	8.9
Margin	**5.2%**	5.0%	6.3%	6.2%	3.1%
Cash flow from operations	**48.8**	45.9	48.0	37.8	29.8
FINANCIAL POSITION					
Cash and cash equivalents	**32.9**	46.6	39.8	24.4	20.1
Working capital	**142.1**	123.2	100.9	101.6	86.3
Total assets	**443.9**	394.8	417.2	356.5	339.5
Long-term debt(2)	**99.5**	81.1	87.3	77.3	73.8
Shareholders' equity	**232.7**	217.1	196.5	180.8	160.8
PER SHARE DATA					
Earnings per share					
Basic	**0.62**	0.52	0.68	0.60	0.28
Diluted	**0.61**	0.52	0.67	0.59	0.28
Cash flow from operations	**1.62**	1.50	1.52	1.20	0.94
Book value per common share	**7.71**	7.12	6.30	5.71	5.10
Average number of shares outstanding ('000)					
Basic	**30,112**	30,662	31,583	31,610	31,511
Diluted	**30,220**	30,722	31,783	31,984	31,545
Shares outstanding at year-end ('000)	**30,174**	30,485	31,172	31,639	31,528
FINANCIAL RATIOS					
Working capital ratio	**2.63**	2.66	1.93	2.20	1.89
Net debt-to-equity(3)	**0.29**	0.16	0.24	0.29	0.33
Long-term debt to equity	**0.41**	0.35	0.42	0.40	0.42

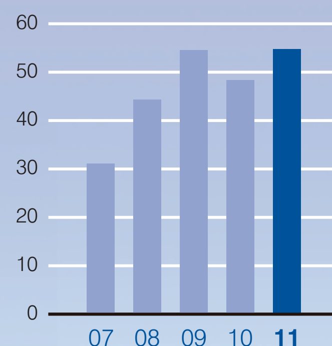
(1) Earnings before interest, taxes, depreciation and amortization, excluding restructuring charges
(2) Including the current portion
(3) Defined as the total long-term debt, including the current portion, less cash and cash equivalents over shareholders' equity

(in millions of dollars)

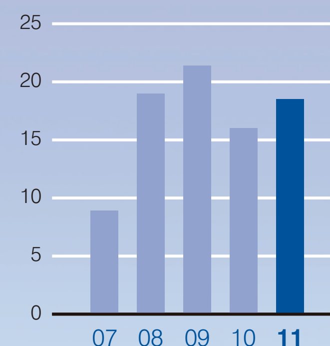
SALES



EBITDA



NET INCOME



MAJOR CONTRACT ANNOUNCEMENTS 2010-2011

Learjet 85

Boeing 777

MAY 2010

U.S. AIR FORCE AND U.S. NAVY—$16M

The Landing Gear product line was awarded additional orders for the manufacturing of landing gear components mainly for the B-1B, C-130, C-5, KC-135R and P-3 aircraft, essentially from the U.S. Air Force and the U.S. Navy. Production will be spread out over a four-year period and the combined value of the contracts is approximately $16 million.

JULY 2010

TRIUMPH AEROSTRUCTURES—$35M

Vought Aircraft Division awarded the Aerospace segment two new multi-year contracts extending through calendar year 2015 and valued at more than $35 million. First, the Texas and Dorval aerostructure business units will manufacture aluminum wing ribs and other machined components for the Gulfstream 550 business jet program. The second contract involves the fabrication of torque tubes for the Boeing 737 program at the Laval landing gear facility.

OCTOBER 2010

U.S. AIR FORCE—$16.4M

The Landing Gear product line was awarded additional orders for the manufacturing of landing gear components mainly for the B-1B, C-130, C-5 and F-15 aircraft, essentially from the U.S. Air Force. Production will span a four-year period and the aggregate value of the contracts is approximately $16.4 million.

NOVEMBER 2010

DASSAULT AVIATION

Héroux-Devtek signed a long-term agreement with French aircraft manufacturer Dassault Aviation to design, develop, fabricate, assemble, qualify and participate in the certification of the landing gear and actuation system for a new business jet program. This life-cycle mandate also includes the provision of spare parts.

FEBRUARY 2011

BOMBARDIER AEROSPACE—$175M

The Aerostructure product line received a seven-year contract by Bombardier Aerospace to fabricate, assemble and deliver over 300 structural detail components that encompass Bombardier's entire portfolio of commercial and business aircraft, including new programs such as the CSeries aircraft and the Learjet 85 business jet. At anticipated aircraft production rates, the value of the contract is estimated at over $175 million.

MARCH 2011

BOEING, U.S. AIR FORCE AND U.S. NAVY—$35M

The Landing Gear product line obtained several contracts totalling approximately $35 million to manufacture components and assemblies for commercial and military aircraft. First, Boeing awarded a contract to manufacture, assemble, test and deliver the landing gear retract actuators supporting new aircraft production and spare parts requirements for the Boeing 777 program. Deliveries are scheduled to begin early in calendar 2013. Second, Héroux-Devtek received orders to fabricate landing gear components mainly for the F-15, F-16 and P-3 aircraft, essentially from the U.S. Air Force and U.S. Navy. Deliveries begin in fiscal year 2012 and will be spread over a four-year period.

CHAIRMAN'S MESSAGE

DEAR FELLOW SHAREHOLDERS,

The recovery of the aerospace sector and Héroux-Devtek's continued and recognized position as a world-class industry player have resulted in meaningful results for the Corporation. The on-going efforts of our teams to improve efficiencies and control costs, particularly throughout the recession, have also created a more competitive organization and have helped enhance shareholder value.

With Héroux-Devtek solidly entrenched in Canada and the United States and with a new plant scheduled to open in Mexico at the beginning of 2012, we are solidly positioned to better serve global markets. This will have the added benefit of mitigating currency fluctuations. Reinforcing our capabilities is the Corporation's new engineering centre in St-Hubert, Québec which offers the complete design and certification of landing gear systems.

Growth in the military market is always conditional upon government budget allocations. While governments in general have constrained spending in this area, the evolving geopolitical situation will ensure the need for adequate preparedness by the world's major powers. As such, while programs may be reduced, Héroux-Devtek expects to continue to participate in both existing and new projects.

Commercial aviation has seen expansion as evidenced by growing traffic and significant increases in new aircraft orders. We fully anticipate that benefits will accrue from our growing involvement in this sector. Also, aircraft manufacturers must develop more fuel-efficient models and we expect to be involved in this activity in a more substantial way with all major producers.

There is also positive news in our Industrial segment. While the recession took its obvious toll in these markets, Héroux-Devtek's industrial operations took appropriate measures to control costs and increase efficiency. We are now extremely well positioned to benefit from the renewed business flow in this category.

Our recent successes and the anticipated recovery in the global economy combine to create a bright outlook for the foreseeable future. The Corporation's excellent management and production teams have not only stepped up to the challenges of the past couple of years but have prepared Héroux-Devtek for the renewed activity ahead. Coupled with our growing presence on the international scene, we see only additional value creation for our shareholders.

The corporate culture of Héroux-Devtek emphasizes professionalism and dedication to precision, and I want to thank all of the Corporation's employees for truly exemplifying those values. I also wish to add a word of particular gratitude to our President and CEO, Gilles Labbé, whose leadership skills have contributed so significantly to the continuing development and growth of Héroux-Devtek. My colleagues on the Board have been most supportive and their combined contribution has helped set the Corporation's winning course. Héroux-Devtek's share price has advanced sharply this past year and I am delighted that our shareholders have been rewarded in such a tangible manner.

John Cybulski
Chairman of the Board

"With Héroux-Devtek solidly entrenched in Canada and the United States and with a new plant scheduled to open in Mexico at the beginning of 2012, we are solidly positioned to better serve global markets."

DEAR SHAREHOLDERS,

Héroux-Devtek achieved solid results during the fiscal year ended March 31, 2011. Sales rose 11.6% to $357.6 million, an increase due mainly to the acquisition of Eagle Tool & Machine Co. and its subsidiary E-2 Precision Products, two Ohio-based manufacturers of precision machined components mainly for the military aerospace industry. Our sales of Industrial products were also up appreciably. On the other hand, the rise of the Canadian dollar subtracted $11.7 million from the year's sales.

Still more important, our profitability improved as a result of the increase in commercial aerospace and industrial sales as well as efficiency gains. Héroux-Devtek ended the year with EBITDA of $54.8 million and net earnings of $18.5 million, or $0.62 per share, including a 10% accretion from the acquisition, as per our objectives.

In addition, our balance sheet remains healthy. As at March 31, 2011, cash and cash equivalents amounted to $32.9 million and long-term debt, including the current portion, was $99.5 million. The ratio of net-debt-to-equity was 0.29.

Our firm order backlog at year end was $502 million and these orders remain well diversified.

AN INTEGRATED SUPPLIER OF GLOBAL SCOPE

Héroux-Devtek was, once again, awarded large multi-year contracts, further establishing the Corporation as an integrated supplier of worldwide reach in its target markets.

We were awarded a contract for the design, development, manufacture and assembly of the landing gear and actuation system for the new business jet program of French aircraft manufacturer Dassault Aviation. This design mandate, the Corporation's third in the business jet category since 2008, confirms our position as a leading supplier of landing gear for aircraft of up to 50,000 kilograms. It broadens our international profile and follows multi-year contracts signed in recent years with Embraer of Brazil and Fokker Services of the Netherlands.

We also ratified a seven-year agreement with Bombardier Aerospace, valued at $175 million, for the manufacture and assembly of complex structural components for Bombardier's entire portfolio of commercial and business aircraft. This contract widens the scope of our offering to the CSeries and extends our Aerostructure work to the new Learjet 85 business jet program.

Finally, our participation in major commercial aviation programs, such as the Boeing 737 and 777, has been enhanced by contracts to supply components for which we have developed expertise, like torque tubes and actuators.

STRATEGIC DEVELOPMENTS

To establish itself as a world-class player in a highly competitive market, Héroux-Devtek must broaden its product and service offering and continuously improve its production capacity to reduce costs and optimize productivity.

In this regard, our U.S. acquisition has consolidated our position in the landing gear market while bringing us a manufacturing base closer to our main customers. The acquisition strengthens our business relationships, consolidates our presence in the military aftermarket sector and provides a natural hedge for our U.S.-dollar-denominated sales.

We have also inaugurated a landing gear test laboratory in a new facility in St-Hubert, Québec. At this plant we will bring under one roof all of the resources involved in the design, development and testing of landing gear. With this advanced infrastructure, we will be able to execute all of the stages leading to certification of a landing gear.

Shortly after the end of our fiscal year, we announced the construction of a new 47,200-square-foot plant in the Querétaro Aerospace Park in Mexico. In the first phase of the project, up to $20 million will be invested over three years to build a facility equipped with state-of-the-art machinery for the manufacture of aerostructure components. It is expected to enter production in early calendar 2012. As demand warrants, we will be able to expand this plant to manufacture and assemble aerostructure and landing gear systems. The new facility will benefit from proximity to several aerospace original equipment manufacturers also present in Querétaro.

PROMISING MARKETS

The improvement of the economy favours air traffic growth, and announcements of higher production rates by manufacturers of large commercial aircraft have

MESSAGE TO SHAREHOLDERS

proliferated in the last 12 months. In the business jet market, demand is likely to accelerate between now and calendar 2012, coinciding with the production ramp-up of Bombardier's Learjet 85 and Embraer's Legacy 450 and 500 aircraft programs for which we designed the landing gear.

Though the magnitude of government deficits gives reason to be cautious about the military aviation market, our diversified portfolio and our judicious balance of OEM and aftermarket products affords us better protection from constraints related to the government funding of some programs. In this regard, the probation announced by the U.S. administration of one version of the F 35 aircraft, combined with the slower ramp-up of production of other versions, does not lessen our enthusiasm for a program that remains, by far, the largest of our generation.

Finally, our main industrial markets are in good shape. A rising volume of orders from leading manufacturers of energy generation equipment and the vigour of the mining industry bode well for the years ahead.

ESSENTIAL ELEMENTS FOR PROFITABLE GROWTH

Fiscal 2011 provided the Corporation with essential elements to sustain profitable growth in its target markets and to achieve its strategic objectives. Héroux-Devtek aims above all to increase the proportion its sales related to high-value-added contracts, such as those for design and development and for supply of complete assemblies.

Equally important, our means match our ambitions. We recently renewed and increased our credit facilities for a five-year period, gaining the necessary flexibility for new strategic acquisitions to enhance our product offering and our technologies.

Bolstered by a world-class infrastructure of global scope, Héroux-Devtek looks to the future with confidence. Encouraging advances in its target markets support an optimistic outlook despite the challenges posed by the strength of the Canadian dollar.

Héroux-Devtek is very fortunate to have a world-class team of skilled and dedicated employees who share its "4Rs"—its fundamental values of Respect, Responsibility, Recognition and Resilience—and I thank them warmly. I am also grateful to our business partners for their support and to our shareholders for their confidence.

Gilles Labbé, FCA
President and Chief Executive Officer

"To establish itself as a world-class player in a highly competitive market, Héroux-Devtek must broaden its product and service offering and continuously improve its production capacity to reduce costs and optimize productivity."

GROWTH OPPORTUNITIES INTERNATIONAL EXPANSION

EXPANDING FACTORY NETWORK

Proximity to our customer base is key to further market penetration for Héroux-Devtek. Accordingly, either through acquisitions or new expansion, we have increasingly added production capacity near our clients' production facilities. The acquisition of Eagle Tool and E-2 was in keeping with this criterion. Furthermore, the current construction of a new state-of-the-art plant in Mexico's Querétaro Aerospace Park, should also provide considerable benefits to Héroux-Devtek given our plant's close proximity to existing facilities of several global aerospace original equipment manufacturers, including Bombardier Aerospace and Messier-Bugatti-Dowty. Such localization creates cost advantages and enhances our global competitiveness by further specializing each of our manufacturing sites. It also provides us with greater insight into the needs of our targeted customers, for which we can increasingly provide value-added products and services at the most optimal cost.

GLOBAL CUSTOMER BASE

Our international reach continues to broaden. The French aircraft manufacturer Dassault Aviation has awarded Héroux-Devtek a contract to provide the landing gear for a new business jet program. This was the fourth design and development mandate we have won in recent years, while establishing long-term relationships with global OEMs. In previous years, we obtained contracts from Fokker Services, a subsidiary of European aerospace giant Stork B.V., to manufacture major replacement landing gear components for the Fokker 100 aircraft, and from the Brazilian aircraft manufacturer Embraer to provide the landing gear for the new Embraer Legacy 450 and Legacy 500 business aircraft programs. These contracts affirm the strength of our design engineering team, and signify the world-class stature of our brand.

UNITED STATES
BELL HELICOPTER
BOEING
CATERPILLAR
GENERAL ELECTRIC
GOODRICH
LOCKHEED MARTIN
NORTHROP GRUMMAN
SIKORSKY
US AIR FORCE
US NAVY

CANADA
BOMBARDIER
CANADIAN FORCES

BRAZIL
EMBRAER

FRANCE
DASSAULT
MESSIER-BUGATTI-DOWTY

HOLLAND
FOKKER

R&D
ENGINEERING
TEST LAB

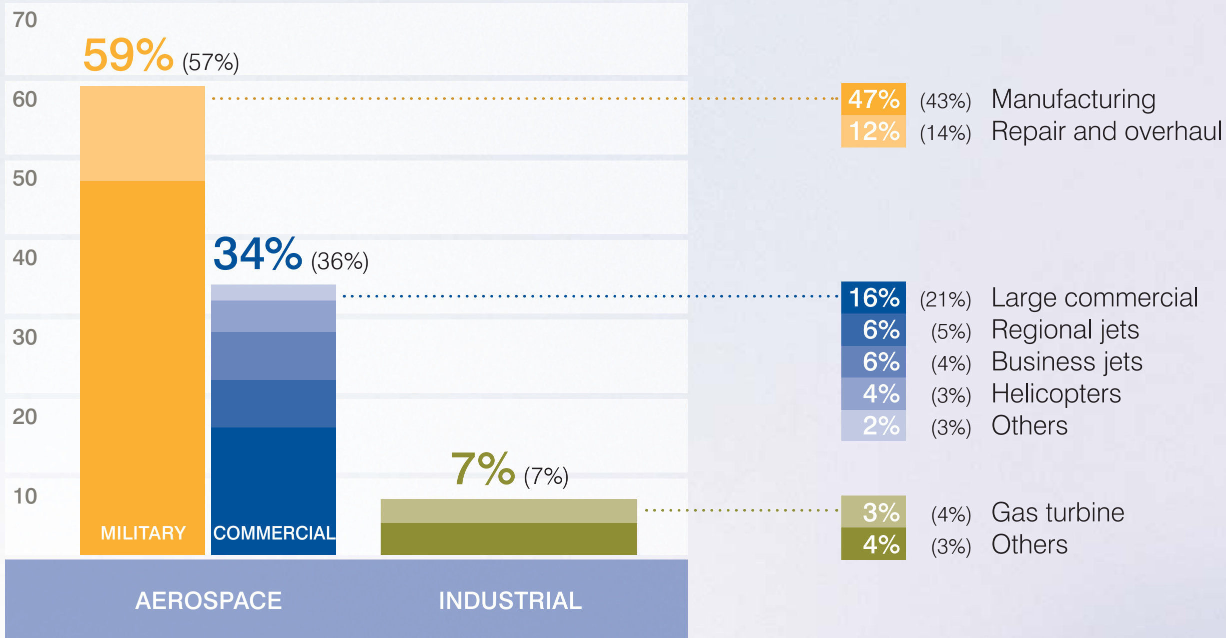
INNOVATION DRIVES GROWTH

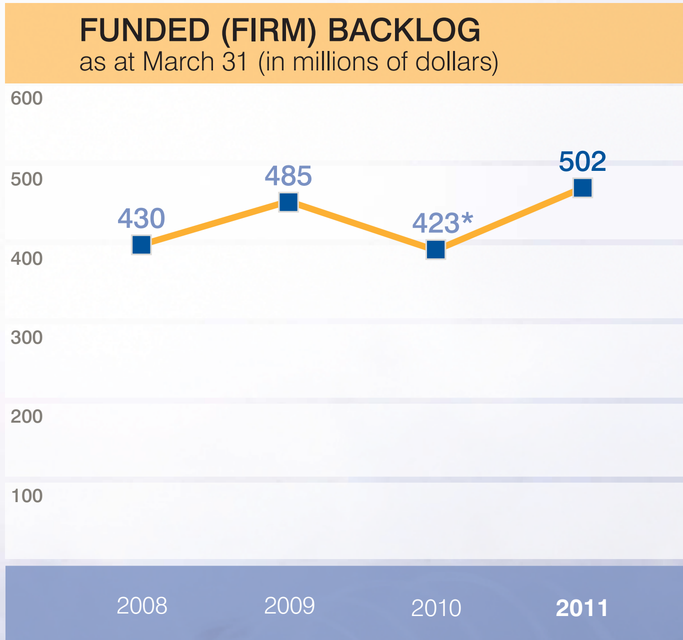
The most prominent factors that make Héroux-Devtek a world-class player in its highly competitive markets include our engineering prowess and R&D capabilities. Our design engineering expertise allows Héroux-Devtek to participate in the earliest phases of landing gear systems development. This ability to create proprietary technology and provide complete assemblies wins us manufacturing contracts from the world's most prestigious aerospace OEMs.

We recently integrated our R&D, engineering, and testing functions under one dedicated roof.

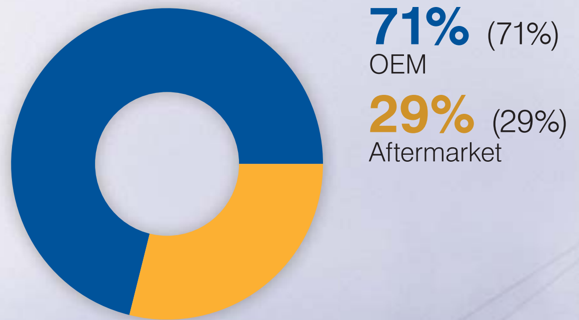
Reinforcing our capabilities and affirming Héroux-Devtek's status as the third largest landing gear manufacturers in the world, we have inaugurated a landing gear test laboratory in a state-of-the-art facility in St-Hubert, Québec. This lab brings together all the personnel and resources required for design, development and testing. In keeping with our strategic objectives, we have thus effectively refined and emphasized the capabilities of our infrastructure. From concept to certification we perform in this facility every step required for the complete life-cycle of our landing gear products.

OUR OPERATIONS
FISCAL 2011 (fiscal 2010)



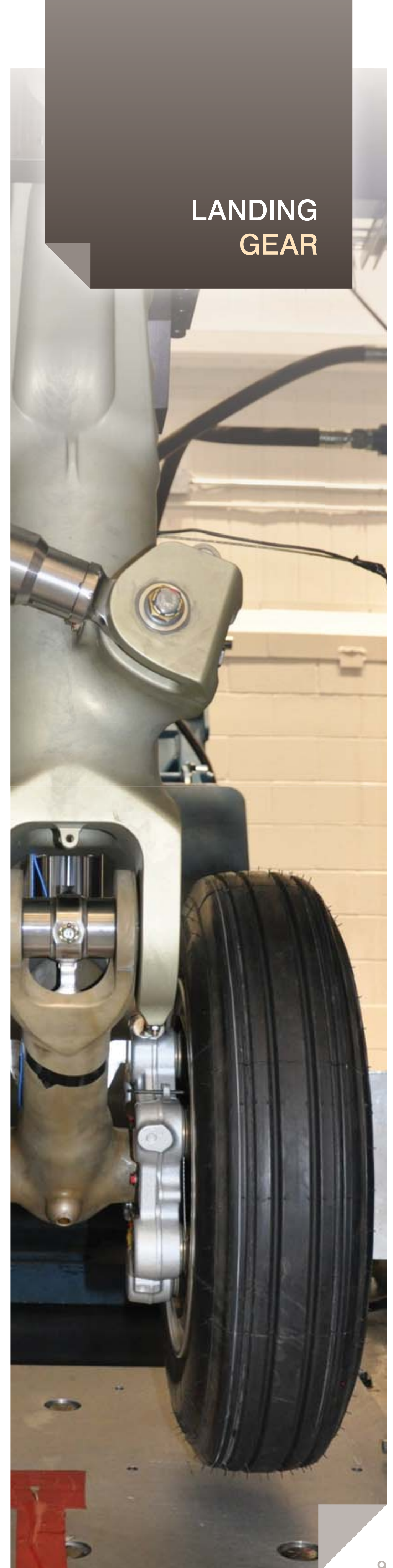


* Excluding the Eagle acquisition made in April 2010.



C-130J

BY DESIGN, RECORD SALES



Fiscal 2011 was a successful year on many fronts for Héroux-Devtek's Landing Gear product line. We generated record sales of nearly $228 million, driven by a $45-million contribution from the acquisition of Eagle Tool and E-2. Our integration plan is progressing well and has delivered solid results thus far. We are now positioned to achieve more synergies and efficiencies by further specializing these facilities. Sharing and implementing best business practices across our Landing Gear product network is another priority, as we constantly seek to improve productivity.

KEY MILESTONES ON NEW PROGRAMS

We also achieved important progress on our three initial design and development programs, namely the Sikorsky CH-53K heavy lift helicopter, the Bombardier Aerospace Learjet 85 and the Embraer Legacy 450 and 500. We successfully met tight schedules for the design and development of our products. Initial deliveries to customers are also proceeding as planned, as we further progress towards the certification of these landing gear systems. Our new test lab facility is instrumental in ensuring smooth, but swift, advancement towards meeting "safety of flight" requirements. This new facility enhances our value proposition, as we evolve into a full-service provider in the global landing gear market.

ENHANCED INTERNATIONAL EXPOSURE

Héroux-Devtek's landing gear capabilities are increasingly recognized around the world. We obtained a design and development contract from French aircraft manufacturer Dassault Aviation, a new client for Héroux-Devtek. Under the terms of this long-term agreement, we will design, develop, fabricate, assemble, qualify and participate in the certification of the landing gear and actuation system for a new business jet program. This third life-cycle contract in the business jet category clearly demonstrates the strength of our engineering team and its ability to gradually expand its technological know-how to new applications.

OUTLOOK

The Landing Gear product line is set to benefit from the multiple production rate increases announced by large commercial aircraft manufacturers over the last 18 months. These include programs on which we have significant content, such as the Boeing-777 and the Airbus-320. Moreover, the rebound in the business jet category is expected to coincide with the ramp-up of new programs in which we are involved. However, we remain cautious with respect to the military aerospace market, as governments are adopting more restrictive policies. Productivity improvements remain a constant priority and we will proactively seek further efficiency gains to ensure we remain a leader in our main markets.

AEROSTRUCTURE

FOCUSED ON THE FUTURE— NEW FACILITY BRINGS OPPORTUNITIES

Our balanced portfolio of military and commercial aerospace products once again proved its value. Led mainly by new contracts and the recovery in the commercial aerospace market, sales of Aerostructure products rose to $103.5 million. These factors offset a slower ramp-up on the F-35 program and the anticipated conclusion of the F-22 program. As the economy continues to improve, we expect to benefit from our new long-term agreements (LTAs) and our focus on cost reduction.

OPERATIONAL EXCELLENCE AS A STRATEGIC ADVANTAGE

We continued our drive to deliver a strategic advantage for our customers by staying at the forefront of state-of-the-art methods. We implemented Overall Equipment Effectiveness across 20 more machines and improved efficiency through Lean Manufacturing. The payoff is clear—improvements in delivery, quality, and affordability—and higher satisfaction levels from our world-class customers.

STABLE CONTRACTS

LTAs now make up a significant proportion of our annual sales. We added new LTAs with Triumph Aerostructures-Vought Aircraft Division (five years) and with Bombardier Aerospace (seven years) during fiscal 2011, enhancing our growing backlog of LTAs with leading global aerospace companies. With a 20-year agreement with Lockheed Martin Aeronautics on the F-35 program, we completed the building for Phase II of our investment plan in Texas with a 48,000 square foot extension and purchase of additional equipment to position ourselves for the F-35 production ramp-up. This expansion brings the total square footage of our complex to 271,000.

EXPANDED BUSINESS OFFERINGS

To enhance customer satisfaction, we continued to focus on becoming a “full service” provider. Key to achieving our goal is the pursuit of initiatives aimed at further diversifying our portfolio and at integrating new technologies. More importantly, we are increasingly focusing our market penetration efforts on opportunities where we can provide our customers with value-added products and services.

OUTLOOK

A new dimension to our offering will be a new facility in Querétaro, Mexico. The facility is now under construction and will open in fiscal 2012 with a strong order book. With our LTAs on growth platforms, such as new contracts with Bombardier Aerospace, and close proximity with other OEMs, we are well positioned for growth. We also expect to benefit from the overall strength in the commercial aerospace industry, and most particularly from the recovery in the business jet market, while maintaining sufficient flexibility to adapt to evolving conditions in the military aerospace market.

RECOVERY AND EXPANSION

In fiscal 2011, the Industrial product line benefited significantly from the cost reductions instituted the previous year. A 13.7% revenue growth, achieved on a lean cost foundation, leveraged to our operating profitability, which increased significantly.

The Heavy Equipment industry saw significant recovery in its underlying markets and generated improved revenues, but the Gas Turbine and Wind Energy industries continued to experience the lingering effects of the recession.

DUAL IMPETUS

A global resurgence in the mining sector helped account for the improvement in Héroux-Devtek's sales of components for off-highway vehicles and earth-moving equipment. In 2010, the OEMs of such vehicles and equipment experienced increased demand and sharply declining inventory levels, thus providing a dual impetus to our sales growth.

PORTFOLIO EXPANSION

In Gas Turbines, although we did fewer shipsets to major players in the power generation industry, our content per shipset increased, keeping our sales performance relatively stable. Our sales mix, however, underwent a dramatic change, due to the investments we made over the last several years in new product development. We are now positioned on two new product families with a major power generation equipment manufacturer. This development has extended our offering beyond machining, into value-added supply management that leverages our total capability.

WIND AFTERMARKET

As a manufacturer of components for the wind power industry, our sales suffered from a decline in demand and the market's overcapacity of supply. While new installations continue to represent a significant market, we are also aggressively establishing ourselves in what we regard as a major opportunity in the wind turbine aftermarket, specifically in component refurbishment and replacement.

OUTLOOK

In fiscal 2012, we expect growth to be sustained in Heavy Equipment and to resume in Gas Turbines. We expect a recovery in our traditional power generation sales channels, together with additional leveraging of our new products. With an increase in shipset quantity, we anticipate seeing the effect go directly to our bottom line. Further ahead, we foresee that our initiatives in the Wind Energy market will provide us with momentum. As our customers continue rationalizing their supplier bases—doing more with fewer suppliers—we expect this trend to significantly benefit the Industrial product line on an overall basis.

CORPORATE INFORMATION

BOARD OF DIRECTORS

John M. Cybulski[†]
Chairman of the Board
Héroux-Devtek Inc.
Principal
Aeroglobe LLC
Bradenton, Florida

Gilles Labbé
President
and Chief Executive Officer
Héroux-Devtek Inc.
Longueuil, Québec

Claude Boivin[†]
Consultant and Member of various Boards of Directors
Montréal, Québec

Paule Doré[†]
Corporate Director
Montréal, Québec

Christian Dubé*
Vice-President,
Business Development
Cascades Inc.
Montréal, Québec

Jean-Louis Fontaine*
Vice-Chairman of the Board
and Director
Bombardier Inc.
Montréal, Québec

Louis Morin*
President,
Busrel Inc.
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Brian A. Robbins*
President
and Chief Executive Officer
Exco Technologies Limited
Toronto, Ontario

Réal Raymond[†]
Consultant
Montréal, Québec

Honorary director and honorary member of the Human Resources and Corporate Governance Committee
Helmut Hofmann
Toronto, Ontario

CORPORATE MANAGEMENT

Gilles Labbé
President
and Chief Executive Officer
Longueuil, Québec

Réal Bélanger
Executive Vice-President
and Chief Financial Officer
Longueuil, Québec

Gabriel Duval
Vice-President,
Corporate Affairs
Longueuil, Québec

Patrice Gauvin
Vice-President,
Business Development
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Gilbert Guérin
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Human Resources
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Michel Robillard
Vice-President,
Internal Audit and Conformity
Longueuil, Québec

Stéphane Arsenault
Vice-President,
Control and Information Technology
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Martin Brassard
Vice-President,
General Manager,
Landing Gear
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Richard Rosenjack
Vice-President,
General Manager,
Aerostructure
Arlington, Texas

Michael L. Meshay
Vice-President,
General Manager,
Industrial
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MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2011

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MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

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

This analysis should be read in conjunction with the audited consolidated financial statements dated March 31, 2011. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (''GAAP''). The Corporation reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

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

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

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

OVERVIEW

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

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

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

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

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

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

The Corporation's sales by segment are as follows:

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

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

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

BUSINESS MANAGEMENT

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

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

BUSINESS STRATEGY

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

In practice, this translates into:

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

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

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

KEY PERFORMANCE INDICATORS

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

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

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

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

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

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

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

RISK MANAGEMENT

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

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

MARKET TRENDS

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

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

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

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

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

The military market stabilized during calendar 2010 as governments have begun to address their deficits. As to the Joint Strike Fighter F-35 (JSF) program, the U.S. government put the short take-off and vertical landing (STOVL) variant on a two-year probation, but the ramp-up of other variants continues, albeit at a slightly more moderate pace over the short-term. In Canada, the Government's decision to purchase 65 JSF aircraft should benefit the Canadian aerospace industry.

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

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

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1. Source: IATA press release February 2, 2011
2. Source: IATA press release May 3, 2011
3. Source: Airbus press release January 17, 2011
4. Source: Boeing press release January 6, 2011
5. Sources: Airbus press releases February 3, 2011; July 30, 2010; March 9, 2010. Boeing press releases Dec. 20, 2010; Sept. 16, 2010; June 15, 2010; May 17, 2010; March 19, 2010.
6. Source: Embraer press release, January 17, 2011.
7. Source: Bombardier press release, March 31, 2011.
8. Sources: GAMA press release February 22, 2011; FAA January 2011 Business Jet Report, JetNet report February 1, 2011
9. US Energy Information Administration – Short-term Energy Outlook, April 12, 2011

MAJOR ACHIEVEMENTS OF FISCAL 2011

- Héroux-Devtek signed a long-term agreement with French aircraft manufacturer Dassault Aviation to design, develop, fabricate, assemble, qualify and participate in the certification of the landing gear and actuation system for a new business jet program. This life-cycle mandate also includes the provision of spare parts;

- The Aerostructure product line received a seven-year contract from Bombardier Aerospace to fabricate, assemble and deliver over 300 structural detail components that encompass Bombardier's entire portfolio of commercial and business aircraft, including new programs such as the CSeries and the Learjet 85 business jet[10]. At anticipated aircraft production rates, the value of the contract is estimated at over $175 million;

- Triumph Aerostructures – Vought Aircraft Division awarded the Aerospace segment two new multi-year contracts with a combined value of more than $35.0 million:

    1. The Dorval and Texas Aerostructure business units will manufacture wing ribs and other machined components for the Gulfstream 550 business jet program,

    2. The Laval Landing Gear facility will fabricate torque tubes for the Boeing 737 program;

- The Landing Gear product line obtained a contract from Boeing to manufacture, assemble, test and deliver the landing gear retract actuators supporting new aircraft production and spare parts requirements for the Boeing 777 program;

- The Landing Gear product line was awarded additional orders for the manufacturing of landing gear components, essentially from the US Air Force and US Navy and mainly for the B-1B, C-130, C-5, F-15, F-16, KC-135R and P-3 aircraft;

- The Corporation successfully renewed its Credit Facility for a five-year term ending on March 15, 2016. The Credit Facility was also increased from $125 million to $150 million and, subject to lenders' consent, it could be increased by an additional amount of $75 million;

- Unionized employees of the Dorval Aerostructure facility voted in favour of a three-year collective agreement which extends through May 6, 2013. Just after the end of fiscal 2011, the unionized employees of the Longueuil Landing Gear facility voted in favour of a three-year collective agreement which extends through May 1, 2014;

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

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

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

10. Learjet 85 and CSeries are registered or unregistered trademarks of Bombardier Inc. or its subsidiaries.Acquisition of the assets of Eagle Tool Machine Co and of its subsidiary

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

NET ASSETS ACQUIRED ($'000)		SOURCE OF FUNDS ($'000)	
Working capital	$ 16,797	Credit Facilities	$ 16,711
Property, plant and equipment	8,498	Cash	12,102
Backlog	1,390	Promissory note, 5% repayable over 40 months	3,721
Goodwill	5,849		
	$32,534		**$ 32,534**

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

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

FOREIGN EXCHANGE

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

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

As shown above, the average value of the Canadian dollar when compared to its US counterpart, year-over-year, increased by more than 7% and, naturally, added pressure to the US- denominated sales and results of the Corporation, including those from its Canadian operations. The closing rate declined more than 4% since March 31, 2010, from 1.0158 to 0.9696 as at March 31, 2011, reducing the currency impact on the Corporation's US-denominated balance sheet accounts at the end of this fiscal year, when compared to last year. Currency fluctuation impact on the Corporation's sales, gross profit and specific balance sheet elements can be found later in this MD&A.

The Corporation makes use of derivative financial instruments, in accordance with its hedging policy, to hedge foreign currency fluctuation exposure risks (Canadian dollar over U.S. dollar) in an effort to mitigate these risks. At March 31, 2011, the Corporation had forward foreign exchange contracts totalling US$159.0 million at a weighted-average exchange rate of 1.1032 maturing over the next four fiscal years, with the majority maturing over the next two fiscal years.

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

NON-GAAP MEASURES

Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a financial measure not prescribed by Canadian generally accepted accounting principles ("GAAP") and is not likely to be comparable to similar measures presented by other issuers. Management, as well as investors, consider this to be useful information to assist them in evaluating the Corporation's profitability, liquidity and ability to generate funds to finance its operations and capital investment needs.

SELECTED ANNUAL FINANCIAL INFORMATION

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

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

The Corporation's EBITDA is calculated as follows:

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

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

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

CONSOLIDATED SALES

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

The Corporation's sales by segment were as follows:

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

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

Aerospace Segment

Sales for the Aerospace segment were as follows:

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

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

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

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

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

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

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

Industrial Segment

Sales for the Industrial segment were as follows:

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

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

Sales by Destination

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

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

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

GROSS PROFIT

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

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

This year, the continued strengthening of the Canadian dollar negatively impacted the Corporation's gross profit in dollars by $1.6 million, but represented a favourable impact of less than 0.1%, when expressed as a percentage of sales. Besides the natural hedging from the purchase of raw material in US dollars, the Corporation mitigates the currency impact by the use of forward foreign exchange contracts.

SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses were as follows:

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

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

OPERATING INCOME

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

Aerospace Segment

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

Industrial Segment

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

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

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

RESTRUCTURING CHARGES

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

INCOME TAX EXPENSE

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

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

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

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

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

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

NET INCOME

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility and Cash and Cash Equivalent

In general terms, the Corporation has a healthy financial situation and is well positioned to face its financing needs. By year-end, the Corporation renewed and increased its Senior Secured Syndicated Revolving Credit Facilities into one Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") through a syndicate of five Canadian Banks, and their US affiliates or branches and, a Canadian branch of a U.S. bank. This five-year Credit Facility allows the Corporation and its subsidiaries to borrow up to $150 million, either in Canadian or US currency equivalent and will mature in March 2016 (see Note 17 to the consolidated financial statements). It also includes an accordion feature to increase the Credit Facility up to $225 million, during the term of the Credit Agreement, subject to the approval by the lenders. To March 31, 2011, only CAD $57.7 million (US$59.5 million) had been drawn against this Credit Facility, including US$16.5 million in April 2010 to finance the acquisition of Eagle and E2 described earlier. Considering the Corporation's cash and cash equivalent position, its available Credit facility and level of expected capital investments, Corporation management does not expect any liquidity risk in the foreseeable future. At March 31, 2011, the Corporation had cash and cash equivalents of $32.9 million, compared to $46.6 million a year earlier, of which $25.1 million ($32.4 million last year) had been invested in short-term deposits. It is worth mentioning that the Corporation used $12.1 million of its cash to finance the Eagle and E2 acquisition this year.

Operating Activities

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

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

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

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

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

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

Investing Activities

The Corporation's investing activities were as follows:

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

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

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

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

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

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

Financing Activities

The Corporation's financing activities were as follows:

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

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

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

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

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

PENSION PLANS

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

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

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

NORMAL COURSE ISSUER BID

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

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

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

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

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

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

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

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

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

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

COMMON SHARES	STOCK OPTION PLAN	STOCK PURCHASE PLAN	TOTAL COMMON SHARES
Total shares	2,808,257	340,000	3,148,257

STOCK APPRECIATION RIGHT AND DEFERRED SHARE UNIT PLANS

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

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

The DSU enables the participants to receive by way of remuneration, but only at the termination date as a member of the Board of Directors, a cash amount equal to the market price of the Corporation's common share for each DSU on the termination date. These DSUs are expensed on an earned basis and their costs determined on the basis of the Corporation's common shares quoted market value. Each director can also elect, each fiscal year, to have up to 50% of his director's annual retainer fees converted into DSUs. These DSUs will be vested over a one-year period.

CONSOLIDATED BALANCE SHEETS

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

Item	Change ($ million)	Explanation
Cash and cash equivalents	(13.7)	See consolidated statements of cash flows. As already mentioned, the Corporation utilized $12.1 million from its cash to finance the Eagle and E2 acquisition.
Accounts receivable	23.5	Increase coming from higher and strong fourth quarter sales, when compared to last year ($106 million vs. $85 million) and from the inclusion in the consolidated figures of the acquisition made this year ($5.4 million). This increase was partially offset by the impact of the stronger Canadian dollar, compared to last year, on US-denominated accounts receivable ($1.2 million).
Other receivables	1.1	This is mostly comprised of investment tax and other tax credits receivable which increased this year by $0.3 million over last year's balance. Sales tax receivable also increased by $0.5 million as a result of increased last quarter sales volume, compared to last year.
Inventories	17.1	This increase includes the impact from the Eagle and E2 acquisition ($18.1 million) reduced by the impact of the stronger Canadian dollar on the Corporation's U.S. self-sustaining subsidiaries' inventories ($1.7 million). It also reflects an improved inventory management by the Corporation.
Derivative financial instruments (current assets)	3.4	Reflects the variation in the Corporation's balance sheets of short-term derivative financial instruments measured at fair value.
Property, plant and equipment, net	7.4	Due to: • Acquisition of Eagle and E2 ($8.5 million) • Purchases of capital assets of $23.7 million of which $4.1 million of machinery and equipment not paid at year-end. Net of: • Amortization expense ($21.2 million); • Disposal of fixed assets ($0.4 million); • Reclassification to Other assets as Asset held for sale of a building following the closing of a facility ($0.6 million); • A lower US/CAD exchange rate used to convert the net assets of self-sustaining US subsidiaries ($2.6 million).
Finite-life intangible assets, net (includes a $3.3 million net backlog)	6.8	Due to: • An increase in finite-life intangible assets ($6.9 million), representing the increase in capitalized development costs for Aerospace long-term contracts; • Backlog associated to the acquisition of Eagle and E2 ($1.4 million); • Purchase of computer software ($1.1 million); Net of: • Amortization expense on the underlying value of the backlog ($1.5 million); • Amortization of the finite-life intangible assets ($0.9 million); • The lower US/CAD exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.2 million).

Item	Change ($ million)	Explanation
Other assets (long-term assets)	(1.7)	Reflects the variation in the Corporation's balance sheets of long-term derivative financial instruments measured at fair value ($2.3 million) net of a reclassification of a building as Asset held for sale ($0.6 million).
Goodwill	4.8	Includes $5.8 million of goodwill associated to the acquisition of Eagle and E2. It also includes $1.0 million negative impact from the lower US/CAD exchange rate used to convert the goodwill included in the Corporation's self-sustaining U.S. subsidiaries.
Accounts payable and accrued liabilities	10.8	Increase resulting from higher fourth quarter sales volume, when compared to last year and from the inclusion of accounts payable and accrued liabilities in the consolidated figures related to the acquisition made this year ($7.4 million). This increase was partially offset by the impact of the fluctuation of the Canadian dollar since March 31, 2010, on US-denominated payables which decreased accounts payable and accrued liabilities by $0.8 million.
Accounts payable – other	0.4	Reflects the increase in payables ($3.5 million) of machinery and equipment received in the last quarter of the fiscal year, offset by the decrease of $2.0 million in customers' advances and the variation in derivative financial instruments ($1.1 million) measured at fair value.
Long-term debt (including current portion)	18.5	Due to: • Drawing of US$16.5 million against the Corporation's US Credit facility to finance the Eagle and E2 acquisition ($16.7 million); • Governmental authorities loans to support Aerospace development program investments ($8.7 million); • Promissory note, following the acquisition, repayable to the seller ($3.7 million); • Interest accretion on governmental authorities loans ($1.3 million); • Amortization of deferred financing costs ($0.4 million); Net of: • Net capital repayment of long-term debt ($5.4 million); • Recognition in the Corporation's balance sheets of the impact of governmental authorities loans measured at fair value for the related long-term debt ($1.7 million); • Increase in deferred financing costs ($2.2 million); • A lower US/CAD exchange rate used to convert the long-term debt of self-sustaining US subsidiaries ($3.0 million).
Other liabilities	(1.8)	Mainly reflects the variation in the Corporation's balance sheets of long-term derivative financial instruments measured at fair value. It also includes the reduction of the accrued pension plan benefit liability this year.
Future income taxes (long-term liabilities)	4.8	Reflects mainly the increased future income tax related to property, plant and equipment ($2.8 million) and long-term derivative financial instruments measured at fair value ($1.2 million).
Capital stock	(0.5)	Represents the common shares issued under the Corporation's stock purchase and ownership plan and following the exercise of stock options ($1.5 million), net of the book value of the common shares repurchased under the Corporation's Normal Course Issuer Bid ($2.0 million).
Accumulated other comprehensive loss	(1.3)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries and the net gains (losses), net of taxes, on the fair value of the financial instruments designated as cash flow hedges.
Retained earnings	16.9	See consolidated statements of changes in shareholders' equity.

At March 31, 2011 and March 31, 2010, the Corporation's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio(1) were as follows:

	MARCH 31, 2011	MARCH 31, 2010
Working capital ratio	**2.63:1**	2.66:1
Cash and cash equivalents	**$32.9 million**	$46.6 million
Long-term debt-to-equity ratio	**0.41:1**	0.35:1
Net debt-to-equity ratio[1]	**0.29:1**	0.16:1

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

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

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

GOVERNMENT ASSISTANCE

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

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

DERIVATIVES, OFF-BALANCE-SHEET ITEMS AND COMMITMENTS

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

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

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

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

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

IMPACT OF FINANCIAL AND ECONOMIC SITUATION

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

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

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

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

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

CRITICAL ACCOUNTING ESTIMATES

- Inventories, capitalized development costs and cost of sales

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

The non-recurring costs (development, pre-production and tooling costs) are included in finite-life intangible assets. Recovery of these costs is expected from related sales contracts through their amortization, based on pre-determined contract quantities.

Production accounting quantities for a particular contract are essentially established at the inception of the contract or contract date, and are based on management's assessment of the anticipated demand for the related aircraft or product, taking into account mainly firm order and committed order backlog and options, as well as prevailing market and economic conditions.

Management reviews this major assumption on a quarterly basis, and a more detailed review is made at fiscal year-end. The effect of any revision to this assumption is accounted for by way of a cumulative catch-up adjustment in the period or year in which the revision takes place.

- Goodwill and intangible assets

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

- Pension plans and other employee post-retirement benefits

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

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

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

- Income tax

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

FUTURE CHANGES IN ACCOUNTING POLICIES

First-Time Adoption Of International Financial Reporting Standards In Canada

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

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

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

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

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

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

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

Table 1

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

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

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

Table 2

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

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

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

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

A. Exemptions applied

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

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

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

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

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

A1. Leases

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

A2. Provisions

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

A3. Employee benefits

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

- adopted the projected unit credit method to determine the actuarial value of accrued benefit obligations. Under Canadian GAAP, the Corporation used accrued benefit methods. The change of method had no significant effect on consolidated shareholders' equity.

- wrote-off unamortized vested past-service costs and transitional obligation. The change results in an increase of other liabilities and a decrease of the consolidated shareholders' equity.

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

A4. Stock-based compensation

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

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

A5. Progress billings

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

A6. Provisions

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

A7. Derivative financial instruments - liabilities

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

A8. Deferred income taxes

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

D. Presentation of financial statements

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

E. Functional currency

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

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

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

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

INTERNAL CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' Multilateral Instrument 52-109 ("MI 52-109"), the Corporation has filed certificates signed by the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") that, among other things, report on disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

Disclosure controls and procedures

The CEO and CFO have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Corporation has been made known to them and has been properly disclosed in the annual regulatory filings.

At March 31, 2011, an evaluation, under the supervision of the CEO and CFO, of the design and effectiveness of the Corporation's disclosure controls and procedures was also carried out, as defined in MI 52-109. Based on this evaluation, the CEO and CFO concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation took into account the Corporation's disclosure policy and its disclosure committee.

Internal controls over financial reporting

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

At March 31, 2011, an evaluation, under the supervision of the CEO and CFO, of the design and effectiveness of the Corporation's internal controls over financial reporting was carried out, as defined in MI 52-109. Based on this evaluation, the CEO and CFO concluded that the design and effectiveness of these internal controls over financial reporting were effective to provide reasonable assurance that the Corporation's financial reporting is reliable and that the Corporation's consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles.

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

Changes in internal controls over financial reporting

No changes that were made to our internal controls over financial reporting during the year ended March 31, 2011, have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

RISKS AND UNCERTAINTIES

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

Reliance on Large Customers

The Corporation has exposure due to its reliance on certain large contracts and customers. The Corporation's six largest customers account for approximately 60% of its sales. Any loss or delay in certain orders from any of these customers could have a negative impact on the Corporation's results.

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

Availability and Cost of Raw Materials

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

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

Operational Risks

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

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

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

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

Impact of Terrorist Activity and Political Instability

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

General Economic Conditions

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

Military Spending

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

Foreign Currency Fluctuations

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

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

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

Liquidity and Access to Capital Resources

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

Restrictive Debt Covenants

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

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

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

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

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

Changing Interest Rates

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

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

External Business Environment

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

Warranty Casualty Claim Losses

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

Environmental Matters

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

Collective Bargaining Agreements

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

In May 2010 and April 2011, the Corporation renewed its collective agreements, respectively, with its Aerostructure Dorval plant employees and its Landing Gear Longueuil plant employees, both for three-year periods. The Landing Gear Laval plant agreement will come up for renewal in December 2011.

Skilled Labour

Héroux-Devtek's ability to meet its future goals and objectives depends in part on its ability to attract and retain the necessary skilled labour. The skilled labour market in the aerospace industry is expected to continue to be highly competitive in the future. The Corporation's inability to attract and retain skilled labour, particularly engineers, machinists and programmers, could adversely affect its financial condition and results of operations.

The Corporation is addressing this risk by developing its human resource strengths internally and by working to retain the skilled employees that it currently has and attract the best talent by fostering a strong sense of corporate culture. Héroux-Devtek therefore does not anticipate a substantial increase in its manpower requirements over the next few years.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

Fourth Quarter 2011 Results

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

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

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

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

OUTLOOK

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

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

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

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

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

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.

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

12 Sources: JETNET, FAA.

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

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

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

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

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

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

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and Management Discussion and Analysis of Financial Position and Operating Results ("MD&A") of Héroux-Devtek Inc. (the "Corporation") and all other information in this Annual Report are the responsibility of management and have been reviewed and approved by its Board of Directors. The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The MD&A has been prepared in accordance with the requirements of Canadian securities regulators. The consolidated financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the consolidated financial statements and MD&A are presented fairly in all material respects. Financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements. All figures presented in these consolidated financial statements are expressed in Canadian dollars unless otherwise indicated.

Héroux-Devtek Inc.'s Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P"), or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Canadian generally accepted accounting principles and that material information related to the Corporation has been made known to them and has been properly disclosed in the accompanying consolidated financial statements and MD&A. Héroux-Devtek Inc.'s CEO and CFO have also evaluated the effectiveness of such ICFR and DC&P as of the end of fiscal year 2011. As of March 31, 2011, management concludes that the ICFR and DC&P effectively provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Canadian generally accepted accounting principles and that material information related to the Corporation has been disclosed in the consolidated financial statements and MD&A. Also, based on this assessment, the CEO and the CFO determined that there were no material weaknesses in the ICFR and DC&P. Héroux-Devtek Inc.'s CEO and CFO have provided a certification related to Héroux-Devtek Inc.'s annual disclosure documents to the Canadian Securities Administrators in accordance with Multilateral Instrument 52-109, including the consolidated financial statements and MD&A.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board of Directors and consists entirely of independent and financially literate directors.

The Audit Committee meets periodically with management, as well as with the external auditors, to review the consolidated financial statements, the external auditors' report, MD&A, auditing matters and financial reporting issues, to discuss ICFR , and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the consolidated financial statements as presented by management, and to review and make recommendations to the Board of Directors with respect to the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the consolidated financial statements and MD&A for issuance to shareholders.

The consolidated financial statements as at March 31, 2011 and 2010 have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.

Gilles Labbé, FCA
President and Chief Executive Officer

Réal Bélanger, CA
Executive Vice-President and Chief Financial Officer

May 27, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Héroux-Devtek Inc.

We have audited the accompanying consolidated financial statements of Héroux-Devtek Inc., which comprise the consolidated balance sheets as at March 31, 2011 and 2010 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Héroux-Devtek Inc. as at March 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants

Montréal, Québec
May 26, 2011

[1] CA Auditor permit no. 19483

CONSOLIDATED BALANCE SHEETS

AS AT MARCH 31, 2011 AND 2010 (IN THOUSANDS OF CANADIAN DOLLARS)

	NOTES	2011	2010
Assets	**3, 17**		
Current assets			
Cash and cash equivalents		**$ 32,910**	$ 46,591
Accounts receivable		**62,623**	39,085
Income tax receivable		**716**	1,349
Other receivables	**9, 23**	**12,240**	11,174
Inventories	**10**	**101,472**	84,408
Prepaid expenses		**2,498**	2,151
Future income taxes	**20**	**5,819**	5,124
Derivative financial instruments	**11**	**10,923**	7,568
		229,201	197,450
Property, plant and equipment, net	**12**	**145,047**	137,670
Finite-life intangible assets, net	**13**	**18,486**	11,698
Other assets	**8,14**	**10,743**	12,408
Goodwill	**15**	**40,398**	35,621
		$ 443,875	$ 394,847
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	**23**	**$ 68,893**	$ 58,069
Accounts payable – other	**16**	**4,980**	4,591
Income tax payable		**1,622**	138
Future income taxes	**20**	**6,474**	7,161
Current portion of long-term debt	**17**	**5,136**	4,250
		87,105	74,209
Long-term debt	**17**	**94,376**	76,807
Other liabilities	**18**	**9,182**	10,948
Future income taxes	**20**	**20,547**	15,791
		211,210	177,755
Shareholders' equity			
Capital stock	**19**	**100,136**	100,641
Contributed surplus	**19**	**2,010**	1,615
Accumulated other comprehensive (loss)		**(5,871)**	(4,618)
Retained earnings		**136,390**	119,454
		232,665	217,092
		$ 443,875	$ 394,847

Commitments and contingencies (Notes 23 and 24)
The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board of Directors

Louis Morin
Director

Gilles Labbé
Director

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 (IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE AND PER SHARE DATA)

	NOTES	2011	2010
	3		
Sales		**$ 357,572**	$ 320,354
Cost of sales, including amortization expense of $23,610 ($21,260 in 2010)	**2,10**	**300,312**	270,012
Gross profit		**57,260**	50,342
Selling and administrative expenses	**7, 19**	**26,040**	23,165
Operating income		**31,220**	27,177
Financial expenses, net	**17**	**5,156**	4,676
Income before income tax expense and restructuring charges		**26,064**	22,501
Restructuring charges	**8**	**637**	—
Income before income tax expense		**25,427**	22,501
Income tax expense	**20**	**6,900**	6,498
Net income		**$ 18,527**	$ 16,003
Earnings per share – basic		**$ 0.62**	$ 0.52
Earnings per share – diluted		**$ 0.61**	$ 0.52
Weighted-average number of shares outstanding during the year		**30,112,464**	30,661,745

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 (IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	Capital stock	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive income (loss)
Balance at March 31, 2010		$ 100,641	$ 1,615	$ (4,618)	$ 119,454	$ —
Common shares:	19					
Issued under the stock option plan		1,144	—	—	—	—
Issued under the stock purchase and ownership incentive plan		330	—	—	—	—
Repurchased under the Corporation's normal course issuer bid		(1,979)	—	—	(1,591)	—
Stock-based compensation expense	19	—	395	—	—	—
Net income		—	—	—	18,527	18,527
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $2,907		—	—	8,630	—	8,630
Net (gains) losses on derivative financial instruments designated as cash flow hedges in prior years transferred to net income in the current year, net of taxes of $2,383		—	—	(6,898)	—	(6,898)
Net gains on hedge of net investments in self-sustaining foreign operations, net of taxes of $207		—	—	590	—	590
Cumulative translation adjustment		—	—	(3,575)	—	(3,575)
Balance at March 31, 2011		**$ 100,136**	**$ 2,010**	**$ (5,871)**	**$ 136,390**	**$ 17,274**

	Notes	Capital stock	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive income (loss)
Balance at March 31, 2009		$ 102,822	$ 1,375	$ (12,124)	$ 104,418	$ —
Common shares:	19					
Issued under the stock purchase and ownership incentive plan		322	—	—	—	—
Repurchased under the Corporation's normal course issuer bids		(2,503)	—	—	(967)	—
Stock-based compensation expense	19	—	240	—	—	—
Net income		—	—	—	16,003	16,003
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $9,716		—	—	23,313	—	23,313
Net (gains) losses on derivative financial instruments designated as cash flow hedges in prior years transferred to net income in the current year, net of taxes of $326		—	—	692	—	692
Cumulative translation adjustment		—	—	(16,499)	—	(16,499)
Balance at March 31, 2010		**$ 100,641**	**$ 1,615**	**$ (4,618)**	**$ 119,454**	**$ 23,509**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 (IN THOUSANDS OF CANADIAN DOLLARS)

	NOTES	2011	2010
Cash and cash equivalents provided by (used for):			
Operating activities			
Net income		**$ 18,527**	$ 16,003
Items not requiring an outlay of cash:			
Amortization expense		**23,610**	21,260
Future income taxes	**20**	**3,978**	6,443
Loss on sale of property, plant and equipment		**324**	379
Amortization of deferred financing costs	**17**	**350**	168
Accretion expense on asset retirement obligations and governmental authorities loans	**17**	**1,570**	1,374
Stock-based compensation expense	**19**	**395**	240
Cash flows from operations		**48,754**	45,867
Net change in non-cash working capital items related to operations	**21**	**(19,155)**	(8,121)
Cash flows related to operating activities		**29,599**	37,746
Investing activities			
Business acquisition	**3**	**(28,813)**	—
Additions to property, plant and equipment	**2,12**	**(19,646)**	(13,740)
Net increase in finite-life intangible assets	**2,13**	**(7,980)**	(3,763)
Proceeds on disposal of property, plant and equipment		**139**	8
Cash flows related to investing activities		**(56,300)**	(17,495)
Financing activities			
Increase in long-term debt	**3**	**23,727**	2,404
Repayment of long-term debt		**(5,428)**	(5,292)
Increase in deferred financing costs	**17**	**(2,198)**	—
Repurchase of common shares	**19**	**(3,570)**	(3,470)
Issuance of common shares	**19**	**1,474**	322
Cash flows related to financing activities		**14,005**	(6,036)
Effect of changes in exchange rates on cash and cash equivalents		**(985)**	(7,383)
Change in cash and cash equivalents during the year		**(13,681)**	6,832
Cash and cash equivalents at beginning of year		**46,591**	39,759
Cash and cash equivalents at end of year		**$ 32,910**	$ 46,591
Supplemental information:			
Interest paid		**$ 2,834**	$ 2,783
Income taxes paid		**$ 1,114**	$ 4,269

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2011 AND 2010 (ALL DOLLAR AMOUNTS IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE DATA)

NOTE 1. NATURE OF ACTIVITIES

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 sectors. As a result, a significant portion of the Corporation’s sales are made to a limited number of customers mainly located in the United States and Canada.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles within the framework of the significant accounting policies summarized below.

Basis of consolidation

The principal wholly-owned subsidiaries of the Corporation included in the consolidated financial statements are the following:

- McSwain Manufacturing Corporation
- Progressive Incorporated
- Devtek Aerospace Inc.
- HDI Landing Gear USA Inc.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues (sales) and expenses and disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates relate to the sales contract assumptions, determination of pension and other employee benefits, reserves for environmental matters, asset retirement obligations, the useful life of assets for amortization and evaluation of net recoverable amount, the determination of fair value of assets acquired and liabilities assumed in business combinations, implied fair value of goodwill, income tax and the determination of the fair value of financial instruments. Actual results could differ from these estimates.

Translation of foreign currency

The functional currency of Héroux-Devtek Inc. and the Canadian operations is the Canadian dollar and; the functional currency of the U.S. operations is the U.S. dollar.

- **Self-sustaining foreign operations**

  The assets and liabilities of foreign subsidiaries are translated at the exchange rate in effect at the balance sheet dates. Revenues and expenses are translated at the average exchange rate for the year. Translation gains and losses are deferred and shown separately in shareholders’ equity as accumulated other comprehensive income (loss).

- **Foreign currency transactions**

  Foreign currency transactions are translated using the temporary method. Under this method, monetary balance sheet items are translated into Canadian dollars at the exchange rate in effect at the balance sheet dates. Revenues (sales) and expenses are translated using the average exchange rates prevailing during each month of the year. Translation gains and losses are included in the consolidated statements of income.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments

Financial instruments are recognized on the consolidated balance sheets when the Corporation becomes a party to the contractual provisions of the financial instrument. On initial recognition, all financial instruments including embedded derivative financial instruments that are not closely related to the host contract are measured at fair value. After initial recognition, the measurement of financial instruments depends on their classification, which could include the following: held-for-trading ("HFT"), available-for-sale ("AFS"), loans and receivables ("L&R"), held-to-maturity ("HTM") or other than HFT liabilities.

Financial assets and financial liabilities classified as HFT are measured at fair value, with gains and losses recognized to income for the period during which they arise. Financial assets classified as L&R or HTM and financial liabilities classified as other than HFT liabilities are measured at amortized cost using the effective interest rate method.

Financial assets classified as AFS are measured at fair value. Unrealized gains and losses including changes in foreign exchange rates are recognized directly to other comprehensive income (loss) ("OCI"), except for impairment losses, which are recognized to income, until the financial assets are derecognized, at which time the cumulative gains or losses previously recognized in accumulated OCI are recognized in income for the year.

During fiscal 2011 and 2010, the Corporation made the following classifications:

- Cash and cash equivalents are classified as HFT.
- Amounts receivables other than governmental other receivables are classified as L&R.
- Amounts payable in current liabilities and long-term debt (including current portion) are classified as other than HFT liabilities.

Derivative financial instruments

In accordance with its risk management policy, the Corporation uses derivative financial instruments to manage its foreign currency and interest rate exposures. These derivative financial instruments are measured at fair value, including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contract. Management is responsible for establishing standards of acceptable risks and monitoring, as appropriate, the transactions covering these risks. The Corporation uses financial instruments for the sole purpose of hedging existing commitments or obligations. These derivative financial instruments are not used for trading purposes.

The Corporation has designated forward foreign exchange contracts and interest-rate swap agreements as cash flow hedges. In a cash flow hedge relationship, a change in fair value of these derivatives is recognized as a component of OCI to the extent that the hedging relationship is effective. The ineffective portion of the hedging relationship and changes in fair value of derivatives not designated as a cash flow hedge, including embedded derivatives, are recognized as gains and losses in net income. The amount recognized in OCI is transferred to net income, and recorded as an adjustment of the cost or revenue of the related hedged item when realized.

Hedge of net investments in self-sustaining foreign operations

The Corporation designates certain long-term debt as hedges of its net investments in self-sustaining foreign operations. The portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized in OCI, while the ineffective portion is recorded in net income. The amounts recognized in OCI are reclassified to net income when corresponding exchange gains or losses arising from the translation of the self-sustaining foreign operations are recorded in net income.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments held with investment grade financial institutions, with maturities of three months or less from the date of acquisition.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Inventory valuation, capitalized development costs, cost of sales and revenue recognition

[a] Inventory valuation, capitalized development costs and cost of sales

Inventories include raw materials, direct labour and related manufacturing overhead costs and include, if applicable, the amount of amortization of the non-recurring costs of the related sales contracts. These non-recurring costs represent essentially direct design engineering costs, direct manufacturing engineering costs, other direct pre-production costs (test units, prototypes, and other related costs) and tooling costs which are recorded and amortized on the following basis:

NON-RECURRING COSTS	RECORDED IN THE BALANCE SHEETS AS	AMORTIZATION METHOD
Direct design engineering costs	Finite-life intangible assets – capitalized development costs	Predetermined contract quantity
Direct manufacturing engineering costs	Finite-life intangible assets – capitalized development costs	Predetermined contract quantity
Other direct pre-production costs	Finite-life intangible assets – capitalized development costs	Predetermined contract quantity
Tooling costs related to sales contracts	Property, plant and equipment	Predetermined contract quantity but not exceeding ten (10) years.
Other tooling costs	Property, plant and equipment	Straight-line basis over five (5) years.

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 its capitalized development costs related to sales contracts and their recoverability, and contract quantities.

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 to income as the unit is delivered.

Progress billings received from customers are deducted from related costs in inventories. Progress billings received in excess of related costs in inventories, if any, are classified as Customers' advances in accounts payable - other.

[b] Revenue recognition

Revenues from the sale of aerospace and industrial products are recognized as the related units are delivered and collectability is reasonably assured.

Provisions for losses on contract, if any, are made as soon as it is determined that total estimated contract costs are expected to exceed the total contract revenue, and are recorded in accounts payable and accrued liabilities.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Long-lived assets

Long-lived assets consist of property, plant and equipment and finite-life intangible assets which include capitalized development costs (see above). Long-lived assets held for use are reviewed for impairment when certain events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability test is performed using undiscounted future cash flows that are directly associated with the assets' use and eventual disposition. The amount of the impairment, if any, is measured as the difference between the carrying value and the fair value of the impaired assets and presented as an additional current-period amortization expense.

Long-lived assets are recorded at cost and amortization is provided for on a straight-line basis, except for the backlog which is amortized on a pro rata basis over the life of the related sales contracts, and the units delivered, over the estimated useful lives of the related assets, as follows:

Buildings and leasehold improvements	5 to 40 years
Machinery, equipment and tooling	3 to 15 years
Machinery and equipment held under capital lease	3 to 15 years
Automotive equipment	3 to 10 years
Computer and office equipment	3 to 5 years
Finite-life intangible assets	
- Software-related costs	3 to 5 years
- Backlog	Based on the life of the related sales contracts and units delivered

Amortization of construction in progress begins when they are ready for their intended use.

Government assistance

Government assistance, including investment and other tax credits and the discounted portion of the governmental authorities loans, is recorded as a reduction of the related capital expenditures, capitalized development costs, inventory or expenses when there is reasonable assurance that the assistance will be received.

In fiscal year 2011, the Corporation recorded as a reduction of cost of sales an amount of $2,384 ($5,395 in 2010) and as a reduction of the related capital expenditures or capitalized development costs an amount of $3,903 ($2,083 in 2010) for government assistance.

Asset retirement obligations

The Corporation's asset retirement obligations represent essentially environmental rehabilitation costs related to the Corporation's manufacturing plant. The fair value of these obligations is measured in the year during which they are incurred when a reasonable estimate of their fair value can be made. The fair value of the obligations was determined as the sum of the estimated discounted future cash flows of the legal obligations associated with the future retirement of these rehabilitation costs. The retirement costs of these assets 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 charged to income.

As of March 31, 2011, a provision of $4,202 ($4,653 as of March 31, 2010) is included in the Corporation's other liabilities and $1,164 ($627 in 2010) in accounts payable and accrued liabilities based on management's estimate of the total discounted future cash flows using a rate of 4.5% (4.5% in 2010). During fiscal 2011, an accretion expense of $240 was recorded ($228 in 2010) in financial expenses (see Note 17).

Goodwill

Goodwill represents the excess of the purchase price, including acquisition costs up to March 31, 2009, over the fair value of the identifiable net assets acquired. Goodwill is tested for impairment annually, or more frequently if events or circumstances, such as significant declines in expected cash flows, indicate that it is more likely than not that the asset might be impaired. Goodwill is considered to be impaired when the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Goodwill (cond't)

The Corporation evaluates the recoverability of goodwill using a two-step test approach at the reporting unit level. In the first step, the fair value of the reporting unit, based upon discounted future cash flows, is compared to its net carrying amount. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value is less than the carrying amount, a second test must be performed whereby the implied fair value of the reporting unit's goodwill must be estimated. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. The carrying value of goodwill in excess of its implied fair value is charged to income.

Deferred financing costs

Deferred financing costs, which are associated with the long-term debt, are amortized using the effective interest rate method and their unamortized portion is shown as a reduction of long-term debt.

Pension and other retirement benefit plans

- The actuarial determination of the accrued benefit obligations for pensions uses the accrued benefit method for the flat benefit plan and the projected benefit method prorated on services for the other plans (which incorporate 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. The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The weighted-average remaining service period of the active employees is 15 years for 2011 and 2010.

- Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of active employees at the date of amendment.

- On April 1, 2000, the Corporation adopted the new accounting standard on employee future benefits using the prospective application method. The Corporation is amortizing the transitional obligation on a straight-line basis over 17 years, which was the weighted-average remaining service period of employees expected to receive benefits under the benefit plans as of April 1, 2000.

- When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

Income taxes

Income taxes are provided for using the liability method. Under this method, future income tax assets and liabilities are determined based on all significant differences between the carrying amounts and tax bases of assets and liabilities using substantively enacted tax rates and laws, which will be in effect for the year during which the differences are expected to reverse.

A valuation allowance is recorded to reduce the carrying amount of future income tax assets, when it is more likely than not, that such assets will not be realized.

Earnings per share

The earnings per share amounts are determined using the weighted-average number of shares outstanding during the year. The treasury stock method is used to calculate diluted earnings per share giving effect to 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Stock-based compensation and other 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, and expenses all granting of stock options based on their earned period. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in the Corporation's 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 common share issuance is accounted for in the Corporation's capital stock. 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 Toronto Stock Exchange (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 the Corporation's selling and administrative expenses.

- **Stock appreciation right plan**

  The Corporation has a stock appreciation right (SAR) plan where rights are issued to its non-employee directors. 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 market price of a common share on the exercise date of the SAR over the granted price of the SAR. The SARs are expensed on an earned basis and their costs are determined based on the quoted market value of the Corporation's common shares over their granted value. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in the Corporation's 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 deferred share unit (DSU) plan (see below), which was effectively approved, subsequent to the last fiscal year-end, in May 2011.

- **Deferred share unit plan**

  Since May 2011, the Corporation has a DSU, which replaced the stock appreciation right plan (see above), under which rights are issued to its non-employee directors. The DSU enables the participants to receive a remuneration, but only at the termination date, as a member of the Board of Directors, a cash amount equal to the market price of the Corporation's common share for each DSU.

  These DSUs are expensed on an earned basis and their costs are determined, on the basis of the Corporation's common shares quoted market value. Each director can also elect, each fiscal year, to have up to 50% of his director's annual retainer fees converted into DSUs. These DSUs will be vested over a one-year period. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in the Corporation's accounts payable and accrued liabilities.

Environmental obligations

Environmental liabilities are recorded when environmental claims or remedial efforts are probable, and the costs can be reasonably estimated. Environmental costs that relate to current operations are expensed or capitalized, as appropriate. Environmental costs of a capital nature that extend the life, increase the capacity or improve the safety of an asset or that mitigate or prevent environmental contamination that has yet to occur are included in property, plant and equipment and are generally amortized over the remaining useful life of the underlying asset. Costs that relate to an existing condition caused by past operations, and which do not contribute to future revenue generation, are expensed.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Future changes in accounting policies

International Financial Reporting Standards ("IFRS")

Canadian GAAP for most publicly accountable entities will be changed to IFRS effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. First reporting under IFRS is required for the Corporation's interim and annual financial statements beginning on April 1, 2011. IFRS 1, "First-time Adoption of International Financial Reporting Standards", requires a first-time adopter to retrospectively apply all IFRS effective as at the end of its first annual reporting period. For more details on the Corporation's IFRS conversion, refer to the IFRS conversion section of the Management Discussion and Analysis for the fiscal year ended March 31, 2011.

NOTE 3. 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, based on their last financial year ended December 31, 2009 and of $45,044 since the acquisition this year.

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 Facilities	$ 16,711
Property, plant and equipment	8,498	Cash	12,102
Backlog	1,390	Promissory note	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 amounted to $5,849.

The promissory note is repayable to the seller over 40 months, starting on April 30, 2010, bears a fixed interest rate of 5% and is guaranteed by the 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 4. FINANCIAL RISK MANAGEMENT

The Corporation is exposed primarily to market risk, credit and credit concentration risk, and liquidity risk as a result of holding financial instruments.

Market risk	Risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation is primarily exposed to the following market risks: • Foreign exchange risk • Interest rate risk
Credit and credit concentration risks	Credit risk – Risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation. Credit concentration risk – Risk that the business is concentrated on a limited number of customers and financial institutions, which could cause an increased credit risk as defined above.
Liquidity risk	Risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities.

Market risk

Foreign exchange risk

The Corporation is exposed to risks resulting from foreign currency fluctuations arising either from carrying on business in Canada in foreign currencies or through operations in the United States. Based on the fiscal year ended March 31, 2011, the Corporation's sales made and costs incurred from its Canadian and American operations and in the related currencies were as follows (calculated based on the Corporation's total consolidated sales and costs):

	CANADIAN OPERATIONS		U.S. OPERATIONS		TOTAL	
	Sales	Costs	Sales	Costs	Sales	Costs
U.S. Currency	45%	22%	37%	40%	82%	62%
Canadian Currency	18%	38%	—	—	18%	38%
% of Consolidated Sales/Costs	**63%**	**60%**	**37%**	**40%**	**100%**	**100%**

The total financial instruments denominated in U.S. dollars[1] in the Corporation's consolidated balance sheets, as at March 31, 2011 and 2010, are as follows:

	2011	2010
Current financial assets	**$ 75,681**	$ 63,565
Long-term financial assets	**212**	—
Total financial assets	**$ 75,893**	$ 63,565
Current financial liabilities	**$ 29,541**	$ 18,516
Long-term financial liabilities	**64,921**	48,158
Total financial liabilities	**$ 94,462**	$ 66,674

[1] *Does not include the derivative financial instruments related to forward foreign exchange contracts.*

NOTE 4. FINANCIAL RISK MANAGEMENT (cont'd)

Market risk (cont'd)

In an effort to mitigate the foreign currency fluctuation exposure on sales, the Corporation makes use of derivative contracts to hedge this exposure, essentially to the U.S. currency and arising from its Canadian operations.

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

As at March 31, 2011, the Corporation, in accordance with the foreign exchange policy explained above, had forward foreign exchange contracts totalling US$159.0 million at a weighted-average rate of 1.1032 (Canadian dollar over U.S. dollar, "cad/usd") (US$150.0 million at a weighted-average rate of 1.1436 cad/usd as at March 31, 2010) maturing over the next four fiscal years, with the majority maturing over the next two fiscal years.

At March 31, 2011, the Corporation had also entered into forward foreign exchange contracts totalling US$7.7 million at a weighted-average rate of 1.2343 (US$11.3 million at a weighted-average rate of 1.2396 at March 31, 2010) maturing over the next three fiscal years, with the majority maturing in the 2014 fiscal year, to cover foreign exchange risk related to certain embedded derivatives.

The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments including the above-mentioned forward foreign exchange contracts as at the consolidated balance sheets dates. As at March 31, 2011, a 1% strengthening of the Canadian dollar over the U.S. currency, while all other variables would remain fixed, would have decreased consolidated net income by $186 ($213 in 2010) and decreased comprehensive income by $555 ($447 in 2010) while a 1% reduction would have had an opposite impact of essentially the same amounts.

Interest rate risk

The Corporation is exposed to interest rate fluctuations primarily due to its variable interest rate on its long-term debt's Bank Credit Facility (see Note 17 to the consolidated financial statements). In addition, the interest rate fluctuations could also have an impact on the Corporation's interest income which is derived from its cash and cash equivalents.

The Corporation's interest rate policy generally requires maintaining an appropriate mix of fixed and variable interest rates debt to mitigate the net impact of fluctuating interest rate.

In March 2011, following the renewal of the Corporation's Credit Facility and in order to limit the effect of interest rate variations over a portion of its long-term debt denominated in U.S. currency in accordance with the Corporation's risk management policy, the Corporation entered into three interest-rate swap agreements for a total amount of US$40 million and repurchased for a cost of $0.4 million, the two interest rate swap agreements outstanding in March 2011 and related to the previous credit facilities. The new agreements which 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.

The interest rate risk sensitivity is calculated on the floating rate liability at the end of the year. Assuming a 100-basis point increase/decrease in the interest rate as at March 31, 2011, while all other variables would remain fixed, this would have reduced/increased the Corporation's consolidated net income for the year then ended by $138 ($126 in 2010). For the derivative financial instruments (interest-rate swap agreements), a shift of 100-basis point increase in the yield curve, as of March 31, 2011, would have increased the Corporation's comprehensive income for the year then ended by $1,173 ($227 in 2010) while a 100-basis point decrease would have reduced it by $1,229 ($230 in 2010).

Credit and credit concentration risks

The credit and credit concentration risks represent counterparty risks where the parties with which the Corporation enters into the related agreements or contracts could be unable to fulfill their commitments.

Credit risk is primarily related to the potential inability of customers to discharge their obligations with regards to the Corporation's accounts receivable and, of financial institutions with regards to the Corporation's cash and cash equivalents and derivative financial instruments.

NOTE 4. FINANCIAL RISK MANAGEMENT (cont'd)

Credit and credit concentration risks (cont'd)

Credit concentration risk is related to the fact that a significant portion of the Corporation's fiscal 2011 sales, approximately 60% (56% in 2010), are made to a limited number of customers (six customers) and that the Corporation deals mainly with a limited number of financial institutions. More specifically, the Corporation has one customer representing 19% (16% in 2010) of its consolidated sales and two customers representing between 13% and 14% (11% and 13% in 2010) of its consolidated sales, all of them in the Aerospace segment.

Accounts receivable

The credit and credit concentration risks related to this financial instrument are limited due to the fact that the Corporation deals generally with large corporations and Government agencies, with the exception of sales made to private small businesses in North America and non-governmental agencies outside North America which represent together approximately 6% (8% in 2010) of the Corporation's total annual consolidated sales for fiscal 2011 and 2010.

Besides a significant account receivable write-off made in fiscal 2010, following the filing for bankruptcy of a publicly traded U.S. customer, the Corporation has historically not made any significant write-off of accounts receivable and the number of days in accounts receivable as at March 31, 2011 was at acceptable levels in the industries in which the Corporation operates.

The credit quality of accounts receivable is monitored on a regular basis through the Corporation's decentralized operations.

Changes in the allowance for doubtful accounts were as follows for the years ended March 31, 2011 and 2010:

	2011	2010
Balance at beginning of year	**$ 761**	$ 1,933
Provision for doubtful accounts, net of reversals	**62**	(289)
Amounts written off	**—**	(955)
Effect of foreign exchange rate changes	**10**	72
Balance at end of year	**$ 833**	$ 761

The Corporation's trade receivables that are past due but not impaired amounted to $8,142 ($5,413 in 2010) as at March 31, 2011, of which $1,471 ($849 in 2010) were more than 90 days past due.

Cash and cash equivalents and derivative financial instruments

The credit and credit concentration risks related to these financial instruments are limited due to the fact that the Corporation deals exclusively with Canadian chartered banks and their U.S. subsidiaries or branches and, with a Canadian branch of a U.S. bank, which are high-grade financial institutions, based on the Corporation's investment policy. On that basis, the Corporation does not anticipate any breach of agreement by counterparties.

The maximum exposure to credit risk for financial instruments represented the following as at March 31, 2011 (See Note 6 to the consolidated financial statements):

	(HFT)	HEDGING ITEMS[1]	LOANS AND RECEIVABLES (L&R)
Cash and cash equivalents	$ 32,910	$ —	$ —
Accounts receivable	—	—	62,623
Other receivables	—	—	1,025
Derivative financial instruments	—	10,923	—
Other assets	—	10,132	—

(1) Represents the fair value of derivative financial instruments designated in a hedging relationship.

NOTE 4. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set and under the terms of such commitments and at a reasonable price. The Corporation manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of long-term sales contracts and planned capital expenditures.

The maturity analysis of financial liabilities represented the following as at March 31, 2011 and includes the Corporation's Senior Credit Facility negotiated and contracted solely with Canadian chartered banks and their U.S. subsidiaries or branches and, with a Canadian branch of a U.S. bank (See Note 6):

	LESS THAN 1 YEAR	1 TO 3 YEARS	4 TO 5 YEARS	OVER 5 YEARS	TOTAL
Accounts payable and accrued liabilities	$ 54,876	$ —	$ —	$ —	$ 54,876
Accounts payable – other	4,980	—	—	—	4,980
Long-term debt [2]	5,995	14,405	70,989 [1]	23,751	115,140
Other liabilities	1,158	—	—	—	1,158

(1) Includes the used Bank's Credit Facility of $57,691 maturing on March 15, 2016.

(2) Includes interest accretion on governmental authorities loans.

NOTE 5. CAPITAL RISK MANAGEMENT

The general objectives of the Corporation's management, in terms of capital management, reside essentially in the preservation of the Corporation's capacity to continue operating, to continue providing benefits to its stakeholders and also, in providing an adequate return on investment to its shareholders by selling its products and services at a price commensurate with the level of operating risk assumed by the Corporation.

The Corporation thus determines the total amount of capital required consistent with risk levels. This capital structure is adjusted on a timely basis depending on changes in the economic environment and risk characteristics of the underlying assets.

In order to maintain or adjust its capital structure, the Corporation can:

- Issue new common shares from treasury;
- Repurchase common shares;
- Sell certain assets to reduce indebtedness;
- Return capital to shareholders;
- Modify dividends paid to shareholders (however, the Corporation does not anticipate paying dividends on its outstanding common shares in the near future).

In the Corporation's current activity sectors involving long-term contracting and major capital expenditures, the total cash flows generated by the Corporation must be consistent with its net debt-to-equity ratio and comparable with widespread practices in these sectors. This net debt-to-equity ratio, represented by net debt divided by shareholders' equity, is the overriding factor in the Corporation's capital management and monitoring practices.

NOTE 5. CAPITAL RISK MANAGEMENT (cont'd)

The net debt is equal to total debt representing the current portion of long-term debt and long-term debt, less cash and cash equivalents. Shareholders' equity includes capital stock, contributed surplus, accumulated other comprehensive income (loss) and retained earnings. In some cases, shareholders' equity may be adjusted by amounts recorded in accumulated other comprehensive income (loss), particularly those related to cash flow hedges, depending on their nature and materiality. Moreover, in some cases and for the same reasons as those indicated above, total debt and shareholders' equity may be adjusted by the amount of subordinated or unsecured loans and off-balance sheet items.

During fiscal 2011, the Corporation pursued the same capital management strategy as last year, which consists in generally maintaining a sufficient net debt-to-equity ratio, so as to allow access to financing at a reasonable or acceptable cost in relation to risk taken.

	2011	2010
Current portion of long-term debt	**$ 5,136**	$ 4,250
Long-term debt	**94,376**	76,807
Less: Cash and cash equivalents	**(32,910)**	(46,591)
	$ 66,602	$ 34,466
Shareholders' equity	**232,665**	217,092
Net debt-to-equity ratio	**0.29:1**	0.16:1

Moreover, the Corporation is not subject to any regulatory capital requirements and the Corporation's capital management has not changed since the prior year.

NOTE 6. FINANCIAL INSTRUMENTS

The classification of financial instruments and their carrying amounts and fair values as at March 31, 2011 and 2010, were as follows:

	MARCH 31, 2011					**MARCH 31, 2010**				
	Carrying value				**Fair Value**	**Carrying value**				**Fair Value**
	HFT	**L&R**	**Hedging items**	**Total (1)**		**HFT**	**L&R**	**Hedging items**	**Total (1)**	
Financial assets										
Cash and cash equivalents	**$32,910**	**$ —**	**$ —**	**$ 32,910**	**$ 32,910**	$46,591	$ —	$ —	$ 46,591	$ 46,591
Accounts receivable(2)	**—**	**62,623**	**—**	**62,623**	**62,623**	—	39,085	—	39,085	39,085
Other receivables(3)	**—**	**1,025**	**—**	**1,025**	**1,025**	—	540	—	540	540
Derivative financial instruments	**—**	**—**	**10,923**	**10,923**	**10,923**	—	—	7,568	7,568	7,568
Other assets	**—**	**—**	**10,132**	**10,132**	**10,132**	—	—	12,408	12,408	12,408
	$32,910	**$63,648**	**$21,055**	**$117,613**	**$117,613**	$46,591	$39,625	$19,976	$106,192	$106,192

(1) Represents only the carrying values of financial assets and liabilities included in the corresponding balance sheet caption.

(2) Comprising trade receivables.

(3) Comprising certain other receivables.

NOTE 6. FINANCIAL INSTRUMENTS (cont'd)

	MARCH 31, 2011					MARCH 31, 2010				
	Carrying value				Fair Value	Carrying value				Fair Value
	HFT	Other than HFT	Hedging items	Total (1)		HFT	Other than HFT	Hedging items	Total (1)	
Financial liabilities										
Accounts payable and accrued liabilities[5]	**$—**	**$ 54,876**	**$ —**	**$ 54,876**	**$ 54,876**	$—	$ 44,493	$ —	$ 44,493	$ 44,493
Accounts payable – other [4]	**—**	**4,128**	**852**	**4,980**	**4,980**	—	613	2,021	2,634	2,634
Long-term debt, including current portion	**—**	**101,227**	**—**	**101,227**	**102,865**	—	81,407	—	81,407	82,988
Long-term liabilities – Other liabilities[6]	**—**	**—**	**1,158**	**1,158**	**1,158**	—	—	1,716	1,716	1,716
	$—	**$160,231**	**$2,010**	**$162,241**	**$163,879**	$—	$126,513	$3,737	$130,250	$131,831

(4) Includes the fair value of short-term derivative financial instruments.

(5) Comprising trade accounts payable and accrued liabilities, including interest and certain payroll-related liabilities.

(6) Includes the fair value of long-term derivative financial instruments.

Fair value of financial instruments

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

The fair value of long-term debt (classified as other than HFT) is estimated based on valuation models, using the discounted cash flows 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 and embedded derivative financial instruments in the consolidated balance sheets is established by the Corporation's valuation models. These models project future cash flows and discount the future amounts to a present value using the contractual terms of the derivative instrument and factors observable in external markets data, such as interest rates, currency rates and price and rate volatilities, as applicable (Level 2 inputs). It also takes into account the credit quality of the financial instruments.

No profit or loss was accounted for fiscal years 2011 and 2010 on financial instruments designated as HFT, except for the interest income as disclosed in note 17 to the consolidated financial statements.

NOTE 7. SELLING AND ADMINISTRATIVE EXPENSES

Foreign exchange gains or losses resulting from the translation of net monetary items denominated in foreign currencies are included in the Corporation's selling and administrative expenses. In fiscal 2011, the foreign exchange loss included in the Corporation's selling and administrative expenses amounted to $420 (loss of $1,102 in 2010).

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. This year, the Corporation recorded restructuring charges of $637 representing $454 net of income taxes. The Corporation does not expect any significant additional restructuring charges related to the closure of this facility. As at March 31, 2011, the building related to this facility was reclassified in other assets as asset held for sale in the consolidated balance sheets.

NOTE 9. OTHER RECEIVABLES

Other receivables consist of:

	2011	2010
Investment and other tax credits receivable	**$ 8,427**	$ 8,096
Sales tax receivable	**1,713**	1,195
Deposits on machinery and equipment (Note 23)	**223**	772
Others	**1,877**	1,111
	$ 12,240	$ 11,174

NOTE 10. INVENTORIES

Inventories consist of:

	2011	2010
Raw materials	**$ 51,615**	$ 47,327
Work in progress and finished goods	**83,222**	69,413
Less: Progress billings	**33,365**	32,332
	$ 101,472	$ 84,408

The amount of inventories recognized as cost of sales for fiscal years 2011 and 2010 is detailed as follows:

	2011	2010
Aerospace segment	**$ 258,834**	$ 228,661
Industrial segment	**18,106**	15,409
	$ 276,940	$ 244,070

NOTE 10. INVENTORIES (cont'd)

The change in write-downs related to inventories for fiscal years 2011 and 2010 is detailed as follows:

	2011	2010
Write-downs recognized as cost of sales	**$ 7,325**	$ 5,206
Reversal of write-downs recognized as a reduction of cost of sales	**$ 5,845**	$ 3,883

The inventory write-down reversal is determined following the revaluation, each quarter-end and year-end, of the net realizable value of inventories based on the related sales contracts and production costs. It also includes the charges against the reserve for products delivered during the year for which a net realizable value reserve was required and recorded in prior periods.

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS

	2011	2010
Forward foreign exchange contracts and embedded derivatives	**$ 10,867**	$ 7,568
Interest-rate swap agreements	**56**	—
	$ 10,923	$ 7,568

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

		2011	
	Cost	Accumulated amortization	Net book Value
Land	**$ 4,370**	**$ —**	**$ 4,370**
Buildings and leasehold improvements	**62,047**	**19,680**	**42,367**
Machinery, equipment and tooling	**220,809**	**126,868**	**93,941**
Construction in progress, building, machinery and equipment	**1,682**	**—**	**1,682**
Automotive equipment	**794**	**565**	**229**
Computer and office equipment	**6,350**	**3,892**	**2,458**
	$ 296,052	**$ 151,005**	**$ 145,047**

		2010	
	Cost	Accumulated amortization	Net book Value
Land	$ 3,679	$ —	$ 3,679
Buildings and leasehold improvements	50,983	17,764	33,219
Machinery, equipment and tooling	208,796	112,713	96,083
Construction in progress, building, machinery and equipment	2,710	—	2,710
Automotive equipment	723	553	170
Computer and office equipment	5,250	3,441	1,809
	$ 272,141	$ 134,471	$ 137,670

NOTE 12. PROPERTY, PLANT AND EQUIPMENT (cont'd)

The additions to property, plant and equipment of $19,646 for the year ended March 31, 2011 ($13,740 in 2010) presented in the consolidated statements of cash flows are shown net of $4,128 ($613 in 2010) of machinery and equipment which was delivered in the last two months of each fiscal year but not yet paid as at March 31. The additions to property, plant and equipment are also presented net of machinery and equipment of $nil ($7,630 in 2010) which were acquired through capital leases during the years then ended.

Amortization expense of property, plant and equipment amounted to $21,200 in fiscal 2011 ($19,469 in 2010).

At March 31, 2011, cost of machinery, equipment and tooling includes assets acquired through capital leases amounting to $27,394 ($27,947 at March 31, 2010) with accumulated amortization of $7,958 ($6,635 as at March 31, 2010).

At March 31, 2011, construction in progress includes the cost related to machinery and equipment being installed at that date. At March 31, 2010, it relates to the extension of a facility in Texas and new machinery and equipment being installed at that date (see Note 23 to the consolidated financial statements).

NOTE 13. FINITE-LIFE INTANGIBLE ASSETS

Finite-life intangible assets include software-related costs, backlogs acquired pursuant to acquisitions and the capitalized development costs related to some Aerospace long-term sales contracts. Changes in finite-life intangible assets are as follows:

	2011	2010
Balance at beginning of year	**$ 11,698**	$ 11,190
Acquisition of software	**1,050**	562
Acquisition of backlog (Note 3)	**1,390**	—
Capitalization of development costs	**6,930**	3,201
Amortization	**(2,410)**	(1,730)
Effect of changes in exchange rate	**(172)**	(1,525)
	$ 18,486	$ 11,698

The finite-life intangible assets consist of:

	2011		
	Cost	Accumulated amortization	Net book Value
Software	**$ 13,743**	**$ 11,778**	**$ 1,965**
Capitalized development costs	**13,649**	**403**	**13,246**
Backlog	**8,798**	**5,523**	**3,275**
	$ 36,190	**$ 17,704**	**$ 18,486**

	2010		
	Cost	Accumulated amortization	Net book Value
Software	$ 13,154	$ 11,505	$ 1,649
Capitalized development costs	6,730	266	6,464
Backlog	7,408	3,823	3,585
	$ 27,292	$ 15,594	$ 11,698

NOTE 14. OTHER ASSETS

	2011	2010
Derivative financial instruments - Forward foreign exchange contracts and embedded derivatives	**$ 9,926**	$ 12,408
Derivative financial instruments - Interest-rate swap agreements	**206**	—
Asset held for sale	**611**	—
	$ 10,743	$ 12,408

NOTE 15. GOODWILL

Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired businesses. Changes in the goodwill balance can be detailed as follows:

	2011	2010
Balance at beginning of year	**$ 35,621**	$ 39,993
Acquisition of goodwill (Note 3)	**5,849**	—
Effect of changes in exchange rate	**(1,072)**	(4,372)
	$ 40,398	$ 35,621

NOTE 16. ACCOUNTS PAYABLE – OTHER

The Corporation's accounts payable – other are summarized as follows:

	2011	2010
Derivative financial instruments – forward foreign exchange contracts and embedded derivatives	**$ 852**	$ 1,180
Derivative financial instruments – interest-rate swap agreements	**—**	841
Machinery and equipment (Note 12)	**4,128**	613
Customers' advances	—	1,957
	$ 4,980	$ 4,591

NOTE 17. LONG-TERM DEBT

	2011	2010
Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") of up to $150,000 ($125,000 as of March 31, 2010) (see below), either in Canadian or U.S. currency equivalent, maturing on March 15, 2016, which bears interest at Libor plus 1.875% at March 31, 2011 (Libor plus 1% at March 31, 2010) representing an effective interest rate of 2.2% (1.2% at March 31, 2010).		
At March 31, 2011, the Corporation used US$59,500 (US$43,000 at March 31, 2010) on the Credit Facility.	**$ 57,691**	$ 43,679
Governmental authorities loans, repayable in variable annual instalments, with various expiry dates until 2026.	**27,707**	21,040
Obligations under capital 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 $1,538 ($2,428 at March 31, 2010).	**13,764**	16,688
Promissory note, repayable in monthly instalments over 40 months up to July 2013, bearing fixed interest at 5% and is guaranteed by the Corporation (Note 3).	**2,548**	—
Deferred financing costs, net	**(2,198)**	(350)
	99,512	81,057
Less: current portion	**5,136**	4,250
	$ 94,376	$ 76,807

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 and, 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 in March 2016.

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

In conjunction with the renewal of the Credit Facility, the Corporation incurred $2,198 of financing costs which are capitalized at March 31, 2011 and are amortized using the effective interest rate method over a five-year period.

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 regional 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.

NOTE 17. LONG-TERM DEBT (cont'd)

Governmental authorities loans (cont'd)

Governmental authorities loans usually bear no or low interests. 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 financial expenses.

At March 31, 2011 and 2010, the effective interest rates for these loans were 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. As at March 31, 2011, the Corporation had complied with all covenants.

Minimum repayments

Minimum repayments of long-term debt during the next five years are as follows:

Years ending March 31

Years	Repayments on capital leases	Repayments on governmental authorities loans	Repayments of promissory note	Repayment of Credit Facility	Total
2012	$ 3,386	$ 1,409	$ 1,200	$ —	$ 5,995
2013	3,372	3,324	1,200	—	7,896
2014	3,352	2,757	400	—	6,509
2015	3,119	2,886	—	—	6,005
2016	1,861	5,432	—	57,691	64,984

The minimum repayments include interest on obligations under capital leases in the amount of $1,538. The repayments of promissory note include the related interest expense of $252.

Financial expenses for the years ended March 31 comprise the following:

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

NOTE 18. OTHER LIABILITIES

The Corporation's other liabilities are summarized as follows:

	2011	2010
Pension plan and other post-retirement benefits (Note 22)	**$ 3,686**	$ 4,381
Derivative financial instruments – interest-rate swap agreements	**—**	280
Derivative financial instruments – forward foreign exchange contracts and embedded derivatives	**1,158**	1,436
Asset retirement obligations	**4,202**	4,653
Other	**136**	198
	$ 9,182	$ 10,948

NOTE 19. CAPITAL STOCK

Authorized capital stock

The authorized capital stock of the Corporation consists of the following:

An unlimited number of voting common shares, without par value;

An unlimited number of first preferred shares, issuable in series; and

An unlimited number of second preferred shares, issuable in series.

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

The issued and outstanding capital stock of the Corporation consists of the following:

	2011	2010
30,173,798 common shares at March 31, 2011 (30,485,475 at March 31, 2010)	**$ 100,136**	$ 100,641

Issuance of common shares

During fiscal 2011, the Corporation issued 306,023 common shares at a weighted-average price of $4.82 for a total cash consideration of $1,474. This includes 245,221 common shares which were issued following the exercise of stock options for a total cash consideration of $1,144. The remainder of 60,802 common shares were issued under the Corporation's stock purchase and ownership incentive plan for a total cash consideration of $330.

During fiscal 2010, the Corporation issued 75,387 common shares at a weighted-average price of $4.26 for a total cash consideration of $322. These shares were all issued under the Corporation's stock purchase and ownership plan.

Normal course issuer bids

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.

On November 24, 2008, the Corporation launched an NCIB under which the Corporation could repurchase up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding common shares. The NCIB expired on November 23, 2009.

During fiscal 2011, the Corporation repurchased 617,700 common shares at an average price of $5.78 for a total cash consideration of $3,570 under the NCIB. The excess ($1,591) of the cost of the common shares over their average book value ($1,979) was accounted for as a reduction of the Corporation's retained earnings.

NOTE 19. CAPITAL STOCK (cont'd)

Normal course issuer bids (cont'd)

During fiscal 2010, the Corporation repurchased 761,600 common shares at an average price of $4.56, for a total cash consideration of $3,470 under these NCIBs. The excess ($967) of the cost of the common shares over their average book value ($2,503) was accounted for as a reduction of the Corporation's retained earnings.

Stock option plan

Under the stock option plan (the "plan"), stock options ("options") are granted to officers and key employees to purchase the Corporation's common shares. The plan establishes that the subscription price shall not be lower than the average closing price of the related shares for the five trading days preceding the granting of the options. Options generally may be exercised after the first anniversary of the date of grant until the seventh anniversary of the date of grant. They vest after a period ranging from one to four years. For options granted after September 1, 2003, a predetermined target market price level must be reached in order for such options to become exercisable. Cancelled or forfeited options are included in the remaining number of shares reserved for issuance under the plan.

The aggregate number of common shares reserved for issuance under the plan is 2,808,257 of which 50,718 shares had not yet been granted as at March 31, 2011.

During fiscal 2011, the Corporation granted 138,000 options (246,000 in 2010) to key employees representing a total fair value of $240 ($242 in 2010) or a weighted-average fair value per option of $1.74 ($0.98 in 2010) calculated using a binomial valuation model assuming a six-year expected life, expected volatility of 48% (47% in 2010), no expected dividend distribution and a compounded risk-free interest rate of 3.5% (4.0% in 2010). Option cost is amortized over their vesting period and an expense of $395 ($240 in 2010) was accounted for in selling and administrative expenses with its counterpart in the contributed surplus in the Corporation's shareholders' equity.

As at March 31, 2011, 1,393,000 stock options were issued and outstanding as follows:

	OUTSTANDING OPTIONS			VESTED OPTIONS	
Range of exercise price	**Number**	**Weighted-average years to maturity**	**Weighted-average exercise price**	**Number**	**Weighted-average exercise price**
$3.50 to $4.99	830,000	3.50	$ 4.58	490,000	$ 4.59
$5.00 to $6.49	235,000	3.92	5.55	97,000	5.00
$6.50 to $10.00	328,000	3.39	9.90	164,000	9.90
	1,393,000	3.54	$ 6.00	751,000	$ 5.80

During the fiscal years ended March 31, 2011 and 2010, the variation in the number of options can be detailed as follows:

	2011		2010	
	Weighted-average exercise price	**Number of stock options**	**Weighted-average exercise price**	**Number of stock options**
Balance at beginning of year	**$ 5.83**	**1,555,221**	$ 6.27	1,384,221
Granted	**5.94**	**138,000**	4.56	246,000
Exercised	**4.66**	**(245,221)**	—	—
Cancelled / forfeited	**7.19**	**(55,000)**	9.77	(75,000)
Balance at end of year	**$ 6.00**	**1,393,000**	$ 5.83	1,555,221

NOTE 19. CAPITAL STOCK (cont'd)

Stock purchase and ownership incentive plan

On September 2, 2004, the Board of Directors of the Corporation approved a stock purchase and ownership incentive plan to induce management employees to hold, on a long-term basis, common shares of the Corporation.

Under this plan, eligible employees can subscribe monthly, by salary deductions of up to 10% of their base salary, a number of common shares issued by the Corporation corresponding to their monthly contribution. The subscription price of the issued common shares represents 90% of the average closing price of the Corporation's common share on the TSX over the five trading days preceding the common share subscription. Also, the Corporation matches 50% of the employee's contribution by awarding the employee, on a monthly basis, 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 awarded to the employee, as well as the subscribed common shares, will vest each year on July 1st and will be released over a three-year period.

A trustee is in charge of the administration of the plan, including market purchases and subscriptions to the Corporation's common shares for and on behalf of the participating employees.

The aggregate number of common shares reserved for issuance under this plan represents 340,000 common shares, of which 29,976 shares had not yet been issued as at March 31, 2011, and has been taken out from the common shares already reserved for the Corporation's stock option plan.

During fiscal 2011, 60,802 common shares were issued for a total cash consideration of $330 (75,387 for a total cash consideration of $322 in 2010) and 24,026 common shares were awarded (32,176 in 2010) to the participating employees. Since the beginning of the plan, 310,024 common shares were issued and 130,827 common shares were awarded to the participating employees. The cost related to the awarded common shares amounting to $147 is recorded as compensation expense ($155 in 2010) and is included in the Corporation's selling and administrative expenses.

Stock appreciation right and Deferred share unit plans

The Corporation has a stock appreciation right ("SAR") plan under which rights are issued to its non-employee directors. The SAR enables the participants to receive by way of bonuses, on the exercise date of a SAR, a cash amount equal to the excess of the market price of the Corporation's common share over the granted price of the SAR. The SARs are expensed on an earned basis and their costs are determined based on the Corporation's common shares quoted market value over their granted price. In August 2010, the Board of Directors decided not to continue the SAR plan and replace it by a deferred share unit ("DSU") plan, which was effectively approved, subsequent to the 2011 fiscal year, in May 2011. Consequently, in fiscal 2011, no DSUs were granted to the directors.

The DSU enables the participants to receive by way of remuneration, but only at the termination date as a member of the Board of Directors, a cash amount equal to the market price of the Corporation's common share for each DSU on the termination date. These DSUs are expensed on an earned basis and their costs are determined based on the Corporation's common shares quoted market value. Each director can also elect, each fiscal year, to have up to 50% of his director's annual retainer fees converted into DSUs.

In fiscal 2011, no SARS were granted (35,000 SARs at a granted value of $4.56 in 2010). In fiscal 2011, an expense of $410 was recorded for SARs ($23 was recorded for fiscal 2010).

In fiscal 2011, 7,500 SARs were exercised. No SARs were exercised and 7,500 SARs were cancelled in fiscal 2010.

As at March 31, 2011, on a cumulative basis, 143,000 SARs were still outstanding at a weighted-average granted value of $6.21 (150,500 SARs at a weighted-average granted value of $6.14 as at March 31, 2010) which expire on various dates from fiscal 2012 to 2016.

NOTE 20. INCOME TAXES

The computation of income tax expense is as follows:

	2011	2010
Income taxes at combined federal and provincial tax rates	**$ 7,301**	$ 6,767
Permanent differences	**(488)**	(528)
Income tax rate difference – U.S. subsidiaries	**535**	291
Impact of income tax rate differential on future income taxes	**(174)**	(121)
Other items	**(274)**	89
	$ 6,900	$ 6,498

Temporary differences and loss carry-forwards, which give rise to future income tax assets and liabilities, are as follows:

	2011	2010
Future income tax assets		
Current		
Non-deductible reserves	**$ 2,857**	$ 3,231
Inventories	**4,278**	2,613
Receivables	**690**	794
Derivative financial instruments	**(136)**	620
Tax and other credits	**(1,870)**	(2,134)
	$ 5,819	$ 5,124
Future income tax liabilities		
Current		
Non-deductible reserves	**$ 5,269**	$ 4,885
Derivative financial instruments	**1,205**	2,276
	$ 6,474	$ 7,161
Long-term		
Property, plant and equipment	**$ 14,891**	$ 12,063
Goodwill	**2,371**	2,028
Non-deductible reserves	**384**	(244)
Governmental authorities loans	**626**	1,276
Future tax benefits from tax losses	**(1,082)**	(1,522)
Derivative financial instruments	**3,357**	2,190
	$ 20,547	$ 15,791

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

As at March 31, 2011, the Corporation has federal non-capital losses available for carry-forward of $1,585 with the majority expiring in fiscal 2029.

Income tax expense is as follows:

	2011	2010
Current	**$ 2,922**	$ 55
Future	**3,978**	6,443
	$ 6,900	$ 6,498

NOTE 21. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS RELATED TO OPERATIONS

The net change in non-cash working capital items related to operations is detailed as follows:

	2011	2010
Accounts receivable	**$ (18,187)**	$ 13,105
Income tax receivable	**633**	(1,166)
Other receivables	**(2,402)**	(2,715)
Inventories	**1,014**	11,239
Prepaid expenses	**(229)**	(140)
Accounts payable and accrued liabilities and, other liabilities	**41**	(20,472)
Accounts payable – other	**598**	232
Income tax payable	**1,484**	(3,103)
Effect of changes in exchange rate[1]	**(2,107)**	(5,101)
	$ (19,155)	$ (8,121)

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

NOTE 22. PENSION AND OTHER RETIREMENT BENEFIT PLANS

Description of benefit plans

The Corporation has funded and unfunded defined benefit pension plans as well as defined contribution pension plans that provide pension benefits to its employees. Retirement benefits provided by the defined benefit pension plans are based on either years of service and flat amount, years of service and final average salary, or set out by individual agreements.

Benefits provided by the post-retirement benefit plans are set out by individual agreements, which mostly provide for life insurance coverage and health care benefits. Since their amount is not significant, they are not included in the figures below.

Total cash payments

Total cash payments for employee future benefits for fiscal year 2011, consisting of cash contributed by the Corporation to its funded defined benefit pension plans and cash payments directly to beneficiaries for its unfunded defined benefit pension plans amounted to $2,288 ($2,596 in 2010) while the cash contributed to its defined contribution plans amounted to $2,241 ($1,837 in 2010).

Defined benefit plans

The Corporation measures the fair value of plan assets for accounting purposes as at March 31 of each year while its defined benefit obligations are valued as at December 31 of each year and projected to March 31 for all plans except one, for which the valuation is made as at March 31. The most recent actuarial valuation for funding purposes of the Unionized Pension Plan was performed as at December 31, 2010 and will be filed with regulatory authorities no later than September 30, 2011. The next required actuarial valuations for this plan will be conducted as at December 31, 2011. The most recent actuarial valuations for funding purposes of the Executive Registered Pension Plans were performed as at January 1, 2009 and January 1, 2011 and will be filed with regulatory authorities no later than September 30, 2011. The next required actuarial valuations for these plans will be conducted as at January 1, 2012.

NOTE 22. PENSION AND OTHER RETIREMENT BENEFIT PLANS (cont'd)

Defined benefit pension plan obligations

ACCRUED BENEFIT OBLIGATIONS	2011	2010
Balance at beginning of year	**$35,044**	$ 28,833
Current service cost	**908**	643
Employee contributions	**653**	672
Interest cost	**1,956**	2,009
Benefits paid	**(1,689)**	(1,533)
Actuarial losses	**1,945**	4,306
Special termination benefits	**—**	114
Balance at end of year	**$ 38,817**	$ 35,044

Defined benefit pension plan assets

FAIR VALUE OF PLAN ASSETS	2011	2010
Balance at beginning of year	**$ 24,254**	$ 19,232
Actual return on plan assets	**1,863**	3,287
Employer contributions	**2,288**	2,596
Employee contributions	**653**	672
Benefits paid	**(1,689)**	(1,533)
Balance at end of year	**$ 27,369**	$ 24,254

Plan assets consist of:

ASSET CATEGORY (1)	2011	2010
Equity securities	**62%**	56%
Debt securities	**35**	42
Other	**3**	2
Total	**100%**	100%

(1) Measured as of the measurement date of March 31 of each year.

Reconciliation of the funded status of the defined benefit pension plans to the amounts recorded in the consolidated financial statements

	2011	2010
Fair value of plan assets	**$ 27,369**	$ 24,254
Accrued benefit obligations	**38,817**	35,044
Funded status – plans deficit	**(11,448)**	(10,790)
Unamortized net actuarial loss	**6,512**	4,964
Unamortized past service cost	**804**	925
Unamortized transitional obligation	**446**	520
Accrued benefit liability, net of valuation allowance	**$ (3,686)**	$ (4,381)

NOTE 22. PENSION AND OTHER RETIREMENT BENEFIT PLANS (cont'd)

The accrued benefit liability, net of valuation allowance, is included in the Corporation's consolidated balance sheets under other long-term liabilities (Note 18 – Other liabilities).

Plans with accrued benefit obligations in excess of plan assets

The above accrued benefit obligations and fair value of plan assets at year-end also represent all amounts in respect of pension plans that are not fully funded.

Elements of defined benefit pension costs recognized in the year

	2011	2010
Current service cost, net of employee contributions	**$ 908**	$ 643
Interest cost	**1,956**	2,009
Actual return on plan assets	**(1,863)**	(3,287)
Actuarial losses	**1,945**	4,306
Special termination benefits	**—**	114
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefit costs	**$ 2,946**	$ 3,785
Adjustments to recognize the long-term nature of employee future benefit costs:		
• Difference between expected return and actual return on plan assets for the year	**246**	1,980
• Difference between actuarial (gain) loss recognized for the year and actual actuarial (gain) loss on accrued benefit obligations for the year	**(1,794)**	(4,272)
• Difference between amortization of past service costs for the year and actual plan amendments for the year	**121**	121
• Amortization of the transitional obligations	**74**	74
Defined benefit pension costs recognized	**$ 1,593**	$ 1,688

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	2011	2010
Accrued benefit obligations as at March 31:		
Discount rate	**5.60%**	5.90%
Rate of compensation increase	**3.50**	3.50
Defined benefit pension costs for years ended March 31:		
Discount rate	**5.90%**	7.50%
Expected long-term rate of return on plan assets	**6.50**	6.50
Rate of compensation increase	**3.50**	3.50

NOTE 22. PENSION AND OTHER RETIREMENT BENEFIT PLANS (cont'd)

Defined contribution pension plans

The defined contribution pension costs are as follows:

	2011	**2010**
Defined contribution pension costs	**$ 2,241**	$ 1,837

NOTE 23. COMMITMENTS

Building lease contracts

The Corporation has entered into leases for buildings which are used for manufacturing operations and administration. The total commitments at March 31, 2011 amounted to $4,916 excluding escalation clauses. The minimum annual lease payments over the next five years are: $909 in 2012, $742 in 2013, $517 in 2014, $373 in 2015 and $345 in 2016.

Operating lease contracts – machinery and equipment

Under operating lease contracts for machinery and equipment used mainly for its manufacturing operations, the Corporation has commitments at March 31, 2011 in the amount of $4,816 for which the minimum annual operating lease payments, over the next five years, are: $1,629 in 2012, $1,558 in 2013, $777 in 2014, $350 in 2015 and $350 in 2016.

Under these operating lease contracts, the Corporation has the option to purchase the related machinery and equipment at the end of the contract. These purchase option payments, if exercised, represent the following: $495 in 2014 and $639 in 2017.

Building, machinery and equipment acquisition commitments

The Corporation has released purchase orders relating to machinery and equipment which have not been delivered yet to the Corporation's facilities. These outstanding purchase orders at March 31, 2011 amounted to $3,938 ($5,205 in 2010) for which an amount of $223 ($772 in 2010) in deposits on machinery and equipment were made and are included in the Corporation's other receivables (see Note 9 to the consolidated financial statements).

Guarantees

The Corporation executes agreements that provide for indemnification and guarantees to counterparties in transactions such as business disposition and the sale of assets.

These indemnification undertakings and guarantees may require the Corporation to compensate the counterparties for costs or losses incurred as a result of various events including breaches of representations and warranties, intellectual property right infringement, loss of or damage to property environmental liabilities, changes in or in the interpretation of laws and regulations (including tax legislation), valuation differences or as a result of litigation that may be suffered by the counterparties.

In the sale of all or a part of a business or assets, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Corporation may be subjected to indemnify against claims from its past conduct of the business. The nature of these indemnification agreements prevents the Corporation from estimating the maximum potential liability that could be required under guarantees, since these events have not yet occurred. The duration of these indemnification agreements could extend up to 2024. At March 31, 2011 and 2010, an amount of $6,000 was provided for in the Corporation's accounts payable and accrued liabilities in respect to these items.

NOTE 24. CONTINGENCIES

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

NOTE 25. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in the accumulated other comprehensive income (loss) were as follows:

	CUMULATIVE TRANSLATION ADJUSTMENT (1)	CASH FLOW HEDGES	TOTAL
Balance as at March 31, 2009	$ 684	$ (12,808)	$ (12,124)
Change during the year	(16,499)	24,005	7,506
Balance as at March 31, 2010	(15,815)	11,197	(4,618)
Change during the year	(2,985)	1,732	(1,253)
Balance as at March 31, 2011	$ (18,800)	$ 12,929	$ (5,871)

(1) Includes the impact from the hedge of net investments in self-sustaining foreign operations.

NOTE 26. SEGMENTED INFORMATION

Based on the nature of the Corporation's markets (clients, manufacturing techniques and regulatory requirements), two main operating segments were identified: 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 Corporation evaluates the performance of its operating segments primarily based on operating income before financial expenses and income tax expense.

The Corporation accounts for intersegment and related party sales and transfers, if any, at the exchange amount.

The accounting policies used to account for the operating segments are the same as those described in the summary of the Corporation's significant accounting policies.

NOTE 26. SEGMENTED INFORMATION (cont'd)

Segmented information consists of the following:

Activity segments

	2011			2010		
	Aerospace	**Industrial**	**Total**	**Aerospace**	**Industrial**	**Total**
Sales	**$ 331,993**	**$ 25,579**	**$ 357,572**	$ 297,852	$ 22,502	$ 320,354
Operating income	**27,615**	**3,605**	**31,220**	24,743	2,434	27,177
Financial expenses, net			**5,156**			4,676
Income before income tax expense and restructuring charges			**26,064**			22,501
Assets	**420,668**	**23,207**	**443,875**	370,839	24,008	394,847
Goodwill	**39,530**	**868**	**40,398**	34,712	909	35,621
Additions to property, plant and equipment	**22,423**	**1,351**	**23,774**	12,939	1,414	14,353
Increase in finite-life intangible assets	**7,980**	**—**	**7,980**	3,763	—	3,763
Amortization of property, plant and equipment	**18,884**	**2,316**	**21,200**	16,847	2,622	19,469

Geographic segments

	2011			2010		
	Canada	**U.S.**	**Total**	**Canada**	**U.S.**	**Total**
Sales	**$ 223,748**	**$ 133,824**	**$ 357,572**	$ 230,762	$ 89,592	$ 320,354
Property plant and equipment, net	**90,294**	**54,753**	**145,047**	90,902	46,768	137,670
Finite-life intangible assets, net	**14,726**	**3,760**	**18,486**	7,984	3,714	11,698
Goodwill	**17,534**	**22,864**	**40,398**	17,534	18,087	35,621
Export sales [1]	**$ 133,738**			$ 136,645		

70% of the Corporation's sales (67% in 2010) were to U.S. customers.

(1) Export sales are attributed to countries based on the location of the customers.

NOTE 27. RECLASSIFICATION

Comparative figures for the consolidated financial statements as at March 31, 2010 and for the year then ended have been reclassified to conform to the March 31, 2011 presentation.

SHAREHOLDERS INFORMATION

Annual General and Special Meeting
The Annual General and Special Meeting of Shareholders will be held on Thursday, August 4, 2011 at 11:00 A.M. in the Pierre-de-Coubertin Room of the Hôtel Omni Mont-Royal
1050 Sherbrooke Street West
Montréal, Québec, Canada

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