



**HÉROUX DEVTEK** 

# **GROWING GLOBAL WITH SUPERIOR EXECUTION**

**2013-14 ANNUAL REPORT**

# CORPORATE PROFILE

HÉROUX-DEVTEK (TSX: HRX) IS A CANADIAN COMPANY SPECIALIZING IN THE DESIGN, DEVELOPMENT, MANUFACTURE AND REPAIR AND OVERHAUL OF LANDING GEAR SYSTEMS AND COMPONENTS FOR THE AEROSPACE MARKET. THE CORPORATION IS THE THIRD LARGEST LANDING GEAR COMPANY WORLDWIDE, SUPPLYING BOTH THE COMMERCIAL AND MILITARY SECTORS OF THE AEROSPACE MARKET WITH NEW LANDING GEAR SYSTEMS AND COMPONENTS, AS WELL AS AFTERMARKET PRODUCTS AND SERVICES. 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, LAVAL AND ST-HUBERT); KITCHENER AND TORONTO, ONTARIO; AS WELL AS SPRINGFIELD AND CLEVELAND, OHIO; WICHITA, KANSAS; AND RUNCORN, NOTTINGHAM AND BOLTON, UNITED KINGDOM.



# FINANCIAL HIGHLIGHTS

## FISCAL YEARS ENDED MARCH 31

(in millions of dollars, except per share data and ratios)

2014<sup>(6)</sup>

2013

2012

2011

### OPERATING RESULTS

Sales from continuing operations	<b>272.0</b>	257.0	253.5	239.0
Adjusted <sup>(1)</sup> EBITDA <sup>(2)</sup> from continuing operations	<b>35.8</b>	33.0	37.4	33.4
Adjusted <sup>(1)</sup> net income from continuing operations	<b>15.3</b>	13.4	15.9	11.9
Net income from continuing operations	<b>9.2</b>	13.4	15.9	11.4
Net income from discontinued operations	—	118.2	10.6	7.7
Net income	<b>9.2</b>	131.6	26.5	19.1
Cash flows from continuing operations	<b>20.9</b>	29.0	31.7	30.5

### FINANCIAL POSITION

Cash and cash equivalents	<b>47.3</b>	101.3	62.0	32.9
Working capital	<b>173.7</b>	191.2	179.5	155.1
Total assets	<b>514.0</b>	389.1	499.1	472.5
Long-term debt <sup>(3)</sup>	<b>150.5</b>	64.3	120.9	107.7
Shareholders' equity <sup>(4)</sup>	<b>240.1</b>	222.7	244.0	224.5

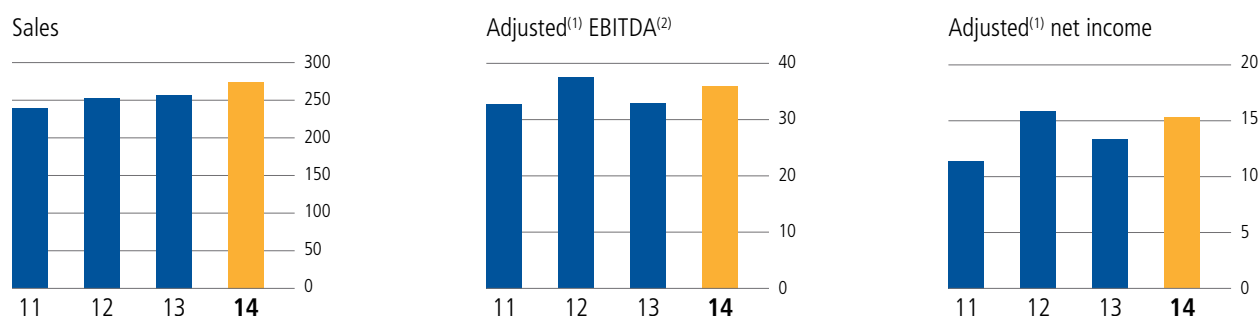
### PER SHARE DATA

Adjusted <sup>(1)</sup> earnings per share from continuing operations				
– Basic and diluted	<b>0.48</b>	0.43	0.52	0.39
Earnings per share from continuing operations				
– Basic and diluted	<b>0.29</b>	0.43	0.52	0.38
Earnings per share – Basic	<b>0.29</b>	4.25	0.87	0.64
– Diluted	<b>0.29</b>	4.23	0.86	0.63
Cash flows from continuing operations	<b>0.66</b>	0.92	1.04	1.01
Book value per common share <sup>(4)</sup>	<b>7.59</b>	7.07	8.01	7.44
Average number of shares outstanding (000's) – Basic	<b>31,536</b>	30,939	30,357	30,112
– Diluted	<b>31,662</b>	31,114	30,682	30,220
Shares outstanding at year end (000's)	<b>31,620</b>	31,511	30,442	30,174

### FINANCIAL RATIOS

Adjusted <sup>(1)</sup> EBITDA <sup>(2)</sup> Margin	<b>13.2%</b>	12.8%	14.8%	14.0%
Working capital ratio	<b>2.71</b>	3.59	2.76	2.52
Net debt-to-equity (cash-to-equity) <sup>(5)</sup>	<b>0.43</b>	(0.17)	0.24	0.33

### IN MILLIONS OF DOLLARS FROM CONTINUING OPERATIONS



(1) Excluding acquisition-related costs and restructuring charges in fiscal years 2014 and 2011.

(2) Earnings before interest, taxes, depreciation and amortization.

(3) Including the current portion, but excluding net deferred financial costs.

(4) Reflecting the special distribution to shareholders of \$5.00 per share made on December 19, 2012 composed of and recorded as an issued capital reduction of \$2.70 per share and of a special cash dividend of \$2.30 per share recorded against retained earnings.

(5) Defined as the total long-term debt, including the current portion, excluding net deferred financial costs, less cash and cash equivalents over shareholders' equity.

(6) Including two months of operating results and cash flows for APPH.

## MAJOR HIGHLIGHTS

Long-term contract with The Boeing Company ("Boeing") to supply complete landing gear systems, including the main and nose landing gear, and the nose landing gear drag strut, for the B-777 and B-777X programs. Under the terms of this contract, the largest ever awarded to Landing Gear operations, deliveries will begin in early calendar 2017, with an option to extend the contract through 2028.

Acquisition of U.K.-based APPH Limited and U.S.-based APPH Wichita, Inc. (together "APPH"), an integrated provider of landing gear and hydraulic systems and assemblies for fixed and rotary wing civil and military aircraft destined to original equipment manufacturer ("OEM") and aftermarket applications. APPH has four plants located in the U.K. and one plant in Wichita, Kansas. APPH generated, on a pro-forma basis, sales of \$82.5 million and adjusted EBITDA of \$12.7 million for the 12 months period ended March 31, 2014.

Solid operating results:

- Sales from continuing operations of \$272.0 million, including \$14.7 million from APPH, up 5.8% from a year earlier.
- Adjusted EBITDA from continuing operations, of \$35.8 million, or 13.2% of sales, up from \$33.0 million, or 12.8% of sales, a year earlier.
- Adjusted net income from continuing operations of \$15.3 million, or \$0.48 per share on a diluted basis, compared with \$13.4 million, or \$0.43 per share on a diluted basis, last year.

Extension and renewal of collective agreements:

- Advanced four-year extension to the current agreement at the Laval, Québec facility (110 unionized employees), which now extends through December 31, 2018. Laval is the Centre of Excellence specialized in manufacturing small and medium size complex components for landing gear systems.
- Subsequent to year-end, three year renewal through April 30, 2017 at the Longueuil, Québec facility (280 unionized employees), Centre of Excellence in repair and overhaul, surface treatment and assembly.

Agreement with a syndicate of banks to amend and restate the existing Credit Facility (the "Facility"). The Facility has been extended for a three-year period with a new maturity date set for March 16, 2019. The authorized amount has been increased from \$150 million to \$200 million, while the Facility could also be increased by an additional amount of \$75 million, subject to lenders' consent.



# MESSAGE TO SHAREHOLDERS

DURING THE FISCAL YEAR ENDED MARCH 31, 2014, HÉROUX-DEVTEK MADE SIGNIFICANT STRIDES IN REGARDS TO FURTHER ENHANCING ITS STATUS AS ONE OF THE LEADING LANDING GEAR DESIGNER AND MANUFACTURER IN THE WORLD.

The fiscal year was highlighted by several important achievements. First, we obtained the largest landing gear contract in our history to supply Boeing with complete landing gear systems for the B-777 and B-777X aircraft. Second, on February 3, 2014, we completed the strategic acquisition of U.K.-based APPH Limited and U.S.-based APPH Wichita, Inc. (together "APPH"), broadening our geographical reach and the scope of our product and service offering. Finally, we further progressed on our landing gear design and development programs and we are on the verge of generating higher sales through initial production ramp-ups.

Driven by these developments and all other current contracts, we believe Héroux-Devtek can achieve annual sales of approximately \$500 million within the next five years. Our focus is now set on execution.

## OPERATING RESULTS AND FINANCIAL POSITION

For the 2014 fiscal year, Héroux-Devtek's sales from continuing operations reached \$272.0 million, including \$14.7 million from APPH over two months. Net income from continuing operations, excluding acquisition-related costs and restructuring charges, amounted to \$15.3 million, or \$0.48 per share. Our performance reflects the strength of the large commercial aircraft market, partially offset by softness in the military aerospace market.

As at March 31, 2014, our firm order backlog, strictly consisting of business for which we have received purchase orders, was valued at \$456 million and remains well-diversified. This amount includes \$93 million from APPH.

Our financial position remains solid, even after considering the acquisition of APPH. At year end, we announced an agreement with a syndicate of banks to amend and restate our Credit Facility. By raising the authorized amount to \$200 million, and extending the term for three years to March 2019, this agreement provides us with the flexibility to execute our business strategy and shows our lenders' confidence in regards to Héroux-Devtek's ability to achieve its goals. As at March 31, 2014, we had drawn \$100.9 million from the Credit Facility, while we had cash and cash equivalents of \$47.3 million.

## LONG-TERM CONTRACT TO MANUFACTURE THE B-777 AND B-777X LANDING GEAR

We are extremely proud of this landmark agreement which strengthens our longstanding relationship with Boeing. It also clearly demonstrates the confidence original equipment manufacturers have in our capabilities to produce high quality products, while meeting the affordability requirements dictated by the competitive nature of the large commercial aircraft market.

Under the terms of the agreement, Héroux-Devtek will supply complete landing gear systems, including the main and nose landing gear, as well as the nose landing gear drag strut. The contract also provides for the manufacturing of aftermarket parts for Boeing. Deliveries are scheduled to begin in early calendar 2017, with an option to extend the contract through 2028. Already a trusted component supplier for many years, Héroux-Devtek will now provide a significantly higher content with greater value added on this successful program whose backlog, as at March 31, 2014, stood at 360 aircraft in Boeing's order book.

To carry out this mandate, we will invest approximately \$90 million in network expansion and new equipment during our 2015 and 2016 fiscal years, in addition to planned regular investments of \$30 million across our network over this two-year period. These important investments will leverage the expertise of our North American centres of excellence, while adding manufacturing and assembly capacity that will allow us to provide Boeing with

## MESSAGE TO SHAREHOLDERS (CONT'D)

cost-effective products of superior quality. Our expanded network will also build a foundation for Héroux-Devtek to pursue other opportunities to demonstrate its world-class capabilities in producing large-scale, complete landing gear systems.

### ACQUISITION OF APPH

We are very excited with this acquisition that provides attractive synergy opportunities and is accretive to earnings. Specialized in the design, engineering, manufacturing and aftermarket support of landing gear and hydraulic systems and assemblies for fixed and rotary wing civil and military aircraft, APPH generated, on a pro-forma basis, sales of \$82.5 million and adjusted EBITDA of \$12.7 million for the 12 months period ended March 31, 2014. APPH brings four plants located in the U.K. and one plant in Wichita, Kansas which have a combined workforce of about 400 employees, including a design engineering department staffed with 40 professionals that will complement and leverage the strength of our North American team based in St-Hubert, Québec.

This transaction brings significant and immediate strategic benefits, as it expands our geographical presence into Europe, while further increasing and diversifying our customer base. It also provides us with significant content on important programs, including several for which APPH designed the landing gear. This latter element is in keeping with Héroux-Devtek's key strategic objective to increase its proportion of revenues derived from proprietary programs, which provide greater value added to customers and revenue stability.

Over the mid-term, we will benefit from cost, marketing and other synergies. Moreover, APPH's corporate culture is similar to that of Héroux-Devtek and we intend to leverage their knowledge by sharing best practices across the organization and implementing our centre of excellence model.

### GROWING CONTRIBUTION FROM DESIGN AND DEVELOPMENT PROGRAMS

In fiscal 2014, Héroux-Devtek made further progress in regards to its life-cycle landing gear design and development programs, namely the Legacy 450-500, Learjet 85 and Dassault 5X business jets, Gripen NG, EC175 aircraft, as well as the CH-53K heavy-lift helicopter. Late in the fiscal year, we registered our first production sales for the Legacy 500, while the Legacy 450 and the Learjet 85 both successfully completed their first flight.

Beginning in fiscal 2015, and for several more years thereafter, we will benefit from the production ramp-up of these new programs and we are eager to execute. Considering APPH's design programs, approximately 27% of sales will come from proprietary products going forward, closing in on our objective to reach a level of 30% by 2020.

### MARKET OVERVIEW

According to industry forecasts, passenger air traffic is expected to grow slightly above historical average in calendar 2014, which should be favourable for the commercial aerospace market.



**Réal Raymond**  
Chairman of the Board



**Gilles Labbé, FCPA, FCA**  
President and Chief  
Executive Officer

Coming off record deliveries in calendar 2013, large commercial aircraft manufacturers are gearing up for further production rate increases for certain main programs over the coming years, including the launch of more fuel-efficient variants. Moreover, their backlogs remain at record levels with approximately eight years of production at current rates.

The business jet market is turning around with a modest increase in shipments, growing aircraft use and fewer used aircraft for sale in proportion of the fleet. A more robust economy and the entry into service of several new aircraft should also stimulate this market for the next few years. As mentioned above, some of these new jets are equipped with our own landing gear.

The military aviation market remains challenging, as governments must limit defence spending to reduce their deficits. Although we do not expect market conditions to improve significantly over the next fiscal year, the acquisition of APPH reduces our exposure to the North American military market and provides us important content on several leading European military programs.

### RETIREMENT OF CHAIRMAN

At the conclusion of the fiscal year, Mr. John M. Cybulski announced his retirement and stepped down as Chairman of the Board of Héroux-Devtek. John was first elected as a Director of the Corporation in 2004 and had been Chairman for nearly seven years. During his tenure, Héroux-Devtek emerged as a global player

**OVER A LONGER-TERM HORIZON, WE BELIEVE HÉROUX-DEVTEK CAN ACHIEVE SALES OF APPROXIMATELY \$500 MILLION WITHIN FIVE YEARS BASED ON CURRENT CONTRACTS AND EXCLUDING ANY FURTHER POTENTIAL ACQUISITION.**



B-777

in the design and manufacturing of landing gear and today occupies a leading position in this market. Regrettably, John passed away on May 17, 2014. His extensive industry knowledge and insightful reflections will be missed and the entire Héroux-Devtek organisation extends sincere condolences to his family.

#### **OUTLOOK**

In the fiscal year ending March 31, 2015, we will benefit from a full-year contribution from APPH, while internal sales should be relatively stable compared with fiscal 2014. As forces driving our main markets are not expected to evolve materially, we anticipate an increase in internal sales to the commercial aerospace market to be offset by lower internal sales to the military aerospace market.

Over a longer-term horizon, we believe Héroux-Devtek can achieve sales of approximately \$500 million within five years based on current contracts and excluding any further potential acquisitions. This expansion will reflect the initial contribution and subsequent growth of European operations, the start-up of the B-777 and B-777X contract and the ramp-up of our landing gear design programs. This assessment is also based on large aircraft manufacturers achieving scheduled production rate increases, a sustained recovery in the business jet market and stable military conditions beyond fiscal 2015.

Last year, we stated our goal of being a lasting source of value creation for our customers and shareholders. The major achievements of fiscal 2014 clearly make

Héroux-Devtek a stronger corporation and provide us with an expanded network and portfolio that we can leverage to create even more long-term value for all stakeholders. We are more than ever a world-class company, firmly established as a proven integrated supplier of value-added products and services.

We sincerely thank our employees whose skills and dedication are keys to our success. We also express our gratitude to the members of the Board of Directors for their wise counsel and we are grateful to our business partners, customers and suppliers for their steady support. Finally, we extend sincere thanks to our shareholders for their ongoing confidence in Héroux-Devtek.

Réal Raymond  
Chairman of the Board

Gilles Labbé, FCPA, FCA  
President and Chief Executive Officer



MULTI-YEAR CONTRACT TO SUPPLY BOEING WITH COMPLETE LANDING GEAR SYSTEMS FOR THE B-777 AND B-777X AIRCRAFT WITH DELIVERIES SET TO BEGIN IN EARLY CALENDAR 2017.

The largest landing gear contract in Héroux-Devtek's history.

INVESTMENTS OF \$90 MILLION OVER THE NEXT TWO FISCAL YEARS IN NETWORK EXPANSION AND LEADING-EDGE MACHINERY AND EQUIPMENT.

Leverage our strengths and add capacity to provide Boeing with cost-effective products of superior quality.



# A LANDMARK AGREEMENT WITH THE BOEING COMPANY



B-777

SIGNIFICANTLY ENHANCES HÉROUX-DEVTEK'S REPUTATION AND COMPETITIVE POSITION IN THE AEROSPACE INDUSTRY, AS WE STEP UP OUR PRESENCE IN THE GLOBAL SUPPLY CHAIN.

Builds the foundation to pursue other opportunities to demonstrate our world-class capabilities in producing large-scale, complete landing gear systems.



# A HIGHLY STRATEGIC ACQUISITION

THE ACQUISITION OF APPH BRINGS SIGNIFICANT AND IMMEDIATE STRATEGIC BENEFITS.

## ENHANCES HÉROUX-DEVTEK'S SCALE AND SCOPE

- Expands our geographical footprint into the European market, provides us with significant content on several leading programs and adds solid relationships with new world-class customers.

## EXCELLENT FIT WITH OUR GROWTH STRATEGY

- APPH increases our proportion of revenues from proprietary or design authority rights programs and enhances our exposure to the attractive aftermarket business.
- This acquisition adds R&D, engineering expertise and know-how in landing gear and hydraulic systems.

## PROVIDES LONG-TERM VALUE CREATION OPPORTUNITIES

- Sharing of best practices and improved productivity will lead to cost synergies.
- The combined strengths of the two organisations will offer cross-selling opportunities to their respective clients and better position Héroux-Devtek to further develop the European market.

**apph**

# OUR EXPANDED NETWORK



- 1. Longueuil
- 2. St-Hubert
- 3. Laval
- 4. Toronto
- 5. Kitchener
- 6. Cleveland
- 7. Springfield
- 8. Wichita
- 9. Bolton
- 10. Runcorn
- 11. Nottingham

# LANDING GEAR SYSTEMS DESIGN AND DEVELOPMENT PROGRAMS

THE ACQUISITION OF APPH PROPELS HÉROUX-DEVTEK CLOSER TO ITS OBJECTIVE TO GROW THE PROPORTION OF ITS REVENUES DERIVED FROM PROGRAMS ON WHICH IT HOLDS INTELLECTUAL PROPERTY OR DESIGN AUTHORITY RIGHTS TO 30% BY 2020.

## HÉROUX-DEVTEK

### CURRENT MAIN PROGRAMS

- CL-415 (Bombardier Aerospace)
- Learjet 45 (Bombardier Aerospace)
- Global Hawk (Northrup Grumman)
- JSF door uplocks (Lockheed Martin)
- DHC-6 (Viking)

### NEW PROGRAMS

- Legacy 450 and Legacy 500 (Embraer)
  - » Flight test phase in progress
- Learjet 85 (Bombardier Aerospace)
  - » First flight in April 2014
- Falcon 5X (Dassault Aviation)
- CH-53K (Sikorsky)

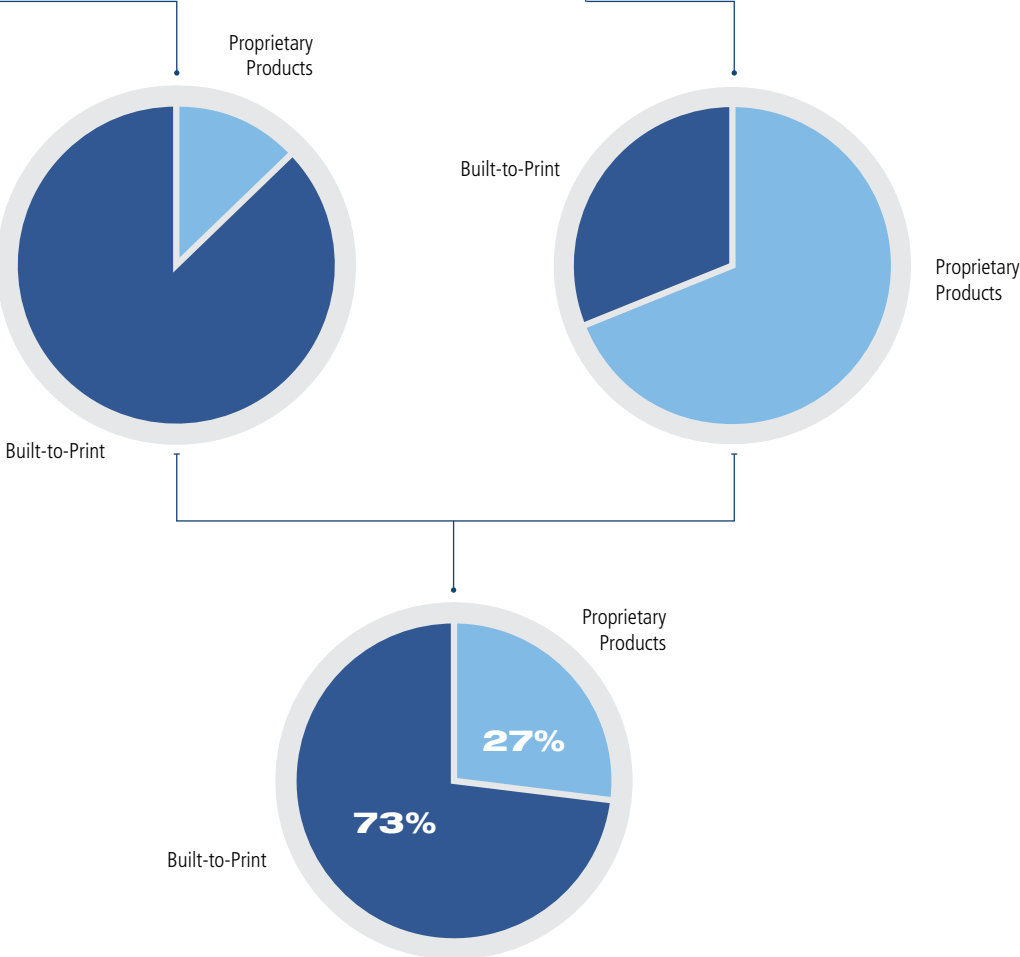
## APPH

### CURRENT MAIN PROGRAMS

- Hawk (BAE Systems)
- JAS 39 Gripen (SAAB)
- AW101 (Agusta Westland)
- C27J Spartan (Alenia)
- Saab 340/2000 (Saab)

### NEW PROGRAMS

- EC175 (Airbus Helicopter)
  - » Certified in January 2014
- Gripen NG



Gripen



Legacy 500



EC 175



**HÉROUX DEVTEK** 

**MANAGEMENT DISCUSSION AND ANALYSIS  
OF FINANCIAL POSITION AND OPERATING RESULTS  
AND CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE FISCAL YEARS ENDED MARCH 31, 2014 AND 2013

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# Management Discussion and Analysis of Financial Position and Operating Results

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

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

## Forward-Looking Statements

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

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

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

## Overview

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

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

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

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

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

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

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

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

## **Business Management**

The Corporation's product line operations are managed through decentralized operations that encourage entrepreneurship and the involvement of every employee. They have the management, engineering, manufacturing and marketing resources required to meet the needs of their specific markets. The growth and profitability of the Landing Gear product line and Bolton's operations is the responsibility, respectively, of the Landing Gear Vice-President - General Manager together with the APPH Managing Director, while the growth and profitability of Magtron's operations is the responsibility of Magtron's General Manager. They report directly to the Corporation's President and Chief Executive Officer, while the Vice-President, Finance, Finance Director and Controllers report directly to the Chief Financial Officer.

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

## **Business Strategy**

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

In practice, this translates into:

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

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

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

## Key Performance Indicators

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

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

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

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

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

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

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

## Risk Management

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

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

## Market Trends

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

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

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

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

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

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

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<sup>1</sup> Source: IATA Financial Forecast, March 2014

<sup>2</sup> Source: IATA press releases May 6, 2014 and May 5, 2014

<sup>3</sup> Sources: Airbus press release January 13, 2014; Boeing press release January 6, 2014.

<sup>4</sup> Sources: Airbus press releases February 24, 2014; April 4, 2013. Boeing press releases March 20, 2014; January 24, 2014; October 31, 2013; October 18, 2013; May 9, 2013.

<sup>5</sup> Source: Embraer press release, January 15, 2014.

<sup>6</sup> Source: Bombardier press release, January 20, 2014.

<sup>7</sup> Sources: GAMA press release February 19, 2014; FAA January 2014 Business Jet Report, JetNet report February 7, 2014.

<sup>8</sup> Source: U.S. Department of Defense press release March 4, 2014.

## Major Achievements of Fiscal 2014

- Héroux-Devtek generated sales from continuing operations of \$272.0 million in fiscal 2014, up 5.8% from a year earlier. Excluding approximately two months of sales representing \$14.7 million from the acquisition of APPH, organic sales were relatively stable. Adjusted EBITDA, which excludes acquisition-related costs of \$5.0 million and restructuring charges of \$1.9 million, stood at \$35.8 million, or 13.2% of sales, up from \$33.0 million, or 12.8% of sales, a year earlier. Adjusted net income from continuing operations amounted to \$15.3 million, or \$0.48 per share on a diluted basis, compared with \$13.4 million, or \$0.43 per share on a diluted basis, last year.
- In December 2013, Héroux-Devtek's wholly-owned subsidiary HDI Landing Gear USA Inc. signed a long-term contract with The Boeing Company ("Boeing") to supply complete landing gear systems for the Boeing 777 and 777X programs ("Boeing B-777 contract"). This contract is the largest ever awarded to Landing Gear operations (see below).
- In December 2013, the 110 unionized Landing Gear product line employees at the Laval, Québec facility, the Corporation's Center of Excellence specialized in manufacturing small and medium size complex components for landing gear systems, agreed to an advanced four-year extension to the current collective agreement, which now extends through December 31, 2018. The changes agreed to as part of this new labour agreement will make the Laval site more productive and competitive and will allow Héroux-Devtek to proceed with new investments in state-of-the-art automated systems and equipment. Certain complex components for the Boeing 777 contract awarded to Héroux-Devtek will be manufactured at the Laval facility following these investments in new systems and equipment.
- On February 3, 2014, the Corporation acquired the entire share capital of APPH, an integrated provider of landing gear and hydraulic systems and assemblies for original equipment manufacturer ("OEM") and aftermarket applications for US\$124.2 million (\$138.7 million). For the 12-month period ended December 31, 2013, APPH generated sales of approximately US\$77 million and an adjusted EBITDA of approximately US\$12.5 million (see below).
- At fiscal year-end, on March 31, 2014, Héroux-Devtek reached an agreement with a syndicate of banks to amend and restate its existing Credit Facility (the "Facility"). Under the terms of the agreement, the Facility has been extended for a three-year period with a new maturity date set for March 16, 2019. The authorized amount has been increased from \$150 million to \$200 million, while the Facility could also be increased by an additional amount of \$75 million, subject to lenders' consent.

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

## Discontinued Operations and Special Distribution

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

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

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

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

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

### **Acquisition of APPH**

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

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

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

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

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

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

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

<sup>(1)</sup> Mainly customer relationships and contracts representing \$25.1 million.

<sup>(2)</sup> Essentially deferred revenue.

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

Throughout this MD&A, Management has explained the consolidated results for the fiscal year ended March 31, 2014 which include the results of APPH. For all significant elements explained, Management has singled out the acquisition impact on the current year's results to help readers understand the year-over-year change excluding the acquisition. Please also keep in mind that results for APPH are for the period following the acquisition which is February 3, 2014 to March 31, 2014, which is not a full twelve-month period.



## Boeing 777 and 777X Contract

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

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

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

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

## Non-IFRS Measures

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

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

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

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

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

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

## SELECTED ANNUAL FINANCIAL INFORMATION

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

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

<sup>(1)</sup> Continuing operations.

### Foreign Exchange

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

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

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

The Corporation makes use of derivative financial instruments, in accordance with its hedging policy, to hedge foreign currency fluctuation exposure risks (Canadian dollar over US dollar) in an effort to mitigate these risks. At March 31, 2014, the Corporation had FFEC totaling

US\$127.4 million at a weighted-average rate of 1.0628 maturing at various dates between April 2014 and March 2017, with the majority maturing over the next two fiscal years.

## Consolidated Sales

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

Sales can be broken down by sector as follows:

	2014	2013	Variance	
	(\$'000)	(\$'000)	(\$'000)	%
Military <sup>(1)</sup>	150,279	146,035	4,244	2.9
Commercial	121,755	110,987	10,768	9.7
<b>Total</b>	<b>272,034</b>	<b>257,022</b>	<b>15,012</b>	<b>5.8</b>

<sup>(1)</sup> Includes military sales to civil customers and governments.

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

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

## Sales by Destination

The Corporation's sales by destination were as follows:

	2014	2013
	(%)	(%)
Canada	29	31
US	62	64
Other countries	9	5
<b>Total</b>	<b>100</b>	<b>100</b>

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

## Gross Profit

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

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

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

### Selling and Administrative Expenses

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

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

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

### Acquisition-related costs

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

### Operating Income

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

### Financial Expenses

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

### Restructuring Charges

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

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

## Income Tax Expense

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

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

Last year, the Corporation's effective income tax rate was 19.1%, compared to the Corporation's Canadian blended statutory income tax rate of 26.0%. The difference can be explained by the favorable impact on the Corporation's effective income tax rate coming from permanent differences (\$0.2 million) partially offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries (\$0.1 million). It also included a reduction in deferred income tax liabilities in light of changes in tax audit matters, jurisprudence and tax legislation (\$1.0 million).

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

As at March 31, 2014 and 2013, there were no operating losses carried forward and no other temporary differences for which related income tax assets have not been recognized in the consolidated financial statements.

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

## Net Income

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

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

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

<sup>(1)</sup> Net of acquisition-related costs of \$4.6 million and restructuring charges of \$1.4 million, both net of taxes.

Basic earnings per share figures are based on year-to-date weighted-averages of 31,536,316 common shares outstanding for fiscal year 2014 and 30,939,184 common shares for the same period last year, while the diluted earnings per share figures are based on year-to-date weighted-averages of 31,661,839 for fiscal 2014 and 31,114,439 for last year. The increase in the weighted-average number of outstanding common shares is mainly related to last fiscal year's issuance of 1,034,543 common shares under the Corporation's stock option plan (see Note 24 to the consolidated financial statements).

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

### Accumulated Other Comprehensive Income (“AOCI”) and Comprehensive Income

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

### Liquidity and Capital Resources

#### *Special Distribution to Shareholders*

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

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

#### *Credit Facility and Cash and Cash Equivalents*

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

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

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

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

<sup>(1)</sup> Excluding net deferred financing costs of \$1.6 million (\$1.3 million in 2013).

## Operating Activities

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

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

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

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

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

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

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

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

## Investing Activities

The Corporation's investing activities were as follows:

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

<sup>(1)</sup> From continuing operations.

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

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

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

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

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

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

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

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

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



## Financing Activities

The Corporation's financing activities were as follows:

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

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

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

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

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

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

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

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

## Pension Plans

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

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

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

At March 31, 2014, the discount rate assumptions used to determine the defined benefit obligations for registered and unregistered defined benefit pension plans was 4.4%, compared to 4.3% a year earlier. The higher discount rate this year, compared to last year, decreased the

pension plan obligations by \$0.7 million this year, while changes in demographic assumptions increased the pension plan obligations by \$1.3 million this year (see Note 27 to the consolidated financial statements).

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

### **Capital Stock, Stock Option and Stock Purchase Plans**

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

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

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

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

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

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

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

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

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

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

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

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

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

## Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2014 and March 31, 2013:

Item	March 31, 2014 (\$ million)	March 31, 2013 (\$ million)	Change (\$ million)	APPH <sup>(1)</sup> (\$ million)	Net Change (\$ million)	Explanation
Cash and cash equivalents	47.3	101.3	(54.0)	4.3	(58.3)	See consolidated statements of cash flows. As already mentioned, the Corporation utilized US\$58.7 million (\$65.6 million) for the acquisition of APPH.
Accounts receivable	66.0	46.6	19.4	15.5	3.9	Mainly reflects a higher US/CAD exchange rate used to convert the U.S.-denominated accounts receivable, when compared to March 31, 2013 (impact of \$3.0 million).
Inventories	134.0	100.8	33.2	39.3	(6.1)	Mainly reflects the reduction in inventories reflecting the reduced backlog for certain military programs net of increased inventories related to the higher commercial funded backlog partially offset by a higher US/CAD exchange rate used to convert the inventories of the U.S. operations (\$1.4 million).
Derivative financial instruments (current and non-current assets)	0.6	3.2	(2.6)	—	(2.6)	Reflects the variation in the Corporation's balance sheets of derivative financial instruments measured at fair value. The decrease is mainly the result of a lower differential between the weighted-average US/CAD rates of forward foreign exchange contracts on hand and the closing rates of conversion used, as of both balance sheet dates.
Other current assets	26.9	12.6	14.3	0.9	13.4	Mainly reflects increased deposits made on machinery and equipment of \$12.6 million essentially in relation to the Boeing B-777 contract.
Property, plant and equipment, net (PPE)	92.3	78.2	14.1	14.9	(0.8)	Mainly reflects the amortization expense (\$12.3 million) and the write-down of PPE (\$0.2 million), partially offset by additions (\$10.9 million, net of government assistance) and a higher US/CAD exchange rate used to convert the PPE of the U.S. operations (\$1.0 million).
Finite-life intangible assets, net	59.1	26.5	32.6	25.5	7.1	Reflects essentially the increase in capitalized development costs for long-term contracts (\$7.8 million, net of government assistance) and in software costs (\$0.4 million), net of amortization expense (\$1.0 million).
Goodwill	84.4	19.2	65.2	64.7	0.5	Essentially reflects the higher US/CAD exchange rate used to convert the goodwill of the U.S. operations.
Accounts payable and accrued liabilities	57.6	44.3	13.3	12.5	0.8	Mainly reflects the impact of a higher US/CAD exchange rate used to convert U.S.-denominated accounts payable and accrued liabilities, when compared to March 31, 2013 (impact of \$1.7 million).
Provisions (current and long-term)	19.8	14.0	5.8	5.6	0.2	
Progress billings (current and long-term)	7.7	12.3	(4.6)	—	(4.6)	The reduction in progress billings mainly reflects a reduced backlog on certain military programs.

<sup>(1)</sup> Reflecting APPH preliminary purchase price allocation as of February 3, 2014 (see above).

Item	March 31, 2014 (\$ million)	March 31, 2013 (\$ million)	Change (\$ million)	APPH <sup>(1)</sup> (\$ million)	Net Change (\$ million)	Explanation
Customer Advances	9.4	—	9.4	—	9.4	Reflects a payment received from a customer in relation to a long-term contract.
Income tax payable	0.7	2.5	(1.8)	—	(1.8)	Decrease mainly reflecting the final income tax payments made this year related to the balance due from the last fiscal year.
Derivative financial instruments (current and long-term liabilities)	7.3	2.6	4.7	—	4.7	Reflects the variation in the Corporation's balance sheets of derivative financial instruments measured at fair value. The increase is mainly the result of a higher differential between the closing rates of conversion used and the weighted-average US/CAD rates of forward foreign exchange contracts on hand, as of both balance sheet dates.
Long-term debt (including current portion)	148.9	63.0	85.9	—	85.9	Reflects the US\$69.3 million (\$77.4 million) drawing on the Credit Facility to finance the acquisition of APPH, new governmental loans received this year to support Aerospace development program investments (\$8.3 million) and new finance lease put in place to finance an equipment (\$1.2 million). It also reflects the interest accretion on increased governmental authorities' loans (\$1.7 million), the impact of a higher US/CAD exchange rate used to convert U.S.-denominated long-term debt (\$1.4 million) and the amortization of deferred financing costs related to the Credit Facility (\$0.4 million), net of scheduled payments of long-term debt (\$3.8 million) and increase in deferred financing costs, following the extension of the Credit Facility (\$0.7 million).
Deferred income tax liabilities	8.6	12.4	(3.8)	—	(3.8)	Mainly reflects a reduction in deferred income tax liabilities in light of changes in tax audit matters (\$1.1 million) and a reduction of outside basis difference in subsidiary (\$2.2 million).
Other liabilities	10.0	13.0	(3.0)	3.3	(6.3)	Decrease mainly resulting from gains on remeasurement of the Corporation's defined benefit pension plans (\$4.5 million, as already explained above), combined with scheduled payments made this year.
Retained earnings	205.9	193.4	12.5	—	12.5	The increase reflects the Corporation's net income of \$9.2 million for the fiscal year ended March 31, 2014, combined with the defined benefit net gains from remeasurement of \$3.3 million on the Corporation's defined benefit pension plans recorded this fiscal year.

<sup>(1)</sup> Reflecting APPH preliminary purchase price allocation as of February 3, 2014 (see above).

At March 31, 2014 and March 31, 2013, the Corporation's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio<sup>(1)</sup> were as follows:

	2014	2013
Working capital ratio	2.71:1	3.59:1
Cash and cash equivalents	\$47.3 million	\$101.3 million
Long-term debt-to-equity ratio	0.60:1	0.27:1
Net debt-to-equity ratio <sup>(1)</sup>	0.43:1	(0.17:1)

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

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

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

<sup>(1)</sup> Excluding defined benefit pension plan obligations presented in a previous section.

<sup>(2)</sup> Credit Facility matures on March 16, 2019.

## Government Assistance

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

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

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

### Commitments

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

### *Derivatives, Off-Balance-Sheet Items*

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

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

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

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

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

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

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

### *Contingencies*

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

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

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

### **Critical Accounting Estimates**

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

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

### *Impairment of Non-Financial Assets*

Impairment exists when the carrying value of an asset or Corporation's cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets and observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the Corporation's five-year budget and strategic plan and do not include restructuring activities that the Corporation is not yet committed to, or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the perpetual growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in Note 18 to the consolidated financial statements.

### *Deferred Income Tax Assets*

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

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

### *Pensions and Other Retirement Benefits*

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

### *Capitalized Development Costs*

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

### *Provisions*

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

## CHANGES IN ACCOUNTING POLICIES

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

### IAS 1 *Presentation of Financial Statements*

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

### IFRS 13 *Fair Value Measurements*

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

### IAS 19 *Employee Benefits*

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

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

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



## **FUTURE CHANGES IN ACCOUNTING POLICIES**

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

### **IFRS 9 *Financial Instruments***

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

### **IFRIC 21 *Levies***

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

## **INTERNAL CONTROLS AND PROCEDURES**

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

### *Disclosure controls and procedures*

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

At March 31, 2014, an evaluation, under the supervision of the CEO and CFO, of the design and effectiveness of the Corporation's disclosure controls and procedures was also carried out, as defined in Regulation 52-109. Based on this evaluation, the CEO and CFO concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation took into account the Corporation's disclosure policy and its disclosure committee.

### *Internal controls over financial reporting*

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

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

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

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

### *Changes in internal controls over financial reporting*

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

## **RISKS AND UNCERTAINTIES**

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

### ***Reliance on Large Customers***

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

### ***Availability and Cost of Raw Materials***

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

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

### ***Operational Risks***

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

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

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

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

### ***Impact of Terrorist Activity and Political Instability***

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

## **General Economic Conditions**

Unfavorable economic conditions may adversely affect the Corporation's business. For example, the large civil aerospace industry has experienced considerable uncertainty in prior years, especially the market for planes with more than 100 seats. In addition, the business jet market is closely related to the state of the economy. This could adversely affect the Corporation's financial condition and results of operation. Although long-term growth is gradually resuming, these sectors will remain cyclical. In addition, curtailment of production activities due to unfavorable economic conditions could result in the Corporation incurring significant costs associated with temporary layoffs or termination of employees.

## **Military Spending**

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

## **Foreign Currency Fluctuations**

The Corporation is exposed to risks resulting from foreign currency fluctuations arising either from carrying on business in Canada in foreign currencies or through operations in the United States and United Kingdom. The rapid fluctuations in the value of the Canadian dollar, when compared to the U.S. or British Pound currencies, may add volatility to the results of the Corporation. In an effort to mitigate those risks, the Corporation makes use of derivative contracts to hedge this exposure.

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

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

## **Liquidity and Access to Capital Resources**

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

## **Restrictive Debt Covenants**

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

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

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

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

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

### ***Changing Interest Rates***

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

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

### ***External Business Environment***

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

### ***Warranty Casualty Claim Losses***

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

### ***Environmental Matters***

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

### ***Collective Bargaining Agreements***

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

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

### ***Skilled Labour***

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

The Corporation is addressing this risk by developing its human resource strengths internally and by working to retain the skilled employees that it currently has and attract the best talent by fostering a strong sense of corporate culture.

### ***Pension Plan Liability***

The economic cycles have a negative impact on the funding of the Corporation's defined benefit pension plans and the related expenditures. There is no guarantee that the expenditures and contributions required to fund these pension plans will not increase in the future and therefore negatively impact its operating results and financial position. Risks related to the funding of defined benefit plans may materialize if total obligations with respect to a pension plan exceed the total value of its trust fund. Shortfalls may arise due to lower-than-expected returns on

investments, changes in the discount rate used to assess the pension plan's obligations, and actuarial losses. This risk is mitigated by policies and procedures instituted by the Corporation and its pension committee to monitor investment risk and pension plan funding.

## SELECTED QUARTERLY FINANCIAL INFORMATION

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

<sup>(1)</sup> Restated, see note 3 to the consolidated financial statements.

<sup>(2)</sup> See Non-IFRS measures above.

### Fourth Quarter 2014 Results

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

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

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

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

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

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

Cash flow from continuing operations was lower this year at \$4.4 million, compared to \$9.0 million in the fourth quarter of last year, essentially as a result of transaction related-costs of \$3.3 million, net of taxes, incurred this year for the acquisition of APPH. The net change in non-cash items related to continuing operations represented an inflow of \$15.3 million, compared to an outflow of \$0.3 million in the fourth quarter of last year. This quarter's inflow is mainly the result of increased customer advances (\$9.4 million) reflecting a payment received from a customer in relation to a long-term contract, combined with a reduction in inventories (\$8.2 million) and higher accounts payable and accrued liabilities, accounts payable - other and other liabilities (\$6.4 million) partially offset by higher accounts receivable (\$11.6 million), compared to the quarter ended December 31, 2013. These variations are the result of higher sales volume in the fourth quarter, compared to the third quarter of this year.

## OUTLOOK

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

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

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

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

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

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

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<sup>9</sup> Source : IATA Industry Financial Forecast March 2014

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

<sup>11</sup> Sources: JETNET, FAA, Teal Group.

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

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

### **Additional Information and Continuous Disclosure**

This MD&A was approved by the Audit Committee on May 27, 2014 and by the Board of Directors on May 28, 2014. Updated information on the Corporation can be found on the SEDAR website, at [www.sedar.com](http://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 International Financial Reporting Standards. 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 International Financial Reporting Standards 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 2014. As of March 31, 2014, 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 International Financial Reporting Standards 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.

Management's assessment and conclusion on the design of ICFR and DC&P excludes the controls, policies and procedures of APPH which was acquired 8 weeks prior to the Corporation's fiscal year-end. APPH's results since the acquisition date are included in the March 31, 2014, consolidated financial statements of Héroux-Devtek and constituted approximately 33% of total assets as of March 31, 2014, and approximately 5% of revenue for the year then ended. See Note 5 to the consolidated financial statements for a discussion of this acquisition.

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 Regulation 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 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, FCPA, FCA  
President and Chief Executive Officer



Stéphane Arsenault, CPA, CA  
Chief Financial Officer

May 28, 2014



# 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, 2014 and 2013 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended March 31, 2014 and 2013, 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 International Financial Reporting Standards, 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, 2014 and 2013 and the financial performance and its cash flows for the years ended March 31, 2014 and 2013, in accordance with International Financial Reporting Standards.

The logo for Ernst & Young LLP is written in a cursive, handwritten style. The words "Ernst & Young" are connected, and "LLP" is written separately to the right.

Montréal, Québec  
May 28, 2014

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<sup>1</sup> CPA Auditor, CA, public accountancy permit no. A118111

## CONSOLIDATED BALANCE SHEETS

As at March 31, 2014 and 2013

(In thousands of Canadian dollars)

	Notes	March 31, 2014	March 31, 2013
<b>Assets</b>	<b>22</b>		
<b>Current assets</b>			
Cash and cash equivalents	12	\$ 47,347	\$ 101,256
Accounts receivable		66,042	46,550
Income tax receivable		508	858
Inventories	13	134,048	100,817
Derivative financial instruments	14	283	2,935
Other current assets	15	26,921	12,577
		275,149	264,993
<b>Property, plant and equipment, net</b>	<b>7, 16</b>	<b>92,305</b>	<b>78,186</b>
<b>Finite-life intangible assets, net</b>	<b>7, 17</b>	<b>59,139</b>	<b>26,472</b>
<b>Derivative financial instruments</b>	<b>14</b>	<b>276</b>	<b>284</b>
<b>Deferred income tax assets</b>	<b>26</b>	<b>2,720</b>	<b>—</b>
<b>Goodwill</b>	<b>18</b>	<b>84,378</b>	<b>19,180</b>
<b>Total assets</b>		<b>\$ 513,967</b>	<b>\$ 389,115</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	19	\$ 57,623	\$ 44,302
Accounts payable - other and other liabilities	20	3,791	2,378
Provisions	21	14,990	8,901
Customer advances		9,409	—
Progress billings		6,529	10,211
Income tax payable		690	2,549
Derivative financial instruments	14	4,781	1,655
Current portion of long-term debt	22	3,648	3,808
		101,461	73,804
<b>Long-term debt</b>	<b>22</b>	<b>145,224</b>	<b>59,149</b>
<b>Provisions</b>	<b>21</b>	<b>4,853</b>	<b>5,071</b>
<b>Progress billings</b>		<b>1,181</b>	<b>2,068</b>
<b>Derivative financial instruments</b>	<b>14</b>	<b>2,477</b>	<b>909</b>
<b>Deferred income tax liabilities</b>	<b>26</b>	<b>8,638</b>	<b>12,425</b>
<b>Other liabilities</b>	<b>23</b>	<b>9,994</b>	<b>13,036</b>
		273,828	166,462
<b>Shareholders' equity</b>			
Issued capital	24	26,187	25,365
Contributed surplus	24	1,247	1,222
Accumulated other comprehensive income	25	6,768	2,647
Retained earnings		205,937	193,419
		240,139	222,653
		\$ 513,967	\$ 389,115

Discontinued operations, Commitments and Contingencies (notes 6, 28 and 29)

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 fiscal years ended March 31, 2014 and 2013

(In thousands of Canadian dollars, except per share data)

	Notes	2014	2013
Continuing operations			(Restated - note 3)
Sales		\$ 272,034	\$ 257,022
Cost of sales	7, 8, 13	229,606	217,266
Gross profit		42,428	39,756
Selling and administrative expenses	7, 8, 24	19,908	19,326
Acquisition-related costs	5, 8	5,017	—
Operating income		17,503	20,430
Financial expenses	9	3,816	3,852
Income before income tax expense and restructuring charges from continuing operations		13,687	16,578
Restructuring charges	10	1,884	—
Income before income tax expense from continuing operations		11,803	16,578
Income tax expense	26	2,567	3,172
Net income from continuing operations		9,236	13,406
Discontinued operations	6	—	118,226
Net income		\$ 9,236	\$ 131,632
Earnings per share from continuing operations – basic	11	\$ 0.29	\$ 0.43
Earnings per share from continuing operations – diluted	11	\$ 0.29	\$ 0.43
Earnings per share – basic	11	\$ 0.29	\$ 4.25
Earnings per share – diluted	11	\$ 0.29	\$ 4.23

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the fiscal years ended March 31, 2014 and 2013

(In thousands of Canadian dollars)

	Notes	2014	2013
	25		(Restated - note 3)
Other comprehensive income from continuing operations:			
Items that may be reclassified to net income			
Gain arising from translating the financial statements of foreign operations	\$	9,941	\$ 3,227
Cash flow hedges:			
Net gains (losses) on valuation of derivative financial instruments		(6,377)	2,000
Net gains on derivative financial instruments transferred to net income		(87)	(8,746)
Deferred income taxes		1,721	1,782
		(4,743)	(4,964)
Losses on hedge of net investment in foreign operations		(1,158)	(359)
Deferred income taxes		81	47
		(1,077)	(312)
Items that are never reclassified to net income			
Defined benefit pension plans:			
Gains (losses) from remeasurement	27	4,477	(2,541)
Deferred income taxes		(1,195)	673
		3,282	(1,868)
Other comprehensive income (loss) from continuing operations		7,403	(3,917)
Discontinued operations	6	—	2,181
Other comprehensive income (loss)	\$	7,403	\$ (1,736)
Comprehensive income			
Continuing operations:			
Net income	\$	9,236	\$ 13,406
Other comprehensive income (loss)		7,403	(3,917)
Comprehensive income from continuing operations		16,639	9,489
Discontinued operations:			
Net income	6	—	118,226
Other comprehensive income	6	—	2,181
Comprehensive income from discontinued operations		—	120,407
Comprehensive income	\$	16,639	\$ 129,896

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

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the fiscal years ended March 31, 2014 and 2013

(In thousands of Canadian dollars)

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Shareholders' equity
<b>Balance as at March 31, 2013</b>		\$ 25,365	\$ 1,222	\$ 2,647	\$ 193,419	\$ 222,653
Common shares:	24					
Issued under the Stock option plan		545	(247)	—	—	298
Issued under the Stock purchase and ownership incentive plan		277	—	—	—	277
Stock-based compensation expense	24	—	272	—	—	272
Net income		—	—	—	9,236	9,236
Other comprehensive income		—	—	4,121	3,282	7,403
<b>Balance as at March 31, 2014</b>		\$ 26,187	\$ 1,247	\$ 6,768	\$ 205,937	\$ 240,139

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Shareholders' equity
<b>Balance as at Balance as at March 31, 2012</b>		\$ 102,202	\$ 3,059	\$ 2,515	\$ 136,191	\$ 243,967
Common shares:	24					
Issued under the Stock option plan		8,017	(1,953)	—	—	6,064
Cancelled under the Stock option plan		—	(258)	—	—	(258)
Issued under the Stock purchase and ownership incentive plan		298	—	—	—	298
Stock-based compensation expense	24	—	374	—	—	374
Special distribution to shareholders	24	(85,152)	—	—	(72,536)	(157,688)
Net income <sup>(1)</sup>		—	—	—	131,632	131,632
Other comprehensive income (loss) <sup>(1)</sup>		—	—	132	(1,868)	(1,736)
<b>Balance as at March 31, 2013</b>		\$ 25,365	\$ 1,222	\$ 2,647	\$ 193,419	\$ 222,653

<sup>(1)</sup> Restated - note 3

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the fiscal years ended March 31, 2014 and 2013  
(In thousands of Canadian dollars)

	Notes	2014	2013
			(Restated - note 3)
<b>Cash and cash equivalents provided by (used for):</b>			
<b>Operating activities</b>			
Net income from continuing operations		\$ 9,236	\$ 13,406
Items not requiring an outlay of cash:			
Amortization expense	8, 16, 17	13,280	12,533
Deferred income tax recovery	26	(4,525)	(169)
Loss (gain) on sale of property, plant and equipment		10	(271)
Write-down of assets	10	193	—
Non-cash financial expenses	9	2,469	3,113
Stock-based compensation expense	24	272	374
Cash flows from continuing operations		20,935	28,986
Net change in non-cash items related to continuing operations	30	8,897	(8,396)
<b>Cash flows related to operating activities from continuing operations</b>		<b>29,832</b>	<b>20,590</b>
Cash flows related to operating activities from discontinued operations		(3,792)	8,273
<b>Cash flows related to operating activities</b>		<b>26,040</b>	<b>28,863</b>
<b>Investing activities</b>			
Business acquisition	5	(138,738)	—
Additions to property, plant and equipment	16	(9,726)	(11,464)
Deposits on machinery and equipment	15	(12,634)	58
Net increase in finite-life intangible assets	17	(7,942)	(5,470)
Proceeds on disposal of property, plant and equipment		192	970
Net proceeds from sale of discontinued operations	6	—	223,070
Cash flows related to investing activities of discontinued operations		—	(4,293)
<b>Cash flows related to investing activities</b>		<b>(168,848)</b>	<b>202,871</b>
<b>Financing activities</b>			
Increase in long-term debt		85,650	5,649
Repayment of long-term debt	6	(3,838)	(45,383)
Increase in deferred financing costs	22	(716)	—
Issuance of common shares	24	575	6,362
Special distribution to shareholders	24	—	(157,688)
Cash flows related to financing activities of discontinued operations		—	(3,208)
<b>Cash flows related to financing activities</b>		<b>81,671</b>	<b>(194,268)</b>
<b>Effect of changes in exchange rates on cash and cash equivalents</b>		<b>7,228</b>	<b>1,783</b>
<b>Change in cash and cash equivalents during the year</b>		<b>(53,909)</b>	<b>39,249</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>101,256</b>	<b>62,007</b>
<b>Cash and cash equivalents at end of year</b>		<b>\$ 47,347</b>	<b>\$ 101,256</b>
<b>Interest and taxes reflected in operating activities:</b>			
Interest paid for continuing operations		\$ 1,755	\$ 1,633
Interest received from continuing operations		\$ 406	\$ 725
Income taxes paid for continuing operations		\$ 4,950	\$ 5,663
Interest paid for discontinued operations		\$ —	\$ 821
Income taxes paid for discontinued operations		\$ 3,792	\$ 50,565

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended March 31, 2014 and 2013

(In thousands of Canadian dollars, except share data)

### Note 1. Nature of activities and corporate information

Héroux-Devtek Inc. is incorporated under the laws of Québec. Its head office is domiciled at Complexe St-Charles, 1111 St-Charles Street West, suite 658, East Tower, Longueuil (Québec), Canada. Héroux-Devtek Inc. and its subsidiaries (the "Corporation") specialize in the design, development, manufacture, repair and overhaul of aircraft landing gear, hydraulic flight control actuators and fracture-critical components. It also includes the manufacture of electronic enclosures, heat exchangers and cabinets for airborne radar, electro-optic systems, aircraft controls through its Magtron operations and fluid filters products through its Bolton operations (see Note 6).

The Corporation only operates in one reporting segment, which is the Aerospace segment.

### Note 2. Basis of preparation

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

#### Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved for issue by the Board of Directors of the Corporation on May 28, 2014.

#### Basis of consolidation

The consolidated financial statements include the accounts of Héroux-Devtek Inc. and its subsidiaries, all of which are wholly-owned. The principal wholly-owned subsidiaries included in these consolidated financial statements are the following:

APPH Limited	HDI Landing Gear USA Inc.
APPH Wichita Inc.	Devtek Aerospace Inc.

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

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

### Note 3. Summary of significant accounting policies

#### A. Foreign currency

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

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

#### a. Conversion of transactions and account balances

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

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

#### b. Translation of financial statements of foreign operations

Assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange at the reporting date and the statements of income are translated at the average exchange rate for the fiscal year. Exchange differences arising from the translation are

recognized in other comprehensive income and remain in accumulated other comprehensive income until the disposal of the related net investment, at which time they are recognized in the consolidated statements of income.

## **B. Cash and cash equivalents**

Cash and cash equivalents comprise cash at banks and short-term deposits with an original maturity of three months or less.

## **C. Inventories**

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

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

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

## **D. Property, plant and equipment**

### **• Assets acquired**

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

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

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

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

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

### **• Assets leased**

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

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A finance lease is capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease



payments, computed by using the implicit interest rate of the lease contract. Lease payments are apportioned between interest expense and the reduction of the lease liability. Interest expense is reflected in the consolidated statements of income. Capitalized leased assets are accounted for in the categories of property, plant and equipment corresponding to their nature. Capitalized leased assets are amortized over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Corporation will obtain ownership by the end of the lease term.

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

## **E. Finite-life intangible assets**

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

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

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

### *Development costs*

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

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

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

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

Following initial recognition of capitalized development costs as an asset, the asset is carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization begins when development is complete and the asset is available for use. Usually, the development phase represents a period of 4 to 7 years. During the period of development, the asset is tested for impairment annually.

### *Customer relationships and contracts*

Customer relationships and contracts are amortized based on sales over estimated related customer relationships and contracts sales, which represent a period of up to 15 years.

### *Software*

Software is amortized over 3 to 5 years.

## **F. Borrowing costs**

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

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

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

## **G. Business combinations and goodwill**

Business combinations are accounted for using the acquisition method.

The cost of a business acquisition is measured as the fair value of assets given, equity instruments issued and liabilities assumed at the date of acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed are measured initially at fair value at the date of acquisition. Acquisition-related costs associated with the business combinations are expensed as incurred.

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

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

## **H. Impairment of goodwill and other non-financial assets**

Goodwill is tested for impairment, annually on March 31 and when warranted by specific circumstances. Prior year's impairment test may be used in the annual impairment test when specific criteria are met. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. A CGU's recoverable amount is the higher of a CGU's fair value less costs to sell and its value in use. The Corporation uses the discounted cash flow method to estimate value in use, consisting of future cash flows derived from the most recent budget and strategic plan, which cover five years, approved by the Corporation's management and Board of Directors. These future cash flows consider each CGU's past performance, market share as well as economic trends, along with specific and market industry trends and corporate strategies. A perpetual growth rate is used for cash flows beyond this five-year period. The perpetual growth rate is determined with regard to the specific markets in which the CGUs participate. The discount rate used by the Corporation for cash flows is a pre-tax rate based on the weighted-average cost of capital pertaining to each CGU, which reflects the current market assessment of (i) the time value of money, and (ii) the risks specific to the assets. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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

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

## **I. Financial assets**

### **Initial recognition**

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

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

### **FVTPL**

FVTPL are acquired for the purpose of selling in the near term. They include cash and cash equivalents, derivative financial instruments, except those that are designated as Hedges. FVTPL are carried at fair value with gains and losses recognized in the consolidated statements of income. The Corporation assesses whether embedded derivative financial instruments are required to be separated from host contracts when the Corporation first becomes party to the contract.

### **L&R**

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

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

### **Hedges**

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

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

## **J. Financial liabilities**

### **Liabilities at fair value**

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

### **Other financial liabilities**

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

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

### **Derecognition of financial liabilities**

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

## **K. Derivative financial instruments and hedges**

### **Derivative financial instruments**

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

### **Cash flow hedges**

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

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

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

### **Hedge of net investments in foreign operations**

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

## **L. Provisions**

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

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

### *Onerous contracts*

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

### *Asset retirement obligations*

The Corporation's asset retirement obligations represent essentially environmental rehabilitation costs related to one of the Corporation's manufacturing sites in Canada. The present value of these obligations is measured in the year in which they are identified and when a reasonable estimate of their present value can be made. The present value of the obligations is determined as the sum of the estimated discounted future cash flows of the legal obligations associated with the future retirement of these rehabilitation costs. These asset retirement costs are capitalized as part of the property, plant and equipment and amortized over the relevant assets' useful lives. The discount fluctuation is expensed as incurred and recognized in the consolidated statement of income as Financial expenses. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are recognized in the consolidated statement of income as cost of sales when the related assets are fully amortized.

### *Product warranty*

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

### *Litigations and other*

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

Restructuring provisions are recognized when the Corporation has put in place a detailed restructuring plan which has been communicated in sufficient detail to create a constructive obligation. Restructuring provisions include only costs directly related to the restructuring plan, and are measured at the best estimate of the amount required to settle the Corporation's obligations.

## **M. Progress billings**

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

## **N. Deferred financing costs**

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

## **O. Pensions and other retirement benefits**

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

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

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

The defined benefit obligations in the consolidated balance sheets represent the present value of the defined benefit obligations reduced by the fair value of plan assets.

Actuarial gains (losses) arise from the difference between the actual rate of return on plan assets for a period and the expected return on plan assets for that period or from changes in actuarial assumptions used to determine the defined benefit obligations.

Remeasurements comprising of actuarial gains and losses from demographic assumptions, change in financial assumptions, experience gains, the effect of the limit of the asset, the effect of minimum funding requirements and the return on plan assets which are recognized immediately in other comprehensive income in the period in which they arise. Such remeasurements are also immediately recognized in retained earnings and are not reclassified to net income in subsequent period.

The current and past service costs related to the defined benefit pension plans is recorded within selling and administrative expense under "Employee costs" in the Consolidated Financial Statements. The net interest income or expense on the net surplus or deficit is recorded in the financial expenses.

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

Recognition of a defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan and any cumulative unrecognized non-vested past service costs. In addition, minimum funding

requirements may restrict the availability of refunds or reductions in future contributions, and may even trigger a liability. Adjustments arising from the asset limit and minimum funding requirements are recognized in full immediately in other comprehensive income.

## **P. Stock-based payments**

### **Stock option plan**

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

### **Stock purchase and ownership incentive plan**

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

### **Stock appreciation right ("SAR") plan**

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

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

### **DSU plan**

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

These DSUs are expensed on an earned basis and their costs are determined using a valuation model and remeasured at each reporting period. Each director can also elect, each fiscal year, to have up to 50% of his director's annual retainer fees converted into DSUs. These DSUs vest over a one-year period. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in accounts payable and accrued liabilities until the DSUs are exercised at termination date.

## **Q. Revenue recognition**

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

### **Sale of goods**

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

### **Interest income**

Revenue is recognized as interest accrues, using the effective interest rate method. Interest income is presented as a deduction of financial expenses (see Note 9).

## **R. Government assistance**

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

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

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

## **S. Income taxes**

### **Current income tax**

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognized directly in shareholders' equity is recognized in shareholders' equity and not in the consolidated statements of income or in the consolidated statements of comprehensive income.

### **Deferred income tax**

Deferred income tax is provided for using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are recognized for all deductible and taxable temporary differences, except:

- where the deferred income tax asset or liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income or loss nor taxable income or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward or unused tax credits and unused tax losses to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date. Deferred income tax assets and liabilities are measured at the income tax rates that are expected to apply to the fiscal year when the asset is realized or the liability is settled, based on income tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Deferred income tax relating to items recognized directly in shareholders' equity is recognized directly in shareholders' equity and not in the consolidated statements of income or in the consolidated statements of comprehensive income. Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority. All deferred income tax assets and liabilities are classified as non-current.

### **Sales tax**

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

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

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

## T. Earnings per share

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

## U. Changes in accounting policies

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

### IAS 1 *Presentation of Financial Statements*

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

### IFRS 13 *Fair Value Measurement*

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

### IAS 19 *Employee Benefits*

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

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

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



## V. Future changes in accounting policies

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

### **IFRS 9 *Financial Instruments***

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

### **IFRIC 21 *Levies***

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

## **Note 4. Significant accounting estimates and assumptions**

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

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

### **A. *Impairment of non-financial assets***

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets and observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the Corporation's five-year budget and strategic plan and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the perpetual growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in Note 18.

### **B. *Deferred income tax assets***

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

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

### **C. *Pensions and other retirement benefits***

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

#### D. Capitalized development costs

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

#### E. Provisions

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

#### Note 5. Business acquisition

On February 3, 2014, the Corporation signed an agreement to acquire the entire share capital of U.K. - based APPH Limited and U.S. - based APPH Wichita Inc. (collectively "APPH"), from BBA Aviation Plc (LSE : BBA), for a consideration of US\$124,184 (\$138,738), net of US\$3,816 (\$4,264) of cash acquired. The acquisition was financed with the Corporation's available cash for US\$54,884 (\$61,316) and existing credit facility for US\$69,300 (\$77,422). The transaction was treated as a business combination.

APPH is an integrated provider of landing gear and hydraulic systems and assemblies for original equipment manufacture ("OEM") and aftermarket applications. This acquisition expands the Corporation's geographical operations into the European market and further increases and diversifies its customer base.

For the year ended March 31, 2014, the acquisition contributed sales and net income from approximately two months of operations were respectively \$14,710 and \$1,327. If the acquisition had occurred on April 1, 2013, sales and net income for the full year from APPH would have been approximately \$82,530 and \$4,898, respectively. In determining these amounts, management assumed that the fair value adjustments that arose on the date of acquisition would have been the same as if the acquisition had occurred on April 1, 2013.

Acquisition-related costs amounting to \$5,017 representing professional fees and transaction fees and expenses have been recognized as an expense in the Consolidated statement of income for the fiscal year ended March 31, 2014.

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

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

<sup>(1)</sup> Mainly customer relationships and contracts representing \$25,109.

<sup>(2)</sup> Essentially deferred revenue.

This purchase price allocation is preliminary, the final purchase price allocation could result in changes to the fair value of assets acquired and liabilities assumed. The final purchase price allocation is expected to be completed as soon as management has gathered all the significant information available and considered necessary in order to finalize this allocation. The goodwill of \$64,713 has been mainly allocated to the Landing Gear product line.

#### Note 6. Discontinued operations

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

The sale transaction was concluded on August 31, 2012 with gross sale proceeds, including post-closing adjustments, of \$297.8 million paid in cash. Taking into consideration the related taxes and transaction related costs, the net proceeds amounted to \$234.3 million. The gain of \$163.0 million on the sale transaction, net of the related taxes of \$51.8 million, amounted to \$111.2 million. The gain from the sale and the net income from discontinued operations also include a provision reversal of \$965 and of \$890 respectively related to a business sold in prior years, as a result of the prescribed delay.

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

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

Net income related to the discontinued operations for the fiscal year ended March 31, 2013, is presented as follows:

Sales	\$	58,081
Cost of sales		45,423
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Gross profit		12,658
Selling and administrative expenses		3,207
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Operating income		9,451
Financial expenses		1,047
Gain from sale of discontinued operations		163,933
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Income before income tax expense		172,337
Income tax expense related to discontinued operations		2,224
Income tax expense related to the gain from sale of discontinued operations		51,887
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Net income from discontinued operations	\$	118,226
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Earnings per share from discontinued operations - basic	\$	3.82
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Earnings per share from discontinued operations - diluted	\$	3.80
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Comprehensive income related to the discontinued operations for the fiscal year ended March 31, 2013, is presented as follows:

Other comprehensive income:	
Items that may be reclassified to net income	
Gain arising from translating the financial statements of foreign operations	\$ 759
Cash flow hedges:	
Net gains on valuation of derivative financial instruments	1,354
Deferred income taxes	(365)
	989
Gains on hedge of net investments in U.S. operations	497
Deferred income taxes	(64)
	433
Other comprehensive income from discontinued operations	2,181
Net income from discontinued operations	118,226
Comprehensive income from discontinued operations	\$ 120,407

#### Note 7. Government assistance

During the fiscal year ended March 31, 2014, the Corporation recorded as governmental assistance for continuing operations an amount of \$3,220 (\$2,764 in 2013) as a reduction of cost of sales and selling and administrative expenses and an amount of \$4,259 (\$2,301 in 2013) as a reduction of the related property, plant and equipment or capitalized development costs and software, presented under Finite-life intangible assets.

#### Note 8. Cost of sales, selling and administrative expenses and acquisition-related costs

The main components of these expenses related to continuing operations for the fiscal years ended March 31, are as follows:

	2014	2013
		(Restated - note 3)
Raw materials and purchased parts	\$ 110,850	\$ 101,233
Employee costs	95,762	92,501
Amortization of property, plant and equipment and finite-life intangible assets (notes 16, 17)	13,280	12,533
Others	34,639	30,325
	\$ 254,531	\$ 236,592

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. During the fiscal year ended March 31, 2014, the foreign exchange gain included in the Corporation's selling and administrative expenses amounted to \$1,074 (\$22 in 2013).

#### Note 9. Financial expenses

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

	2014	2013
		(Restated - note 3)
Interest expense	\$ 1,187	\$ 954
Interest accretion on governmental authorities loans	1,740	1,652
Interest on net defined benefit obligations (note 27)	465	508
Amortization of deferred financing costs (note 22)	440	440
Standby fees	566	518
Other interest accretion expense and discount rate adjustments	(176)	513
	4,222	4,585
Gain on financial instruments classified as FVTPL <sup>(1)</sup> – Interest income	406	733
	\$ 3,816	\$ 3,852

<sup>(1)</sup> Fair value through profit or loss.

## Note 10. Restructuring charges

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

These restructuring charges should result in a total charge of approximately \$5,000 before income taxes. For the year ended March 31, 2014, the Corporation recorded restructuring charges of \$1,884 which include employee termination benefits of \$1,367, the write-down of equipment for \$193 which will no longer be used in its operations and other associated costs of \$324. The remaining restructuring charges of \$3,116 are expected to be incurred during the first half of the fiscal year 2015. The unpaid portion of the restructuring charges at March 31, 2014 is presented under litigations and other in the short-term provisions for \$890 (note 21) and pension and other retirement benefit plans in other liabilities for \$319 (note 27) in the Corporation's Consolidated balance sheets.

## Note 11. Earnings per share

The following table sets forth the elements used to compute basic and diluted earnings per share for the fiscal years ended March 31:

	2014	2013
Weighted-average number of common shares outstanding	31,536,316	30,939,184
Effect of dilutive stock options of the Corporation	125,523	175,255
Weighted-average number of common diluted shares outstanding	31,661,839	31,114,439

The diluted earnings per share calculation does not take into consideration the potential dilutive effect of certain stock options of the Corporation since their impact is anti-dilutive. During the fiscal year ended March 31, 2014, 502,500 stock options of the Corporation's plan (none in 2013) were excluded from the diluted earnings per share calculation.

## Note 12. Cash and cash equivalents

	March 31, 2014	March 31, 2013
Cash at banks	\$ 47,347	\$ 91,236
Short-term deposits	—	10,020
	\$ 47,347	\$ 101,256

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

## Note 13. Inventories

	March 31, 2014	March 31, 2013
Raw materials	\$ 62,934	\$ 43,023
Work-in-progress	69,431	55,948
Finished goods	1,683	1,846
	\$ 134,048	\$ 100,817

The amount of inventories recognized as cost of sales for the fiscal year ended March 31, 2014 is \$194,739 (\$188,933 in 2013).

Write-downs related to inventories for the fiscal years ended March 31, are as follows:

	2014	2013
Write-downs recognized as cost of sales (note 10)	\$ 5,874	\$ 4,286
Reversal of prior-period write-downs recognized as a reduction of cost of sales	\$ 4,702	\$ 5,150

For the fiscal year ended March 31, 2014, the reversal of prior-period write-downs includes the charges against the inventory reserve of \$2,103 (\$1,956 in 2013) for products delivered or written-off during the year for which a net realizable value reserve was required and recorded in prior periods. It also includes the results from the revaluation, at each reporting date, of the net realizable value of inventories, based on related sales contracts and production costs. The revaluation takes into consideration the variations in selling price and number of units to deliver for new contracts signed and also reduction in production costs resulting from improvements in manufacturing processes.

#### Note 14. Derivative financial instruments

The fair value of derivative financial instruments in the consolidated balance sheets is as follows:

	March 31, 2014	March 31, 2013
<b>Current Assets</b>		
Forward foreign exchange contracts and embedded derivative financial instruments	\$ 283	\$ 2,935
	\$ 283	\$ 2,935
<b>Long-term Assets</b>		
Forward foreign exchange contracts	\$ 276	\$ 284
	\$ 276	\$ 284
<b>Current Liabilities</b>		
Forward foreign exchange contracts and embedded derivative financial instruments	\$ 4,576	\$ 1,483
Interest rate swap agreements	205	172
	\$ 4,781	\$ 1,655
<b>Long-term Liabilities</b>		
Forward foreign exchange contracts	\$ 2,317	\$ 622
Interest rate swap agreements	160	287
	\$ 2,477	\$ 909

#### Note 15. Other current assets

	March 31, 2014	March 31, 2013
Investment and other tax credits receivable	\$ 8,762	\$ 9,051
Sales tax receivable	1,761	1,405
Deposits on machinery and equipment (note 28)	12,868	234
Prepaid expenses	2,748	1,540
Others	782	347
	\$ 26,921	\$ 12,577

**Note 16. Property, plant & equipment**

	Land	Buildings and leasehold improvements	Machinery, equipment and tooling	Other	Construction in progress	Total
<b>Cost:</b>						
As at March 31, 2013	\$ 1,888	\$ 40,021	\$ 135,747	\$ 7,748	\$ 854	\$ 186,258
Additions – Business acquisition (note 5)	987	2,288	10,470	59	1,092	14,896
Additions	—	2,434	9,380	808	—	12,622
Government assistance (note 7)	—	(574)	(1,189)	(8)	—	(1,771)
Construction in progress	—	—	672	—	(672)	—
Retirements and disposals	—	(1,105)	(779)	(27)	—	(1,911)
Effect of changes in exchange rate	78	722	655	329	4	1,788
As at March 31, 2014	\$ 2,953	\$ 43,786	\$ 154,956	\$ 8,909	\$ 1,278	\$ 211,882
<b>Accumulated amortization:</b>						
As at March 31, 2013	\$ —	\$ 17,291	\$ 87,384	\$ 3,397	\$ —	\$ 108,072
Amortization expense	—	2,116	9,369	802	—	12,287
Write-down (note 10)	—	—	193	—	—	193
Retirements and disposals	—	(1,083)	(599)	(27)	—	(1,709)
Effect of changes in exchange rate	—	276	28	430	—	734
As at March 31, 2014	\$ —	\$ 18,600	\$ 96,375	\$ 4,602	\$ —	\$ 119,577
<b>Net book value as at March 31, 2014</b>	<b>\$ 2,953</b>	<b>\$ 25,186</b>	<b>\$ 58,581</b>	<b>\$ 4,307</b>	<b>\$ 1,278</b>	<b>\$ 92,305</b>

	Land	Buildings and leasehold improvements	Machinery, equipment and tooling	Other	Construction in progress	Total
<b>Cost:</b>						
As at March 31, 2012	\$ 4,779	\$ 65,509	\$ 247,181	\$ 9,890	\$ 609	\$ 327,968
Discontinued operations (note 6)	(2,908)	(29,098)	(116,788)	(2,996)	(74)	(151,864)
Continuing operations	1,871	36,411	130,393	6,894	535	176,104
Additions	—	3,539	6,268	949	853	11,609
Government assistance (note 7)	—	(21)	(304)	(20)	—	(345)
Construction in progress	—	—	535	—	(535)	—
Retirements and disposals	—	(21)	(1,306)	(84)	—	(1,411)
Effect of changes in exchange rate	17	113	161	9	1	301
As at March 31, 2013	\$ 1,888	\$ 40,021	\$ 135,747	\$ 7,748	\$ 854	\$ 186,258
<b>Accumulated amortization:</b>						
As at March 31, 2012	\$ —	\$ 22,415	\$ 147,440	\$ 4,905	\$ —	\$ 174,760
Discontinued operations (note 6)	—	(6,986)	(67,852)	(2,241)	—	(77,079)
Continuing operations	—	15,429	79,588	2,664	—	97,681
Amortization expense	—	1,862	8,968	802	—	11,632
Retirements and disposals	—	(14)	(1,229)	(73)	—	(1,316)
Effect of changes in exchange rate	—	14	57	4	—	75
As at March 31, 2013	\$ —	\$ 17,291	\$ 87,384	\$ 3,397	\$ —	\$ 108,072
<b>Net book value as at March 31, 2013</b>	<b>\$ 1,888</b>	<b>\$ 22,730</b>	<b>\$ 48,363</b>	<b>\$ 4,351</b>	<b>\$ 854</b>	<b>\$ 78,186</b>

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

	March 31, 2014	March 31, 2013
Gross Additions	\$ 12,622	\$ 11,609
Government assistance (note 7)	(1,771)	(345)
Additions to property, plant and equipment	10,851	11,264
Variation in unpaid additions included in Accounts payable - Other and other liabilities at year-end (note 20)	32	978
Machinery and equipment acquired through finance leases (note 22)	(1,157)	(778)
Additions, as per statements of cash flows	\$ 9,726	\$ 11,464

As at March 31, 2014, cost of machinery, equipment and tooling includes assets acquired through finance leases amounting to \$19,693 (\$18,435 as at March 31, 2013) with accumulated amortization of \$8,850 (\$7,328 as at March 31, 2013).

As at March 31, 2014 and 2013, construction in progress includes the cost related to machinery and equipment being installed at these dates.

As at March 31, 2014, the cost of property, plant and equipment still in use and fully depreciated is \$68,783 (\$71,355 as at March 31, 2013).

#### Note 17. Finite-life intangible assets

	Capitalized Development Costs	Software	Customer relationships and contracts	Total
<b>Cost:</b>				
As at March 31, 2013	\$ 25,728	\$ 11,359	\$ 1,368	\$ 38,455
Additions – business acquisition (note 5)	—	360	25,109	25,469
Additions	10,219	460	—	10,679
Government assistance (note 7)	(2,448)	(40)	—	(2,488)
Retirements and disposals	—	—	(1,368)	(1,368)
Effect of changes in exchange rate	2	95	(29)	68
As at March 31, 2014	\$ 33,501	\$ 12,234	\$ 25,080	\$ 70,815
<b>Accumulated amortization:</b>				
As at March 31, 2013	\$ 557	\$ 10,058	\$ 1,368	\$ 11,983
Amortization expense	115	694	184	993
Retirements and disposals	—	—	(1,368)	(1,368)
Effect of changes in exchange rate	—	66	2	68
As at March 31, 2014	\$ 672	\$ 10,818	\$ 186	\$ 11,676
<b>Net book value as at March 31, 2014</b>	<b>\$ 32,829</b>	<b>\$ 1,416</b>	<b>\$ 24,894</b>	<b>\$ 59,139</b>



	Capitalized Development Costs		Software		Customer relationships and contracts		Total
<b>Cost:</b>							
As at March 31, 2012	\$	21,233	\$	14,409	\$	8,644	\$ 44,286
Discontinued operations (note 6)		(480)		(3,560)		(7,276)	(11,316)
Continuing operations		20,753		10,849		1,368	32,970
Additions		6,931		495		—	7,426
Government assistance (note 7)		(1,956)		—		—	(1,956)
Effect of changes in exchange rate		—		15		—	15
As at March 31, 2013	\$	25,728	\$	11,359	\$	1,368	\$ 38,455
<b>Accumulated amortization:</b>							
As at March 31, 2012	\$	507	\$	12,672	\$	6,593	\$ 19,772
Discontinued operations (note 6)		—		(3,387)		(5,309)	(8,696)
Continuing operations		507		9,285		1,284	11,076
Amortization expense		50		767		84	901
Effect of changes in exchange rate		—		6		—	6
As at March 31, 2013	\$	557	\$	10,058	\$	1,368	\$ 11,983
<b>Net book value as at March 31, 2013</b>	<b>\$</b>	<b>25,171</b>	<b>\$</b>	<b>1,301</b>	<b>\$</b>	<b>—</b>	<b>\$ 26,472</b>

#### Note 18. Goodwill

	March 31, 2014		March 31, 2013	
<b>Cost:</b>				
Balance at beginning of the year	\$	19,180	\$	36,068
Business acquisition (note 5)		64,713		—
Discontinued operations (note 6)		—		(16,986)
Effect of changes in exchange rate		485		98
<b>Goodwill</b>	<b>\$</b>	<b>84,378</b>	<b>\$</b>	<b>19,180</b>

As at March 31, the net carrying amount of goodwill is allocated to the following CGUs:

CGU	March 31, 2014		March 31, 2013	
Aerospace - Landing Gear Product Line	\$	80,678	\$	16,672
Aerospace - Other products		3,700		2,508
<b>Goodwill</b>	<b>\$</b>	<b>84,378</b>	<b>\$</b>	<b>19,180</b>

The following key assumptions were used to determine recoverable amounts in the most recent impairment tests performed as at March 31, 2014 for the Aerospace - Landing Gear Product Line and other products:

CGU	Pre-tax discount rate	Perpetual growth rate
Aerospace - Landing Gear Product Line	13.9%	3.0%
Aerospace - Other products	13.7% and 14.4%	2.0%

*Sensitivity of recoverable amounts*

The following table presents, for each CGU, the change in the discount rate or in the perpetual growth rate used in the most recently performed tests that would have been required to recover the carrying value of CGU as at March 31, 2014:

CGU	Incremental increase in pre-tax discount rate	Incremental decrease in perpetual growth rate
Aerospace - Landing Gear Product Line	2.9%	4.0%
Aerospace - Other products	7.3% and 15.4%	13.8%

**Note 19. Accounts payable and accrued liabilities**

	March 31, 2014	March 31, 2013
Trade payables <sup>(1)</sup>	\$ 36,092	\$ 28,165
Accrued liabilities <sup>(2)</sup>	21,531	16,137
<b>Accounts payable and accrued liabilities</b>	<b>\$ 57,623</b>	<b>\$ 44,302</b>

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

<sup>(2)</sup> Accrued liabilities mainly include payroll-related liabilities.

**Note 20. Accounts payable - other and other liabilities**

	March 31, 2014	March 31, 2013
Unpaid machinery and equipment	\$ 2,000	\$ 2,032
Deferred revenue (note 5)	1,422	—
Other payables	369	346
<b>Account payable - other and other liabilities</b>	<b>\$ 3,791</b>	<b>\$ 2,378</b>

**Note 21. Provisions**

	Onerous contracts	Asset retirement obligations	Product warranty	Litigations and other	Total
As at March 31, 2013	\$ 686	\$ 5,588	\$ 1,314	\$ 6,384	\$ 13,972
Business acquisition (note 5)	—	—	5,150	461	5,611
Arising during the year (note 10)	20	90	1,137	1,823	3,070
Interest accretion expense	—	158	—	—	158
Utilized	(540)	(331)	(346)	(90)	(1,307)
Reversed	(149)	—	(382)	(939)	(1,470)
Discount rate adjustments	—	(334)	—	—	(334)
Effect of changes in exchange rate	10	—	63	70	143
As at March 31, 2014	27	5,171	6,936	7,709	19,843
Less: current portion	27	318	6,936	7,709	14,990
Long-term portion	\$ —	\$ 4,853	\$ —	\$ —	\$ 4,853

## Note 22. Long-term debt

	March 31, 2014	March 31, 2013
Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") of up to \$200,000 (\$150,000 in 2013), maturing on March 16, 2019, which bears interest at Libor plus 1.5% representing an effective interest rate of 1.7% as at March 31, 2014 (2.1% as of March 31, 2013). As at March 31, 2014, the Corporation used US\$91,300 on the Credit Facility (US\$22,000 as at March 31, 2013).	\$ 100,932	\$ 22,352
Governmental authorities loans, repayable in variable annual instalments, with various expiry dates until fiscal year 2030.	44,463	36,101
Obligations under finance leases, all bearing fixed interest rates between 3.3% and 6.5% as at March 31, 2014 and March 31, 2013, maturing from January 2016 to February 2021, with amortization periods ranging from five to seven years, secured by the related property, plant and equipment, net of interest of \$436 (\$542 as at March 31, 2013).	5,071	5,420
Promissory note	—	402
Deferred financing costs, net	(1,594)	(1,318)
	<b>148,872</b>	<b>62,957</b>
Less: current portion	<b>3,648</b>	<b>3,808</b>
	<b>\$ 145,224</b>	<b>\$ 59,149</b>

### Senior Secured Syndicated Revolving Credit Facility

On March 31, 2014, the Corporation amended and increased its 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. Under the terms of the agreement, the Credit Facility has been extended for a three-year period with a maturity set for March 16, 2019.

The Credit Facility allows the Corporation and its subsidiaries to borrow up to \$200 million (either in Canadian, U.S., Euro or British Pound currency equivalent). The Credit Facility also includes an accordion feature to increase the Credit Facility up to \$275 million, during the term of the Credit Agreement, subject to the approval of the lenders.

This Credit Facility is used for working capital, capital expenditures and other general corporate purposes of the Corporation and its subsidiaries, including acquisitions. It is secured by all assets of the Corporation and its subsidiaries, and is subject to certain covenants and corporate guarantees granted by the Corporation and its subsidiaries.

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

In conjunction with the amendment and increase of the Credit Facility, the Corporation incurred \$716 in financing costs, which are capitalized at March 31, 2014 and will be amortized using the effective interest rate method over a five-year period.

### Governmental authorities loans

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

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

The effective interest rates for these loans are in the range of 3.7% to 7.2% at March 31, 2014 and 2013.

## 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, 2014, the Corporation had complied with all covenants.

## Minimum repayments

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

Fiscal years ending March 31:

Years	Repayments on finance leases	Repayments on governmental authorities loans	Repayment of Credit Facility	Total
2015	\$ 2,004	\$ 1,879	\$ 1,716	\$ 5,599
2016	1,934	4,488	1,716	8,138
2017	531	2,690	1,716	4,937
2018	324	3,192	1,716	5,232
2019	325	7,509	102,572 <sup>(2)</sup>	110,406
Beyond 5 years	389	40,618	—	41,007
<b>Sub-Total</b>	<b>5,507</b>	<b>60,376</b>	<b>109,436</b>	<b>175,319</b>
Less: Interest	436	15,913	8,504	24,853
<b>Debt balance<sup>(1)</sup></b>	<b>\$ 5,071</b>	<b>\$ 44,463</b>	<b>\$ 100,932</b>	<b>\$ 150,466</b>

<sup>(1)</sup> Before net deferred financing costs.

<sup>(2)</sup> Credit Facility matures on March 16, 2019.

## Note 23. Other liabilities

	March 31, 2014	March 31, 2013
Deferred revenue (note 5)	\$ 3,297	\$ —
Pension and other retirement benefit plans (note 27)	6,697	13,036
<b>Other Liabilities</b>	<b>\$ 9,994</b>	<b>\$ 13,036</b>

## Note 24. Issued capital

Authorized

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

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

For the fiscal years ended March 31, 2014 and 2013, variations in common shares issued are as follows:

	March 31, 2014		March 31, 2013	
	Number	Issued capital	Number	Issued capital
<b>Common shares issued and fully paid</b>				
Opening balance	31,511,446	\$ 25,365	30,442,370	\$ 102,202
Issued for cash on exercise of stock options	75,600	545	1,034,543	8,017
Issued for cash under the stock purchase and ownership incentive plan	33,436	277	34,533	298
Special distribution to shareholders	—	—	—	(85,152)
<b>Closing balance</b>	<b>31,620,482</b>	<b>\$ 26,187</b>	<b>31,511,446</b>	<b>\$ 25,365</b>

### Special distribution to shareholders

Last year, following the sale transaction, the Board of Directors of the Corporation approved, on November 8, 2012, a special cash distribution of \$5.00 per share paid on December 19, 2012 to shareholders of record on November 20, 2012 ("special distribution").

The special distribution to shareholders of \$5.00 per share which represented a cash distribution of \$157,495 (based on 31,498,905 common shares outstanding on November 20, 2012) made on December 19, 2012 was composed of and recorded as an issued capital reduction of \$2.70 per share (\$85,047) and of a special cash dividend of \$2.30 per share (\$72,448) recorded against retained earnings. The transaction costs related to this special distribution to shareholders amounted to \$193, net of income taxes, of which \$105 was recorded as a reduction of issued capital and \$88 against retained earnings.

### Issuance of common shares

During the fiscal year ended March 31, 2014, the Corporation issued 109,036 common shares at a weighted-average price of \$5.27 for a total cash consideration of \$575. This includes 75,600 common shares which were issued following the exercise of stock options for a total cash consideration of \$298. The initial fair value of the stock options, amounting to \$247, was credited to issued capital and debited to contributed surplus. The remainder of 33,436 common shares were issued under the Corporation's stock purchase and ownership incentive plan for a total cash consideration of \$277.

During the fiscal year ended March 31, 2013, the Corporation issued 1,069,076 common shares at a weighted-average price of \$5.95 for a total cash consideration of \$6,362. This includes 1,034,543 common shares which were issued following the exercise of stock options for a total cash consideration of \$6,064. The initial fair value of the stock options, amounting to \$1,953, was credited to issued capital and debited to contributed surplus. The remainder of 34,533 common shares were issued under the Corporation's stock purchase and ownership incentive plan for a total cash consideration of \$298.

### A. Stock option plan

During the fiscal year ended March 31, 2014, the Corporation granted 502,500 stock options to officers and key employees (none in 2013), representing a total fair value of \$2,056 or a weighted-average fair value per stock option of \$4.09 calculated using a binomial valuation model assuming a 4.3 year expected life, expected volatility of 45%, expected forfeiture rate of 4.8%, no expected dividend distribution and a compounded risk-free interest rate of 1.7%. Stock option cost is amortized over their vesting period and a stock option expense of \$272 (\$374 in 2013) was accounted for in selling and administrative expenses with its counterpart in the contributed surplus of the Corporation's shareholders' equity.

As at March 31, 2014, the number of common shares reserved for issuance of stock options represents 2,808,257 of which 1,674,781 (1,750,381 in 2013) shares had not been issued yet.

As at March 31, 2014, 686,001 stock options were issued and outstanding as follows:

Exercisable price	Outstanding options			Vested options	
	Number	Weighted-average years to maturity	Weighted-average exercise price	Number	Weighted-average exercise price
<b>\$1.00 to \$2.74</b>	46,601	3.38	\$1.31	24,201	\$1.31
<b>\$2.75 to \$5.50</b>	136,900	3.34	3.62	68,300	4.19
<b>\$11.71</b>	502,500	6.88	11.71	7,500	11.71
	686,001	5.94	\$9.39	100,001	\$4.06

During the fiscal years ended March 31, the number of stock options varied as follows:

	2014		2013	
	Weighted-average exercise price	Number of stock options	Weighted-average exercise price	Number of stock options
Balance at beginning of period	<b>\$3.30</b>	<b>259,101</b>	\$6.48	1,411,344
Granted	<b>11.71</b>	<b>502,500</b>	—	—
Exercised	<b>3.94</b>	<b>(75,600)</b>	5.86	(1,034,543)
Cancelled / forfeited	—	—	8.46	(117,700)
Balance at end of period	<b>\$9.39</b>	<b>686,001</b>	\$3.30	259,101

#### B. Stock purchase and ownership incentive plan

During the fiscal year ended March 31, 2014, 33,436 common shares were issued (34,533 in 2013) and 13,767 common shares were attributed to the participating employees (14,171 in 2013), under the stock purchase and ownership incentive plan. For the fiscal year ended March 31, 2014, the expense related to the attributed common shares amounted to \$128 (\$160 in 2013).

As at March 31, 2014, under the stock purchase and ownership incentive plan, the aggregate number of shares reserved for issuance represents 340,000 of which 240,785 has not been issued yet under this plan.

#### C. SAR plan

As at March 31, 2014, on a cumulative basis, 17,000 SARs were still outstanding (39,000 in 2013) at a weighted-average granted value of \$1.72 (\$2.78 in 2013) which expire on various dates in fiscal 2015 and 2016.

SAR expense amounted to \$81 for the fiscal year ended March 31, 2014 (\$494 in 2013). As at March 31, 2014, the fair value of the outstanding SARs amounted to \$196 (\$205 in 2013) and is included in Accounts payable and accrued liabilities.

During the fiscal year ended March 31, 2014, no SARs were granted (none in 2013), no SARs were cancelled (5,800 in 2013) and 22,000 SARs were exercised (85,700 in 2013).

In August 2010, the SAR plan has been replaced by the deferred share unit plan ("DSU") (see below).

#### D. DSU plan

As at March 31, 2014, on a cumulative basis, 64,825 DSUs were outstanding (75,302 in 2013).

During the fiscal year ended March 31, 2014, DSU expense amounted to \$371 (\$369 in 2013). As at March 31, 2014, the fair value of the outstanding DSUs amounted to \$850 (582\$ in 2013) and is included in Accounts payable and accrued liabilities.

During the fiscal year ended March 31, 2014, 17,565 DSUs were issued (45,674 in 2013) and 27,084 DSUs were exercised (8,090 in 2013) while 958 DSUs were cancelled (none in 2013).

## Note 25. Accumulated other comprehensive income

Changes in accumulated other comprehensive income are as follows:

	Exchange differences on translation of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
<b>Balance as at March 31, 2013</b>	\$ 3,215	\$ 63	\$ (631)	\$ 2,647
Other comprehensive income (loss) from continuing operations	9,941	(4,743)	(1,077)	4,121
<b>Balance as at March 31, 2014</b>	\$ 13,156	\$ (4,680)	\$ (1,708)	\$ 6,768
<b>Balance as at March 31, 2012</b>	\$ (771)	\$ 4,038	\$ (752)	\$ 2,515
Other comprehensive income (loss) from continuing operations	3,227	(4,964)	(312)	(2,049)
Other comprehensive income from discontinued operations (note 6)	759	989	433	2,181
<b>Balance as at March 31, 2013</b>	\$ 3,215	\$ 63	\$ (631)	\$ 2,647

## Note 26. Income taxes

Income tax expense is as follows:

	2014	2013
		(Restated - note 3)
<b>Consolidated statements of income</b>		
Current income tax expense	\$ 7,092	\$ 3,341
Deferred income tax recovery	(4,525)	(169)
<b>Income tax expense reported in the consolidated statements of income</b>	\$ 2,567	\$ 3,172
<b>Consolidated statements of changes in Shareholders' equity</b>		
Deferred income tax expense (recovery) related to items charged or credited directly to Shareholders' equity	\$ 1,195	\$ (710)
Deferred income tax recovery related to items charged or credited directly to other comprehensive income	(1,707)	(1,500)
Deferred income tax recovery related to items charged or credited directly to issued capital	—	(38)
<b>Income tax recovery reported directly in Shareholders' equity</b>	\$ (512)	\$ (2,248)

The computation of income tax expense is as follows:

	2014	2013
		(Restated - note 3)
Income taxes at combined Federal and Provincial statutory tax rates of 26.7% (26.0% in 2013)	\$ 3,151	\$ 4,308
Permanent differences	446	(228)
Income tax rate differential – foreign subsidiaries	107	119
Other items	(1,137)	(1,027)
<b>Income tax expense</b>	\$ 2,567	\$ 3,172

The increase in the Corporation's statutory combined income tax rate from fiscal 2013 to fiscal 2014 is mainly due to the change in the Corporation's provincial allocation.

Income tax expense includes an amount of \$1,137 (\$1,027 in 2013) with respect to the favorable resolution of income tax matters and a reduction in deferred income tax liabilities in light of changes in tax audit matters.

Significant deferred income tax assets and liabilities arising from the effect of temporary differences are as follows:

	March 31, 2014	March 31, 2013
<b>Deferred income tax assets</b>		
Non-deductible reserves	\$ 3,173	\$ 972
Inventories	7,516	2,877
Receivables	75	89
Derivative financial instruments	1,704	—
Goodwill	64	195
Governmental authorities loans	436	98
Deferred tax benefits from tax losses	63	—
<b>Total deferred income tax assets</b>	<b>\$ 13,031</b>	<b>\$ 4,231</b>
<b>Deferred income tax liabilities</b>		
Derivative financial instruments	\$ —	\$ (19)
Investment and other tax credits	(1,605)	(2,614)
Property, plant and equipment	(11,567)	(11,872)
Customer relationships and contracts	(5,777)	—
Outside basis difference in subsidiary	—	(2,151)
<b>Total deferred income tax liabilities</b>	<b>\$ (18,949)</b>	<b>\$ (16,656)</b>
<b>Net deferred income tax liabilities</b>	<b>\$ (5,918)</b>	<b>\$ (12,425)</b>

The net deferred income tax liability is included under the following captions on the consolidated balance sheets:

	March 31, 2014	March 31, 2013
Deferred income tax assets	\$ 2,720	\$ —
Deferred income tax liabilities	(8,638)	(12,425)
<b>Net deferred income tax liabilities</b>	<b>\$ (5,918)</b>	<b>\$ (12,425)</b>

As at March 31, 2014 and 2013, there were no operating losses carried forward or other temporary differences for which related deferred income tax assets have not been recognized in the consolidated financial statements.

As at March 31, 2014, the Corporation had \$391 federal non-capital losses available for carry-forward (none in 2013).

As at March 31, 2014, deferred income tax assets of \$5,368 and deferred income tax liabilities of \$1,733 are expected to be recovered or settled in less than one year.

Deferred income tax is not recognized on the unremitted earnings of subsidiaries where the Corporation is able to control the timing of the remittance and it is probable that there will be no remittance in the foreseeable future.

As at March 31, 2014 and 2013, the temporary differences associated with investments in subsidiaries for which a deferred income tax liability has not been recognized aggregate to an insignificant amount. If these earnings were remitted, withholding tax at a rate of 5% would apply.



## Note 27. 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

For fiscal year 2014, total cash payments for employee future benefits, 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 \$4,182 (\$4,105 in 2013) while the cash contributed to its defined contribution plans amounted to \$1,747 (\$1,554 in 2013).

### 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 Union Registered Pension Plan was performed as at December 31, 2013 and will be filed with regulatory authorities no later than September 30, 2014. The most recent actuarial valuations for funding purposes of the Executive Registered Pension Plans were as at December 31, 2012. The next required actuarial valuations for these plans will be conducted as at December 31, 2013 and will be filed with regulatory authorities no later than September 30, 2014. Actuarial valuations will also be conducted for all registered pension plans as at December 31, 2014.

The defined benefit plans expose the Corporation to actuarial risks such as life expectancy risk, currency risk, interest rate risk and volatility risk. The present value of the defined benefit plan obligation is calculated by reference to the best estimate of the mortality of plan members. Life expectancy risk exists because an increase in the life expectancy of plan members will increase the plan liability. A change in the valuation of the plans' foreign equities assets due to changes in foreign exchange rates exposes the plans to currency risk. A decrease in the bond interest rate used to calculate the present value of the defined benefit obligation will increase the plan liability. This interest rate risk will be partially offset by an increase in the value of the plan's bond holdings. Investment risk occurs if the return on plan assets is lower than the corporate bond interest rate used to determine the discount rate. Currently, the plans have a balanced investment mix of 66% in equity funds, 30% in debt securities and 4% in other funds. Due to the long-term nature of plans' defined benefit obligations, the Corporation considers to be appropriate that a reasonable portion of the plans' assets should be invested in equity, debt securities and other funds to generate additional long term return.

The reconciliation of the present value of the defined benefit obligations and the fair value of plan assets to the amounts recognized in the consolidated balance sheets is as follows:

	March 31, 2014	March 31, 2013
Present value of defined benefit obligations of funded plans	\$ 49,077	\$ 46,027
Fair value of plan assets	46,015	37,217
Funded status of the plans – surplus (deficit)	(3,062)	(8,810)
Present value of defined benefit obligations of unfunded plan	(3,635)	(4,226)
Amount recognized in other long-term liabilities	\$ (6,697)	\$ (13,036)

The total pension expense for these plans recognized in the consolidated statements of income for the fiscal years ended March 31, is as follows:

	2014	2013
		(Restated - note 3)
Current service cost	\$ 1,404	\$ 1,176
Interest on net defined benefit obligations (note 9)	465	508
Termination benefits (note 10)	319	—
Administrative costs	132	128
<b>Total pension expense recognized in the consolidated statements of income</b>	<b>\$ 2,320</b>	<b>\$ 1,812</b>

The total amount recognized in other comprehensive income for the fiscal years ended March 31, is as follows:

	2014	2013
		(Restated - note 3)
Remeasurements		
Loss from change in demographic assumptions	\$ (1,254)	\$ (813)
Gain (loss) from change in financial assumptions	669	(4,225)
Experience gains	578	438
Return on plan assets, excluding interest income on plan assets	4,484	2,059
<b>Other comprehensive gain (loss)</b>	<b>\$ 4,477</b>	<b>\$ (2,541)</b>

The actual return on the fair value of plan assets for the fiscal years ended March 31, is as follows:

	2014	2013
Actual return on the fair value of plan assets	\$ 6,142	\$ 3,668

The present value of the defined benefit obligations as at March 31, is as follows:

	2014	2013
Defined benefit obligations at beginning of the fiscal year	\$ 50,253	\$ 43,664
Current service cost	1,404	1,176
Interest expense	2,123	2,117
Contributions by plan participants	690	747
Loss from change in demographic assumptions	1,254	813
(Gain) loss from change in financial assumptions	(669)	4,225
Experience gains	(578)	(438)
Benefits paid	(2,084)	(2,051)
Termination benefits (note 10)	319	—
<b>Defined benefit obligations at end of the fiscal year</b>	<b>\$ 52,712</b>	<b>\$ 50,253</b>

The fair value of plan assets as at March 31, is as follows:

	2014	2013
Fair value of plans' assets at beginning of the year	\$ 37,217	\$ 30,876
Interest income on plans' assets	1,658	1,609
Return on plans' assets, excluding interest income on plans' assets	4,484	2,059
Contributions by the employer	4,182	4,105
Contributions by plans' participants	690	747
Benefits paid	(2,084)	(2,051)
Administrative costs	(132)	(128)
Fair value of plans' assets at end of the year	\$ 46,015	\$ 37,217

The plans' assets as at March 31, consist of:

Asset category <sup>(1)</sup>	2014	2013
Equity securities	66%	61%
Debt securities	30%	32%
Other	4%	7%
Total	100%	100%

<sup>(1)</sup> Measured as of the measurement date of March 31 of each year.

### **Significant assumptions**

The significant assumptions used at the reporting date are as follows (weighted-average):

	2014	2013
Defined benefit obligations as at March 31:		
Discount rate	4.40%	4.30%
Rate of compensation increase	3.50%	3.50%
Average life expectancies based on a pension at 65 age		
Male, 45 years of age at reporting date	87	86
Female, 45 years of age at reporting date	90	88
Male, 65 years of age at reporting date	86	85
Female, 65 years of age at reporting date	89	87

The significant actuarial assumptions for the determination of the defined benefit obligations are the discount rate, the rate of compensation increase and the average life expectancy. The calculation of the net defined benefit obligations is sensitive to these assumptions. The following table summarizes the effects of the changes in these actuarial assumptions on the pension expense and the defined benefit obligations at March 31, 2014:

Increase (Decrease)	Pension Expense	Defined Benefit Obligations
	%	%
<b>Discount rate</b>		
Increase of 0.5%	(9.1)	(5.8)
Decrease of 0.5%	9.8	6.8
<b>Rate of compensation</b>		
Increase of 0.5%	0.2	0.1
Decrease of 0.5%	(0.2)	(0.1)
<b>Average life expectancies</b>		
Increase of 1 year	3.5	2.1
Decrease of 1 year	(3.5)	(2.1)

#### **Corporation's pension benefits future cash flows**

The cash contributions expected to be made to these plans in fiscal year 2015 amount to \$2,865.

The duration of the defined benefit obligations at the end of the reporting period is 12.6 year (13.4 in 2013). The expected maturity of undiscounted pension benefits for the Unionized Pension Plan is presented as follows:

	March 31, 2014	March 31, 2013
Less than a year	\$ 1,358	\$ 1,305
Between 1-2 years	1,420	1,388
Between 2-5 years	4,650	4,519
Over 5 years	89,365	86,869
<b>Total</b>	<b>\$ 96,793</b>	<b>\$ 94,081</b>

#### **Defined contribution pension plans**

The defined contribution pension plan costs for continuing operations for the fiscal years ended March 31, are as follows:

	2014	2013
Defined contribution pension plan costs	\$ 1,747	\$ 1,554

#### **Note 28. Commitments**

##### **Building lease contracts**

The Corporation has entered into leases for buildings which are used for manufacturing operations and administration. As at March 31, 2014, the total commitments amounted to \$2,549 excluding escalation clauses. The minimum annual lease payments over the next five years are: \$1,136 in 2015, \$547 in 2016, \$306 in 2017, \$275 in 2018 and \$285 in 2019.

### 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. As at March 31, 2014, these outstanding purchase orders amounted to \$42,203 (\$2,391 in 2013) for which an amount of \$12,868 (\$234 in 2013) in deposits on machinery and equipment were made and are included in the Corporation's other current assets (Note 15).

### 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 occurred yet. As at March 31, 2014, the duration of these indemnification agreements could extend up to fiscal year 2024. As at March 31, 2014, an amount of \$6,000 (\$6,000 in 2013) was provided for in the Corporation's provision in respect to these items and is classified as short-term provision (Note 21) given the undetermined date of settlement.

### Note 29. Contingencies

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

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

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

### Note 30. Net change in non-cash items related to continuing operations

For the fiscal years ended March 31, the net change in non-cash items related to continuing operations is detailed as follows:

	2014	2013
		(Restated - note 3)
Accounts receivable	\$ (3,944)	\$ (4,026)
Income tax receivable	350	(858)
Inventories	6,079	3,591
Other current assets	(856)	1,684
Accounts payable and accrued liabilities, accounts payable – other and other liabilities	(1,120)	(383)
Provisions	436	(1,711)
Progress billings	(4,569)	(5,827)
Customer advances	9,409	—
Income tax payable	1,933	(408)
Effect of changes in exchange rate <sup>(1)</sup>	1,179	(458)
	<b>\$ 8,897</b>	<b>\$ (8,396)</b>

<sup>(1)</sup> Reflects the total impact of changes in exchange rate during the related period on non-cash items listed above for the Corporation's foreign subsidiaries.

### Note 31. Geographic information

Geographic information related to the continuing operations represents the following:

	2014				2013		
	Canada	U.S.	U.K.	Total	Canada	U.S.	Total
Sales	\$ 210,901	\$ 48,735	\$ 12,398	\$ 272,034	\$ 210,140	\$ 46,882	\$ 257,022
Property, plant and equipment, net	63,638	17,220	11,447	92,305	65,827	12,359	78,186
Finite-life intangible assets, net	33,745	4,375	21,019	59,139	26,132	340	26,472
Goodwill	13,838	8,524	62,016	84,378	13,838	5,342	19,180
Export sales <sup>(1)</sup>	\$ 137,249			\$ 130,860			

During the fiscal years ended March 31, 2014 and 2013, 62% and 64% of the Corporation's sales respectively were made to U.S. customers.

<sup>(1)</sup>Export sales are attributed to countries based on customer location.

### Note 32. Executive compensation

The executive compensation expense to key management personnel is as follows:

	2014	2013
Short-term employee benefits and other benefits	\$ 3,064	\$ 4,069
Pension and other post-retirement benefits	400	407
Share-based payments	809	1,092
<b>Total compensation to key management personnel</b>	<b>\$ 4,273</b>	<b>\$ 5,568</b>

### Note 33. Financial instruments

As at March 31, 2014 and 2013, the classifications of financial instruments as well as their carrying amounts and fair values are summarized as follows:

	March 31, 2014			March 31, 2013		
	Fair value hierarchy	Carrying amount <sup>(1)</sup>	Fair Value	Fair value hierarchy	Carrying amount <sup>(1)</sup>	Fair Value
<b>Financial assets</b>						
Derivative financial instruments	Level 2	\$ 559	\$ 559	Level 2	\$ 3,219	\$ 3,219
		\$ 559	\$ 559		\$ 3,219	\$ 3,219
<b>Financial Liabilities</b>						
Derivative financial instruments	Level 2	\$ 7,258	\$ 7,258	Level 2	\$ 2,564	\$ 2,564
Long-term debt, including current portion	Level 2	150,466	154,846	Level 2	64,275	68,165
		\$ 157,724	\$ 162,104		\$ 66,839	\$ 70,729

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

Derivative financial instruments - The fair value of derivative financial instruments recognized on the consolidated balance sheets has been determined using 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 period-end swap rates and foreign exchange rates (Level 2 inputs).

Long-term debt – The fair value of long-term debt has been determined by calculating the present value of the interest rate spread that exists between the actual long-term debt using the rate that would be negotiated with the economic conditions at the reporting date.

### Fair value hierarchy

Financial assets and financial liabilities measured at fair value in the consolidated balance sheets are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and

Level 3: unobservable inputs for the asset or liability.

For the fiscal year ended March 31, 2014, a loss before tax of \$225 (income of \$269 in 2013) was accounted for on financial instruments designated as FVTPL, in addition to the interest income disclosed in Note 9 to the consolidated financial statements.

### Note 34. Financial risk management

The Corporation is exposed primarily to market risk, credit and credit concentration risks, 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: <ul style="list-style-type: none"> <li>• Foreign exchange risk</li> <li>• Interest rate risk</li> </ul>
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 of America and the United Kingdom.

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 and United Kingdom 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 and United Kingdom operations and related to sales contracts, net of the forecasted cash outflows in U.S. currency made by its Canadian and United Kingdom 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, 2014, the Corporation, in accordance with the foreign exchange policy explained above, had forward foreign exchange contracts totalling US\$127.4 million at a weighted-average rate of 1.0628 (Canadian dollar over U.S. dollar, "cad/usd") (US\$123.5 million at a weighted-average rate of 1.0325 cad/usd as at March 31, 2013). As at March 31, 2014, these contracts mature at various dates between April 2014 and March 2017, with the majority maturing over the next two fiscal years.

The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments including the forward foreign exchange contracts as at the consolidated balance sheets dates.

As at March 31, 2014, a 1% strengthening of the Canadian dollar over foreign currencies, while all other variables would remain fixed, would have impacted the consolidated net income and the other comprehensive income as follows:

	U.S. dollar impact	British pound impact
Decrease in net income	(158)	—
Increase (decrease) in other comprehensive income	444	(1,290)

#### *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 22). 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.

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

In 2014, the Corporation entered into two additional interest-rate swap agreements for a total notional amount of US\$15 million in order to hedge a portion of the variable interest cash flow on the US\$69,300 drawn on the credit facility for the acquisition of APPH during fiscal 2014. These interest-rate swap agreements fixed the Libor U.S. rate at 1.65% for the first tranche of US\$5 million commencing on March 2014, and at 2.38% for the second tranche of US\$10 million commencing on December 2015, both until their maturity in December 2018.

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

As at March 31, 2014, 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, while all other variables would remain fixed, this would have decreased/increased the Corporation's consolidated net income for the year then ended by \$165 (\$87 in 2013). As at March 31, 2014, for the derivative financial instruments (interest-rate swap agreements), a shift of 100-basis point increase in the yield curve, would have increased the Corporation's comprehensive income for the year then ended by \$550 (\$191 in 2013) while a 100-basis point decrease would have reduced it by \$439 (\$196 in 2013).

#### **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 risks are 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.

Credit concentration risks are related to the fact that a significant portion of the Corporation's fiscal 2014 sales, approximately 65% (69% in 2013), 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, in fiscal 2014, the Corporation had two customers representing 19% and 18% (24% and 21% in 2013) of its consolidated sales.

#### *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% in fiscal 2014 (7% in 2013) of the Corporation's consolidated sales.

As at March 31, 2014, besides a significant accounts 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 was at acceptable levels in the industry 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 fiscal year ended March 31, 2014:

	2014
Balance at beginning of year	\$ 582
Arising during the year	370
Reversed	(525)
Amounts written off	—
Effect of foreign exchange rate changes	9
Balance at end of year	\$ 436

The details of the Corporation's trade receivables are the following:

	2014	2013
Not past due	\$ 52,761	\$ 40,500
Past due less than 90 days	12,894	5,922
Past due more than 90 days	387	128
Impaired	436	582
	<b>66,478</b>	47,132
Allowance for doubtful accounts	<b>(436)</b>	(582)
Balance as of end of year	\$ 66,042	\$ 46,550

#### *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.

At as March 31, 2014, the maximum exposure to credit risk for financial instruments represented the following (see note 33):

	FVTPL	Hedging items <sup>(1)</sup>	Loans and receivables (L&R)
Cash and cash equivalents	\$ 47,347	\$ —	\$ —
Accounts receivable	—	—	66,042
Derivative financial instruments	190	369	—

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

#### **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.

As at March 31, 2014, the maturity analysis of financial liabilities represented the following 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 22):

	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	\$ 57,623	\$ —	\$ —	\$ —	\$ 57,623
Accounts payable – other	3,791	—	—	—	3,791
Customer advances	9,409	—	—	—	9,409
Long-term debt <sup>(1)</sup> <sup>(2)</sup>	5,599	13,075	115,638	41,007	175,319
Derivative financial instruments	4,781	2,477	—	—	7,258

<sup>(1)</sup> Includes the used Bank's Credit Facility of \$100,932 maturing on March 16, 2019.

<sup>(2)</sup> Includes interest on long-term debt and interest accretion on governmental authorities loans.

### Note 35. 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;

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.

The net debt is equal to total debt representing the current portion of long-term debt and long-term debt (excluding net deferred financing costs), less cash and cash equivalents. Shareholders' equity includes issued capital, contributed surplus, accumulated other comprehensive income and retained earnings. In some cases, shareholders' equity may be adjusted by amounts recorded in accumulated other comprehensive income, 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, if any.

During fiscal 2014, 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.

	<b>March 31, 2014</b>	<b>March 31, 2013</b>
Current portion of long-term debt	\$ 3,648	\$ 3,808
Long-term debt	145,224	59,149
Deferred financing costs, net	1,594	1,318
Less: Cash and cash equivalents	(47,347)	(101,256)
	<b>\$ 103,119</b>	<b>\$ (36,981)</b>
Shareholders' equity	240,139	222,653
Net debt (cash)-to-equity ratio	<b>0.43:1</b>	<b>(0.17:1)</b>

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

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Réal Raymond

Chairman of the Board  
Montreal, Québec

### Gilles Labbé

President and Chief Executive Officer  
Longueuil, Québec

### Jean-Louis Fontaine

Vice-Chairman of the Board and Director  
Bombardier Inc.  
Montreal, Québec

### Louis Morin

President, Busrel  
Montreal, Québec

### Brian A. Robbins

President and Chief Executive Officer  
Exco Technologies Limited  
Toronto, Ontario

### Paule Doré

Corporate Director  
Montreal, Québec

### James J. Morris

Corporate Director  
Seattle, Washington

### Andrew Stevens

Corporate Director  
Cheltenham, U.K.

## CORPORATE MANAGEMENT

### Gilles Labbé

President and Chief Executive Officer

### Réal Bélanger

Executive Vice President,  
Business Development and  
Special Projects

### Martin Brassard

Vice President, General Manager  
Landing Gear

### Stéphane Arsenault

Chief Financial Officer

### Michel Robillard

Vice President, Corporate Controller

### Gilbert Guérin

Corporate Director, Human Resources

### Rémy Langelier

Director, Business Development

### Dominic Bolduc

Director, Tax and Corporate Affairs

### Fanny D'Ambroise

Manager, Internal Audit and Conformity

### Éric Sauvageau

Manager, Financial Reporting

## NORTH AMERICAN OPERATIONS

### LANDING GEAR

#### Longueuil

755 Thurber Street  
Longueuil, Québec  
Canada J4H 3N2  
450 679-5454

#### Kitchener

1665 Highland Rd. W.  
Kitchener, Ontario  
Canada N2N 3K5  
519 576-8910

#### Springfield

663 Montgomery Ave.  
Springfield, Ohio  
U.S.A. 45506  
937 325-1586

#### Saint-Hubert

4925, Chemin de la Savane  
Saint-Hubert, Québec  
Canada J3Y 9G1  
450 646-9432

### ELECTRONIC ENCLOSURES

#### Toronto

1480 Birchmount Rd.  
Toronto, Ontario  
Canada M1P 2E3  
416 757-2366

#### Laval

3675 Industrial Blvd.  
Laval, Québec  
Canada H7L 4S3  
450 629-3454

#### Cleveland

15900 Foltz  
Industrial Parkway  
Strongsville, Ohio  
U.S.A. 44149  
440 783-5255

#### Wichita (APPH)

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Wichita, Kansas  
U.S.A. KS67209  
316 943-5752

## EUROPEAN OPERATIONS

### LANDING GEAR

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+44(0) 1623 754355

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WA7 1TG  
United Kingdom  
+44(0) 1928 530530

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Westhoughton, Lancashire  
BL5 3XU  
United Kingdom  
+44(0) 1928 530530

# SHAREHOLDER INFORMATION

## ANNUAL GENERAL MEETING

Thursday, August 7, 2014 at 11:00 A.M.  
Salon des Saisons Room  
Hôtel Omni Mont-Royal  
1050 Sherbrooke Street West  
Montreal, Québec  
Canada

## REGISTRAR AND TRANSFER AGENT

Computershare Trust  
1500 University Street, 7th Floor  
Montreal, Québec  
Canada H3A 3S8  
514 982-7555 /  
1-800-564-6253

## AUDITORS

Ernst & Young LLP  
800 René Lévesque Blvd. West,  
Suite 1900  
Montreal, Québec  
Canada H3B 1X9  
514 875-6060

## SHARE LISTING

Shares are traded on the Toronto  
Stock Exchange  
Ticker Symbol: HRX

## INVESTOR RELATIONS

450 679-3330  
ir@herouxdevtek.com

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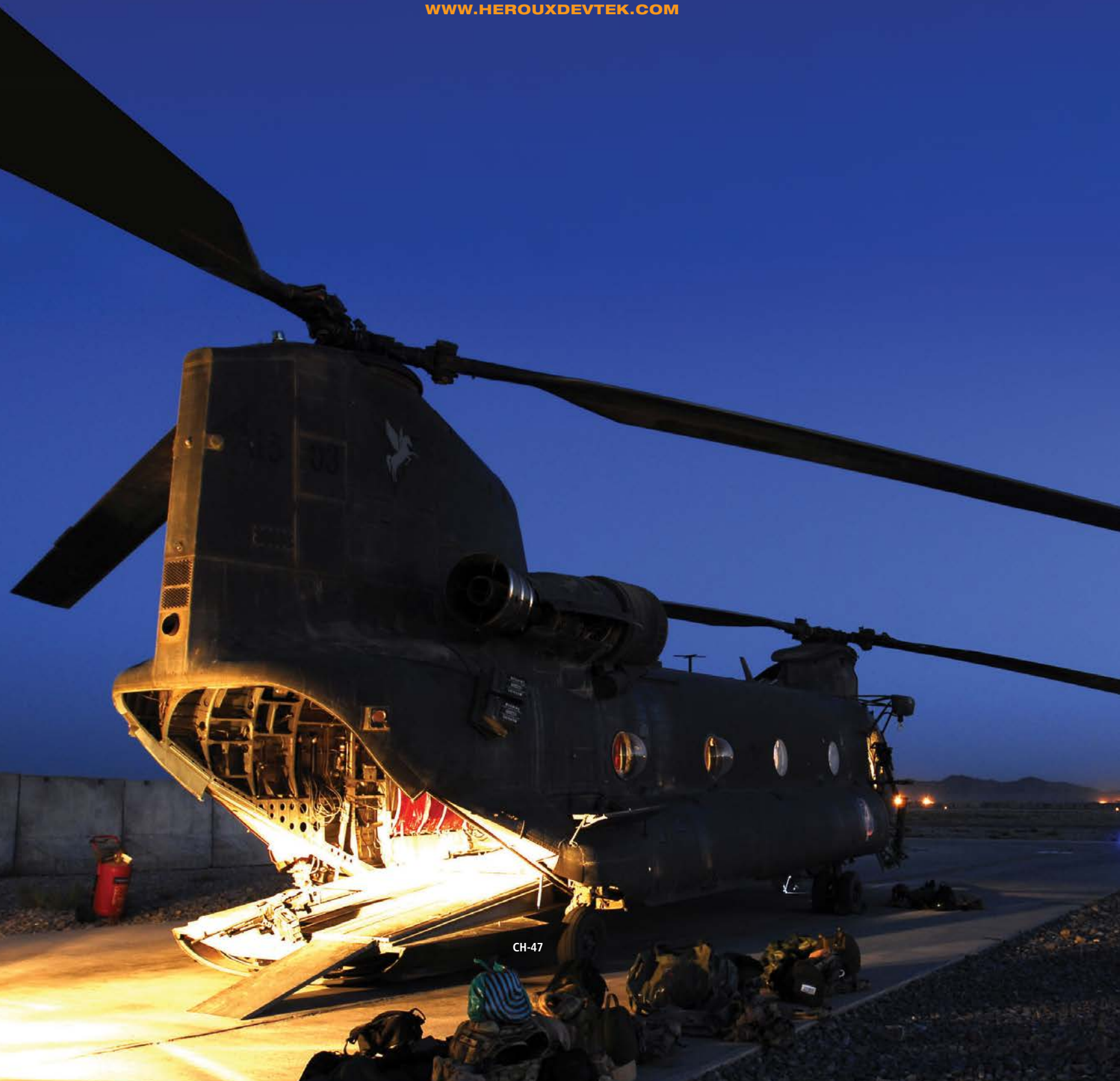
MaisonBrison Communications

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veuillez contacter le secrétaire corporatif.



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