

ANNUAL REPORT 2011-12

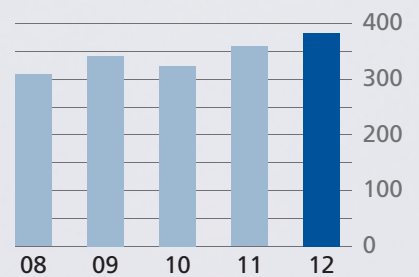
# GROWINGBYDESIGN

Héroux-Devtek Inc. (TSX: HRX), a Canadian company, serves two main market segments: Aerospace and Industrial Products, specializing in the design, development, manufacture and repair and overhaul of related systems and components.

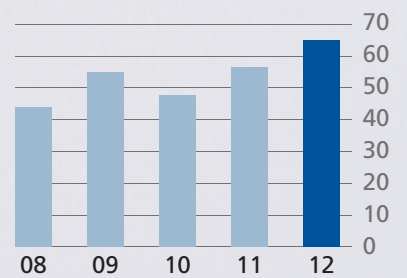
Héroux-Devtek Inc. supplies both the commercial and military sectors of the Aerospace segment with landing gear systems (including spare parts, repair and overhaul services) and airframe structural components. The Corporation also supplies the industrial segment with large components for power generation equipment and precision components for other industrial applications.

Approximately 70% of the Corporation's sales are outside Canada, mainly in the United States. The Corporation's head office is located in Longueuil, Québec with facilities in the Greater Montreal area (Longueuil, Dorval, Laval and St-Hubert); Kitchener and Toronto, Ontario; Arlington, Texas; Springfield, Cleveland and Cincinnati, Ohio, as well as Querétaro, Mexico.

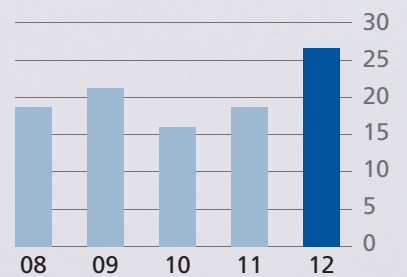
**Sales** (in millions of dollars)



**EBITDA** (in millions of dollars)



**Net Income** (in millions of dollars)





# FINANCIAL HIGHLIGHTS

Fiscal years ended March 31 (in millions of dollars, except per share data and ratios)	2012 <sup>4</sup> IFRS	2011 <sup>4</sup> IFRS	2010 GAAP	2009 GAAP	2008 GAAP
<b>Operating Results</b>					
Sales	380.3	357.6	320.4	337.6	307.9
Gross profit	67.6	58.3	50.3	56.9	46.6
Margin	17.8%	16.3%	15.7%	16.9%	15.2%
EBITDA <sup>1</sup>	64.7	57.1	48.4	54.6	44.3
Margin	17.0%	16.0%	15.1%	16.2%	14.4%
Net income	26.5	19.1	16.0	21.4	19.0
Margin	7.0%	5.3%	5.0%	6.3%	6.2%
Cash flow from operations	55.9	50.4	45.9	48.0	37.8
<b>Financial Position</b>					
Cash and cash equivalents	62.0	32.9	46.6	39.8	24.4
Working capital	179.5	155.1	123.2	100.9	101.6
Total assets	499.1	472.5	394.8	417.2	356.5
Long-term debt <sup>2</sup>	119.1	105.5	81.1	87.3	77.3
Shareholders' equity	244.0	224.5	217.1	196.5	180.8
<b>Per Share Data</b>					
Earnings per share					
Basic	0.87	0.64	0.52	0.68	0.60
Diluted	0.86	0.63	0.52	0.67	0.59
Cash flow from operations	1.84	1.67	1.50	1.52	1.20
Book value per common share	8.01	7.44	7.12	6.30	5.71
Average number of shares outstanding (000's)					
Basic	30,357	30,112	30,662	31,583	31,610
Diluted	30,682	30,220	30,722	31,783	31,984
Shares outstanding at year end (000's)	30,442	30,174	30,485	31,172	31,639
<b>Financial Ratios</b>					
Working capital ratio	2.76	2.52	2.66	1.92	2.20
Net debt-to-equity <sup>3</sup>	0.23	0.32	0.16	0.24	0.29
Long-term debt to equity	0.44	0.44	0.35	0.42	0.40

<sup>1</sup> Earnings before interest, taxes, depreciation and amortization, excluding restructuring charges

<sup>2</sup> Including the current portion

<sup>3</sup> Defined as the total long-term debt, including the current portion, less cash and cash equivalents over shareholders' equity

<sup>4</sup> The financial figures for the years 2012 and 2011 have been prepared in accordance with IFRS. Refer to note 33 – *Conversion to International Financial and Reporting Standards* in the financial statements for the year ended March 31, 2012.

## GROWTH STRATEGY

Héroux-Devtek seeks growth externally through acquisitions that can be easily integrated into its existing operations or that bring complementary technology, leading to greater added value. Internally, the company aims to: ■ Develop valued-added, proprietary products through design engineering; ■ Establish or enhance its presence in certain product markets, such as the aftermarket repair and overhaul of commercial and military landing gear, design and manufacturing of landing gear and structural assemblies for commercial and military aircraft OEMs; and ■ Diversify its customer base for its existing product lines, which generally means finding new OEM customers for its landing gear, airframe structural and industrial components.



# GROWINGBYDESIGN

Héroux-Devtek's growth strategy has been carefully planned to meet strong demand in our principal markets. It involves continuous enhancement of our value proposition, as well as targeted expansion of operations. This strategy allows for the increasing integration of Héroux-Devtek's technology and services with the production programs of our customers – and thus progressively strengthens our competitive position.

The Corporation is focused on developing longstanding partnerships with leading OEMs, Tier 1s and end users through the development of value-added products and services as well as strategic acquisitions that add depth to our abilities and portfolios.

Investments in manufacturing infrastructure and geographic expansion also represent key elements of the Corporation's growth plan. Our new manufacturing facility in Mexico, which allows for greater operational flexibility and cost efficiency, typifies the means by which we are becoming ever more integral to the supply chains of our customers.

# CHAIRMAN'S MESSAGE

Dear Fellow Shareholders,

It is always gratifying to report good news to shareholders. I am therefore delighted to comment on what has been an exceptional year for Héroux-Devtek. The progress made through fiscal 2011-2012 is a testament to our exceptional teams, our solid position as a world player in the aerospace sector and to the innovation and quality of our products.

Our performance was buoyed by the strong recovery in the aerospace industry. This was particularly the case in commercial aviation where intense activity has resulted in record aircraft order backlogs. It stands to reason that our excellent relationships with the world's largest aviation industry manufacturers will result in Héroux-Devtek obtaining a meaningful portion of this activity. Meanwhile, the business aircraft market is entering a recovery phase after an extended downturn. Our development of increasingly proprietary landing gear products will create additional opportunities in the future aftermarket and services of these products.

Underlining the exceptional relationships with our customers was receipt of the Embraer Supplier of the Year Award in the Development Program category for the second time since 2009. This distinction recognizes Héroux-Devtek's excellence in engineering development, quality, flexibility, deliveries and customer support. It is a tribute to the global leadership and dedication of our Landing Gear Product Line team.

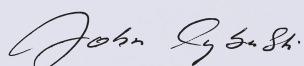
Military budgets remain under the microscope. Nonetheless, Héroux-Devtek is fortunate to have strong positions in several programs on both sides of the border, including the repair and overhaul of various aircraft currently in service and an on going presence in the Joint Strike Fighter (JSF) program, which is growing faster than last year.

On the manufacturing front, we have successfully integrated the operations of Landing Gear USA. We also inaugurated a new facility in Mexico which Gilles Labbé will discuss in detail in his Message to Shareholders.

A year ago at this time, we noted that we were extremely well positioned to benefit from the renewed business flow in our Industrial segment due to the proactive measures taken to control costs and increase efficiency. In fact, this past year's performance has been stellar with significant contributions from the power generation and heavy equipment sectors.

Our Corporation is indeed fortunate to have talented teams dedicated to the growth of our businesses. The engineering group has achieved a well-earned reputation through the successful development of a new landing gear proprietary line of products. We are today a fully integrated designer, manufacturer and product support company and have our employees to thank for this. The management team, under Gilles Labbé, has achieved record growth, both in revenue and profitability, despite a difficult and highly competitive aerospace business.

They are to be commended for these remarkable achievements. I also wish to thank my colleagues on the Board of Directors for their support and counsel, and our shareholders for their continued confidence in Héroux-Devtek. The outlook is most promising, particularly as our business has become truly global.



John Cybulski  
Chairman of the Board



# MESSAGE TO SHAREHOLDERS



Dear Shareholders,

The fiscal year ended March 31, 2012 was very successful for Héroux-Devtek. While the overall economy remained hesitant, the majority of our strategic markets gained momentum. As a result, we generated record sales and net income. More importantly, strategic initiatives put forward have firmly positioned the Corporation to benefit from the pending ramp-up of several important programs and to capture new business opportunities.

Driven by increases in its two business segments, Héroux-Devtek recorded fiscal 2012 sales of \$380.3 million, up 6.4% from a year earlier. This increase includes an additional contribution of \$4.4 million from Landing Gear USA resulting from its consolidation for all of fiscal 2012, as opposed to 11 months in the prior year. We achieved these results in spite of an unfavourable currency impact of \$8.0 million, due to a higher year-over-year value for the Canadian currency.

This higher business volume, combined with a better product mix and further efficiency gains, resulted in a 13.4% increase in EBITDA to \$64.7 million. Net income rose 38.4% over the prior year, reaching \$26.5 million, or \$0.86 per share, on a fully diluted basis.

Héroux-Devtek's financial position remains stronger than ever with cash and cash equivalents of \$62.0 million at March 31, 2012 and long-term debt, including the current portion, of \$119.1 million. We concluded fiscal 2012 with a ratio of net-debt-to-equity of 0.23 and sufficient financial flexibility to pursue our growth strategy.


Our firm order backlog, which is well diversified, reached \$493 million at fiscal year end.

## **CAPACITY EXPANSION TO ENHANCE FLEXIBILITY AND CAPABILITY**

In fiscal 2012, we inaugurated a new 47,200-square-foot manufacturing facility in the Querétaro Aerospace Park, in Mexico. This strategic expansion represents an important milestone in the evolution of Héroux-Devtek, as it significantly enhances our operating flexibility, value proposition to original equipment manufacturers (OEMs) and overall competitiveness. It also makes us a stronger organization, fully capable of meeting growing demand in our core markets and providing customers with value-added products and services at the most optimal cost. Moreover, we expect to benefit from our close proximity with other leading aerospace manufacturers also present in Querétaro.

In the first phase of the project, we are investing up to \$20 million over a three-year period. During this phase, we will mainly manufacture aerostructure components. A subsequent phase could, in due time, expand the plant to 150,000 square feet. Such expansion would eventually provide Héroux-Devtek with the capability to manufacture and assemble aerostructure and landing gear systems.





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#### LEADING PRESENCE IN GROWING MARKETS

Longstanding business relationships, a solid reputation for high-quality products and services as well as on-time delivery place Héroux-Devtek in a favourable position to win additional business in its strategic markets. More importantly, the majority of these markets are expected to grow considerably in the near future.

First, the commercial aerospace market remains vigorous with large aircraft manufacturers' backlogs representing seven to eight years of production at current levels. While we already benefit from production rate increases of leading programs, such as the Airbus 320, Boeing 737 and Boeing 777, several other increases are planned for up to calendar 2014. Moreover, the ramp-up of new programs, such as the Boeing 787 and Bombardier's C Series, will bring further growth opportunities.

In the business jet market, the uncertainty that accompanied the apprehensive economic recovery further extended the decline in industry shipments during calendar 2011. However, as Corporate profits remain strong, the market is poised to enter a growth phase lasting several years. More importantly, this recovery will coincide with the ramp-up of new programs in which we are actively involved through life-cycle mandates.

Meanwhile, the military aerospace market reflects the need for governments to address their budget deficits. However, Héroux-Devtek's strength resides in its extensive diversification, with limited exposure to specific programs, as well as its optimal balance between new component manufacturing and aftermarket products and services. We remain committed to the F-35 Joint Strike Fighter program and we have sufficient capacity and financial resources to proceed with additional investments at such time when such program involves large-scale production.

Finally, our main industrial markets, namely power generation and heavy equipment, grew strongly in fiscal 2012. More importantly, our main customers' order backlogs continue to rise steadily, providing good visibility for the year ahead.



# MESSAGE TO SHAREHOLDERS (CONT'D)

## BUILDING SHAREHOLDER VALUE

In recent years, Héroux-Devtek has been awarded many important long-term contracts to provide high value-added products and services. This includes four life-cycle landing gear design and development contracts as well as several multi-year agreements to deliver complete sub-assemblies. These mandates have widened our portfolio of proprietary products and services as well as our know-how. We are enthusiastically looking forward to an increased contribution to our results from these contracts in the new fiscal year and beyond. These agreements are key elements of shareholder value creation for Héroux-Devtek, as they allow the Corporation to stand apart in a global and competitive market.

Another important source of value creation is our commitment to invest in research and development as well as in engineering with respect to design and manufacturing. We are committed to invest close to 5% of our sales in R&D. These investments are supported by the integration of our state-of-the-art test lab which has considerably strengthened our appeal to OEMs. Héroux-Devtek is increasingly regarded as an integrated service provider and partner, fully capable of providing support throughout the entire life of a program.

## LOOKING CONFIDENTLY TO THE FUTURE

Héroux-Devtek looks to the future with assurance, as we are in a better competitive position than ever before. Our main markets are growing and we have the key elements in place to seize business opportunities that will arise.

Internal development will focus on leveraging the capabilities of our world-class network by increasing the proportion of our business stemming from value-added products and services. Externally, our healthy financial position allows us to consider strategic acquisitions that would add to our product portfolio and provide new technology.

Our talented and dedicated employees are another vital constituent of our success. Their adherence to our "4Rs", our corporate values of Respect, Responsibility, Recognition and Resilience, is central to gaining further ground in our main markets. I would like to extend my most sincere gratitude in recognition of their efforts and thank our Board of Directors for their valuable support through the year. I am also grateful to our business partners for their support and to our shareholders for their confidence in our future.



Gilles Labbé, FCPA, FCA  
President and Chief Executive Officer





LAVAL

DORVAL

LONGUEUIL

KITCHENER

TORONTO

CLEVELAND

SPRINGFIELD

CINCINNATI

ARLINGTON

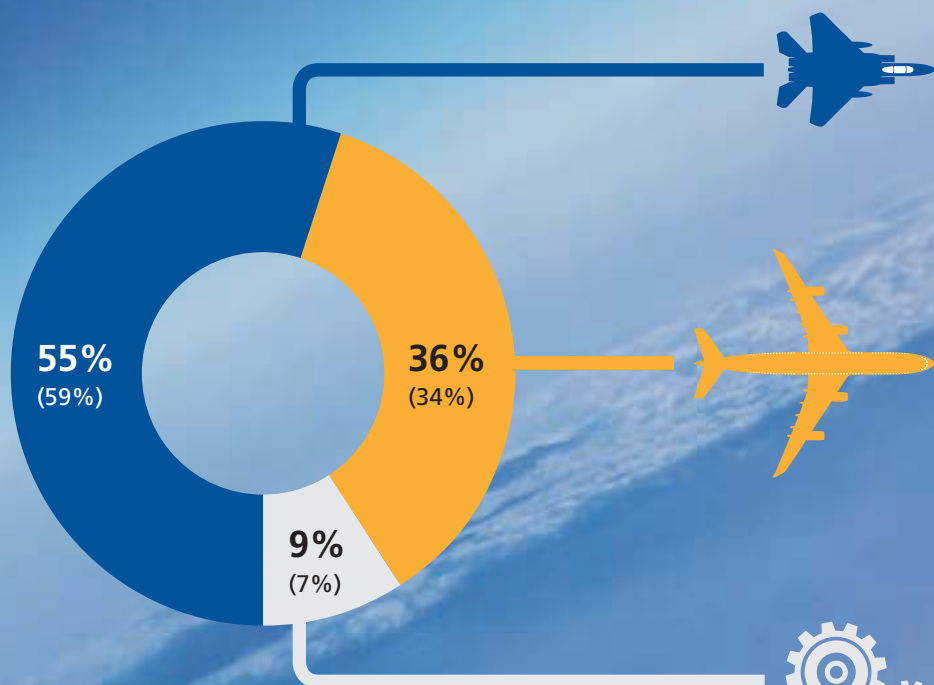
QUERÉTARO

- Landing Gear
  - Aerostructure
  - INDUSTRIAL SEGMENT
- AEROSPACE SEGMENT

# OUR OPERATIONS

# OU OPERATIONS

FISCAL 2012 (FISCAL 2011)



## MILITARY AEROSPACE

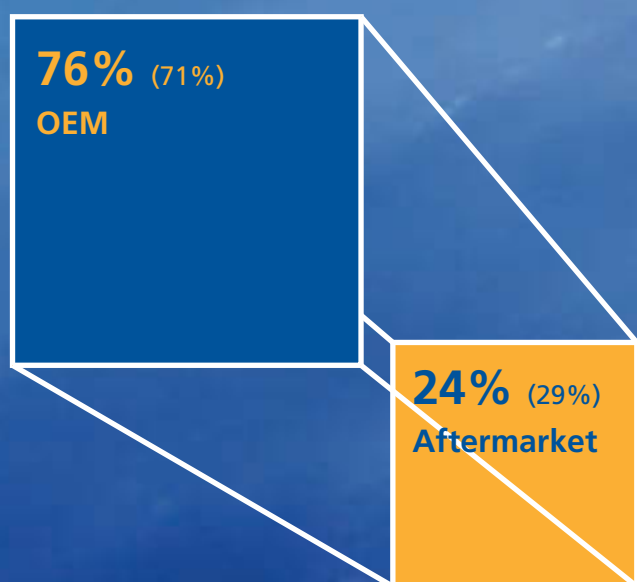
Manufacturing	43%	(47%)
Repair and Overhaul	12%	(12%)

## COMMERCIAL AEROSPACE

Large Commercial	17%	(16%)
Business Jets	9%	(6%)
Regional Jets	4%	(6%)
Helicopters	3%	(4%)
Others	3%	(2%)

## INDUSTRIAL

Gas Turbine	4%	(3%)
Others	5%	(4%)



## FUNDED (FIRM) BACKLOG

as at March 31 (in millions of dollars)



\* Excluding the Landing Gear USA acquisition made in April 2010





# LANDING GEAR

In fiscal 2012, Héroux-Devtek's Landing Gear Product Line recorded another solid performance, as sales grew 6.3% to \$242.3 million. This higher business activity had a favourable effect on the absorption of fixed manufacturing costs which, combined with further efficiency gains, yielded solid profitability.

## MEETING INCREASED DEMAND

During the fiscal year, we successfully responded to customers' requests with regards to production rate increases for several leading large commercial aircraft programs. As such transitions require precise coordination between supply chain participants, our operating flexibility allowed us to proceed efficiently. We are already planning for our customers' future production rate increases, scheduled for up to calendar year 2014.

## DIVERSITY AS OUR MAIN ADVANTAGE

We also reaffirmed our leading position on large military aircraft programs. We were awarded a contract by Lockheed Martin Aeronautics Company to manufacture and assemble the landing gear for Lockheed Martin's global production of C-130J aircraft and provide spare parts over a seven-year period that began in January 2012. Based on program expectations, the contract has a potential value of \$70 million. We also increased our business on other leading programs, such as the CH-47 helicopter program and the JSF. On the latter, Héroux-Devtek's Landing Gear Product Line is producing door uplock mechanisms for which the Corporation holds intellectual property.

More importantly, we are well diversified across a wide range of military programs and our expertise spans a broad spectrum, including manufacturing sub-assemblies and components for new aircraft or aftermarket needs, as well as providing repair and overhaul services. This diversity ensures our business flow remains healthy, even as defense budgets are tightened.

## RECOGNITION OF EXCELLENCE

We continue to progress in regards to the design and development phases of our life-cycle contracts. At present, we have met all critical milestones and remain in line with our customer's schedules. As further evidence of our proficiency, we were awarded, for the second time in three years, the Embraer Suppliers Award – ESC 2011 in the Development Program

*At present, we have met all critical milestones and remain in line with our customer's schedules. As further evidence of our proficiency, we were awarded, for the second time in three years, the Embraer Suppliers Award – ESC 2011 in the Development Program category.*

category. This award recognizes performance excellence in quality, flexibility, deliveries, customer support and development for our involvement in the Legacy 450 and 500 business jet programs.

## OUTLOOK

Héroux-Devtek's worldwide reputation as a reliable provider of high-quality landing gear products and services continues to gather momentum and we are well positioned to grow our presence in our strategic market segments. To sustain our leadership, we will continue to invest in R&D initiatives and in leading-edge equipment.

Looking ahead, we expect to further benefit from increased production rates and the ramp-up of several important commercial and military programs. Recent overseas missions of North American military forces could also be favourable for our aftermarket business, as more aircraft may be scheduled for regular maintenance. More importantly, we believe we can leverage our well-recognized expertise in the military aftermarket to seek out opportunities in commercial aviation.

# AEROSTRUCTURE

## SUSTAINED GROWTH

For the fourth consecutive year, the Aerostructure Product Line exceeded \$100M in sales and, by design, is well-positioned for sustained growth. We added new business on the Learjet 85 to our seven-year long-term agreement (LTA) with Bombardier through 2017, as well as increasingly benefited from new business on the Gulfstream 550 program. In addition, new titanium components awarded on the F-35 program increased our content on the CV (carrier variant) and CTOL (conventional take-off and landing) variants, and will be a valuable addition to our portfolio as the F-35 production rate increases through year 2028. Also important to growth was the opening of our Mexico facility in Querétaro. Inaugurated in November 2011, the facility is now producing machined parts with the same high quality standards that are representative of our brand, but with an enhanced value proposition for our customers. The launch of this facility, which produces commercial products, has improved our balance of commercial and military aerospace products, placing us in a better position to mitigate market risks in either sector.

## VALUE-ADDED ASSEMBLY

In addition to our core machining and brazing business, our focus is clearly placed on expanding the content of value-added assembly, which will increase sales without significant capital investment and provide significant cost saving opportunities for our customers. Recent efforts to increase value-added assembly are now paying off, and Heroux-Devtek will further expand its business on several contracts in FY2013. This additional business comprises both commercial and military platforms, including the F-35 where we should yet again increase our content.

We added new business on the Learjet 85 to our seven-year long-term agreement (LTA) with Bombardier through 2017, as well as increasingly benefited from new business on the Gulfstream 550 program.

## CUSTOMER-FOCUSED OPERATIONS

We gained ground toward our goal of operations excellence in FY2012, including increased emphasis on lean manufacturing and variability reduction in our processes. Our plants are benefiting from best practices shared during quarterly operations council meetings that emphasize volume-leveraged procurements for material and supplies, common CNC (computerized numerically controlled) platforms and methods, and greater awareness and stewardship of environmental health and safety. We continue to offer a strategic advantage for our customers by staying on the forefront of state-of-the-art methods and equipment, with the installation of new Makino T2 equipment. We now have over 60 5-axis spindles for aluminum, aluminum-lithium, and titanium machining – with common equipment in multiple locations. This approach provides excellent risk mitigation for our customers. From a customer standpoint, this provides the advantage of dual or triple-sourcing, with a single customer relations contact.

## OUTLOOK

Our strategy entering FY2013 remains focused on expanding our value-added business offerings, adding new business to strengthen and diversify our portfolio of programs and customers, and making operations excellence a strategic differentiator.

As the economy continues to improve, we expect to benefit from our LTAs, of which more than half of the LTAs are on platforms with strong current and future sales potential. On the customer side, we will continue to build on our strong reputation and focus on meeting customer expectations, delivering on commitments, and providing what our customers and shareholders expect from a well-diversified portfolio of products and services.





# INDUSTRIAL

Generating sales of \$35.0 million, up 36.7% over the previous year, the Industrial Product Line of Héroux-Devtek benefited from ongoing growth in the mining equipment market, as well as accelerating demand from the manufacturers of gas turbine components.

Operating profitability in fiscal 2012 also increased impressively. As the Corporation continued to implement its aggressive cost improvement program, new efficiencies also yielded a significant improvement in operating income, which more than doubled to reach \$8.2 million.

## GROWING DEMAND FOR HEAVY EQUIPMENT

With worldwide demand for natural resources steadily increasing, mining activity expanded during the year in North America, Asia, Brazil and Australia. As a result, the Corporation experienced strong demand for off-highway vehicle and earth-moving equipment parts supplied to OEMs.

Moreover, having participated successfully in new product development with OEMs in the past, the Corporation's record has made it a key supplier when outsourcing opportunities arise. This has led to an expanded product portfolio, and diversified revenue growth.

We expect that mining activity will continue to grow and during that period, we anticipate further growth for our heavy equipment component products.

## POWER GENERATION REBOUND

The Corporation's production of gas turbine components for a major OEM continued to recover strongly during the year. Demand increased by more than 20%. At the same time, we participated with this OEM on two new engines under development. We are thus well positioned for further growth, as these products enter production in the near term.

We also established a relationship with a second global OEM, which has opened a plant in the U.S. and started to form a supply base. In fiscal 2013, we will be completing our development activities for initial production. Approximately half of the Corporation's sales growth in power generation resulted from new product development. Activity in the wind power market, where Héroux-Devtek supplies parts to OEMs in North America, has not yet returned to pre-recession levels and remained flat.

## OUTLOOK

Continued strong growth in the power generation market can be expected in fiscal 2013. In developing countries, movement of populations from rural to urban settings is creating vast new energy requirements. Moreover, as coal-burning plants and nuclear energy installations are increasingly being regarded with disfavor in many parts of the world, abundant natural gas has become a prime alternative.

We expect that mining activity will continue to grow and during that period, we anticipate further growth for our heavy equipment component products. On a general basis, the trend continues among our customers to optimize their supply chains, and this evolution should further benefit our Industrial Product Line.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**John M. Cybulski** †  
Chairman of the Board  
Héroux-Devtek Inc.  
Principal  
Aeroglobe LLC  
Bradenton, Florida (U.S.A.)

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

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

**Paule Doré** †  
Corporate Director  
Montréal, Québec

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

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

**Louis Morin** \*  
President  
Busrel Inc.  
Montréal, Québec

**Brian A. Robbins** \*  
President and  
Chief Executive Officer  
Exco Technologies Limited  
Toronto, Ontario

**Réal Raymond** †  
Consultant  
Montréal, Québec

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

## CORPORATE MANAGEMENT

**Gilles Labbé**  
President and  
Chief Executive Officer  
Longueuil, Québec

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

**Gabriel Duval**  
Vice-President,  
Special Counsel  
Longueuil, Québec

**Dominic Bolduc**  
Director,  
Tax and Corporate Affairs  
Longueuil, Québec

**Patrice Gauvin**  
Vice-President,  
Business Development  
Longueuil, Québec

**Gilbert Guérin**  
Corporate Director,  
Human Resources  
Longueuil, Québec

**Michel Robillard**  
Vice-President,  
Internal Audit and Conformity  
Longueuil, Québec

**Stéphane Arseneault**  
Vice-President,  
Control and Information  
Technology  
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**Martin Brassard**  
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General Manager,  
Landing Gear  
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**Richard Rosenjack**  
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General Manager,  
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**Michael L. Meshay**  
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General Manager,  
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de Querétaro  
Municipio de Colon, Querétaro  
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## INDUSTRIAL

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† Member of Human Resources and Corporate Governance Committee

\* Member of Audit Committee





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

For the fiscal years ended March 31, 2012 and 2011

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# MANAGEMENT DISCUSSION AND ANALYSIS

## OF FINANCIAL POSITION AND OPERATING RESULTS

The purpose of this management discussion and analysis ("MD&A") is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries ("Héroux-Devtek" or the "Corporation") evolved between March 31, 2011 and March 31, 2012. It also compares the operating results and cash flows for the fiscal year ended March 31, 2012 to those for the previous year.

This analysis should be read in conjunction with the Corporation's audited consolidated financial statements dated March 31, 2012. This MD&A is based on our 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.

Effective April 1, 2011, the Corporation adopted IFRS as the Corporation's basis of financial reporting, using April 1, 2010 as the transition date. The audited consolidated financial statements for the fiscal year ended March 31, 2012 have been prepared in accordance with the requirements of the International Financial Reporting Standard 1, first-time Adoption of International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB"). Except where otherwise noted, all prior period comparative figures have been restated to conform to IFRS.

For details on the most significant adjustments to the consolidated financial statements of prior periods, see Note 33 – *Conversion to International Financial Reporting Standards* – of the audited consolidated financial statements for the fiscal year ended March 31, 2012.

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

### FORWARD-LOOKING STATEMENTS

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

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

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

### OVERVIEW

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

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

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

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

Héroux-Devtek serves two segments: Aerospace and Industrial. The Corporation supplies both the commercial and military sectors of the Aerospace segment with landing gear products (including spare parts and repair and overhaul services) and airframe structural components (including kits). In the commercial sector, the Corporation is active in the 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, mainly in the United States.

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

The Corporation's sales by segment are as follows:

	<b>2012</b>	<b>2011</b>
Aerospace	<b>91%</b>	93%
Industrial	<b>9%</b>	7%
	<b>100%</b>	100%

Héroux-Devtek sells mainly to original equipment manufacturers ("OEMs") such as LockheedMartin, Bombardier, Goodrich and Boeing, and into the aftermarket, where its main customers are the US Air Force (USAF) and US Navy. In fiscal 2012, sales to these six customers represented approximately 59% of total consolidated sales. More specifically, the Corporation has one customer representing 18% of its consolidated sales and two customers representing between 13% and 14% of its consolidated sales, all of them in the Aerospace segment.

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

## **BUSINESS MANAGEMENT**

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

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



## **BUSINESS STRATEGY**

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

In practice, this translates into:

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

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

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

## **KEY PERFORMANCE INDICATORS**

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

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

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

<b>Elements measured</b>	<b>Profitability</b>	<b>Liquidity</b>	<b>Growth and competitive positioning</b>	<b>Customer satisfaction</b>	<b>Financial situation and returns</b>
<b>KPIs</b>	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
<b>What is being measured</b>	Measures of operating performance	Measures of liquidity generation	Measures of growth, indicators of future revenue and measures of competitive positioning	Measures of commitments towards customers and product reliability	Measures of solidity of short- and long-term financial position and return to shareholders

Most of these KPIs are discussed later in this MD&A and are also included in the Financial Highlights of the Corporation’s fiscal 2012 Annual Report. Some of these KPIs are not publicly disclosed since they are of a competitive nature.

In last year’s fiscal 2011, the market trend had an obvious impact on the Corporation’s capacity utilization and added pressure on the cost absorption for some of the Corporation’s business units, while this year’s fiscal 2012 benefited from ongoing improvements in the commercial aerospace and industrial markets. On-time delivery and non-quality costs are customers’ satisfaction indicators that are closely monitored by Héroux-Devtek. The Corporation has steadily improved these indicators over recent years and continues to pay close attention to quality matrix and quality reports from its major customers.

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

## **RISK MANAGEMENT**

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

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

## MARKET TRENDS

As economic improvements remained modest in calendar 2011, key indicators in the commercial air transport market were mixed. Demand in the passenger market continued to grow at a healthy pace, with traffic expressed in Revenue Passenger Kilometers (“RPK”) increasing 5.9% over calendar 2010, but freight traffic expressed in Freight Tonne Kilometers (“FTK”) decreased 0.7%<sup>1</sup>. These trends have been sustained in the first three months of calendar 2012 with an increase of 7.4% in RPK and a 0.7% contraction in FTK<sup>2</sup>.

Industry deliveries of large commercial aircraft reached a new record in calendar 2011, with 1,011 aircraft for Airbus and Boeing combined, while net new orders more than doubled to an aggregate amount of 2,224 aircraft<sup>3</sup>. Both manufacturers also announced several production rate increases on leading programs scheduled for calendar years 2012 to 2014<sup>4</sup>. Moreover, their respective backlogs represent approximately seven years of production at current rates.

In the regional aviation market, Embraer delivered 105 aircraft in calendar year 2011<sup>5</sup>, while Bombardier delivered 78 in the 11-month period ended December 31, 2011<sup>6</sup>, including turboprops. With regards to backlogs, volume remained stable for Embraer, while Bombardier experienced a decline.

Business jet deliveries further declined 7.9% in calendar 2011, reaching 703 aircraft. However, certain positive signs continue to suggest improving conditions, such as a 2.9% increase in U.S. business aircraft movements and a year-over-year decrease of approximately 1% in the proportion of the business aircraft fleet for sale<sup>7</sup>.

The military market was stable in calendar year 2011, as governments address their deficits. In the U.S., proposed funding for the fiscal 2013 base defense budget is approximately 1% below enacted funding for fiscal 2012<sup>8</sup>. As to the Joint Strike Fighter F-35 (JSF) program, the U.S. government confirmed it will purchase fewer aircraft over the next five years, but remains committed to buying the same number of aircraft over the life of the program.

Conditions in the Corporation’s main industrial markets remain favourable. In the power generation industry, leading North American equipment manufacturers are reporting further increases in new orders. Backlogs also continue to rise for leading heavy equipment manufacturers<sup>9</sup>.

Finally, fluctuations in the value of the Canadian dollar, which was at parity with the US dollar at fiscal year-end, continued to negatively impact the Corporation’s results.

## MAJOR ACHIEVEMENTS OF FISCAL 2012

- Héroux-Devtek generated record sales and net income in fiscal 2012. Sales reached \$380.3 million, up 6.4% from a year earlier, while net income rose strongly by 38.4% to \$26.5 million, or \$0.86 per share on a fully diluted basis.
- Héroux-Devtek inaugurated a new state-of-the art manufacturing facility located in the Querétaro Aerospace Park, in Mexico. Production at the 47,200 square-foot facility began in December 2011. The first phase of the project represents an investment of up to \$20 million by Héroux-Devtek over a three-year period. In due time, a subsequent phase could see the plant expanded to 150,000 square feet. Such expansion would eventually provide the Corporation with the capability to manufacture and assemble aerostructure and landing gear systems;
- Héroux-Devtek was awarded a seven-year contract by Lockheed Martin Aeronautics to manufacture the landing gear for the C-130J Super Hercules aircraft. Under the terms of the agreement, Héroux-Devtek will manufacture and assemble the landing gear for Lockheed Martin's global production of C-130J aircraft and provide spare parts over a seven-year period that began in January 2012. Based on current program expectations, the contract has a potential value of approximately \$70 million;
- Unionized employees of the Longueuil and Laval Landing Gear products facilities voted in favour of three-year collective agreements which extend through May 1, 2014 and December 31, 2014, respectively;

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1 Source: IATA press release February 1, 2012

2 Source: IATA press release May 2, 2012

3 Sources: Airbus press release January 17, 2012; Boeing press release January 5, 2012

4 Sources: Airbus press releases May 18, 2011; February 3, 2011. Boeing press releases June 15, 2011; Dec. 20, 2010.

5 Source: Embraer press release, January 11, 2012.

6 Source: Bombardier press release, January 23, 2012.

7 Sources: GAMA report April 19, 2012; FAA January 2012 Business Jet Report, JetNet report April 5, 2012

8 Source: U.S. Department of Defense press release February 13, 2012

9 Sources: GE press release April 20, 2012; Caterpillar press release April 25, 2012.



- The Landing Gear products operations were awarded the Embraer Suppliers Award – ESC 2011 in the Development Program category. This award recognizes performance excellence in quality, flexibility, deliveries, customer support and development for Héroux-Devtek's involvement in the Legacy 450 and 500 business jet programs. The Corporation designs and develops the landing gear for these jets as part of a life-cycle contract obtained in July 2008. Héroux-Devtek had won the same award in 2009.

## ACQUISITION OF THE ASSETS OF EAGLE TOOL MACHINE CO. AND OF ITS SUBSIDIARY

As previously disclosed in last year's audited consolidated financial statements, on April 28, 2010, the Corporation announced that it had concluded the acquisition, through a U.S. subsidiary, of substantially all the net assets of U.S.-based Eagle Tool & Machine Co. and of its subsidiary, All Tool Inc., two privately owned manufacturers of precision machined products mainly for the military aerospace industry, with annual sales of approximately \$40 million prior to the acquisition, based on their December 31, 2009 fiscal year-end (see Note 5 to the consolidated financial statements).

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

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

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

Throughout this MD&A, Management has explained the consolidated results which include the results of Landing Gear USA. Last year's results for Landing Gear USA are for the period from April 28, 2010 to March 31, 2011, which is not a full year, when compared to this year. For all significant elements explained, Management has singled out this impact on this year's results to help readers understand the year-over-year change.

## FOREIGN EXCHANGE

The Corporation is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its 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, while the statement of income of foreign operations is translated at the average exchange rate for the fiscal year. 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, 2012 and 2011 and for the fiscal years then ended:

CANADA / US EXCHANGE RATES		2012	2011
Average rate for fiscal year ended	\$ Canadian/ 1 US \$ equivalent	<b>0.9931</b>	1.0164
Closing rate at	\$ Canadian/ 1 US \$ equivalent	<b>0.9975</b>	0.9696

As shown above, the average value of the Canadian dollar when compared to its U.S. counterpart, year-over-year, increased by more than 2% and, naturally, added pressure to the US- denominated sales and results of the Corporation, including those from its Canadian operations. However, the variation in the closing rate since March 31, 2011 had a marginal 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, 2012, the Corporation had forward foreign exchange contracts to sell US\$145.3 million at a weighted-average rate of 1.0620 maturing over the next three fiscal years, with the majority maturing over the next two fiscal years.

At March 31, 2012, the Corporation had also entered into forward foreign exchange contracts to sell US\$4.7 million at a weighted-average rate of 1.2262 all maturing in fiscal 2014, to cover foreign exchange risks (Canadian dollar over US dollar) related to certain embedded derivatives.

## NON-IFRS MEASURES

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

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

(\$'000)	2011
<b>EBITDA – Previous GAAP</b>	<b>54,830</b>
Adjustments:	
Finance leases	1,633
Pension plans	346
Graded method to amortize the cost of granted stock options	211
Time-related discounts applied to provisions	229
Interest accretion on pension plans	(154)
Total adjustments	2,265
<b>EBITDA – IFRS</b>	<b>57,095</b>

## SELECTED ANNUAL FINANCIAL INFORMATION

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

YEARS ENDED MARCH 31 (\$'000, except per share data)	2012 <sup>(1)</sup>	2011 <sup>(1)</sup>	2010 <sup>(2)</sup>
Sales	<b>380,336</b>	357,572	320,354
EBITDA	<b>64,722</b>	57,095	48,437
Net income	<b>26,481</b>	19,129	16,003
Earnings per share (\$) – basic	<b>0.87</b>	0.64	0.52
Earnings per share (\$) – diluted	<b>0.86</b>	0.63	0.52
Total assets	<b>499,107</b>	472,540	394,847
Long-term liabilities (including the current portion of long-term debt)	<b>164,053</b>	152,663	107,796
Cash and cash equivalents	<b>62,007</b>	32,910	46,591

(1) Prepared in accordance with IFRS.

(2) Prepared in accordance with Previous GAAP.

The Corporation's EBITDA is calculated as follows:

YEARS ENDED MARCH 31 (\$'000)	2012 <sup>(1)</sup>	2011 <sup>(1)</sup>	2010 <sup>(2)</sup>
Net income	<b>26,481</b>	19,129	16,003
Income tax expense	<b>7,881</b>	7,045	6,498
Financial expenses	<b>6,307</b>	5,638	4,676
Amortization expense	<b>24,053</b>	24,646	21,260
EBITDA including restructuring charges	<b>64,722</b>	56,458	48,437
Restructuring charges	—	637	—
<b>EBITDA</b>	<b>64,722</b>	<b>57,095</b>	<b>48,437</b>

(1) Prepared in accordance with IFRS.

(2) Prepared in accordance with Previous GAAP.

The \$7.6 million increase in EBITDA from fiscal 2011 to fiscal 2012 is essentially explained by an increase in net income and the related income tax expense as a result of higher sales volume and improved gross profit.

## CONSOLIDATED SALES

Consolidated sales totalled \$380.3 million, 6.4% higher than last year's sales of \$357.6 million. This favourable variation in sales of \$22.8 million includes the following:

- A \$26.4 million or 7.4% increase in sales, mainly as a result of increased production rates in the commercial markets of the Aerospace segment and higher customer demand in the Industrial segment.
- A \$4.4 million or 1.2% favourable impact as a result of having a full twelve-month period this year at Landing Gear USA (acquisition of Eagle Tool & Machine Co. and of its subsidiary, All Tool Inc., closed on April 28, 2010 in the last fiscal year).
- A partial offset of \$8.0 million or 2.2%, caused by the unfavourable currency impact resulting from a stronger Canadian dollar, when compared to the US currency.

The Corporation's sales by segment were as follows:

	2012 (\$'000)	2011 (\$'000)	Variance	
			(\$'000)	%
Total Aerospace	345,371	331,993	13,378	4.0
Total Industrial	34,965	25,579	9,386	36.7
<b>Total</b>	<b>380,336</b>	<b>357,572</b>	<b>22,764</b>	<b>6.4</b>

This fiscal year, the increase in Aerospace sales of \$13.4 million or 4.0% to \$345.4 million, when compared to last year, is shown net of a negative US/CAD currency impact of \$7.2 million or 2.2%. The increase in sales also includes the additional \$4.4 million in sales resulting from having a full year in Landing Gear USA. As to the Industrial segment this fiscal year, sales increased by \$9.4 million or 36.7% to \$35.0 million, when compared to last year. This increase in Industrial sales is the result of increased heavy equipment and also gas turbine product sales.

### Aerospace Segment

Sales for the Aerospace segment were as follows:

PRODUCT LINES	2012 (\$'000)	2011 (\$'000)	Variance	
			(\$'000)	%
Landing Gear	242,283	227,928	14,355	6.3
Aerostructure	102,184	103,465	(1,281)	(1.2)
Other aerospace products	904	600	304	50.7
<b>Total</b>	<b>345,371</b>	<b>331,993</b>	<b>13,378</b>	<b>4.0</b>

Landing Gear product line's sales increased by \$14.4 million or 6.3% to \$242.3 million, when compared to last year. This is the result of increased production rates on business jet and also large commercial programs, mainly the B-777 and A-320, and from higher military products customer requirements. This increase was partially offset by lower customer demand in regional jet and certain commercial helicopter markets and by the negative US/CAD currency impact on this product line's U.S.-denominated sales. This fiscal year's sales also include a \$4.4 million or 1.9% favourable impact, as a result of having a full year in Landing Gear USA.

Aerostructure product line sales decreased by \$1.3 million or 1.2% to \$102.2 million, when compared to last year. The increase in sales resulting from the business jet programs, which include the new business on the Gulfstream (GV) program, the production ramp-ups on the Joint Strike Fighter ("JSF") F-35 and B-429 helicopter program were more than offset by the lower customer requirements on certain military programs and the lower production rates on the regional turboprop Dash 8 program and also by the negative US/CAD currency impact on this product line's U.S.-denominated sales.



Sales for the Aerospace segment can be broken down by sector as follows:

	2012 (\$'000)	2011 (\$'000)	Variance	
			(\$'000)	%
Military <sup>(1)</sup>	210,861	209,921	940	0.4
Commercial	134,510	122,072	12,438	10.2
<b>Total Aerospace</b>	<b>345,371</b>	<b>331,993</b>	<b>13,378</b>	<b>4.0</b>

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

Military sales were \$0.9 million or 0.4% higher this year to \$210.9 million, when compared to last year. As mentioned above, military sales reflect the increase in JSF sales and include \$4.4 million or a 2.1% favourable impact on sales, resulting from having a full year of Landing Gear USA sales. This increase was partially offset by lower customer requirements mainly on the F-16 aftermarket program as well as the F-22 program which is coming to an end.

Commercial sales were \$12.4 million or 10.2% higher this year to \$134.5 million, despite the negative US/CAD currency impact. This increase is the result of higher production rates in large commercial, business jet and the B-429 helicopter programs, in addition to the new Gulfstream (GV) business partially offset by lower customer requirements in regional aircraft and in other helicopter programs.

#### Industrial Segment

Sales for the Industrial segment were as follows:

	2012 (\$'000)	2011 (\$'000)	Variance	
			(\$'000)	%
Gas Turbine	14,748	10,655	4,093	38.4
Other Industrial	20,217	14,924	5,293	35.5
<b>Total</b>	<b>34,965</b>	<b>25,579</b>	<b>9,386</b>	<b>36.7</b>

For the fiscal year ended March 31, 2012, Industrial sales were higher than last year, boosted by higher demand in the Gas Turbine sector, and by Other Industrial sales for heavy equipment in the mining industry.

#### Sales by Destination

The Corporation's sales by destination were as follows:

	2012 (%)	2011 (%)
Canada	26	26
US	70	70
International	4	4
<b>Total</b>	<b>100</b>	<b>100</b>

As shown above, there are no changes in the sales-by-destination mix year-over-year.

## GROSS PROFIT

Consolidated gross profit as a percentage of sales increased by 1.5% to 17.8% this fiscal year, when compared to last year. This mainly resulted from the Corporation's overall increase in sales, which allowed for an increased absorption of manufacturing overhead costs, a better product mix in the Aerospace segment combined with certain manufacturing cost improvements in both business segments of the Corporation. This fiscal year, the negative impact on gross profit for start-up costs incurred for the establishment of the new Mexico facility was \$0.8 million or 0.2% of sales.

The US/CAD currency fluctuations negatively impacted the Corporation's gross profit in dollars this year by \$3.5 million or 0.5%, when compared to last year and expressed as a percentage of sales. Besides the natural hedging from the purchase of raw material in US dollars, the Corporation mitigates the currency impact by the use of forward foreign exchange contracts.

In the Aerospace segment, Landing Gear product line's gross profit in dollars and as a percentage of sales was higher this fiscal year, compared to last year, mainly as a result of higher sales and a better product mix. The Aerostructure product line's gross profit in dollars and as a percentage of sales was lower this fiscal year, compared to last year, mainly resulting from the start-up costs incurred this year for the implementation of the new Mexico facility and higher initial manufacturing costs incurred in the production of components for certain new programs.

In the Industrial segment, the gross profit margins in dollars and as a percentage of sales improved significantly, when compared to last year. This is the result of the increase in sales and higher absorption of manufacturing overhead costs combined with the impact from the continuous manufacturing improvement initiatives realized this year.

## SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses were as follows:

	2012	2011
Selling and administrative expenses (\$'000)	26,961	25,829
% of sales	7.1	7.2

Selling and administrative expenses stood at \$27.0 million or 7.1% of sales for the fiscal year ended March 31, 2012, and include \$0.5 million of costs incurred for the start-up of the new Mexico facility. In addition, this fiscal year's expenses reflect the impact of having a full year for Landing Gear USA, when compared to last year, and the increased professional fees incurred for certain specific projects. Selling and administrative expenses include a gain on currency translation on net monetary assets of \$0.3 million this fiscal year, compared to a loss of \$0.4 million last year.

## OPERATING INCOME

Consolidated operating income stood at \$40.7 million or 10.7% of sales for the fiscal year ended March 31, 2012, up \$8.3 million or 1.6% of sales from \$32.4 million or 9.1% of sales last year. This is the result of higher sales and gross profit in both Aerospace and Industrial segments, as explained above.

### *Aerospace Segment*

Aerospace operating income was \$32.4 million or 9.4% of sales this fiscal year, compared to \$28.7 million or 8.7% of sales last year. Excluding the impact of the new Mexico facility start-up costs this year of \$1.4 million, partially offset by the favourable impact of having a full year from Landing Gear USA of \$0.2 million, the Aerospace segment's operating income was \$33.6 million or 9.7% of sales for the fiscal year ended March 31, 2012, an increase of \$4.9 million or 1.0% of sales from last year's operating income. The increased operating income reflects the impact of increased sales and gross profit and a better product sales mix as already explained above.

### *Industrial Segment*

Operating income increased to \$8.2 million or 23.5% of sales, compared to \$3.7 million or 14.5% of sales last year. The higher operating income this fiscal year reflects the increased gross margin resulting from higher sales, the better absorption of manufacturing overhead costs and the impact from the continuous manufacturing improvements already explained above.

## FINANCIAL EXPENSES

	2012 (\$'000)	2011 (\$'000)
Interest expense	3,479	3,095
Interest accretion on governmental authorities loans	1,568	1,330
Interest rate swap agreements buy-out	—	406
Amortization of deferred financing costs	440	350
Standby fees	401	220
Other interest accretion expense and discount rate adjustments	595	305
Gain on financial instruments classified as held-for-trading - Interest income	(176)	(68)
<b>Total</b>	<b>6,307</b>	<b>5,638</b>

Financial expenses stood at \$6.3 million for the fiscal year, while it stood at \$5.6 million last year. The additional financial expenses this fiscal year compared to last year, reflects the higher governmental authorities' loans and higher obligation under finance leases level year-over-year. It also reflects higher discount rate adjustments on provisions and a higher amortization of deferred financing costs and stand-by fee expenses, following the renewal of the Corporation's Credit Facility in March 2011 (see Note 19 to the consolidated financial statements). Last year's financial expenses included costs of \$0.4 million associated to the buyout of two interest rate swap agreements when the Corporation's Credit facility was renewed.

## RESTRUCTURING CHARGES

Last year, on May 13, 2010, the Corporation launched an initiative to optimize and consolidate production capacity in its Aerospace segment, while further enhancing productivity at its Québec-based facilities. Consequently, the Corporation's Rivière-des-Prairies, Québec, facility was closed in September 2010 and its production was transferred to the Corporation's other facilities in the Greater Montreal area. Last year, the Corporation recorded restructuring charges of \$0.6 million (\$0.4 million, net of income taxes). At March 31, 2012, the building related to this facility was classified as Asset held for sale in the Corporation's Consolidated Balance Sheets (see Note 8 to the consolidated financial statements).

## INCOME TAX EXPENSE

For the fiscal year ended March 31, 2012, the income tax expense stood at \$7.9 million, compared to \$7.0 million last year.

This fiscal year, the Corporation's effective income tax rate was 22.9%, compared to its Canadian blended statutory income tax rate of 27.4%. The effective income tax rate reflects the favourable impact from permanent differences (\$1.6 million), and favourable deferred income tax adjustments (\$0.8 million), partially offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries (\$0.8 million).

Last year, the Corporation's effective income tax rate was 26.9%, compared to the Corporation's Canadian blended statutory income tax rate of 28.7%. The difference can be explained by the favourable impact on the Corporation's effective income tax rate coming from permanent differences (\$0.5 million), by favourable tax adjustments, following the conclusion of a prior tax audit and changes in the Canadian income tax rate (\$0.5 million) partially offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries (\$0.5 million).

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

As at March 31, 2012 and 2011, there were no operating losses carried forward and no other temporary differences for which related income tax assets have not been recognized in the consolidated financial statements.

As at March 31, 2012, the Corporation had federal non-capital losses available for carry-forward of \$5.4 million (\$1.6 million as at March 31, 2011 and \$7.2 million as at April 1, 2010), with the majority expiring in fiscal 2031.

## NET INCOME

For the fiscal year ended March 31, 2012, the Corporation posted a net income of \$26.5 million or 7.0% of sales, compared to a net income of \$19.1 million or 5.3% of sales last year, reflecting the increased operating income in % of sales in both segments of the Corporation. Last year's net income is shown net of restructuring charges incurred for the closing of a facility, as already explained above. This fiscal year, net income includes \$1.0 million of costs, net of taxes, incurred in conjunction with the start-up of the new Mexico facility. The Corporation began manufacturing the first production parts in this new facility and generated revenues of \$0.7 million during the fourth quarter of this fiscal year.

	2012	2011
Net income (\$ million)	26.5	19.1
Earnings per share – basic (\$)	0.87	0.64
Earnings per share – diluted (\$)	0.86	0.63

Basic earnings per share figures are based on year-to-date weighted-averages of 30,356,946 common shares outstanding for fiscal year 2012, and 30,112,464 common shares for last year, while the diluted earnings per share figures are based on weighted-averages of 30,682,063 for fiscal 2012 and 30,219,597 for last year. The increase in the number of outstanding common shares this fiscal year is essentially due to the issuance of 223,656 common shares under the Corporation's stock option plan and 44,916 common shares under the Corporation's stock purchase and ownership incentive plan ("Stock Purchase Plan") (see Note 21 to the consolidated financial statements).



On May 24, 2012, the date of this MD&A, the Corporation had 30,449,495 common shares and 1,411,344 stock options outstanding with a weighted-average of 3.3 years to maturity.

## OTHER ACCUMULATED COMPREHENSIVE INCOME (“OACI”) AND COMPREHENSIVE INCOME

For the fiscal year ended March 31, 2012, the appreciation of the US currency versus the Canadian currency had a positive impact on the Corporation's gain arising from translating the financial statements of foreign operations, while it had a negative impact on the net losses on the valuation of the Corporation's derivative financial instruments measured at fair value, and on the net losses on hedge of net investments in U.S. operations. In addition, the lower than expected return on plan assets of the Corporation's defined benefit pension plans and the lower interest rate to discount the defined benefit obligations negatively impacted the net actuarial losses. These variations significantly impacted the Corporation's OACI and the related comprehensive income for fiscal 2012.

## LIQUIDITY AND CAPITAL RESOURCES

### *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. In March 2011, the Corporation renewed and increased its Senior Secured Syndicated Revolving Credit Facilities through one Senior Secured Syndicated Revolving Credit Facility (“Credit Facility”) with a syndicate of five Canadian Banks and their US affiliates or branches, and a Canadian branch of a U.S. Bank. This Credit Facility allows the Corporation and its subsidiaries to borrow up to \$150 million, either in Canadian or US currency equivalent and will mature in March 2016 (see Note 19 to the consolidated financial statements). It also includes an accordion feature to increase the Credit Facility up to \$225 million, during the term of the Credit Agreement, subject to approval by the lenders. To March 31, 2012, only CAD \$59.4 million (US\$59.5 million) had been drawn against this Credit Facility. 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, 2012, the Corporation had cash and cash equivalents of \$62.0 million, compared to \$32.9 million as at March 31, 2011, of which \$39.9 million (\$25.1 million at March 31, 2011) had been invested in short-term deposits with its syndicated banks.

### *Operating Activities*

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

	2012 (\$'000)	2011 (\$'000)
Cash flows from operations	55,905	50,392
Net change in non-cash items related to operations	(6,387)	(19,580)
Cash flows related to operating activities	<b>49,518</b>	<b>30,812</b>

The \$5.5 million increase in cash flows from operations for the fiscal year ended March 31, 2012 is essentially explained by the \$7.4 million increase in net income, partially offset by a lower deferred income tax expense of \$2.0 million.

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

	2012 (\$'000)	2011 (\$'000)
Accounts receivable	2,946	(18,187)
Inventories	(486)	17,799
Progress billings	(9,460)	(16,785)
Provisions	432	(1,144)
All others	181	(1,263)
	<b>(6,387)</b>	<b>(19,580)</b>

For the fiscal year ended March 31, 2012, the decrease in accounts receivable mainly results from the decrease of days in accounts receivable, which is explained by the continued accounts receivable good collection effort. This decrease was partially offset by the impact of a higher US/CAD foreign exchange closing rate used to convert the U.S.-denominated accounts receivable year-end balances. The reduction in progress billings reflects a higher commercial funded backlog business mix, compared to military and a reduced backlog on certain military programs.

For the fiscal year ended March 31, 2011, the higher level of business activity in fiscal 2011, when compared to fiscal 2010, increased the year-over-year accounts receivable balance. The decrease in inventories and associated progress billings reflect the impact of a lower US/CAD foreign exchange closing rate used to convert the Corporation's U.S. subsidiaries' year-end balances and is also the result of manufacturing improvements made to reduce inventory levels.

#### Investing Activities

The Corporation's investing activities were as follows:

	<b>2012</b>	<b>2011</b>
	<b>(\$'000)</b>	<b>(\$'000)</b>
Additions to property, plant and equipment	<b>(14,923)</b>	(19,646)
Net increase in finite-life intangible assets	<b>(8,196)</b>	(7,980)
Proceeds on disposal of property, plant and equipment	<b>438</b>	139
Business acquisition	<b>—</b>	(28,813)
Cash flows relating to investing activities	<b>(22,681)</b>	<b>(56,300)</b>

On April 28, 2010, the Corporation invested \$28.8 million to acquire substantially all the net assets of Landing Gear USA (see Note 5 to the consolidated financial statements).

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

	<b>2012</b>	<b>2011</b>
	<b>(\$'000)</b>	<b>(\$'000)</b>
Gross additions made during the year (see note 14 to the consolidated financial statements)	<b>25,661</b>	25,343
Government assistance	<b>(2,251)</b>	(1,569)
Additions, as per segment information (see note 28 to the consolidated financial statements)	<b>23,410</b>	23,774
Variation in unpaid additions included in Accounts payable – Other at year-end	<b>1,118</b>	(4,128)
Machinery and equipment acquired through finance leases	<b>(9,605)</b>	—
Additions, as per statements of cash flows	<b>14,923</b>	<b>19,646</b>

In fiscal 2012, the additions to property, plant and equipment include a \$3.8 million investment in relation to the new Mexico facility and \$2.9 million for the purchase of a new facility in Cleveland. The Landing Gear USA - Cleveland operations will be transferred from the current leased facility to the new building in the first quarter of fiscal 2013 and no major cost impact is anticipated, as a result of this transfer.

The additions to property, plant and equipment in fiscal 2011 include the costs associated to the JSF building extension at the Corporation's Arlington, Texas plant and the related machinery and equipment, and also the investment in a new test laboratory facility in St-Hubert, Quebec related to the Landing Gear testing equipment required to support Aerospace programs.

Capital expenditures for fiscal 2013 are expected to be about \$25 million, including \$3 million related to the new Mexico facility.

Increase in finite-life intangible assets represents capitalized development costs for long-term Aerospace contracts, essentially for business jet programs. Sales related to these programs are anticipated to begin in late fiscal 2013 and will gradually increase over the next five years.

## Financing Activities

The Corporation's financing activities were as follows:

	2012 (\$'000)	2011 (\$'000)
Increase in long-term debt	6,983	23,727
Repayment of long-term debt	(6,785)	(6,641)
Increase in deferred financing costs	—	(2,198)
Repurchase of common shares	—	(3,570)
Issuance of common shares	1,379	1,474
Cash flows relating to financing activities	1,577	12,792

For the fiscal year ended March 31, 2012, the increase in long-term debt reflects new governmental authorities loans received mainly to support the Corporation's development costs for Aerospace programs. Last year's increase in long-term debt represents the drawing of US\$16.5 million from the Corporation's Credit Facility to finance the acquisition of Landing Gear USA and governmental authorities loans received.

This year and last year's repayment of long-term debt includes the repayment of governmental authorities loans, finance leases for machinery and equipment and of a promissory note which was issued in relation to the acquisition of Landing Gear USA.

During the fiscal year ended March 31, 2012, the Corporation issued 223,656 common shares following the exercise of stock options for a total cash consideration of \$1,061,000. The Corporation also issued 44,916 common shares under its stock purchase plan during the fiscal year ended March 31, 2012, for a total cash consideration of \$318,000.

During the fiscal year ended March 31, 2011, the Corporation issued 245,221 common shares, following the exercise of stock options, for a cash consideration of \$1,144,000, while it repurchased 617,700 common shares under the normal course issuer bid, launched in November 2009 ("NCIB") for a total cash consideration of \$3,570,000. The Corporation also issued 60,802 common shares under its stock purchase plan for a total cash consideration of \$330,000 (see Note 21 to the consolidated financial statements).

At March 31, 2012, the Corporation was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants through the next 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:

	2012 (\$'000)	2011 (\$'000)	2010 (\$'000)
Funded status of the plans (deficit)	(8,061)	(3,122)	(3,089)

The pension plan deficit of \$8.1 million at March 31, 2012 excludes \$4.7 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.

During the fiscal year ended March 31, 2012, the Corporation decided to gradually fund certain unfunded defined benefit pension plans over a five-year period.

At March 31, 2012, the discount rate assumptions used to determine the defined benefit obligations for registered and unregistered defined benefit pension plans was 5.0%, compared to 5.6% a year earlier. This reduction in the discount rate increased the pension plan obligations by \$2.4 million (see Note 24 to the consolidated financial statements).

At March 31, 2012, the contributions expected to be paid to all defined benefit pension plans in fiscal 2013 amount to \$4.0 million, while the total minimum funding requirements for the registered defined benefit pension plans over the next five years represents \$7.7 million.



## NORMAL COURSE ISSUER BID

In fiscal 2010, on November 25, 2009, the Corporation launched a new NCIB, with the approval of the Toronto Stock Exchange (TSX). Under the terms of the NCIB, the Corporation could acquire up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding common shares of the Corporation as of November 19, 2009. The NCIB terminated on November 24, 2010. During that period, the Corporation repurchased 711,100 common shares at an average net price of \$5.68 per share for a total cash consideration of \$4.0 million (see Note 21 to the consolidated financial statements).

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

## CAPITAL STOCK, STOCK OPTION AND STOCK PURCHASE PLANS

At March 31, 2012, the Corporation had 30,442,370 common shares outstanding (30,173,798 as at March 31, 2011).

During fiscal 2012, the Corporation issued 223,656 common shares following the exercise of stock options at a weighted-average price of \$4.75 for a total cash consideration of \$1,061,000 and also issued 44,916 common shares, under the Corporation's stock purchase plan at a weighted-average price of \$7.08 for a total cash consideration of \$318,000.

During fiscal 2011, the Corporation issued 245,221 common shares, following the exercise of stock options at a weighted-average price of \$4.66 for a total cash consideration of \$1,144,000 and also issued 60,802 common shares under the Corporation's stock purchase plan at a weighted-average price of \$5.45 for a total cash consideration of \$330,000.

At March 31, 2012, 1,411,344 stock options were issued and outstanding with a weighted-average of 3.5 years to maturity and a weighted-average exercise price of \$6.48 (see Note 21 to the consolidated financial statements).

During the fiscal year ended March 31, 2012, the aggregate number of shares available for future granting or issuance under the Stock Option and Stock Purchase plans have been replenished, due to the limited number of common shares remaining under these plans and following the approval by the shareholders of the Corporation at the Annual and Special Meeting held on August 4, 2011. The total number of common shares available for future granting or to be issued under these plans, immediately following the approval of the Corporation's shareholders, were as follows:

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

At March 31, 2012, 2,784,924 common shares had not been issued yet under the Stock Option Plan and 308,754 common shares had not been issued yet under the Stock Purchase Plan.

## STOCK APPRECIATION RIGHT AND DEFERRED SHARE UNIT PLANS

Until August 2010, the Corporation had a Stock Appreciation Right ("SAR") plan where rights were issued to its non-employee directors. Although the SAR plan has since been replaced by a Deferred Share Unit ("DSU") plan effectively approved in May 2011 by the Corporation's Board of Directors, outstanding SARs issued prior to August 2010 are still in effect. At March 31, 2012, 130,500 SARs were still outstanding at a weighted-average granted price of \$6.32, which expire on various dates from fiscal 2013 to 2016. For the fiscal year ended March 31, 2012, 12,500 SARs were exercised at an exercise price of \$5.00, since they were about to mature.

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

The DSU enables the participants to receive compensation at the termination date, as a member of the Board of Directors, a cash amount equal to the quoted price of the Corporation's common share for each DSU. These DSUs are expensed on an earned basis and their costs are determined using a valuation model and 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.

During the fiscal year ended March 31, 2012, the Corporation issued 37,718 DSUs, including 15,172 DSUs related to fiscal 2011.

For the fiscal year ended March 31, 2012, SAR reversal of expense amounted to \$43,000 (expense of \$410,000 in 2011) while DSU expense amounted to \$164,000 (\$138,000 in 2011) (see Note 21 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, 2011 and March 31, 2012:

Item	Change (\$ million)	Explanation
Cash and cash equivalents	29.1	See consolidated statements of cash flows.
Accounts receivable	(2.9)	Decrease of days in accounts receivable explained by the continued good accounts receivable collection effort. This decrease was partially offset by the impact of a higher US/CAD exchange rate used to convert U.S.-denominated accounts receivable, when compared to last year (\$1.4 million).
Inventories	0.5	The increase mainly reflects the higher US/CAD exchange rate used to convert the inventories of the U.S. subsidiaries (\$1.2 million).
Derivative financial instruments (current assets)	(4.5)	Reflects the variation in the Corporation's balance sheets of short-term derivative financial instruments measured at fair value. The decrease is mainly the result, year-over-year, of a lower differential between the weighted-average US/CAD rates of forward foreign exchange contracts on hand and the closing rate used, both as of the balance sheet dates.
Other current assets	1.8	This variation is mostly the result of an increase of \$2.4 million in investment and other tax credits receivable, which is consistent with increased eligible development costs for Aerospace long-term contracts.
Property, plant and equipment, net	2.5	Due to: <ul style="list-style-type: none"> <li>• Purchases of property, plant and equipment of \$23.4 million;</li> <li>• A higher US/CAD exchange rate used to convert the net assets of U.S. subsidiaries (\$1.5 million).</li> </ul> Net of: <ul style="list-style-type: none"> <li>• Amortization expense (\$21.8 million);</li> <li>• Disposal of fixed assets (\$0.6 million).</li> </ul>
Finite-life intangible assets, net (includes a \$2.1 million backlog, net)	6.0	Due to: <ul style="list-style-type: none"> <li>• An increase in capitalized development costs for Aerospace long-term contracts (\$7.6 million);</li> <li>• An increase in software (\$0.6 million);</li> <li>• A higher US/CAD exchange rate used to convert the net assets of U.S. subsidiaries (\$0.1 million).</li> </ul> Net of: <ul style="list-style-type: none"> <li>• Amortization expense on the underlying value of the backlog (\$1.3 million);</li> <li>• Amortization expense of capitalized development costs and software (\$1.0 million).</li> </ul>
Derivative financial instruments (long-term assets)	(6.9)	Reflects the variation in the Corporation's balance sheets of long-term derivative financial instruments measured at fair value. The decrease is mainly the result, year-over-year, of a lower differential between the weighted-average US/CAD rates of forward foreign exchange contracts on hand and the closing rate used, both as of the balance sheet dates.

<b>Item</b>	<b>Change (\$ million)</b>	<b>Explanation</b>
Accounts payable and accrued liabilities	3.7	Increase resulting from higher fourth quarter sales volume, when compared to last year, combined with the impact of a higher US/CAD exchange rate used to convert the U.S.-denominated accounts payable and accrued liabilities, when compared to last year (\$0.6 million).
Accounts payable – other	(1.1)	Decrease reflecting lower unpaid portion of property, plant and equipment additions.
Progress billings (current and long-term)	(9.5)	The reduction in progress billings mainly reflects a higher commercial funded backlog business mix, compared to military and a reduced backlog on certain military programs. This reduction was partially offset by the impact of a higher US/CAD exchange rate used to convert the progress billings denominated in US dollars for the U.S. subsidiaries (\$0.4 million).
Long-term debt (including current portion)	13.6	<p>Due to:</p> <ul style="list-style-type: none"> <li>• Governmental authorities loans received to support Aerospace development program investments (\$7.1 million);</li> <li>• New finance leases (\$9.6 million);</li> <li>• Interest accretion on governmental authorities loans (\$1.6 million);</li> <li>• Amortization of deferred financing costs related to the new financing structure (\$0.4 million);</li> <li>• A higher US/CAD exchange rate used to convert the long-term debt denominated in US dollars (\$1.7 million).</li> </ul> <p>Net of:</p> <ul style="list-style-type: none"> <li>• Capital repayments of long-term debt (\$6.8 million).</li> </ul>
Derivative financial instruments (long-term liabilities)	1.5	Reflects the variation in the Corporation's balance sheets of long-term derivative financial instruments measured at fair value. The increase is mainly the result of a lower interest rate used at year-end to evaluate the fair value of interest-rate swap agreements, when compared to last year.
Issued capital	2.1	Represents the common shares issued under the Corporation's Stock Option plan, following the exercise of stock options (\$1.8 million) and under the Stock Purchase plan (\$0.3 million).
Accumulated other comprehensive income	(7.4)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of foreign operations and on hedge of net investments in U.S. operations, combined with the net gains (losses), net of taxes, on the fair value of the financial instruments designated as cash flow hedges.
Retained earnings	25.1	The increase reflects the Corporation's net income for the fiscal year ended March 31, 2012, partially offset by the defined benefit actuarial losses and the net change in asset limit and minimum funding requirements of the Corporation's defined benefit pension plans for the fiscal year ended March 31, 2012.



At March 31, 2012 and March 31, 2011, the Corporation's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio<sup>(1)</sup> were as follows:

	MARCH 31, 2012	MARCH 31, 2011
Working capital ratio	<b>2.76:1</b>	2.52:1
Cash and cash equivalents	<b>\$62.0 million</b>	\$32.9 million
Long-term debt-to-equity ratio	<b>0.44:1</b>	0.44:1
Net debt-to-equity ratio <sup>(1)</sup>	<b>0.23:1</b>	0.32:1

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

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

CONTRACTUAL OBLIGATIONS (\$'000)	PAYMENTS DUE BY PERIOD				
	TOTAL	1 YEAR	2-3 YEARS	4-5 YEARS	AFTER 5 YEARS
Governmental authorities loans (including the effective accumulated interest expense)	<b>48,595</b>	3,367	5,698	8,720	30,810
Finance leases (including interest expense)	<b>28,023</b>	7,661	11,420	6,202	2,740
Promissory note (including interest expense)	<b>1,596</b>	1,197	399	—	—
Credit Facility	<b>59,351</b>	—	—	59,351	—
<b>Sub-Total</b>	<b>137,565</b>	<b>12,225</b>	<b>17,517</b>	<b>74,273</b>	<b>33,550</b>
Building, machinery and equipment acquisition commitments	<b>2,843</b>	2,843	—	—	—
Operating leases – Buildings and facilities	<b>4,315</b>	929	1,117	669	1,600
<b>Total contractual obligations</b>	<b>144,723</b>	<b>15,997</b>	<b>18,634</b>	<b>74,942</b>	<b>35,150</b>

## GOVERNMENT ASSISTANCE

For fiscal 2012, the Corporation recorded as a reduction of cost of sales an amount of \$4.9 million (\$2.4 million last year), and as a reduction of the related capital expenditures or capitalized development costs, an amount of \$5.1 million (\$3.9 million last year) for government assistance.

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

## DERIVATIVES, OFF-BALANCE-SHEET ITEMS AND COMMITMENTS

As at March 31, 2012, the Corporation had operating lease obligations amounting to \$4.3 million for buildings and facilities. These amounts are repayable over the next ten fiscal years. The Corporation also had machinery and equipment purchase commitments totalling \$2.8 million (see Note 25 to the consolidated financial statements).

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, 2012, the Corporation had forward foreign exchange contracts with Canadian chartered banks to sell US\$145.3 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.0620. These contracts relate mainly to its export sales, and mature at various dates between April 2012 and March 2015, but mainly over the next two fiscal years (see Note 31 to the consolidated financial statements). This compares to US\$159.0 million in forward foreign exchange contracts held at March 31, 2011, at a weighted-average exchange rate of 1.1032.

At March 31, 2012, the Corporation had also entered into forward foreign exchange contracts to sell US\$4.7 million at a weighted-average rate (Canadian dollar over US dollar) of 1.2262 (\$US7.7 million at a weighted-average rate of 1.2343 at March 31, 2011). These contracts cover foreign exchange risks related to certain embedded derivatives and all mature in fiscal 2014.

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

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, the Corporation designated certain long-term debt as hedge of its net investments in U.S. operations. This designation was still in effect as at March 31, 2012.

## **FINANCIAL AND ECONOMIC SITUATION**

Modest improvements in the global economy had a positive effect on most of the Corporation's strategic markets in its 2012 fiscal year. However, in the large commercial aircraft market, manufacturers have announced several production rate increases for leading programs stretching out to calendar 2014, while most of the Corporation's key industrial markets are gathering further momentum. Meanwhile, the military aerospace market has stabilized, as governments are addressing their deficits. However, the economy remains fragile because of the debt situation of several countries and geopolitical instability in certain regions. Consequently, Héroux-Devtek continues to carefully monitor its strategy and risk management.

While the Corporation's backlog remains strong, deferrals or cancellations of purchase orders could have an adverse impact on future results. The Corporation is striving to maintain a well-balanced portfolio between commercial and military Aerospace segment sales, 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.

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

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

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

## **CRITICAL ACCOUNTING ESTIMATES**

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 hereinafter.

### *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 three-year budget and strategic plan and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the perpetual growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in Note 16 to the consolidated financial statements.

### *Stock-based compensation*

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

### *Deferred income tax assets*

Deferred income tax assets are recognized for unused tax losses to the extent it is probable that taxable income will be available 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 defined benefit pension plans' cost is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. In determining appropriate discount rates, management considers the interest rates of high-quality corporate bonds. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The significant assumptions used to determine the defined benefit obligations and the pension expenses, including a sensitivity analysis, are further explained in Note 24 to the consolidated financial statements.

### *Capitalized development costs*

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

Recovery of these costs is expected from related sales contracts through their amortization, based on pre-determined contract quantities. Production accounting quantities for a particular contract are essentially established at the inception of the contract or contract date, and are based on management's assessment of the anticipated demand for the related aircraft or product, taking into account mainly firm order and committed order backlog and options, as well as prevailing market and economic conditions. Management reviews this major assumption on a quarterly basis, and a more detailed review is made at fiscal year-end. The effect of any revision to this assumption is accounted for by way of a cumulative catch-up adjustment in the period or year in which the revision takes place.

### *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.



## *Financial instruments*

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

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.

## **FUTURE CHANGES IN ACCOUNTING POLICIES**

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

### *IFRS 9 Financial Instruments*

On November 12, 2009, the IASB issued IFRS 9 - *Financial Instruments* as the first step in its project to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 simplifies the measurement and classification for financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement. This standard will be effective for the Corporation's fiscal year beginning on April 1, 2015, with earlier application permitted.

### *IFRS 13 Fair Value Measurement*

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

### *IAS 1 Financial Statement Presentation*

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within Other Comprehensive Income ("OCI") that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 will be effective for the Corporation's fiscal year beginning on April 1, 2013, with earlier application permitted.

### *IAS 19 Employee Benefits*

In June 2011, the IASB amended IAS 19, *Employee Benefits*. 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). This amendment should result in a higher net financing cost for the Corporation. 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 amendment to IAS 19 will be effective for the Corporation's fiscal year beginning on April 1, 2013, with earlier application permitted.

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

## **INTERNAL CONTROLS AND PROCEDURES**

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

### *Disclosure controls and procedures*

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

At March 31, 2012, an evaluation, under the supervision of the CEO and CFO, of the design and effectiveness of the Corporation's disclosure controls and procedures was also carried out, as defined in MI 52-109. Based on this evaluation, the CEO and CFO concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation took into account the Corporation's disclosure policy and its disclosure committee.

### *Internal controls over financial reporting*

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

At March 31, 2012, an evaluation, under the supervision of the CEO and CFO, of the design and effectiveness of the Corporation's internal controls over financial reporting was carried out, as defined in MI 52-109. Based on this evaluation, the CEO and CFO concluded that the design and effectiveness of these internal controls over financial reporting were effective to provide reasonable assurance that the Corporation's financial reporting is reliable and that the Corporation's consolidated financial statements were prepared in accordance with IFRS.

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, 2012 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 59% of its sales. Any loss or delay in certain orders from any of these customers could have a negative impact on the Corporation's results.

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

### *Availability and Cost of Raw Materials*

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

In the current year, with the modest improvements of the global economy, the Corporation has continued to take steps to mitigate this risk. It includes clauses in its long-term sales contracts of importance to share the risk of raw materials availability and cost with its customers. It also negotiates certain long-term supply agreements with its suppliers of raw materials, and has increased its monitoring of the supply chain to ensure timely deliveries.

### *Operational Risks*

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

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

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

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

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

#### *General Economic Conditions*

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

#### *Military Spending*

The military expenses are approved by government on a yearly basis and are subject to the political climate and changing priorities.

#### *Foreign Currency Fluctuations*

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

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

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

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

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

#### *Restrictive Debt Covenants*

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

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

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

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

#### *Environmental Matters*

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

#### *Collective Bargaining Agreements*

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

In April 2011 and December 2011, the Corporation renewed its collective agreements, respectively, with its Landing Gear Longueuil plant employees and Landing Gear Laval plant employees, both for three-year periods. The collective agreement for the Aerostructure Dorval plant employees will come up for renewal in May 2013.

#### *Skilled Labour*

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

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



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, 2012</i>					
Sales	<b>380,336</b>	91,873	86,002	93,412	109,049
EBITDA	<b>64,722</b>	14,948	13,578	16,905	19,291
Net income	<b>26,481</b>	5,797	4,812	6,910	8,962
Earnings per share (\$) – basic	<b>0.87</b>	0.19	0.16	0.23	0.29
Earnings per share (\$) – diluted	<b>0.86</b>	0.19	0.16	0.23	0.29

*For the fiscal year ended March 31, 2011*

Sales	<b>357,572</b>	82,541	83,194	85,843	105,994
EBITDA	<b>57,095</b>	11,966	11,300	14,684	19,145
Net income	<b>19,129</b>	3,318	2,654	5,165	7,992
Earnings per share (\$) – basic	<b>0.64</b>	0.11	0.09	0.17	0.26
Earnings per share (\$) – diluted	<b>0.63</b>	0.11	0.09	0.17	0.26

Historically, the second quarter of a fiscal year has traditionally been somewhat a slower period owing to seasonal factors, such as plant shutdowns and summer vacations.

## FOURTH QUARTER 2012 RESULTS

The Corporation achieved record results for the quarter ended March 31, 2012, with sales of \$109.0 million, up 2.9% from \$106.0 million for the same period last year, despite the unfavourable \$0.6 million US/CAD currency impact. These additional sales resulted from a \$3.1 million sales increase in the Industrial segment, due to increased heavy equipment and gas turbine sales. In the Aerospace segment, commercial sales were \$4.3 million higher than last year, as a result of new business on the Gulfstream (GV) program and higher production rates in the large commercial and business jet programs, but were partially offset by lower customers requirements in the regional aircraft programs. Military sales were \$4.4 million lower than last year, essentially as a result of lower F-16 customer aftermarket requirements and also lower F-22 sales, as this program is coming to an end.

For the quarter ended March 31, 2012, consolidated gross profit margin, as a percentage of sales, increased 0.7% to 19.6%, when compared to last year. This quarter, the negative impact on gross profit for start-up costs incurred this year for the establishment of the new Mexico facility was \$0.3 million, representing 0.3% of sales, while the US/CAD currency fluctuations also negatively impacted the Corporation's gross profit in dollars by \$0.5 million or 0.4% of sales. The increase in gross profit margin reflects the higher Industrial sales volume, the favourable sales mix in the Aerospace segment and the continued productivity improvements in both segments. Net income stood at \$9.0 million or \$0.29 per share, fully diluted, compared to net income of \$8.0 million or \$0.26 per share, fully diluted, last year.

Cash flow from operations yielded \$18.6 million, compared to \$17.4 million in the fourth quarter last year, mainly as a result of higher net income. The net change in non-cash items related to operations represented an outflow of \$3.9 million, compared to an outflow of \$14.5 million in the last quarter of last year. This quarter's outflow mainly resulted from higher accounts receivable (\$12.4 million) and lower progress billings (\$3.4 million), which was partially offset by lower inventories (\$8.3 million) and higher accounts payable and accrued liabilities (\$4.3 million), compared to the previous quarter ended December 31, 2011. These variations are the result of a record sales volume generated in the last quarter this year. Last year's outflow mainly resulted from higher accounts receivable (\$25.0 million) and lower progress billings (\$5.7 million), which was partially offset by lower inventories (\$9.8 million) and higher accounts payable and accrued liabilities (\$7.3 million), compared to the quarter ended December 31, 2010. These variations are the result of a significant increase in the fourth quarter's sales of last year.

## OUTLOOK

Conditions are mostly favourable in the commercial aerospace market although uncertainty about the situation in Europe is resulting in lower projected air travel growth for calendar 2012. The IATA's most recent forecast calls for 4.2% growth in the passenger market for calendar 2012, versus a 5.9% increase in calendar 2011, while air cargo volume is expected to rise 2.2% in calendar 2012, after contracting slightly in calendar 2011.<sup>10</sup>

In the large commercial aircraft segment, manufacturers have announced several production rate increases on leading programs for calendar years 2012 to 2014<sup>11</sup>. Reflecting these increases, Boeing and Airbus are each forecasting higher deliveries in calendar 2012 than in the previous year. Furthermore, their backlogs remain strong, representing approximately seven years of production at current rates.

Although new business jet sales further declined in calendar 2011, certain indicators point to an imminent recovery, such as increased aircraft utilization and a reduction in the number of used aircraft for sale, as a percentage of the fleet. Despite the relatively weak economic recovery, business jet shipments are expected to increase modestly in calendar 2012, but industry sources are calling for subsequent acceleration and sustained growth over a period of possibly five years.<sup>12</sup>

The military aerospace market should remain stable, as governments address their deficits. Still, the Corporation believes its diversified military portfolio, balanced between new component manufacturing and aftermarket products and services, should lessen its exposure to defense budget cutbacks. As to the Joint Strike Fighter F-35 (JSF) program, the Corporation anticipates producing a similar number of shipsets in fiscal 2013, compared to fiscal 2012, given the revised program schedule.

Conditions remain favourable in the Corporation's main Industrial products markets. In the power generation industry, leading North American equipment manufacturers are reporting further increases in new orders. Backlogs also continue to rise for leading heavy equipment manufacturers.<sup>13</sup>

Capital expenditures for fiscal 2013 are expected to be approximately \$25 million, including an investment of approximately \$3 million related to the new facility in Mexico. The Corporation is in the process of ramping up production at its new facility in Mexico. This progress, combined with a healthy balance sheet and funds available under its Credit Facility, places Héroux-Devtek in a position to consider other strategic acquisitions that would complement its product portfolio and its technologies.

As at March 31, 2012, Héroux-Devtek's funded (firm orders) backlog stood at \$493 million, versus \$502 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.

Assuming the Canadian dollar remains at parity versus the US currency and considering forward foreign exchange contracts, the Corporation anticipates an internal sales growth of approximately 5% for the fiscal year ending March 31, 2013, compared to the year ended March 31, 2012. As many important programs will gradually ramp up in the next few fiscal years, the Corporation believes growth should be sustained over that period. Management is confident of achieving its long-term goal to grow internally and through strategic alliances at 10% per year, on average, assuming a stable currency environment.

## ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee on May 23, 2012 and by the Board of Directors on May 24, 2012. Updated information on the Corporation can be found on the SEDAR website, at [www.sedar.com](http://www.sedar.com).

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<sup>10</sup> Source: IATA Industry Financial Forecast March 2012

<sup>11</sup> Sources: Airbus press releases May 18, 2011; February 3, 2011. Boeing press releases June 15, 2011; Dec. 20, 2010

<sup>12</sup> Sources: JETNET, FAA, Teal Group, Forecast International.

<sup>13</sup> Sources: GE press release April 20, 2012; Caterpillar press release April 25, 2012

# 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 2012. As of March 31, 2012, 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. Héroux-Devtek Inc.'s CEO and CFO have provided a certification related to Héroux-Devtek Inc.'s annual disclosure documents to the Canadian Securities Administrators in accordance with Multilateral Instrument 52-109, including the consolidated financial statements and MD&A.

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

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

The consolidated financial statements 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



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

May 24, 2012

# 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, 2012 and 2011 and April 1, 2010 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended March 31, 2012 and 2011, 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, 2012 and 2011 and April 1, 2010 and the results of its operations and its cash flows for the years ended March 31, 2012 and 2011, in accordance with International Financial Reporting Standards.



Ernst & Young LLP  
Chartered Accountants

Montréal, Québec  
May 24, 2012

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



# CONSOLIDATED BALANCE SHEETS

AS AT MARCH 31, 2012, MARCH 31, 2011 AND APRIL 1, 2010 (In thousands of Canadian dollars)

	NOTES	MARCH 31, 2012	MARCH 31, 2011	APRIL 1, 2010
<b>Assets</b>	<b>5, 19</b>			
<b>Current assets</b>				
Cash and cash equivalents	10	\$ 62,007	\$ 32,910	\$ 46,591
Accounts receivable		59,677	62,623	39,085
Income tax receivable		1,500	716	1,349
Inventories	11	135,323	134,837	116,740
Derivative financial instruments	12	6,471	10,923	7,568
Other current assets	13, 25	16,492	14,738	13,325
		<b>281,470</b>	<b>256,747</b>	<b>224,658</b>
<b>Property, plant and equipment, net</b>	<b>6, 14</b>	<b>153,208</b>	<b>150,677</b>	<b>144,504</b>
<b>Finite-life intangible assets, net</b>	<b>15</b>	<b>24,514</b>	<b>18,486</b>	<b>11,698</b>
<b>Derivative financial instruments</b>	<b>12</b>	<b>3,236</b>	<b>10,132</b>	<b>12,408</b>
<b>Goodwill</b>	<b>16</b>	<b>36,068</b>	<b>35,887</b>	<b>31,110</b>
<b>Asset held for sale</b>	<b>8</b>	<b>611</b>	<b>611</b>	<b>—</b>
<b>Total assets</b>		<b>\$ 499,107</b>	<b>\$ 472,540</b>	<b>\$ 424,378</b>
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	17	\$ 56,319	\$ 52,577	\$ 42,292
Accounts payable - other	14	3,010	4,128	2,570
Provisions	18	12,157	11,600	11,653
Progress billings		16,393	24,555	24,529
Income tax payable		2,381	1,622	138
Derivative financial instruments	12	827	852	2,021
Current portion of long-term debt	19	10,867	6,353	5,462
		<b>101,954</b>	<b>101,687</b>	<b>88,665</b>
<b>Long-term debt</b>	<b>19</b>	<b>108,249</b>	<b>99,155</b>	<b>82,973</b>
<b>Provisions</b>	<b>18</b>	<b>4,866</b>	<b>4,991</b>	<b>4,855</b>
<b>Progress billings</b>		<b>7,512</b>	<b>8,810</b>	<b>7,803</b>
<b>Derivative financial instruments</b>	<b>12</b>	<b>2,700</b>	<b>1,158</b>	<b>1,716</b>
<b>Deferred income tax liabilities</b>	<b>23</b>	<b>17,071</b>	<b>18,931</b>	<b>16,315</b>
<b>Other liabilities</b>	<b>20</b>	<b>12,788</b>	<b>13,265</b>	<b>10,988</b>
		<b>255,140</b>	<b>247,997</b>	<b>213,315</b>
<b>Shareholders' equity</b>				
Issued capital	21	102,202	100,136	100,641
Contributed surplus	21	3,059	3,330	3,145
Accumulated other comprehensive income	22	2,515	9,947	11,198
Retained earnings		136,191	111,130	96,079
		<b>243,967</b>	<b>224,543</b>	<b>211,063</b>
		<b>\$ 499,107</b>	<b>\$ 472,540</b>	<b>\$ 424,378</b>

Commitments and Contingencies (notes 25 and 26)

The accompanying notes, including Note 33 – *Conversion to International Financial and Reporting Standards*, 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, 2012 AND 2011 (In thousands of Canadian dollars, except per share data)

	NOTES	2012	2011
	5		
Sales		\$ 380,336	\$ 357,572
Cost of sales	6, 7, 11	312,706	299,294
Gross profit		67,630	58,278
Selling and administrative expenses	7, 21	26,961	25,829
Operating income		40,669	32,449
Financial expenses	19	6,307	5,638
Income before income tax expense and restructuring charges		34,362	26,811
Restructuring charges	8	—	637
Income before income tax expense		34,362	26,174
Income tax expense	23	7,881	7,045
Net income		\$ 26,481	\$ 19,129
Earnings per share – basic	9	\$ 0.87	\$ 0.64
Earnings per share – diluted	9	\$ 0.86	\$ 0.63

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars)

	NOTES	2012	2011
	22		
Net income		\$ 26,481	\$ 19,129
Other comprehensive income:			
Gain (loss) arising from translating the financial statements of foreign operations		2,802	(3,573)
Cash flow hedges:			
Net gains (losses) on valuation of derivative financial instruments, net of income tax expense (recovery) of (\$199) (\$2,907 in 2011)		(485)	8,630
Net gains on derivative financial instruments transferred to net income, net of income tax expense of \$3,108 (\$2,383 in 2011)		(8,407)	(6,898)
Net gains (losses) on hedge of net investments in U.S. operations, net of income tax expense (recovery) of (\$319) (\$207 in 2011)		(1,342)	590
Defined benefit pension plans:			
Actuarial losses, net of income tax recovery of \$970 (\$450 in 2011)		(2,658)	(1,249)
Net change in asset limit and minimum funding requirements, net of income tax expense of \$449 (recovery of \$449 in 2011)		1,238	(1,238)
Other comprehensive income		(8,852)	(3,738)
Comprehensive income		\$ 17,629	\$ 15,391

The accompanying notes, including Note 33 – *Conversion to International Financial and Reporting Standards*, are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars)

	Notes	Issued Capital	Contributed surplus	Accumulated other comprehensive income (AOCI)	Retained earnings	Shareholders' equity
<b>Balance at March 31, 2011</b>		<b>\$ 100,136</b>	<b>\$ 3,330</b>	<b>\$ 9,947</b>	<b>\$ 111,130</b>	<b>\$ 224,543</b>
Common shares:	21					
Issued under the Stock option plan		1,748	(687)	—	—	1,061
Issued under the Stock purchase and ownership incentive plan		318	—	—	—	318
Stock-based compensation expense	21	—	416	—	—	416
Net income		—	—	—	26,481	26,481
Other comprehensive income (loss)		—	—	(7,432)	(1,420)	(8,852)
<b>Balance at March 31, 2012</b>		<b>\$ 102,202</b>	<b>\$ 3,059</b>	<b>\$ 2,515</b>	<b>\$ 136,191</b>	<b>\$ 243,967</b>

	Notes	Issued Capital	Contributed surplus	Accumulated other comprehensive income (AOCI)	Retained earnings	Shareholders' equity
<b>Balance at April 1, 2010</b>		<b>\$ 100,641</b>	<b>\$ 3,145</b>	<b>\$ 11,198</b>	<b>\$ 96,079</b>	<b>\$ 211,063</b>
Common shares:	21					
Issued under the Stock option plan		1,144	—	—	—	1,144
Issued under the Stock purchase and ownership incentive plan		330	—	—	—	330
Repurchased under the Corporation's normal course issuer bid		(1,979)	—	—	(1,591)	(3,570)
Stock-based compensation expense	21	—	185	—	—	185
Net income		—	—	—	19,129	19,129
Other comprehensive income (loss)		—	—	(1,251)	(2,487)	(3,738)
<b>Balance at March 31, 2011</b>		<b>\$ 100,136</b>	<b>\$ 3,330</b>	<b>\$ 9,947</b>	<b>\$ 111,130</b>	<b>\$ 224,543</b>

The accompanying notes, including Note 33 – *Conversion to International Financial and Reporting Standards*, are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars)

	NOTES	2012	2011
<b>Cash and cash equivalents provided by (used for):</b>			
<b>Operating activities</b>			
Net income		\$ 26,481	\$ 19,129
Items not requiring an outlay of cash:			
Amortization expense	7, 14, 15	24,053	24,646
Deferred income tax expense	23	2,157	4,123
Loss on sale of property, plant and equipment		195	324
Amortization of deferred financing costs	19	440	350
Interest accretion expense and discount rate adjustments	19	2,163	1,635
Stock-based compensation expense	21	416	185
Cash flows from operations		55,905	50,392
<b>Net change in non-cash items related to operations</b>	27	<b>(6,387)</b>	<b>(19,580)</b>
<b>Cash flows related to operating activities</b>		<b>49,518</b>	<b>30,812</b>
<b>Investing activities</b>			
Additions to property, plant and equipment	14	(14,923)	(19,646)
Net increase in finite-life intangible assets	15	(8,196)	(7,980)
Proceeds on disposal of property, plant and equipment		438	139
Business acquisition	5	—	(28,813)
<b>Cash flows related to investing activities</b>		<b>(22,681)</b>	<b>(56,300)</b>
<b>Financing activities</b>			
Increase in long-term debt	5, 19	6,983	23,727
Repayment of long-term debt	19	(6,785)	(6,641)
Increase in deferred financing costs		—	(2,198)
Repurchase of common shares	21	—	(3,570)
Issuance of common shares	21	1,379	1,474
<b>Cash flows related to financing activities</b>		<b>1,577</b>	<b>12,792</b>
<b>Effect of changes in exchange rates on cash and cash equivalents</b>		<b>683</b>	<b>(985)</b>
<b>Change in cash and cash equivalents during the year</b>		<b>29,097</b>	<b>(13,681)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>32,910</b>	<b>46,591</b>
<b>Cash and cash equivalents at end of year</b>		<b>\$ 62,007</b>	<b>\$ 32,910</b>
<b>Interest and income taxes reflected in operating activities:</b>			
Interest paid		\$ 3,678	\$ 3,474
Income taxes paid		\$ 4,389	\$ 1,114

The accompanying notes, including Note 33 – *Conversion to International Financial and Reporting Standards*, are an integral part of these consolidated financial statements.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (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 systems and components used principally in the aerospace and industrial segments.

## NOTE 2. BASIS OF PREPARATION

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

### Statement of compliance

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

Accordingly, these consolidated financial statements have been prepared in accordance with IFRS. Since these are the Corporation's first annual consolidated financial statements prepared in accordance with IFRS, IFRS 1 - *First-time Adoption of International Financial Reporting Standards* has been applied. The consolidated financial statements of the fiscal year ended March 31, 2011 as well as the opening balance sheet as at April 1, 2010, have been restated to conform with IFRS. These restatements are explained in Note 33.

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

These consolidated financial statements were approved for issue by the Board of Directors of the Corporation on May 24, 2012.

### Basis of consolidation

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

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

- McSwain Manufacturing Corporation
- Progressive Incorporated
- Devtek Aerospace Inc.
- HDI Landing Gear (USA) Inc.
- Héroux Devtek México, S.A. de C.V.

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

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

## NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Foreign currency

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### A. Foreign currency (cont'd)

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

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

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

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

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

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

### B. Cash and cash equivalents

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

### C. Inventories

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

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

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

### D. Property, plant and equipment

#### • Assets acquired

Property, plant and equipment are stated at cost less accumulated amortization and accumulated impairment losses, if any (see H). Such cost includes the cost of replacing a major part of the property, plant and equipment 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).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### D. Property, plant and equipment (cont'd)

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

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

#### • **Assets leased**

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

#### **Corporation as a lessee**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A finance lease is capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, computed by using the implicit interest rate of the lease contract. Lease payments are apportioned between 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, backlog and software. They are measured on initial recognition at cost. The cost of these intangible assets acquired in a business combination is fair value at the date of acquisition. Following initial recognition, they are carried at cost less accumulated amortization and impairment losses, if any.

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

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### E. Finite-life intangible assets (cont'd)

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. During the period of development, the asset is tested for impairment annually.

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

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

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

### F. Borrowing costs

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

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

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

### G. Business combinations and goodwill

Business combinations are accounted for using the acquisition method.

The cost of 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 costs incurred are expensed and included in selling and administrative expenses.

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



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### G. Business combinations and goodwill (cont'd)

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

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

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

### I. Financial assets

#### Assets at fair value

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

When financial assets are recognized initially, they are measured at fair value, plus 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### I. Financial assets (cont'd)

#### 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. If there is objective evidence that an impairment loss on L&R has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance 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.

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

#### Hedges

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

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

#### Derecognition of financial assets

A financial asset is derecognized when:

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

Impaired receivables are derecognized when they are assessed as uncollectible.

### J. Financial liabilities

#### Liabilities at fair value

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

#### Other financial liabilities

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

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### J. Financial liabilities (cont'd)

#### Derecognition of financial liabilities

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

### K. Derivative financial instruments and hedges

#### Derivative financial instruments

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

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

#### Cash flow hedges

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

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

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

#### Hedge of net investments in U.S. operations

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

### L. Provisions

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

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### L. Provisions (cont'd)

#### *Onerous contracts*

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

#### *Asset retirement obligations*

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

#### *Product warranty*

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

#### *Litigations*

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

### M. Progress billings

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

### N. Deferred financing costs

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

### O. Pensions and other retirement benefits

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

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

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

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

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



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### O. Pensions and other retirement benefits (cont'd)

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 ("TSX"). The common share issuance is accounted for in issued capital. Also, the Corporation matches 50% of the employee's contribution, which cannot exceed 10% of the employee's annual base salary, by awarding to the employee, additional common shares acquired on the TSX at market price. However, the Corporation's matching award cannot exceed 4% of the employee's annual base salary. Common shares purchased by the Corporation on behalf of the employee are accounted for as a compensation expense which is included in selling and administrative expenses.

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

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

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

#### 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Q. Revenue recognition

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

#### Sale of goods

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

#### Interest income

Revenue is recognized as interest accrues, using the effective interest rate method. Interest income is presented as a deduction of financial expenses (see Note 19).

### 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;

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### S. Income taxes (cont'd)

#### Deferred income tax (cont'd)

- 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. Recent accounting pronouncements

#### IFRS 9 *Financial Instruments*

On November 12, 2009, the IASB issued IFRS 9 - *Financial Instruments* as the first step in its project to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 simplifies the measurement and classification for financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement. This standard will be effective for the Corporation's fiscal year beginning on April 1, 2015, with earlier application permitted.

#### IFRS 13 *Fair Value Measurement*

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### U. Recent accounting pronouncements (cont'd)

#### **IAS 1 *Financial Statement Presentation***

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within Other Comprehensive Income ("OCI") that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 will be effective for the Corporation's fiscal year beginning on April 1, 2013, with earlier application permitted.

#### **IAS 19 *Employee Benefits***

In June 2011, the IASB amended IAS 19, *Employee Benefits*. 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). This amendment should result in a higher net financing cost for the Corporation. 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 amendment to IAS 19 will be effective for the Corporation's fiscal year beginning on April 1, 2013, with earlier application permitted.

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

## NOTE 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets and observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the Corporation's three-year budget and strategic plan and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the perpetual growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in Note 16.

### B. **Stock-based compensation**

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (cont'd)

### C. *Deferred income tax assets*

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

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

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

### E. *Capitalized development costs*

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

### F. *Provisions*

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

### G. *Financial instruments*

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

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

#### *Derivative financial instruments*

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

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

The fair value of derivative financial instruments in the consolidated balance sheets is established based on the Corporation's valuation models, usually the level 2. These models project future cash flows and discount these future amounts to a present value using the contractual terms of the derivative financial instruments and factors observable in external market data, such as interest rates, currency rates and price and volatility factors, as applicable (Level 2 inputs). They also take into account the credit quality of the underlying financial instruments.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 5. BUSINESS ACQUISITION

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

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

NET ASSETS ACQUIRED		SOURCE OF FUNDS	
Working capital	\$ 16,797	Credit Facility (note 19)	\$ 16,711
Property, plant and equipment	8,498	Cash	12,102
Backlog	1,390	Promissory note (note 19)	3,721
Goodwill	5,849		
	\$ 32,534		\$ 32,534

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

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

## NOTE 6. GOVERNMENT ASSISTANCE

During the fiscal year ended March 31, 2012, the Corporation recorded as government assistance an amount of \$4,922 as a reduction of cost of sales (\$2,384 in 2011) and an amount of \$5,135 (\$3,903 in 2011) as a reduction of the related property, plant and equipment or capitalized development costs, presented under Finite-life intangible assets.

## NOTE 7. COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES

The main components for the fiscal years ended March 31, are as follows:

	2012	2011
Raw materials and purchased parts	\$ 137,166	\$ 127,527
Employee costs	127,545	120,062
Amortization of property, plant and equipment and finite-life intangible assets	24,053	24,646
Others	50,903	52,888
	\$ 339,667	\$ 325,123

Foreign exchange gains or losses resulting from the translation of net monetary items denominated in foreign currencies are included in the Corporation's selling and administrative expenses. In fiscal 2012, the foreign exchange gain included in the Corporation's selling and administrative expenses amounted to \$258 (loss of \$420 in 2011).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 8. RESTRUCTURING CHARGES

On May 13, 2010, the Corporation launched an initiative to optimize and consolidate production capacity in its Aerospace segment, while further enhancing productivity at its Québec-based facilities. Consequently, the Corporation's Rivière-des-Prairies, Québec, facility was closed in September 2010 and its production was transferred to the Corporation's other facilities in the Greater Montreal area. During the fiscal year ended March 31, 2011, the Corporation recorded restructuring charges of \$637. At March 31, 2012 and March 31, 2011, the value of the building related to this facility amounts to \$611, is classified as Asset held for sale in the consolidated balance sheets.

## NOTE 9. EARNINGS PER SHARE

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

	2012	2011
Net income	\$ 26,481	\$ 19,129
Weighted-average number of common shares outstanding	30,356,946	30,112,464
Effect of dilutive stock options of the Corporation	325,117	107,133
Weighted-average number of common diluted shares outstanding	30,682,063	30,219,597

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, 2012, 335,000 options of the Corporation's plan (466,000 in 2011), were excluded from the diluted earnings per share calculation.

## NOTE 10. CASH AND CASH EQUIVALENTS

	MARCH 31, 2012	MARCH 31, 2011	APRIL 1, 2010
Cash at banks	\$ 22,073	\$ 7,787	\$ 14,229
Short-term deposits	39,934	25,123	32,362
	\$ 62,007	\$ 32,910	\$ 46,591

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

## NOTE 11. INVENTORIES

	MARCH 31, 2012	MARCH 31, 2011	APRIL 1, 2010
Raw materials	\$ 50,300	\$ 51,615	\$ 47,327
Work-in-progress	78,733	77,498	57,995
Finished goods	6,290	5,724	11,418
	\$ 135,323	\$ 134,837	\$ 116,740

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 11. INVENTORIES (cont'd)

The amounts of inventories recognized as cost of sales for the fiscal years ended March 31, are as follows:

	2012	2011
Aerospace	\$ 262,380	\$ 258,834
Industrial	24,346	18,106
	<b>\$ 286,726</b>	<b>\$ 276,940</b>

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

	2012	2011
Write-downs recognized as cost of sales	\$ 7,039	\$ 7,325
Reversal of prior-period write-downs recognized as a reduction of cost of sales	\$ 6,691	\$ 5,845

The reversal of prior-period write-downs results from the revaluation, at each reporting date, of the net realizable value of inventories, based on related sales contracts and production costs. It also includes the charges against this reserve for products delivered during the period for which a net realizable value reserve was required and recorded in prior periods for an amount of \$3,966 for the fiscal year ended March 31, 2012 (\$2,893 in 2011).

## NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS

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

	CURRENT			LONG-TERM		
	March 31, 2012	March 31, 2011	April 1, 2010	March 31, 2012	March 31, 2011	April 1, 2010
<b>Assets</b>						
Forward foreign exchange contracts and embedded derivative financial instruments	\$ 6,471	\$ 10,867	\$ 7,568	\$ 3,236	\$ 9,926	\$ 12,408
Interest rate swap agreements	—	56	—	—	206	—
	<b>\$ 6,471</b>	<b>\$ 10,923</b>	<b>\$ 7,568</b>	<b>\$ 3,236</b>	<b>\$ 10,132</b>	<b>\$ 12,408</b>
<b>Liabilities</b>						
Forward foreign exchange contracts and embedded derivative financial instruments	\$ 328	\$ 852	\$ 1,180	\$ 1,369	\$ 1,158	\$ 1,436
Interest rate swap agreements	499	—	841	1,331	—	280
	<b>\$ 827</b>	<b>\$ 852</b>	<b>\$ 2,021</b>	<b>\$ 2,700</b>	<b>\$ 1,158</b>	<b>\$ 1,716</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 13. OTHER CURRENT ASSETS

	MARCH 31, 2012	MARCH 31, 2011	APRIL 1, 2010
Investment and other tax credits receivable	\$ 10,845	\$ 8,427	\$ 8,096
Sales tax receivable	1,488	1,713	1,195
Deposits on machinery and equipment (note 25)	292	223	772
Prepaid expenses	2,533	2,498	2,151
Others	1,334	1,877	1,111
	<b>\$ 16,492</b>	<b>\$ 14,738</b>	<b>\$ 13,325</b>

## NOTE 14. PROPERTY, PLANT & EQUIPMENT

	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	MACHINERY, EQUIPMENT AND TOOLING	OTHER	CONSTRUCTION IN PROGRESS	TOTAL
<b>Cost:</b>						
At March 31, 2011	\$ 4,370	\$ 62,047	\$ 230,936	\$ 7,144	\$ 1,682	\$ 306,179
Additions	434	3,710	17,817	3,112	588	25,661
Government assistance (note 6)	(83)	(875)	(1,273)	(20)	—	(2,251)
Construction in progress	—	—	1,682	—	(1,682)	—
Disposals	—	(61)	(4,261)	(357)	—	(4,679)
Effect of changes in exchange rate	58	688	2,280	11	21	3,058
At March 31, 2012	\$ 4,779	\$ 65,509	\$ 247,181	\$ 9,890	\$ 609	\$ 327,968
<b>Accumulated amortization:</b>						
At March 31, 2011	\$ —	\$ 19,680	\$ 131,365	\$ 4,457	\$ —	\$ 155,502
Amortization	—	2,666	18,214	876	—	21,756
Disposals	—	(56)	(3,394)	(596)	—	(4,046)
Effect of changes in exchange rate	—	125	1,255	168	—	1,548
At March 31, 2012	\$ —	\$ 22,415	\$ 147,440	\$ 4,905	\$ —	\$ 174,760
<b>Net book value at March 31, 2012</b>	<b>\$ 4,779</b>	<b>\$ 43,094</b>	<b>\$ 99,741</b>	<b>\$ 4,985</b>	<b>\$ 609</b>	<b>\$ 153,208</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 14. PROPERTY, PLANT & EQUIPMENT (cont'd)

	LAND	BUILDINGS AND LEASEHOLD IMPROVEMENTS	MACHINERY, EQUIPMENT AND TOOLING	OTHER	CONSTRUCTION IN PROGRESS	TOTAL
<b>Cost:</b>						
At April 1, 2010	\$ 3,679	\$ 50,983	\$ 219,156	\$ 5,973	\$ 2,710	\$ 282,501
Additions	498	8,008	13,964	1,191	1,682	25,343
Government assistance (note 6)	—	—	(1,569)	—	—	(1,569)
Construction in progress	—	2,033	677	—	(2,710)	—
Business acquisition	423	2,980	4,781	314	—	8,498
Disposals	(137)	(832)	(2,433)	(236)	—	(3,638)
Effect of changes in exchange rate	(93)	(1,125)	(3,640)	(98)	—	(4,956)
At March 31, 2011	\$ 4,370	\$ 62,047	\$ 230,936	\$ 7,144	\$ 1,682	\$ 306,179
<b>Accumulated amortization:</b>						
At April 1, 2010	\$ —	\$ 17,764	\$ 116,239	\$ 3,994	\$ —	\$ 137,997
Amortization	—	2,408	19,160	668	—	22,236
Disposals	—	(295)	(2,099)	(170)	—	(2,564)
Effect of changes in exchange rate	—	(197)	(1,935)	(35)	—	(2,167)
At March 31, 2011	\$ —	\$ 19,680	\$ 131,365	\$ 4,457	\$ —	\$ 155,502
<b>Net book value at March 31, 2011</b>	<b>\$ 4,370</b>	<b>\$ 42,367</b>	<b>\$ 99,571</b>	<b>\$ 2,687</b>	<b>\$ 1,682</b>	<b>\$ 150,677</b>

The additions to property, plant and equipment of \$14,923 for the fiscal year ended March 31, 2012 (\$19,646 in 2011) presented in the consolidated statements of cash flows are shown net of \$3,010 (\$4,128 in 2011) of machinery and equipment which was delivered in the last two months of each fiscal year but not yet paid as at March 31, which are included in Accounts payable - other. The additions to property, plant and equipment are also presented net of machinery and equipment of \$9,605 (\$nil in 2011) which were acquired through finance leases during the years then ended.

At March 31, 2012, cost of machinery, equipment and tooling includes assets acquired through finance leases amounting to \$48,435 (\$37,521 at March 31, 2011 and \$38,307 at April 1, 2010) with accumulated amortization of \$15,985 (\$12,455 as at March 31, 2011 and \$10,159 at April 1, 2010).

At March 31, 2012 and 2011, construction in progress includes the cost related to machinery and equipment being installed at that date.

At March 31, 2012, the cost of property, plant and equipment still in use and fully depreciated is \$86,006 (\$77,343 at March 31, 2011 and \$58,206 at April 1, 2010).



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 15. FINITE-LIFE INTANGIBLE ASSETS

	CAPITALIZED			
	DEVELOPMENT COSTS	SOFTWARE	BACKLOG	TOTAL
<b>Cost:</b>				
At March 31, 2011	\$ 13,649	\$ 13,743	\$ 8,401	\$ 35,793
Additions	10,445	635	—	11,080
Government assistance (note 6)	(2,884)	—	—	(2,884)
Disposals	—	(54)	—	(54)
Effect of changes in exchange rate	23	85	243	351
At March 31, 2012	\$ 21,233	\$ 14,409	\$ 8,644	\$ 44,286
<b>Accumulated amortization</b>				
At March 31, 2011	\$ 403	\$ 11,778	\$ 5,126	\$ 17,307
Amortization	104	881	1,312	2,297
Disposals	—	(54)	—	(54)
Effect of changes in exchange rate	—	67	155	222
At March 31, 2012	\$ 507	\$ 12,672	\$ 6,593	\$ 19,772
<b>Net book value at March 31, 2012</b>	<b>\$ 20,726</b>	<b>\$ 1,737</b>	<b>\$ 2,051</b>	<b>\$ 24,514</b>

	CAPITALIZED			
	DEVELOPMENT COSTS	SOFTWARE	BACKLOG	TOTAL
<b>Cost:</b>				
At April 1, 2010	\$ 6,730	\$ 13,154	\$ 7,408	\$ 27,292
Additions	9,264	1,050	—	10,314
Government assistance (note 6)	(2,334)	—	—	(2,334)
Business acquisition	—	—	1,390	1,390
Effect of changes in exchange rate	(11)	(461)	(397)	(869)
At March 31, 2011	\$ 13,649	\$ 13,743	\$ 8,401	\$ 35,793
<b>Accumulated amortization</b>				
At April 1, 2010	\$ 266	\$ 11,505	\$ 3,823	\$ 15,594
Amortization	137	726	1,547	2,410
Effect of changes in exchange rate	—	(453)	(244)	(697)
At March 31, 2011	\$ 403	\$ 11,778	\$ 5,126	\$ 17,307
<b>Net book value at March 31, 2011</b>	<b>\$ 13,246</b>	<b>\$ 1,965</b>	<b>\$ 3,275</b>	<b>\$ 18,486</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 16. GOODWILL

	MARCH 31, 2012	MARCH 31, 2011
<b>Cost:</b>		
Balance at beginning of the year	\$ 35,887	\$ 31,110
Business acquisition (note 5)	—	5,849
Effect of changes in exchange rate	181	(1,072)
	<b>\$ 36,068</b>	<b>\$ 35,887</b>

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

	2012	2011
<b>CGU</b>		
Aerospace		
Landing Gear Product Line	\$ 16,574	\$ 16,928
Aerostructure Product Line	18,601	18,091
	<b>35,175</b>	35,019
Industrial	893	868
	<b>\$ 36,068</b>	<b>\$ 35,887</b>

The following key assumptions were used to determine recoverable amounts in the most recent impairment tests performed at March 31, 2012:

CGU	PRE-TAX DISCOUNT RATE	PERPETUAL GROWTH RATE
	(WACC) <sup>(1)</sup>	
Aerospace		
Landing Gear Product Line	12.0%	3.2%
Aerostructure Product Line	13.3%	3.3%
Industrial	13.1%	2.0%

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

### 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 at March 31, 2012:

CGU	INCREMENTAL INCREASE IN PRE-TAX DISCOUNT RATE	INCREMENTAL DECREASE IN PERPETUAL GROWTH RATE
	(WACC) <sup>(1)</sup>	
Aerospace		
Landing Gear Product Line	5.3%	7.8%
Aerostructure Product Line	7.2%	12.0%
Industrial	30.0%	15.0%

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	MARCH 31, 2012	MARCH 31, 2011	APRIL 1, 2010
Trade payables <sup>(1)</sup>	\$ 34,517	\$ 32,495	\$ 24,825
Accrued liabilities <sup>(2)</sup>	21,802	20,082	17,467
	<b>\$ 56,319</b>	<b>\$ 52,577</b>	<b>\$ 42,292</b>

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

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

## NOTE 18. PROVISIONS

	ONEROUS CONTRACTS	ASSET RETIREMENT OBLIGATIONS	PRODUCT WARRANTY	LITIGATIONS AND OTHER	TOTAL
At March 31, 2011	\$ 2,377	\$ 5,231	\$ 1,666	\$ 7,317	\$ 16,591
Arising during the year	1,201	—	526	1,163	2,890
Interest accretion expense	—	241	—	—	241
Utilized	(725)	(304)	(250)	(381)	(1,660)
Reversed	(716)	(190)	(401)	(139)	(1,446)
Discount rate adjustments	108	250	(4)	—	354
Effect of changes in exchange rate	23	—	10	20	53
At March 31, 2012	2,268	5,228	1,547	7,980	17,023
Less: current portion	2,179	576	1,422	7,980	12,157
Long-term portion	\$ 89	\$ 4,652	\$ 125	\$ —	\$ 4,866

	ONEROUS CONTRACTS	ASSET RETIREMENT OBLIGATIONS	PRODUCT WARRANTY	LITIGATIONS AND OTHER	TOTAL
At April 1, 2010	\$ 2,860	\$ 5,019	\$ 876	\$ 7,753	\$ 16,508
Arising during the year	879	—	1,638	—	2,517
Business acquisition	907	—	320	—	1,227
Interest accretion expense	32	270	—	—	302
Utilized	(968)	(61)	(287)	(131)	(1,447)
Reversed	(1,291)	—	(843)	(305)	(2,439)
Discount rate adjustments	—	3	—	—	3
Effect of changes in exchange rate	(42)	—	(38)	—	(80)
At March 31, 2011	2,377	5,231	1,666	7,317	16,591
Less: current portion	1,623	1,109	1,624	7,244	11,600
Long-term portion	\$ 754	\$ 4,122	\$ 42	\$ 73	\$ 4,991

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 19. LONG-TERM DEBT

	MARCH 31, 2012	MARCH 31, 2011	APRIL 1, 2010
Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") of up to \$150,000 (\$125,000 as at April 1, 2010) - either in Canadian or U.S. currency equivalent, maturing on March 15, 2016, which bears interest at Libor plus 1.875% as at March 31, 2012 and March 31, 2011 (Libor plus 1% at April 1, 2010) representing an effective interest rate of 2.1% (2.2% at March 31, 2011 and 1.2% at April 1, 2010). At March 31, 2012 and March 31, 2011, the Corporation used US\$59,500 (\$43,000 as at April 1, 2010) on the Credit Facility.	<b>\$ 59,351</b>	\$ 57,691	\$ 43,679
Governmental authorities loans, repayable in variable annual instalments, with various expiry dates until fiscal year 2030.	<b>34,825</b>	27,707	21,040
Obligations under finance leases, all bearing fixed interest rates between 3.1% and 9.3% maturing from November 2012 to March 2019, with amortization periods ranging from five to eight years, secured by the related property, plant and equipment, net of interest of \$2,862 (\$2,330 at March 31, 2011 and \$3,637 at April 1, 2010).	<b>25,161</b>	19,760	24,066
Promissory note, repayable in monthly instalments over 40 months up to July 2013, bearing fixed interest at 5% and guaranteed by the Corporation (note 5).	<b>1,537</b>	2,548	—
Deferred financing costs, net	<b>(1,758)</b>	(2,198)	(350)
	<b>119,116</b>	105,508	88,435
Less: current portion	<b>10,867</b>	6,353	5,462
	<b>\$ 108,249</b>	\$ 99,155	\$ 82,973

### Senior Secured Syndicated Revolving Credit Facility

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

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

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 19. LONG-TERM DEBT (cont'd)

### 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 aerospace sales and the Corporation's sales of certain predetermined aircraft products within specific timeframes, and/or based on fixed repayment schedules. The conditional loan repayments are reviewed at least annually based, 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 3.9% to 7.2%.

### Covenants

Long-term debt is subject to certain general and financial covenants related, among others, to the working capital, indebtedness, cash flows and equity of the Corporation and/or certain subsidiaries. At March 31, 2012, 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	REPAYMENTS OF PROMISSORY NOTE	REPAYMENTS OF CREDIT FACILITY	TOTAL
2013	\$ 7,661	\$ 3,367	\$ 1,197	\$ —	\$ 12,225
2014	6,281	2,821	399	—	9,501
2015	5,139	2,877	—	—	8,016
2016	4,440	5,442	—	59,351	69,233
2017	1,762	3,278	—	—	5,040
Beyond 5 years	2,740	30,810	—	—	33,550
Sub-Total	28,023	48,595	1,596	59,351	137,565
Less: Interest	2,862	13,770	59	—	16,691
<b>Debt balance</b>	<b>\$ 25,161</b>	<b>\$ 34,825</b>	<b>\$ 1,537</b>	<b>\$ 59,351</b>	<b>\$ 120,874</b>



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 19. LONG-TERM DEBT (cont'd)

### Financial expenses

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

	2012	2011
Interest expense	\$ 3,479	\$ 3,095
Interest accretion on governmental authorities loans	1,568	1,330
Interest rate swap agreements buyout	—	406
Amortization of deferred financing costs	440	350
Standby fees	401	220
Other interest accretion expense and discount rate adjustments	595	305
	<b>6,483</b>	5,706
Gain on financial instruments classified as FVTPL – Interest income	176	68
	<b>\$ 6,307</b>	<b>\$ 5,638</b>

## NOTE 20. OTHER LIABILITIES

The Corporation's other liabilities are summarized as follows:

	MARCH 31, 2012	MARCH 31, 2011	APRIL 1, 2010
Pensions and other retirement benefits (note 24)	\$ 12,788	\$ 13,135	\$ 10,790
Others	—	130	198
	<b>\$ 12,788</b>	<b>\$ 13,265</b>	<b>\$ 10,988</b>

## NOTE 21. 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 21. ISSUED CAPITAL (cont'd)

For the fiscal years ended March 31, 2012 and 2011, variations in common shares issued are as follows:

	MARCH 31, 2012		MARCH 31, 2011	
	Number	Issued capital	Number	Issued capital
<b>Common shares issued and fully paid</b>				
Opening balance	30,173,798	\$ 100,136	30,485,475	\$ 100,641
Issued for cash on exercise of stock options	223,656	1,748	245,221	1,144
Issued for cash under the stock purchase and ownership incentive plan	44,916	318	60,802	330
Repurchased under the Corporation's normal course issuer bid	—	—	(617,700)	(1,979)
<b>Closing balance</b>	<b>30,442,370</b>	<b>\$ 102,202</b>	30,173,798	\$ 100,136

### Issuance of common shares

During the fiscal year ended March 31, 2012, the Corporation issued 268,572 common shares at a weighted-average price of \$5.14 for a total cash consideration of \$1,379. This includes 223,656 common shares which were issued following the exercise of stock options for a total cash consideration of \$1,061. The initial fair value of the stock options, amounting to \$687, was credited to issued capital and debited to contributed surplus. The remainder of 44,916 common shares were issued under the Corporation's stock purchase and ownership incentive plan for a total cash consideration of \$318.

During the fiscal year ended March 31, 2011, the Corporation issued 306,023 common shares at a weighted-average price of \$4.82 for a total cash consideration of \$1,474. This includes 245,221 common shares which were issued following the exercise of stock options for a total cash consideration of \$1,144. The remainder of 60,802 common shares were issued under the Corporation's stock purchase and ownership incentive plan for a total cash consideration of \$330.

### Normal course issuer bid

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

During the fiscal year ended March 31, 2011, the Company repurchased 617,700 shares at an average price of \$5.78 for a total cash consideration of \$3,570 under the NCIB. The excess (\$1,591) of the cost of the common shares over their average book value (\$1,979) was accounted for as a reduction of retained earnings.

### A. Stock option plan

During the fiscal year ended March 31, 2012, the aggregate number of shares available for future issuance under the stock option plan has been replenished, due to the limited number of common shares remaining under this plan and following the approval by the shareholders of the Corporation at the last Annual and Special Meeting of shareholders.

The number of common shares reserved for issuance represents 2,808,257 of which 2,784,924 shares had not been issued yet at March 31, 2012.

During fiscal 2012, the Corporation granted 242,000 options (138,000 in 2011) to officers and key employees, representing a total fair value of \$797 (\$240 in 2011) or a weighted-average fair value per option of \$3.29 (\$1.74 in 2011) calculated using a binomial valuation model assuming a six-year expected life, expected volatility of 45% (48% in 2011), no expected dividend distribution and a compounded risk-free interest rate of 3.0% (3.5% in 2011). Option cost is amortized over their vesting period and an expense of \$416 (\$185 in 2011) was accounted for in selling and administrative expenses with its counterpart in the contributed surplus in the Corporation's shareholders' equity.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 21. ISSUED CAPITAL (cont'd)

### A. Stock option plan (cont'd)

As at March 31, 2012, 1,411,344 stock options were issued and outstanding as follows:

Range of exercise price	OUTSTANDING OPTIONS			VESTED OPTIONS	
	Number	Weighted-average years to maturity	Weighted-average exercise price	Number	Weighted-average exercise price
\$3.50 to \$4.99	703,344	2.63	\$ 4.58	628,637	\$ 4.59
\$5.00 to \$6.49	138,000	5.38	5.94	55,200	5.94
\$6.50 to \$10.00	570,000	4.08	8.96	376,400	9.61
	1,411,344	3.48	\$ 6.48	1,060,237	\$ 6.44

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

	2012		2011	
	Weighted-average exercise price	Number of stock options	Weighted-average exercise price	Number of stock options
Balance at beginning of the year	\$ 6.00	1,393,000	\$ 5.83	1,555,221
Granted	7.68	242,000	5.94	138,000
Exercised	4.75	(223,656)	4.66	(245,221)
Cancelled / forfeited	—	—	7.19	(55,000)
Balance at end of the year	\$ 6.48	1,411,344	\$ 6.00	1,393,000

### B. Stock purchase and ownership incentive plan

During the fiscal year ended March 31, 2012, 44,916 common shares were issued (60,802 in 2011) and 18,277 common shares were attributed to the participating employees (24,026 in 2011), under the stock purchase and ownership incentive plan. For the fiscal year ended March 31, 2012, the expense related to the attributed common shares amounted to \$143 (\$147 in 2011).

During the fiscal year ended March 31, 2012, the aggregate number of shares available for future issuance under the stock purchase and ownership incentive plan has been replenished, due to the limited number of common shares remaining under this plan and following the approval by the shareholders of the Corporation at the last Annual and Special Meeting of shareholders held on August 4, 2011.

The number of common shares reserved for issuance represents 340,000 of which 308,754 had not been issued yet under this plan at March 31, 2012.

### C. SAR plan

At March 31, 2012, on a cumulative basis, 130,500 SARs were still outstanding (143,000 at March 31, 2011) at a weighted-average granted value of \$6.32 (\$6.21 at March 31, 2011) which expire on various dates from fiscal 2013 to 2016.

SAR reversal of expense amounted to \$43 for the fiscal year ended March 31, 2012 (expense of \$410 in 2011).

During the fiscal years ended March 31, 2012 and 2011, no SARs were granted or cancelled (none granted or cancelled in 2011) and 12,500 SARs were exercised (7,500 in 2011).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 21. ISSUED CAPITAL (cont'd)

### D. DSU plan

During the fiscal year ended March 31, 2012, the Corporation issued 37,718 DSUs, including 15,172 DSUs related to fiscal 2011. During the fiscal year ended March 31, 2012, DSU expense amounted to \$164 (\$138 in 2011).

## NOTE 22. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	CASH FLOW HEDGES	HEDGE OF NET INVESTMENTS IN U.S. OPERATIONS	TOTAL
<b>Balance at March 31, 2011</b>	<b>\$ (3,573)</b>	<b>\$ 12,930</b>	<b>\$ 590</b>	<b>\$ 9,947</b>
Other comprehensive income (loss)	2,802	(8,892)	(1,342)	(7,432)
<b>Balance at March 31, 2012</b>	<b>\$ (771)</b>	<b>\$ 4,038</b>	<b>\$ (752)</b>	<b>\$ 2,515</b>
<b>Balance at April 1, 2010</b>	<b>\$ —</b>	<b>\$ 11,198</b>	<b>\$ —</b>	<b>\$ 11,198</b>
Other comprehensive income (loss)	(3,573)	1,732	590	(1,251)
<b>Balance at March 31, 2011</b>	<b>\$ (3,573)</b>	<b>\$ 12,930</b>	<b>\$ 590</b>	<b>\$ 9,947</b>

## NOTE 23. INCOME TAXES

	MARCH 31, 2012	MARCH 31, 2011
Income tax expense is as follows:		
<b>Consolidated statement of income</b>		
Current income tax	\$ 5,724	\$ 2,922
Deferred income tax	2,157	4,123
<b>Income tax expense reported in the consolidated statements of income</b>	<b>\$ 7,881</b>	<b>\$ 7,045</b>
<b>Consolidated statement of changes in equity</b>		
Deferred income tax related to items charged or credited directly to Shareholders' equity	\$ (521)	\$ (899)
Deferred income tax related to items charged or credited directly to other comprehensive income	(3,508)	731
<b>Income tax expense (recovery) reported directly in Shareholders' equity</b>	<b>\$ (4,029)</b>	<b>\$ (168)</b>
The computation of income tax expense is as follows:		
Income taxes at combined Federal and Provincial statutory tax rates of 27.37% (28.71% in 2011)	\$ 9,406	\$ 7,515
Permanent differences	(1,555)	(488)
Income tax rate differential – U.S. subsidiaries	826	535
Other items	(796)	(517)
<b>Income tax expense</b>	<b>\$ 7,881</b>	<b>\$ 7,045</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 23. INCOME TAXES (cont'd)

The decrease in the Corporation's statutory combined income tax rate from fiscal 2011 to fiscal 2012 is primarily due to the decrease in the Canadian federal income tax rate prorated for the Corporation's March 31st fiscal period.

Deferred income taxes relate to the following:

	MARCH 31, 2012	MARCH 31, 2011	APRIL 1, 2010
<b>Deferred income tax liabilities:</b>			
Non-deductible reserves	\$ 448	\$ 1,319	\$ 748
Inventories	(5,281)	(4,278)	(2,613)
Receivables	(115)	(690)	(794)
Derivative financial instruments	1,435	4,698	3,846
Tax and other credits	2,133	1,870	2,134
Property, plant and equipment	17,924	14,800	11,916
Goodwill	1,972	1,667	1,324
Governmental authorities loans	142	626	1,276
Deferred income tax benefits from tax losses	(1,587)	(1,081)	(1,522)
	<b>\$ 17,071</b>	<b>\$ 18,931</b>	<b>\$ 16,315</b>

As at March 31, 2012 and 2011, there were no operating losses carried forward or no other temporary differences for which related deferred income tax assets have not been recognized in the consolidated financial statements.

As at March 31, 2012, the Corporation had federal non-capital losses available for carry-forward of \$5,421 (\$1,585 as at March 31, 2011 and \$7,239 as at April 1, 2010) with the majority expiring in fiscal 2031.

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.

The temporary differences associated with investments in subsidiaries for which a deferred income tax liability has not been recognized, aggregate to \$13,918 (\$3,625 in 2011). If these earnings were remitted, withholding tax at a rate of 5% would apply.

## NOTE 24. PENSION AND OTHER RETIREMENT BENEFIT PLANS

### Description of benefit plans

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

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

### Total cash payments

Total cash payments for employee future benefits for fiscal year 2012, 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 \$3,738 (\$2,288 in 2011) while the cash contributed to its defined contribution plans amounted to \$2,456 (\$2,241 in 2011).



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 24. PENSION AND OTHER RETIREMENT BENEFIT PLANS (cont'd)

### 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 valuations for funding purposes were performed as at December 31, 2011 and will be filed with regulatory authorities no later than September 30, 2012. The next actuarial valuations will be conducted as at December 31, 2012.

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, 2012	MARCH 31, 2011	APRIL 1, 2010
Present value of defined benefit obligations of funded plans	\$ 38,937	\$ 30,491	\$ 27,343
Fair value of plan assets	30,876	27,369	24,254
Funded status of the plan – surplus (deficit)	(8,061)	(3,122)	(3,089)
Present value of defined benefit obligations of unfunded plans	(4,727)	(8,326)	(7,701)
Additional liability recognized due to asset limit and minimum funding requirements	—	(1,687)	—
Amount recognized in other long-term liabilities	\$ (12,788)	\$ (13,135)	\$ (10,790)

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

	2012	2011
Current service cost	\$ 1,013	\$ 908
Interest cost on defined benefit obligations	2,102	1,956
Expected return on the fair value of plan assets	(1,855)	(1,617)
Past service cost	190	—
Total pension expense recognized in the consolidated statement of income	\$ 1,450	\$ 1,247

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

	2012	2011
Net actuarial gain (loss)	\$ (3,628)	\$ (1,699)
Effect of the additional liability recognized due to asset limit and minimum funding requirements	1,687	(1,687)
Other comprehensive income (loss)	\$ (1,941)	\$ (3,386)

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 24. PENSION AND OTHER RETIREMENT BENEFIT PLANS (cont'd)

### Defined benefit plans (cont'd)

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

	2012	2011
Actual return on the fair value of plan assets	\$ 650	\$ 1,863

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

	2012	2011
Defined benefit obligations at beginning of the year	\$ 38,817	\$ 35,044
Current service cost	1,013	908
Interest cost	2,102	1,956
Contributions by plan participants	768	653
Actuarial losses (gains)	2,423	1,945
Benefits paid	(1,649)	(1,689)
Past service cost	190	—
Defined benefit obligations at end of the year	\$ 43,664	\$ 38,817

Fair value of plan assets:

	2012	2011
Fair value of plan assets at beginning of the year	\$ 27,369	\$ 24,254
Expected return	1,855	1,617
Actuarial gains (losses)	(1,205)	246
Contributions by the employer	3,738	2,288
Contributions by plan participants	768	653
Benefits paid	(1,649)	(1,689)
Fair value of plan assets at end of the year	\$ 30,876	\$ 27,369

Plan assets consist of:

ASSET CATEGORY <sup>(1)</sup>	2012	2011
Equity securities	62%	62%
Debt securities	34%	35%
Real estate	—	—
Other	4%	3%
Total	100%	100%

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 24. PENSION AND OTHER RETIREMENT BENEFIT PLANS (cont'd)

### Significant assumptions

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

	2012	2011
Defined benefit obligations as at March 31:		
Discount rate	5.00%	5.60%
Rate of compensation increase	3.50%	3.50%
Benefit costs for years ended March 31:		
Discount rate	5.60%	5.90%
Expected long-term rate of return on the fair value of plan assets	6.50%	6.50%
Rate of compensation increase	3.50%	3.50%

A one percent (1%) decrease in one of the following actuarial assumptions would have the following effects, all other actuarial assumptions remaining unchanged:

INCREASE (DECREASE)	PENSION EXPENSE FOR THE YEAR ENDED MARCH 31, 2012	DEFINED BENEFIT OBLIGATIONS AS AT MARCH 31, 2012
Discount rate	\$ 183	\$ 5,897
Expected long-term rate of return on the fair value of plan assets	\$ 285	N/A
Rate of compensation increase	\$ (15)	\$ (123)

The expected long-term rate of return on the fair value of Plan assets for the defined benefit plans has been determined based on the long-term return expectation stipulated in the Statement of Investment Policy and Procedures, as well as the target asset mix of each fund manager comprised in the Plan investment portfolio (equity and debt securities and other).

The contributions expected to be paid to these plans in fiscal year 2013 amount to \$3,955.

Amounts for the current and previous annual periods are as follows:

	2008	2009	2010	2011	2012
Defined benefit obligations	\$ 34,825	\$ 28,833	\$ 35,044	\$ 38,817	\$ 43,664
Fair value of plan assets	20,336	19,232	24,254	27,369	30,876
Surplus (deficit)	\$ (14,489)	\$ (9,601)	\$ (10,790)	\$ (11,448)	\$ (12,788)
Experience adjustments on defined benefit obligations – increase (decrease)	N/A	N/A	N/A	458	(434)
Experience adjustments on the fair value of plan assets – increase (decrease)	N/A	N/A	N/A	246	(1,205)

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 24. PENSION AND OTHER RETIREMENT BENEFIT PLANS (cont'd)

### *Defined contribution pension plans*

The defined contribution pension costs are as follows:

	2012	2011
Defined contribution pension costs	\$ 2,456	\$ 2,241

## NOTE 25. COMMITMENTS

### **Building lease contracts**

The Corporation has entered into leases for buildings which are used for manufacturing operations and administration. The total commitments at March 31, 2012 amounted to \$4,315 excluding escalation clauses. The minimum annual lease payments over the next five years are: \$929 in 2013, \$700 in 2014, \$417 in 2015, \$338 in 2016 and \$331 in 2017.

### **Building, machinery and equipment acquisition commitments**

The Corporation has released purchase orders relating to machinery and equipment which have not been delivered yet to the Corporation's facilities. These outstanding purchase orders at March 31, 2012 amounted to \$2,843 (\$3,938 in 2011) for which an amount of \$292 (\$223 in 2011 and \$772 as at April 1, 2010) in deposits on machinery and equipment were made and are included in the Corporation's other current assets (see Note 13 to the consolidated financial statements).

### **Guarantees**

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

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

In the sale of all or a part of a business or assets, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Corporation may be subjected to indemnify against claims from its past conduct of the business. The nature of these indemnification agreements prevents the Corporation from estimating the maximum potential liability that could be required under guarantees, since these events have not occurred yet. The duration of these indemnification agreements could extend up to 2024. At March 31, 2012 and 2011, and at April 1, 2010, an amount of \$6,000 was provided for in the Corporation's provision in respect to these items and is classified as short-term provision given the undetermined date of settlement.

## NOTE 26. CONTINGENCIES

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 27. NET CHANGE IN NON-CASH ITEMS RELATED TO OPERATIONS

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

	2012	2011
Accounts receivable	\$ 2,946	\$ (18,187)
Income tax receivable	(784)	633
Inventories	(486)	17,799
Other current assets	(1,113)	(1,295)
Accounts payable and accrued liabilities, and other liabilities	1,169	1,580
Accounts payable - other	(1,118)	(1,558)
Provisions	432	(1,144)
Progress billings	(9,460)	(16,785)
Income tax payable	759	1,484
Effect of changes in exchange rate <sup>(1)</sup>	1,268	(2,107)
	<b>\$ (6,387)</b>	<b>\$ (19,580)</b>

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

## NOTE 28. SEGMENT INFORMATION

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

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

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 28. SEGMENT INFORMATION (cont'd)

	2012			2011		
	Aerospace	Industrial	Total	Aerospace	Industrial	Total
Sales	\$ 345,371	\$ 34,965	\$ 380,336	\$ 331,993	\$ 25,579	\$ 357,572
<b>Results</b>						
Operating income	32,435	8,234	40,669	28,731	3,718	32,449
Financial expenses (unallocated)			6,307			5,638
<b>Income before income tax expense and restructuring charges</b>			<b>34,362</b>			<b>26,811</b>
<b>Assets</b>	<b>464,829</b>	<b>34,278</b>	<b>499,107</b>	447,280	25,260	472,540
<b>Liabilities</b>	<b>244,724</b>	<b>10,416</b>	<b>255,140</b>	241,243	6,754	247,997
<b>Other segment information:</b>						
Additions to property, plant and equipment	20,137	3,273	23,410	22,567	1,207	23,774
Net increase of finite-life intangible assets	8,196	—	8,196	7,980	—	7,980
Amortization expense	21,753	2,300	24,053	22,077	2,569	24,646

## Geographic information

	2012			2011		
	Canada <sup>(2)</sup>	U.S.	Total	Canada	U.S.	Total
Sales	\$ 236,141	\$ 144,195	\$ 380,336	\$ 223,748	\$ 133,824	\$ 357,572
Property, plant and equipment, net	89,739	63,469	153,208	92,389	58,288	150,677
Finite-life intangible assets, net	21,907	2,607	24,514	14,726	3,760	18,486
Goodwill	15,093	20,975	36,068	15,093	20,794	35,887
Export sales <sup>(1)</sup>	\$ 142,032			\$ 133,738		

During the fiscal years ended March 31, 2012 and 2011, 70% of the Corporation's sales were made to U.S. customers.

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

(2) Includes related sales and assets from the new Mexico facility, since they were not significant for that year.

## NOTE 29. EXECUTIVE COMPENSATION

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

	2012	2011
Short-term employee benefits and other benefits	\$ 3,758	\$ 3,490
Pension and other post-retirement benefits	398	354
Share-based payments	442	714
<b>Total compensation to key management personnel</b>	<b>\$ 4,598</b>	<b>\$ 4,558</b>



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 30. FINANCIAL INSTRUMENTS

The classification of financial instruments and their carrying amounts and fair values as at March 31, 2012 and 2011, were as follows:

	MARCH 31, 2012					MARCH 31, 2011				
	Carrying value				Fair Value	Carrying value				Fair Value
	FVTPL	Hedging		Total <sup>(1)</sup>		FVTPL	Hedging		Total <sup>(1)</sup>	
L&R		items	L&R		items					
<b>Financial assets</b>										
Cash and cash equivalents	\$ 62,007	\$ —	\$ —	\$ 62,007	\$ 62,007	\$ 32,910	\$ —	\$ —	\$ 32,910	\$ 32,910
Accounts receivable <sup>(2)</sup>	—	59,677	—	59,677	59,677	—	62,623	—	62,623	62,623
Other current assets <sup>(3)</sup>	—	750	—	750	750	—	1,025	—	1,025	1,025
Derivative financial instruments	1,241	—	8,466	9,707	9,707	2,046	—	19,009	21,055	21,055
	<b>\$ 63,248</b>	<b>\$ 60,427</b>	<b>\$ 8,466</b>	<b>\$ 132,141</b>	<b>\$ 132,141</b>	<b>\$ 34,956</b>	<b>\$ 63,648</b>	<b>\$ 19,009</b>	<b>\$ 117,613</b>	<b>\$ 117,613</b>

	MARCH 31, 2012					MARCH 31, 2011				
	Carrying value				Fair Value	Carrying value				Fair Value
	FVTPL	Other than Hedging		Total <sup>(1)</sup>		FVTPL	Other than Hedging		Total <sup>(1)</sup>	
FVTPL		items	items		FVTPL		FVTPL	items		
<b>Financial liabilities</b>										
Accounts payable and accrued liabilities <sup>(4)</sup>	\$ —	\$ 56,319	\$ —	\$ 56,319	\$ 56,319	\$ —	\$ 52,577	\$ —	\$ 52,577	\$ 52,577
Accounts payable – other	—	3,010	—	3,010	3,010	—	4,128	—	4,128	4,128
Derivative financial instruments	1,171	—	2,356	3,527	3,527	2,010	—	—	2,010	2,010
Long-term debt, including current portion	—	120,874	—	120,874	123,682	—	107,706	—	107,706	109,070
	<b>\$ 1,171</b>	<b>\$ 180,203</b>	<b>\$ 2,356</b>	<b>\$ 183,730</b>	<b>\$ 186,538</b>	<b>\$ 2,010</b>	<b>\$ 164,411</b>	<b>\$ —</b>	<b>\$ 166,421</b>	<b>\$ 167,785</b>

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

(2) Comprising trade receivables.

(3) Comprising certain other receivables.

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

For the fiscal year ended March 31, 2012, a profit of \$70 (nil in 2011) was accounted on financial instruments designated as FVTPL, excluding the interest income disclosed in note 19 to the consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 31. 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. Based on the fiscal year ended March 31, 2012, the Corporation's sales made and costs incurred from its Canadian and American operations and in the related currencies were as follows (calculated based on the Corporation's total consolidated sales and costs):

	CANADIAN OPERATIONS		U.S. OPERATIONS		TOTAL	
	Sales	Costs	Sales	Costs	Sales	Costs
U.S. Currency	46%	27%	38%	38%	84%	65%
Canadian Currency	16%	35%	—	—	16%	35%
<b>% of Consolidated Sales/Costs</b>	<b>62%</b>	<b>62%</b>	<b>38%</b>	<b>38%</b>	<b>100%</b>	<b>100%</b>

The total financial instruments denominated in U.S. dollars <sup>(1)</sup> in the Corporation's consolidated balance sheets, as at March 31, are as follows:

	2012	2011
Current financial assets	\$ 88,852	\$ 75,681
Long-term financial assets	—	212
<b>Total financial assets</b>	<b>\$ 88,852</b>	<b>\$ 75,893</b>
Current financial liabilities	\$ 30,501	\$ 29,541
Long-term financial liabilities	71,299	64,921
<b>Total financial liabilities</b>	<b>\$ 101,800</b>	<b>\$ 94,462</b>

(1) Does not include the derivative financial instruments related to forward foreign exchange contracts.

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 31. FINANCIAL RISK MANAGEMENT (cont'd)

### Market risk (cont'd)

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

As at March 31, 2012, the Corporation, in accordance with the foreign exchange policy explained above, had forward foreign exchange contracts totalling US\$145.3 million at a weighted-average rate of 1.0620 (Canadian dollar over U.S. dollar, "cad/usd") (US\$159.0 million at a weighted-average rate of 1.1032 cad/usd as at March 31, 2011 and US\$150.0 million at a weighted-average rate of 1.1436 cad/usd as at April 1, 2010) maturing over the next three fiscal years, with the majority maturing over the next two fiscal years.

At March 31, 2012, the Corporation had also entered into forward foreign exchange contracts totalling US\$4.7 million at a weighted-average rate of 1.2262 cad/usd (US\$7.7 million at a weighted-average rate of 1.2343 cad/usd at March 31, 2011 and US\$11.3 million at a weighted-average rate of 1.2396 cad/usd at April 1, 2010) all maturing in fiscal 2014, to cover foreign exchange risk related to certain embedded derivatives.

The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments including the above-mentioned forward foreign exchange contracts as at the consolidated balance sheets dates. As at March 31, 2012, a 1% strengthening of the Canadian dollar over the U.S. currency, while all other variables would remain fixed, would have decreased consolidated net income by \$167 (\$186 in 2011) and decreased comprehensive income by \$366 (\$555 in 2011) while a 1% reduction would have had an opposite impact of essentially the same amounts.

### *Interest rate risk*

The Corporation is exposed to interest rate fluctuations primarily due to its variable interest rate on its long-term debt's Bank Credit Facility (see Note 19 to the consolidated financial statements). In addition, the interest rate fluctuations could also have an impact on the Corporation's interest income which is derived from its cash and cash equivalents.

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

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

The interest rate risk sensitivity is calculated on the floating rate liability at the end of the year. Assuming a 100-basis point increase/decrease in the interest rate as at March 31, 2012, while all other variables would remain fixed, this would have reduced/increased the Corporation's consolidated net income for the year then ended by \$143 (\$138 in 2011). For the derivative financial instruments (interest-rate swap agreements), a shift of 100-basis point increase in the yield curve, as of March 31, 2012, would have increased the Corporation's comprehensive income for the year then ended by \$1,014 (\$1,173 in 2011) while a 100-basis point decrease would have reduced it by \$1,052 (\$1,229 in 2011).

### **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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 31. FINANCIAL RISK MANAGEMENT (cont'd)

### Credit and credit concentration risks (cont'd)

Credit concentration risks are related to the fact that a significant portion of the Corporation's fiscal 2012 sales, approximately 59% (60% in 2011), are made to a limited number of customers (six customers) and that the Corporation deals mainly with a limited number of financial institutions. More specifically, the Corporation has one customer representing 18% (19% in 2011) of its consolidated sales and two customers representing between 13% and 14% (13% and 14% in 2011) of its consolidated sales, all of them in the Aerospace segment.

#### Accounts receivable

The credit and credit concentration risks related to this financial instrument are limited due to the fact that the Corporation deals generally with large corporations and Government agencies, with the exception of sales made to private small businesses in North America and non-governmental agencies outside North America which represent together approximately 5% (6% in 2011) of the Corporation's total annual consolidated sales.

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 as at March 31, 2012 was at acceptable levels in the industries in which the Corporation operates.

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

Changes in the allowance for doubtful accounts were as follows for the fiscal years ended March 31, 2012 and 2011:

	2012	2011
Balance at beginning of year	\$ 833	\$ 761
Provision for doubtful accounts, net of reversals	—	62
Amounts written off	(2)	—
Effect of foreign exchange rate changes	—	10
Balance at end of year	\$ 831	\$ 833

The Corporation's trade receivables that are past due but not impaired amounted to \$5,262 (\$8,142 in 2011) as at March 31, 2012, of which \$159 (\$1,471 in 2011) were more than 90 days past due.

#### Cash and cash equivalents and derivative financial instruments

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

The maximum exposure to credit risk for financial instruments represented the following as at March 31, 2012 (See Note 30 to the consolidated financial statements):

	FVTPL	HEDGING ITEMS <sup>(1)</sup>	LOANS AND RECEIVABLES (L&R)
Cash and cash equivalents	\$ 62,007	\$ —	\$ —
Accounts receivable	—	—	59,677
Other current assets	—	—	750
Derivative financial instruments	1,241	8,466	—

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 31. FINANCIAL RISK MANAGEMENT (cont'd)

### Liquidity risk

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

The maturity analysis of financial liabilities represented the following as at March 31, 2012 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 19):

	LESS THAN 1 YEAR	1 TO 3 YEARS	4 TO 5 YEARS	OVER 5 YEARS	TOTAL
Accounts payable and accrued liabilities	\$ 56,319	\$ —	\$ —	\$ —	\$ 56,319
Accounts payable – other	3,010	—	—	—	3,010
Long-term debt <sup>(2)</sup>	12,225	17,517	74,273 <sup>(1)</sup>	33,550	137,565
Derivative financial instruments	3,527	—	—	—	3,527

(1) Includes the used Bank's Credit Facility of \$59,351 maturing on March 15, 2016.

(2) Includes interest accretion on governmental authorities loans.

## NOTE 32. CAPITAL RISK MANAGEMENT

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

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

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

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

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 32. CAPITAL RISK MANAGEMENT (cont'd)

The net debt is equal to total debt representing the current portion of long-term debt and long-term debt, less cash and cash equivalents. Shareholders' equity includes 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 2012, 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.

	2012	2011
Current portion of long-term debt	\$ 10,867	\$ 6,353
Long-term debt	108,249	99,155
Less: Cash and cash equivalents	(62,007)	(32,910)
Shareholders' equity	\$ 57,109	\$ 72,598
Net debt-to-equity ratio	0.23:1	0.32:1

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

## NOTE 33. CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Consequently, on April 1, 2011, the Corporation adopted IFRS as the basis of preparation and presentation of its consolidated financial statements. The consolidated financial statements of the fiscal year ended March 31, 2012 are prepared in accordance with IFRS. The consolidated financial statements of the preceding fiscal year ended March 31, 2011, as well as the opening balance sheet as at April 1, 2010 (transition date), have been restated to conform to IFRS (see below).

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

### Reconciliations of Previous GAAP to IFRS

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



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 33. CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

### Reconciliations of Previous GAAP to IFRS (cont'd)

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

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

	Reference	MARCH 31, 2011			APRIL 1, 2010		
		Previous GAAP	Adjustments	IFRS	Previous GAAP	Adjustments	IFRS
<b>Current assets</b>							
Cash and cash equivalents		\$ 32,910	\$ —	\$ 32,910	\$ 46,591	\$ —	\$ 46,591
Accounts receivable		62,623	—	62,623	39,085	—	39,085
Income tax receivable		716	—	716	1,349	—	1,349
Other receivables		12,240	(12,240)	—	11,174	(11,174)	—
Inventories	A5	101,472	33,365	134,837	84,408	32,332	116,740
Derivative financial instruments		10,923	—	10,923	7,568	—	7,568
Prepaid expenses		2,498	(2,498)	—	2,151	(2,151)	—
Deferred income tax assets	A8	5,819	(5,819)	—	5,124	(5,124)	—
Other current assets		—	14,738	14,738	—	13,325	13,325
		<b>\$ 229,201</b>	<b>\$ 27,546</b>	<b>\$ 256,747</b>	<b>\$ 197,450</b>	<b>\$ 27,208</b>	<b>\$ 224,658</b>
Property, plant and equipment, net	A1	\$ 145,047	\$ 5,630	\$ 150,677	\$ 137,670	\$ 6,834	\$ 144,504
Finite-life intangible assets, net		18,486	—	18,486	11,698	—	11,698
Derivative financial instruments	A7	—	10,132	10,132	—	12,408	12,408
Goodwill	E1	40,398	(4,511)	35,887	35,621	(4,511)	31,110
Other assets	A7	10,743	(10,132)	611	12,408	(12,408)	—
<b>Total assets</b>		<b>\$ 443,875</b>	<b>\$ 28,665</b>	<b>\$ 472,540</b>	<b>\$ 394,847</b>	<b>\$ 29,531</b>	<b>\$ 424,378</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 33. CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

### Reconciliations of Previous GAAP to IFRS (cont'd)

#### 33.1 Reconciliation of the consolidated balance sheets as at March 31, 2011 and April 1, 2010 (transition date) (cont'd):

	Reference	MARCH 31, 2011			APRIL 1, 2010		
		Previous GAAP	Adjustments	IFRS	Previous GAAP	Adjustments	IFRS
<b>Liabilities and shareholders' equity</b>							
<b>Current liabilities</b>							
Accounts payable and accrued liabilities	E2, A6	\$ 68,893	\$ (16,316)	\$ 52,577	\$ 58,069	\$ (15,777)	\$ 42,292
Accounts payable - other	A7	4,980	(852)	4,128	4,591	(2,021)	2,570
Provisions	E1, A2, A6	—	11,600	11,600	—	11,653	11,653
Progress billings	A5	—	24,555	24,555	—	24,529	24,529
Income tax payable		1,622	—	1,622	138	—	138
Derivative financial instruments	A7	—	852	852	—	2,021	2,021
Deferred income tax liabilities	A8	6,474	(6,474)	—	7,161	(7,161)	—
Current portion of long-term debt	A1	5,136	1,217	6,353	4,250	1,212	5,462
		<b>\$ 87,105</b>	<b>\$ 14,582</b>	<b>\$ 101,687</b>	<b>\$ 74,209</b>	<b>\$ 14,456</b>	<b>\$ 88,665</b>
Long-term debt	A1	\$ 94,376	\$ 4,779	\$ 99,155	\$ 76,807	\$ 6,166	\$ 82,973
Provisions	A2, A6	—	4,991	4,991	—	4,855	4,855
Progress billings	A5	—	8,810	8,810	—	7,803	7,803
Derivative financial instruments	A7	—	1,158	1,158	—	1,716	1,716
Deferred income tax liabilities	A8	20,547	(1,616)	18,931	15,791	524	16,315
Other liabilities	E2, A3, A6, A7	9,182	4,083	13,265	10,948	40	10,988
		<b>\$ 211,210</b>	<b>\$ 36,787</b>	<b>\$ 247,997</b>	<b>\$ 177,755</b>	<b>\$ 35,560</b>	<b>\$ 213,315</b>
<b>Shareholders' equity</b>							
Issued capital		\$ 100,136	\$ —	\$ 100,136	\$ 100,641	\$ —	\$ 100,641
Contributed surplus	A4	2,010	1,320	3,330	1,615	1,530	3,145
Accumulated other comprehensive income (loss)	E3	(5,871)	15,818	9,947	(4,618)	15,816	11,198
Retained earnings		136,390	(25,260)	111,130	119,454	(23,375)	96,079
		<b>\$ 232,665</b>	<b>\$ (8,122)</b>	<b>\$ 224,543</b>	<b>\$ 217,092</b>	<b>\$ (6,029)</b>	<b>\$ 211,063</b>
<b>Total liabilities &amp; shareholders' equity</b>							
		<b>\$ 443,875</b>	<b>\$ 28,665</b>	<b>\$ 472,540</b>	<b>\$ 394,847</b>	<b>\$ 29,531</b>	<b>\$ 424,378</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 33. CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

### Reconciliations of Previous GAAP to IFRS (cont'd)

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

	<u>Reference</u>	
<b>33.2.1 Shareholders' equity under Previous GAAP as at March 31, 2010</b>		\$ 217,092
Adjustments:		
Exchanged differences on translation of foreign operations	<b>E3</b>	—
Business acquisition	<b>E1</b>	(1,365)
Graded method to amortize the cost of granted stock options	<b>A4</b>	—
Unamortized net pension plan actuarial loss	<b>E2</b>	(3,642)
Unamortized pension plan past-service costs and transitional obligation	<b>A3</b>	(1,060)
Others	<b>A1, A2</b>	38
<b>Total adjustments</b>		<u>(6,029)</u>
<b>Shareholders' equity under IFRS as at April 1, 2010</b>		<b>\$ 211,063</b>
	<u>Note</u>	
<b>33.2.2 Shareholders' equity under Previous GAAP as at March 31, 2011</b>		\$ 232,665
Adjustments:		
On shareholders' equity as of April 1, 2010	<b>33.2.1</b>	(6,029)
On net income for the year ended March 31, 2011, which have an impact on the shareholders' equity as at March 31, 2011	<b>33.3</b>	602
• Stock-based compensation expense included in the consolidated statements of income	<u>(211)</u>	391
Adjustments to other comprehensive income for the year ended March 31, 2011 which have an impact on shareholders' equity at March 31, 2011:		
• Pension plans - Asset limit and minimum funding requirements	<b>33.3</b>	(1,238)
• Pension plans - Actuarial loss	<b>33.3</b>	(1,249)
• Other		3
<b>Total adjustments</b>		<u>(8,122)</u>
<b>Shareholders' equity under IFRS as at March 31, 2011</b>		<b>\$ 224,543</b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 33. CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

### Reconciliations of Previous GAAP to IFRS (cont'd)

#### 33.3 Reconciliation of net income and comprehensive income for the fiscal year ended March 31, 2011:

	Reference	Previous GAAP	Adjustments	IFRS
Sales		\$ 357,572	\$ —	\$ 357,572
Cost of sales <sup>(1)</sup>	A1, A2, A3	300,312	(1,018)	299,294
Gross profit		57,260	1,018	58,278
Selling and administrative expenses	A4	26,040	(211)	25,829
Operating income		31,220	1,229	32,449
Financial expenses	A1, A2	5,156	482	5,638
Income before income tax expense and restructuring charges		26,064	747	26,811
Restructuring charges		637	—	637
Income before income tax expense		25,427	747	26,174
Income tax expense	A1, A2, A3	6,900	145	7,045
Net income		18,527	602	19,129
Other comprehensive income (loss), net of income taxes:		(1,253)	2	(1,251)
Pension plans - Actuarial loss	A3	—	(1,249)	(1,249)
Pension plans - Asset limit and minimum funding requirements	A3	—	(1,238)	(1,238)
Total - Other comprehensive income		(1,253)	(2,485)	(3,738)
Comprehensive income		\$ 17,274	\$ (1,883)	\$ 15,391

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

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

#### A. Exemptions (“E”) applied

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

- E1. IFRS 3-*Business Combinations* is applied to acquisitions of subsidiaries that occurred after March 31, 2004. Accordingly, the Corporation has reviewed certain business acquisition purchase price determinations and allocations. The effect is a decrease in the goodwill and shareholders' equity, at transition date.
- E2. The Corporation has elected to recognize all unamortized cumulative actuarial losses on pensions and other retirement benefits. The effect is an increase in other liabilities and a decrease in shareholders' equity, at transition date.
- E3. As of April 1, 2010, the Corporation has elected to transfer the exchange differences on translation of foreign operations of \$15,816 from accumulated other comprehensive income to retained earnings. This has no impact on shareholders' equity at that date.

#### B. Adjustments (“A”) resulting from the transition from Previous GAAP to IFRS

##### A1. Leases

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED MARCH 31, 2012 AND 2011 (In thousands of Canadian dollars, except share data)

## NOTE 33. CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

### B. Adjustments (“A”) resulting from the transition from Previous GAAP to IFRS (cont'd)

#### A2. Provisions

The consolidated balance sheet includes provisions representing estimated amounts that the Corporation expects to pay in the future. Under Previous GAAP, these amounts were not discounted to account for the time period in which these obligations will be settled. As required by IAS 37-*Provisions, Contingent Liabilities and Contingent Assets*, certain provision amounts have been discounted. The effect on shareholders' equity at April 1, 2010 and March 31, 2011 is not significant.

#### A3. Pensions and other retirement benefits

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

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

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

#### A4. Stock-based compensation

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

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

#### A5. Progress billings

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

#### A6. Provisions

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

#### A7. Derivative financial instruments – assets and liabilities

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

#### A8. Deferred income taxes

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

## NOTE 34. RECLASSIFICATION

Comparative figures for the consolidated financial statements as at March 31, 2011 and for the year then ended have been reclassified to conform to the March 31, 2012 presentation.

# SHAREHOLDER INFORMATION

## Annual General Meeting

Thursday, August 2, 2012 at 11:00 A.M.  
Pierre-de-Coubertin Room  
Hôtel Omni Mont-Royal  
1050 Sherbrooke Street West  
Montréal, Québec  
Canada

## Registrar and Transfer Agent

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Montréal, Québec  
Canada H3A 3S8  
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1-800-564-6253

## Auditors

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800 René Lévesque Blvd. West,  
Suite 1900  
Montréal, Québec  
Canada H3B 1X9  
Tel.: 514 875-6060

## Share Listing

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

## Investor Relations

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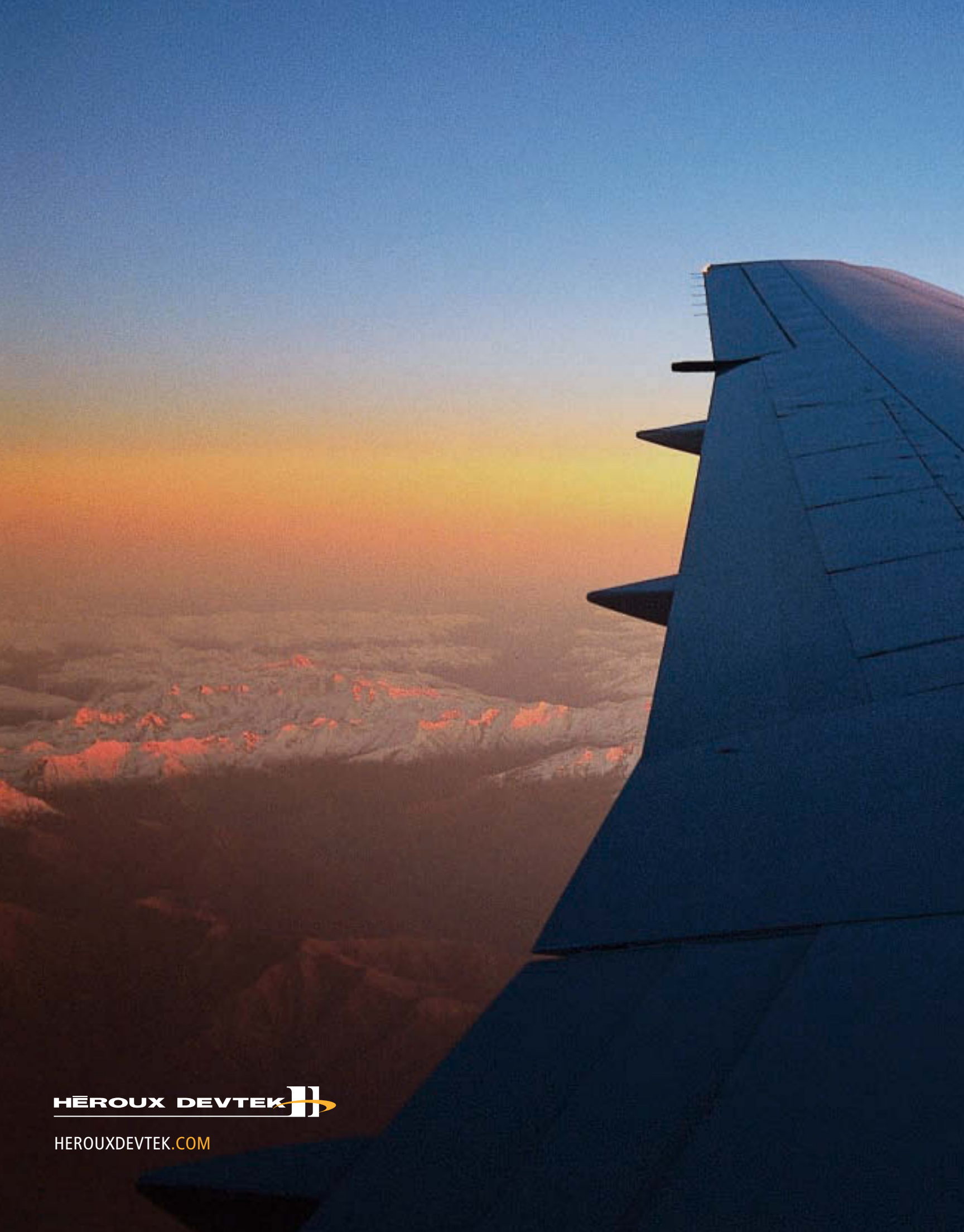
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## Designed and Written by MaisonBrison Communications

*Pour obtenir la version française de ce  
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corporatif.*





**HÉROUX DEVTEK** 

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