MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

For the quarter ended December 31, 2012

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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, 2012 and December 31, 2012. It also compares the operating results and cash flows for the quarter and nine-month period ended December 31, 2012 to those for the same periods in the previous year.

This analysis should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements for the quarter ended June 30, 2012, six months ended September 30, 2012 and nine months ended December 31, 2012, and the audited consolidated financial statements and MD&A for the fiscal year ended March 31, 2012, all of which are available on the Corporation's website at www.herouxdevtek.com. This MD&A is based on our unaudited interim condensed consolidated financial statements prepared in accordance with IAS 34, Interim Financial Reporting, using the Canadian dollar as the reporting currency. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

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 International Financial Reporting Standards ("IFRS"). However, the Corporation's management as well as investors, consider these to be useful information to assist them in evaluating the Corporation's profitability, liquidity and ability to generate funds to finance its operations and capital investment needs.

The Corporation's EBITDA from continuing operations, consisting essentially of the landing gear product line and Magtron operations (see Discontinued operations below), is calculated as follows:

($'000)	**Quarters ended December 31**		**Nine months ended December 31**	
	2012	**2011**	**2012**	**2011**
Net income from continuing operations	3,296	4,505	9,045	10,273
Income tax expense	901	1,319	2,090	2,779
Financial expenses	495	919	2,438	2,691
Amortization	2,962	3,497	9,306	10,293
EBITDA	**7,654**	**10,240**	**22,879**	**26,036**

For the third quarter and nine-month period ended December 31, 2012, the lower EBITDA reflects a lower operating income realized in the third quarter, as explained in the following sections.

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 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

On August 31, 2012, the Corporation concluded the sale of substantially all of its Aerostructure and Industrial product line operations ("sale transaction") (See Discontinued operations below). Following this transaction, Héroux-Devtek and its subsidiaries mainly specialize in the design, development, manufacture, repair and overhaul of landing gear systems and components used principally in the Aerospace market. The Corporation has also built a strong, well-recognized design engineering team.

The Corporation is the third largest landing gear company in the world, supplying both the commercial and military sectors of the Aerospace market with new landing gear systems and components as well as aftermarket products and services (including spare parts and repair and overhaul services). 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. 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's head office is located in Longueuil, Québec with facilities in the Greater Montreal area (Longueuil, Laval and St-Hubert); Kitchener and Toronto, Ontario; as well as Springfield and Cleveland, Ohio. All facilities are involved in the fabrication of landing gear systems and components with the exception of the Toronto facility ("Magtron"), which manufactures electronic enclosures, heat exchangers and cabinets for suppliers of airborne radar, electro-optic systems and aircraft controls. This facility provides competencies in vacuum and dip brazing metal joining technologies and became Canada's first facility to be Nadcap certified in aluminum vacuum brazing.

Discontinued operations

On July 16, 2012, the Corporation executed a definitive agreement for the sale of substantially all of its Aerostructure and Industrial product line operations to Precision Castparts Corporation (“PCC”), a public company traded on the New York Stock Exchange. The net assets acquired by PCC include the Corporation’s Dorval (Quebec), Querétaro (Mexico) and Arlington (Texas) Aerostructure product line manufacturing sites, as well as the Cincinnati (Ohio) Industrial product line manufacturing sites.

The sale transaction was concluded on August 31, 2012 with gross sale proceeds, including post-closing adjustments expected to be finalized by the end of the current quarter, of $298.1 million paid essentially in cash. Taking into consideration the related taxes and estimated transaction related costs, the net proceeds amounted to $233.4 million, including a favourable adjustment of $1.5 million on transaction related costs, before income tax expenses, recorded in the third quarter. The gain of $159.2 million on the sale transaction, net of the related taxes of $50.8 million, amounted to $108.4 million.

Net income from discontinued operations and related to the sale transaction is comprised of the following:

	Quarters ended December 31		**Nine months ended December 31**	
($’000)	**2012**	**2011**	**2012**	**2011**
Net gain from the sale transaction	1,289	-	108,415	-
Net income from operations sold [(1)]	-	2,405	6,132	7,246
Net income from discontinued operations	**1,289**	**2,405**	**114,547**	**7,246**

[(1)] *Up to August 31, 2012.*

In the second quarter, concurrently to the sale transaction, the Corporation proceeded with a $16 million reduction of finance lease obligations and the repayment of a $1 million governmental authorities’ loan related to the businesses sold. The Corporation also proceeded with a partial repayment of US$37.5 million ($37.0 million) against the Syndicated Banks’ Credit Facility ("Credit Facility") and repurchased two of the three interest rate swap agreements in place, representing a total notional amount of US$30 million, for a total cost of $1.7 million which was recorded as transaction related costs to the sale transaction.

The sales, gross profit, operating income and EBITDA related to the continuing and discontinued operations represented the following amounts for the last fiscal year ended March 31, 2012:

	Total Consolidated ($'000)	**Discontinued Operations ($'000)**	**Continuing Operations ($'000)**
Sales	380,336	126,808	253,528
Gross profit	67,630	24,923	42,707
Operating income	40,669	16,841	23,828
EBITDA	64,722	27,275	37,450

RESULTS OF OPERATIONS

Following the sale transaction explained above, income and expenses from discontinued operations before August 31, 2012 are reported separately from income and expenses from continuing operations, down to the level of net income in the consolidated statements of income for the quarter and nine-month period ended December 31, 2012 and the comparable periods of last year.

Prior to the sale transaction, the Aerostructure product line was part of the Corporation's Aerospace segment, while the Industrial product line formed the Industrial segment. Therefore, all of the operations of the businesses sold are now excluded from the Corporation's segmented information. Following this sale transaction, the Corporation operates essentially in the Aerospace segment and is comprised of the landing gear product line and Magtron operations.

Foreign Exchange

The Corporation is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its foreign operations and from transactions denominated mainly in US dollars. Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions, but exclusive of forward foreign exchange contracts ("FFEC"), while the statement of income of foreign operations is translated at the average exchange rate for the fiscal year. FFEC, for the purpose of hedge accounting, are classified as cash flow hedges in accordance with the Corporation's accounting policies. The closing rates translate monetary assets and liabilities denominated in foreign currencies and assets and liabilities of foreign operations. The average exchange rates for the quarter and nine-month periods ended December 31, 2012 and 2011, and the closing rates at December 31, 2012 and March 31, 2012 were as follows ($ Canadian / 1 US $ equivalent):

Canada / US Exchange Rates	December 31, 2012	December 31, 2011
Average rate for quarters ended	**0.9913**	1.0231
Average rate for nine months ended	**0.9987**	0.9903

Canada / US Exchange Rates	December 31, 2012	March 31, 2012
Closing rates	**0.9949**	0.9975

As shown above, the average value of the Canadian dollar for the quarter ended December 31, 2012 was 3.1% higher, when compared to its U.S. counterpart year-over-year, and had a negative impact on the U.S.-denominated sales and results of the Corporation, including those from its Canadian operations. For the nine-month period ended December 31, 2012, the average value of the Canadian dollar, when compared to its U.S. counterpart year-over-year, was 0.8% lower, and therefore did not significantly impact the Corporation's results for that period. Overall, the variation in the closing rate since March 31, 2012 had no material impact on the Corporation's U.S.-denominated balance sheet accounts at the end of this quarter, when compared to last year-end balances. Currency fluctuation impact on the Corporation's sales, gross profit and specific balance sheet elements can be found later in this MD&A.

The Corporation makes use of derivative financial instruments, in accordance with its hedging policy, to hedge foreign currency fluctuation exposure risks (Canadian dollar over US dollar) in an effort to mitigate these risks. As at December 31, 2012, the Corporation had forward foreign exchange contracts to sell US$130.0 million at a weighted-average rate of 1.0405. These contracts mature at various dates between January 2013 and March 2016, with the majority maturing this and next fiscal years.

As at December 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.

For the continuing operations, the results and main variations for the quarter and nine-month period ended December 31, 2012 are as follows:

Consolidated Sales

Consolidated sales for the third quarter ended December 31, 2012 totalled $61.7 million, 0.4% lower than last year's sales of $62.0 million. The impact of the stronger Canadian dollar against the US currency reduced consolidated sales by $1.0 million or 1.7%, when compared to last year.

At year-to-date, consolidated sales increased by $4.5 million or 2.5% to $183.2 million from $178.7 million last year. This increase is the result of a 15.3% or $10.5 million sales increase in the commercial sector, mainly resulting from higher production rates on large commercial and business jet programs, partially offset by lower aftermarket military sales. Exchange fluctuations reduced sales by $1.3 million or 0.7%, when compared to last year.

Consolidated sales can be broken down as follows:

	Quarters ended December 31				**Nine months ended December 31**			
	2012	**2011**	**Variance**		**2012**	**2011**	**Variance**	
	($'000)	**($'000)**	**($'000)**	**%**	**($'000)**	**($'000)**	**($'000)**	**%**
Military [(1)]	34,145	39,273	(5,128)	(13.1)	104,457	110,469	(6,012)	(5.4)
Commercial	27,597	22,715	4,882	21.5	78,749	68,275	10,474	15.3
Total	**61,742**	**61,988**	**(246)**	**(0.4)**	**183,206**	**178,744**	**4,462**	**2.5**

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

Military sales were $5.1 million or 13.1% lower this quarter to $34.1 million and $6.0 million or 5.4% lower at year-to-date to $104.5 million, when compared to last year. The decrease in sales for the quarter and at year-to-date is essentially the result of push-outs from customers on certain military programs, combined with lower military aftermarket sales resulting from delayed deliveries which will be effectively made in the current quarter of this fiscal year. The decrease in military sales is also the result of lower electronic enclosure and cabinet sales at the Magtron facility.

Commercial sales were $4.9 million or 21.5% higher this quarter to $27.6 million and $10.5 million, or 15.3% higher at year-to-date to $78.7 million, when compared to last year. These increases are the result of higher sales on large commercial programs, mainly from the higher production rates on the B-777 program and production ramp-up on the B-787 program. It also includes the impact of a higher production rate on certain business jet programs, mainly the Challenger program, and of higher aftermarket sales for certain regional aircraft programs and for the Bombardier LJ-45 and CL-415 programs.

Sales by Destination

The Corporation's sales by destination were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2012 (%)	**2011 (%)**	**2012 (%)**	**2011 (%)**
Canada	32	27	31	27
US	63	68	64	69
International	5	5	5	4
Total	**100**	**100**	**100**	**100**

This third quarter and the year-to-date changes in the sales by destination mix, compared to last year, mainly reflect the impact of increased aftermarket commercial sales in Canada.

Gross Profit

This quarter, consolidated gross profit as a percentage of sales decreased by 2.5% to 15.1%, from 17.6% last year, and for the nine-month period ended December 31, 2012, it decreased by 0.9% to 15.1% from 16.0% last year.

The US/CAD currency fluctuations negatively impacted the Corporation's gross profit in dollars this quarter by $0.3 million or 0.2%, when expressed as a percentage of sales, and at year-to-date by $0.7 million or 0.3%, when expressed as a percentage of sales. Besides the natural hedging from the purchase of raw material in US dollars, the Corporation mitigates the currency impact by the use of forward foreign exchange contracts.

This quarter and at year-to-date, consolidated gross profit was impacted by higher under-absorption of manufacturing overhead costs that resulted from lower production volume due to certain push-outs from customers, lower than anticipated military sales and an unfavorable repair and overhaul sales product mix. At year-to-date, non-recurring costs were also incurred in the development of a new landing gear system program. These negative impacts on gross profit, for both periods, were partially offset by a better product mix resulting from higher commercial spare part sales and lower non-quality costs, when compared to last year.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2012	**2011**	**2012**	**2011**
Selling and administrative expenses ($'000)	4,640	4,180	14,103	12,780
% of sales	7.5	6.7	7.7	7.1

Selling and administrative expenses stood at $4.6 million or 7.5% of sales for the quarter ended December 31, 2012, an increase of $0.5 million or 0.8% of sales from $4.2 million or 6.7% of sales last year. This increase reflects the higher research and development expenses of $0.7 million incurred this year, when compared to last year, for the development of new technologies and manufacturing improvements related to landing gear systems which are not capitalized. In addition, the expense related to stock-based compensation was higher by $0.1 million when compared to last year, reflecting the appreciation in the Corporation's stock price traded on the Toronto Stock Exchange. This quarter, the gain on currency translation on net monetary assets of $0.1 million included in selling and administrative expenses was the same as last year.

For the nine-month period ended December 31, 2012, selling and administrative expenses stood at $14.1 million or 7.7% of sales, an increase of $1.3 million or 0.6% of sales from $12.8 million or 7.1% of sales last year. This is mainly explained by higher expenses related to stock-based compensation of $0.9 million reflecting the Corporation's stock appreciation, when compared to last year. It also included a gain on currency translation on net monetary assets of $0.1 million, compared to $0.3 million last year.

Operating Income

Consolidated operating income stood at $4.7 million or 7.6% of sales for the quarter ended December 31, 2012, a decrease of 3.3% of sales from $6.7 million or 10.9% of sales last year. This is mainly the result of a higher under-absorption of manufacturing overhead costs related to reduced military sales and higher research and development expenses, as explained above.

For the nine-month period ended December 31, 2012, consolidated operating income stood at $13.6 million or 7.4% of sales, compared to $15.7 million or 8.8% of sales last year. The lower operating income in dollars and as a percentage of sales is mainly the result of non-recurring costs incurred in the development of a new landing gear system program, the higher under-absorption of manufacturing overhead costs due to reduced military sales, combined with a higher stock-based compensation expense, as explained above.

Financial Expenses

Financial expenses stood at $0.5 million and at $2.4 million respectively, for the quarter and nine-month period ended December 31, 2012, while it stood at $0.9 million and $2.7 million respectively, for the same periods last year. The lower financial expenses this quarter and at year-to-date reflect a higher interest income resulting from the increased cash position of the

Corporation, following the sale transaction. The year-to-date financial expenses also reflect the higher interest accretion expense resulting from the discount rate adjustments on long-term provisions.

Income Tax Expense

For the quarter ended December 31, 2012, the income tax expense stood at $0.9 million, compared to $1.3 million last year. At year-to-date, the income tax expense stood at $2.1 million, compared to $2.8 million for the same period last year.

For the nine-month period ended December 31, 2012, the Corporation’s effective income tax rate was 18.8%, compared to its Canadian blended statutory income tax rate of 25.9%. The effective income tax rate reflects the favourable impact from permanent differences ($0.1 million) partially offset by the negative impact of a higher U.S. income tax rate for the Corporation’s U.S. subsidiaries ($0.1 million). It also includes a reduction in deferred income tax liabilities in light of changes in tax audit matters ($0.8 million).

For the nine-month period ended December 31, 2011, the Corporation’s effective income tax rate was 21.3%, compared to its Canadian blended statutory income tax rate of 27.2%. The effective income tax rate reflects the favourable impact from permanent differences ($0.7 million), and favourable deferred income tax adjustments ($0.3 million), partially offset by the negative impact of a higher U.S. income tax rate for the Corporation’s U.S. subsidiaries ($0.2 million).

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

Net Income

For the quarter and nine-month period ended December 31, 2012, the Corporation posted a net income from continuing operations of $3.3 million or 5.3% of sales and of $9.0 million or 4.9% of sales respectively, compared to a net income of $4.5 million or 7.3% of sales, and $10.3 million or 5.7% of sales for the same periods last year.

Net income for the quarter and at year-to-date includes the net income of discontinued operations for the quarter and nine-month period ended December 31, 2012 of $1.3 million and $114.5 million respectively, compared to $2.4 million and $7.2 million for the same periods last year. At year-to-date, net income from discontinued operations includes a net gain from the sale transaction of $108.4 million, including a favorable adjustment of $1.3 million net of income taxes recorded in the third quarter, as explained above (see Note 4 to the interim condensed consolidated financial statements).

	Quarters ended December 31		Nine months ended December 31	
	2012	**2011**	**2012**	**2011**
Net income from continuing operations ($'000)	3,296	4,505	9,045	10,273
Net income from discontinued operations ($'000)	1,289	2,405	114,547	7,246
Net income ($'000)	4,585	6,910	123,592	17,519
Earnings per share – basic ($)	0.15	0.23	4.02	0.58
Earnings per share – diluted ($)	0.15	0.23	4.00	0.57
Earnings per share for continuing operations – basic and diluted ($)	0.11	0.15	0.29	0.34

Basic earnings per share figures are based on year-to-date weighted-averages of 30,753,456 common shares outstanding for the nine-month period ended December 31, 2012, and 30,335,097 common shares for the same period last year, while the diluted earnings per share figures are based on year-to-date weighted-averages of 30,887,058 for the nine-month period this year and 30,659,935 for the same period last year. On a year-to-date basis, the increase in the number of outstanding common shares is mainly related to the issuance of 1,032,543 common shares under the Corporation's stock option plan, including 679,005 common shares in the third quarter this fiscal year (see Note 13 to the interim condensed consolidated financial statements).

On February 7, 2013, the date of this MD&A, the Corporation had 31,503,947 common shares and 266,901 stock options outstanding with a weighted-average of 4.1 years to maturity.

Other accumulated comprehensive income ("OACI") and comprehensive income

For the nine-month period ended December 31, 2012, the other comprehensive loss, included in the comprehensive income from continuing operations, is mainly the result of net gains on derivative financial instruments transferred to net income during that period combined with net actuarial losses resulting from the negative impact of a lower interest rate to discount the defined benefit pension plan obligations, partially offset by a gain arising from translating the financial statements of foreign operations.

LIQUIDITY AND CAPITAL RESOURCES

Special Distribution to Shareholders

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

The special distribution to shareholders of $5.00 per share which represented a cash distribution of $157.5 million (based on 31,498,905 common shares outstanding on November 20, 2012) made on December 19, 2012 was composed of and recorded as an issued capital reduction of $2.70 per share ($85.0 million) and of a special cash dividend of $2.30 per share ($72.5 million) recorded against the retained earnings of the Corporation. The capital reduction which reduced the Corporation's issued capital was approved by the shareholders at a special shareholder meeting held on December 18, 2012. The transaction costs related to this special distribution to shareholders amounting to $0.3 million ($0.2 million net of income taxes) was accounted for against the issued capital and retained earnings (see Note 13 to the interim condensed consolidated financial statements).

Credit Facility and Cash and Cash Equivalents

In general terms, the Corporation has a healthy financial situation and is well positioned to face its financing needs. Following the sale transaction on August 31, 2012 and the special distribution to shareholders on December 19, 2012, the Corporation had cash and cash equivalents of $91.4 million as at December 31, 2012, compared to $62.0 million at March 31, 2012, of which $5.0 million had been invested in short-term deposits ($39.9 million at March 31, 2012). The remaining cash and cash equivalents were held in investment accounts with three Canadian Banks and their U.S. affiliates or branches of the Corporation's syndicated banks.

In March 2011, the Corporation renewed and increased its Senior Secured Syndicated Revolving Credit Facility with a syndicate of five Canadian Banks and their U.S. 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 12 to the interim condensed 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. Immediately following the sale transaction, the Corporation proceeded with a partial repayment of US$37.5 million ($37.0 million) against the Credit Facility. As a result, the Corporation only had $21.9 million (US$22.0 million) drawn against the Credit Facility as at December 31, 2012 compared to $59.4 million as at March 31, 2012 (US$59.5 million). 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 December 31, 2012, the Corporation had the following net cash position, calculated as follows:

	($'000)
Cash and cash equivalents	91,391
Less: Long-term debt, including current portion[1]	(60,817)
Net cash position	**30,574**

[1] *Excluding net deferred financing costs*

Operating Activities

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

	Quarters ended December 31		Nine months ended December 31	
	2012 ($'000)	**2011 ($'000)**	**2012 ($'000)**	**2011 ($'000)**
Cash flows from continuing operations	6,980	9,496	19,943	22,240
Net change in non-cash items related to continuing operations	455	(3,868)	(8,145)	(11,105)
	7,435	5,628	11,798	11,135
Operating activities of discontinued operations	-	4,507	8,273	23,667
Cash flows related to operating activities	**7,435**	**10,135**	**20,071**	**34,802**

The $2.5 million decrease in cash flows from continuing operations for the quarter ended December 31, 2012, when compared to last year, is mainly explained by a $1.2 million decrease in net income, combined with a $0.5 million lower depreciation expense and a $0.4 million lower deferred income tax expense. For the nine-month period ended December 31, 2012, the $2.3 million decrease in cash flows from continuing operations, when compared to the same period last year, essentially results from a $1.2 million lower net income and a $1.0 million lower depreciation expense which includes a $0.4 million lower backlog amortization expense.

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

	Quarters ended December 31		Nine months ended December 31	
	2012 ($'000)	2011 ($'000)	2012 ($'000)	2011 ($'000)
Accounts receivable	765	954	6,115	5,321
Inventories	(691)	(4,312)	(4,262)	(10,524)
Other current assets	(2,547)	(1,887)	(3,231)	(1,838)
Progress billings	620	2,436	(3,722)	(3,666)
Income tax payable and receivable	(128)	(1,487)	(3,048)	1,655
Accounts payable and accrued liabilities, accounts payables-other, and other liabilities (referred to as "Accounts payable")	2,784	1,057	919	(3,763)
All others	(348)	(629)	(916)	1,710
	455	**(3,868)**	**(8,145)**	**(11,105)**

For the third quarter ended December 31, 2012, the increase in accounts payable reflects the higher level of activity in that quarter, when compared to the second quarter of this year, and a higher US/CAD foreign exchange closing rate to convert the accounts payable denominated in US dollars. The increase in other current assets this quarter and at year-to-date is mainly the result of an increase in investment and other tax credits receivable which is consistent with the increased eligible development costs for Aerospace long-term contracts. For the nine-month period ended December 31, 2012, the decrease in accounts receivable results from a lower sales volume in the third quarter, when compared to last year's fourth quarter, which historically has been the best quarter of the fiscal year. The increase in inventories, essentially from the first quarter, reflects the increase in production rates in the commercial sector, while 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. The reduction in income tax payable and receivable for the nine-month period ended December 31, 2012, mainly reflects the final payment of income taxes made in the first quarter for fiscal 2012.

For the third quarter ended December 31, 2011, the increase in accounts payable, inventories and progress billings was in line with the expected increase in sales volume for last year's fourth quarter. At year-to-date, the impact from a higher US/CAD foreign exchange closing rate was offset by a decrease in accounts receivable and accounts payable mainly resulting from a lower sales volume in the third quarter of last year, compared to the previous year's fourth quarter. The increase in inventories was the result of the increased production rates in the commercial aerospace sector, while the reduction in progress billings reflected a higher commercial funded backlog business mix, compared to military.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2012 ($'000)	**2011 ($'000)**	**2012 ($'000)**	**2011 ($'000)**
Additions to property, plant and equipment [(1)]	(3,081)	(4,123)	(9,524)	(12,258)
Net increase in finite-life intangible assets [(1)]	(2,340)	(1,576)	(4,841)	(7,275)
Proceeds on disposal of property, plant and equipment [(1)]	45	332	137	349
Net proceeds from sale of discontinued operations	(48,319)	-	224,477	-
Investing activities of discontinued operations	-	526	(4,294)	(1,693)
Cash flows related to investing activities	**(53,695)**	**(4,841)**	**205,955**	**(20,877)**

[(1)] *From continuing operations.*

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

	Quarters ended December 31		Nine months ended December 31	
	2012 ($'000)	**2011 ($'000)**	**2012 ($'000)**	**2011 ($'000)**
Additions to property, plant and equipment	1,803	4,254	8,010	9,308
Variation in unpaid additions included in Accounts payable – Other at period-end	1,278	(131)	2,292	2,950
Machinery and equipment acquired through finance leases	-	-	(778)	-
Additions, as per statements of cash flows	**3,081**	**4,123**	**9,524**	**12,258**

This quarter and at year-to-date, the additions to property, plant and equipment for continuing operations stood at $1.8 million and $8.0 million respectively ($4.3 million and $9.3 million last year). It includes investments in the engineering test facility to support requirements from the new development aerospace programs along with maintenance capital expenditure requirements. Capital expenditures for continuing operations for the current fiscal year are expected to be about $15 million.

The increase in finite-life intangible assets mainly represents capitalized development costs for long-term contracts, essentially for business jet design programs. Sales related to some of these programs are anticipated to begin in the next fiscal year and will gradually increase over the following five years.

Net proceeds from sale of discontinued operations are related to the sale transaction which includes, at year-to-date, the sale proceeds received in cash, net of the finance leases obligations reduction. For the third quarter ended December 31, 2012, it mainly includes the income tax and sale transaction related costs paid during the quarter related to the sale transaction.

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended December 31		**Nine months ended December 31**	
	2012 ($'000)	**2011 ($'000)**	**2012 ($'000)**	**2011 ($'000)**
Increase in long-term debt	1,224	839	1,224	4,115
Repayment of long-term debt	(3,079)	(472)	(43,517)	(2,001)
Issuance of common shares	4,388	76	6,267	1,189
Special distribution to shareholders	(157,688)	-	(157,688)	-
Financing activities of discontinued operations	-	(672)	(3,208)	(2,302)
Cash flows related to financing activities	**(155,155)**	**(229)**	**(196,922)**	**1,001**

On December 19, 2012, the Corporation proceeded with the payment of a special distribution to shareholders of $157.5 million, as previously described. The amount presented in the cash flow also includes the related transaction costs, net of income taxes.

This and last year's quarter and at year-to-date, repayment of long-term debt includes the repayment of governmental authorities' loans, finance leases for machinery and equipment, and the promissory note. At year-to-date, this year's repayment of long-term debt also includes the partial repayment of US$37.5 million ($37.0 million) against the Credit Facility, following the sale transaction (see Discontinued operations above).

This quarter and for the quarter and nine-month period ended December 31, 2011, the increase in long-term debt reflects new governmental authorities' loans received to support the Corporation's development costs for Aerospace programs.

During the quarter and nine-month period ended December 31, 2012, the Corporation issued 679,005 and 1,032,543 common shares respectively, following the exercise of stock options for total cash considerations of $4,346,000 and $6,057,000. During the same periods, the Corporation also issued 3,485 and 23,992 common shares respectively, under the Corporation's stock purchase and ownership incentive plan ("Stock purchase plan") for total cash considerations of $42,000 and $210,000. For the same periods last year, the Corporation issued 200,323 common shares (all in the first quarter) following the exercise of stock options for a total cash consideration of $954,000, and 12,135 and 33,453 common shares respectively, under its stock purchase plan, for total cash considerations of $76,000 and $235,000 (see below).

At December 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.

Capital Stock, Stock Option and Stock Purchase Plans

At December 31, 2012, the Corporation had 31,498,905 common shares outstanding (30,442,370 as at March 31, 2012).

During the quarter and nine-month period ended December 31, 2012, the Corporation issued 682,490 and 1,056,535 common shares respectively, at weighted-average prices of $6.43 and $5.93 for total cash considerations of $4,388,000 and $6,267,000. This includes 679,005 and 1,032,543 common shares issued following the exercise of stock options for total cash considerations of $4,346,000 and $6,057,000. The initial fair value of these stock options, amounting to $1,443,000 and $1,946,000 respectively, was transferred to the issued capital of the Corporation from the Corporation's contributed surplus. The remainder of 3,485 and 23,992 common shares respectively, were issued under the Corporation's stock purchase and ownership incentive plan at weighted-average prices of $11.94 and $8.75 for total cash considerations of $42,000 and $210,000.

During the quarter and nine-month period ended December 31, 2011, the Corporation issued 200,323 common shares (all in the first quarter), following the exercise of stock options at a weighted-average price of $4.76 for a total cash consideration of $954,000. The Corporation also issued 12,135 and 33,453 common shares respectively, under the Corporation's stock purchase plan at weighted-average prices of $6.24 and $7.01 for total cash considerations of $76,000 and $235,000.

During the quarter and nine-month period ended December 31, 2012, no stock options were granted (242,000 stock options last year, all in the second quarter) while 679,005 and 1,032,543 stock options respectively were exercised (200,323 stock options last year, all in the first quarter) and 111,900 stock options were cancelled, all in the second quarter (no stock options cancelled during the quarter and nine-month period last year).

At December 31, 2012, 266,901 stock options were outstanding with a weighted-average of 4.2 years to maturity and a weighted-average exercise price of $7.90 (see below).

Last year, 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:

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

At December 31, 2012, 1,752,381 common shares had not been issued yet under the Stock Option Plan and 284,762 common shares had not been issued yet under the Stock Purchase Plan.

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

At December 31, 2012, on a cumulative basis, 39,000 SARs were still outstanding at a weighted-average granted price of $7.39 (see below), which expire on various dates from fiscal 2014 to 2016.

For the nine-month period ended December 31, 2012, 85,700 SARs (53,200 in the third quarter) were exercised and 5,800 SARs were cancelled (all in the second quarter). In August 2010, the SAR plan was replaced by the DSU plan.

At December 31, 2012, on a cumulative basis, 47,871 DSUs were outstanding (37,718 last year) (see below). During the nine-month period ended December 31, 2012, 18,243 DSUs were issued by the Corporation, all in the second quarter (37,718 DSUs issued last year, all in the first semester) and 8,090 DSUs were exercised, all in the second quarter (none exercised last year).

For the quarter and nine-month period ended December 31, 2012, SAR expense amounted to $2,000 and $526,000 respectively (reversal of expense of $84,000 and $271,000 last year) while DSU expense amounted to $40,000 and $362,000 (reversal of expense of $5,000 and an expense of $211,000 last year). See Note 13 to the interim condensed consolidated financial statements.

Adjustment to certain stock-based compensation subsequent to the quarter ended December 31, 2012

Following the special distribution to shareholders (see above) and considering its related impact on the Corporation’s stock price, the Board of Directors of the Corporation approved on January 14, 2013 an adjustment to be made to the exercise prices of the Corporation’s outstanding stock options and SARs, while it issued additional DSUs. The adjustment was made in accordance with the related Corporation’s stock-based compensation plans and, was approved by the Toronto Stock Exchange (“TSE”) as required for the adjustment to the stock options. This adjustment represented the difference between the 5-day volume weighted-average price of the Corporation’s stock price traded on the TSE, immediately prior to December 20, 2012 (being the date of commencement of ex-distribution trading of the Corporation’s stock, following the special distribution to shareholders) and the 5-day volume weighted-average price beginning on December 20, 2012. The Corporation also issued additional DSUs on the same basis. The impact on the number and weighted-average exercise prices of the Corporation’s stock options, SARs and DSUs represents the following:

	Before Adjustment		**After Adjustment**	
	Number	**Weighted-Average Exercise Price**	**Number**	**Weighted-Average Exercise Price**
Stock options	266,901	$7.90	266,901	$3.27
SARs	39,000	$7.39	39,000	$2.78
DSUs	47,871	N/A	75,302	N/A

This adjustment will have no impact on the consolidated statements of income of the Corporation in the current quarter.

Consolidated Balance Sheets

The following table reconciles the variations in the consolidated balance sheets between March 31, 2012 and December 31, 2012, assuming that all items related to the operations sold have been reclassified as at March 31, 2012 as held for sale:

	March 31, 2012			Dec. 31, 2012	Variation	Reference
	Consolidated	Held for Sale	Adjusted (1)			
	$'000	$'000	$'000	$'000	$'000	
ASSETS						
Current assets						
Cash and cash equivalents	62,007	-	62,007	91,391	29,384	A
Accounts receivable	59,677	(17,153)	42,524	36,409	(6,115)	B
Income tax receivable	1,500	(1,500)	-	-	-	
Inventories	135,323	(30,915)	104,408	108,670	4,262	C
Derivative financial instruments	6,471	-	6,471	4,981	(1,490)	
Other current assets	16,492	(2,467)	14,025	13,125	(900)	
Total current assets	281,470	(52,035)	229,435	254,576	25,141	
Property, Plant and equipment, net	153,208	(74,785)	78,423	77,429	(994)	
Finite-life intangible assets, net	24,514	(2,688)	21,826	26,216	4,390	D
Derivative financial instruments	3,236	-	3,236	927	(2,309)	
Goodwill	36,068	(16,986)	19,082	19,069	(13)	
Deferred income tax assets	-	-	-	1,210	1,210	
Assets held for sale	611	146,494	147,105	611	(146,494)	E
Total assets	**499,107**	-	**499,107**	**380,038**	**(119,069)**	
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities						
Accounts payable and accrued liabilities	56,319	(15,478)	40,841	42,614	1,773	
Accounts payable, other	3,010	(100)	2,910	2,665	(245)	
Provisions	12,157	(2,206)	9,951	10,710	759	
Progress billings	16,393	(4,846)	11,547	11,064	(483)	F
Income tax payable	2,381	576	2,957	2,494	(463)	
Derivative financial instruments	827	-	827	1,270	443	
Current portion of long-term debt	10,867	(4,364)	6,503	5,203	(1,300)	G
Liabilities directly associated with the assets of a disposal group classified as held for sale	-	51,006	51,006	-	(51,006)	E
Total current liabilities	101,954	24,588	126,542	76,020	(50,522)	
Long-term debt	108,249	(14,846)	93,403	54,186	(39,217)	G
Provisions	4,866	-	4,866	5,214	348	
Progress billings	7,512	(953)	6,559	3,320	(3,239)	F
Derivative financial instruments	2,700	-	2,700	530	(2,170)	
Deferred income tax liabilities	17,071	(8,789)	8,282	12,664	4,382	
Other liabilities	12,788	-	12,788	13,277	489	
Total liabilities	255,140	-	255,140	165,211	(89,929)	
Shareholders' equity						
Issued capital	102,202	-	102,202	25,263	(76,939)	H
Contributed surplus	3,059	-	3,059	1,108	(1,951)	
Accumulated other comprehensive income	2,515	800	3,315	3,273	(42)	
Accumulated other comprehensive income directly associated with the assets classified as held for sale	-	(800)	(800)	-	800	
Retained earnings	136,191	-	136,191	185,183	48,992	I
Shareholders' equity	243,967	-	243,967	214,827	(29,140)	
Total liabilities and shareholders' equity	**499,107**	-	**499,107**	**380,038**	**(119,069)**	

(1) Adjusted for held for sale accounts related to operations sold (sale transaction).

The following represents the explanations of significant balance sheet variations from continuing operations between March 31, 2012 and December 31, 2012 (see Reference in previous table):

A- The increase of $29.4 million is mainly the result of:

- The cash proceeds from the sale transaction of $298.1 million, net of related debt repayment of $54.0 million, related income taxes paid of $49.0 million and expenses incurred for the sale transaction.
- The special distribution to the Corporation's shareholders of $157.5 million paid to the Corporation' shareholders in the third quarter.

Please refer to the consolidated statement of cash flows for more details.

B- The decrease of $6.1 million results from lower sales in the third quarter this year, compared to last year's fourth quarter sales, combined with the impact of a lower CAD/US exchange rate used to convert U.S.-denominated accounts receivable, when compared to March 31, 2012 (impact of $0.1 million).

C- The increase reflects the increased production rates in the commercial sector and the expected sales increase in the fourth quarter of the current fiscal year.

D- The variation of $4.4 million reflects the increase in capitalized development costs for long-term contracts ($4.8 million) and in software costs ($0.3 million), net of backlog ($0.1 million) and software ($0.6 million) amortization expense.

E- The decrease reflects the assets disposed of and also liabilities assumed by the buyer, following the sale transaction.

F- The decrease of $3.7 million in current and long-term progress billings mainly reflects a higher commercial funded backlog business mix, compared to military, and a reduced backlog on certain military programs.

G- The decrease of $40.5 million in current and long-term debt reflects:

- The partial repayment of US$37.5 million ($37.0 million) against the Credit Facility following the sale transaction, and the repayment of other long-term debt ($6.5 million);
- A lower CAD/US exchange rate used to convert the long-term debt denominated in US dollars ($0.5 million);

Net of:

- Governmental loan received to support Aerospace development program investments ($1.2 million);
- New finance lease for equipment ($0.8 million);
- Interest accretion on governmental authorities' loans ($1.2 million);
- Amortization of deferred financing costs related to the Credit Facility ($0.3 million).

H- The decrease of $76.9 million reflects the $85.0 million issued capital reduction made and paid to the Corporation's shareholders as part of the special distribution and the related transaction costs of $0.1 million net of common shares issued, following the exercise of stock options ($8.0 million) and issuance of common shares under the Corporation's stock purchase and ownership incentive plan ($0.2 million).

I- The increase of $49.0 million reflects the Corporation's net income for the nine-month period ended December 31, 2012, partially offset by the actuarial losses on defined benefit pension plans, net of income taxes, for the same period and the $72.5 million dividend paid to the Corporation's shareholders as part of the special distribution and the related transaction costs of $0.1 million.

At December 31, 2012 and March 31, 2012, the Corporation's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio[(1)] were as follows:

	December 31, 2012	**March 31, 2012**
Working capital ratio	**3.35:1**	2.76:1
Cash and cash equivalents	**$91.4 million**	$62.0 million
Long-term debt-to-equity ratio	**0.25:1**	0.44:1
Net debt-to-equity ratio[(1)]	**(0.15:1)**	0.23:1

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

Government assistance

During the quarter ended December 31, 2012, the Corporation recorded as a reduction of cost of sales an amount of $0.3 million ($0.7 million last year), and as a reduction of the related capital expenditures or capitalized development costs, an amount of $0.5 million ($0.7 million last year) for government assistance. At year-to-date, the Corporation recorded $1.5 million ($1.8 million last year) as a reduction of cost of sales and $1.8 million ($2.2 million last year) as a reduction of the related capital expenditures or capitalized development costs, for government assistance.

This government assistance includes mainly the investment tax and other credits related mainly to the development costs for long-term Aerospace contracts.

Derivatives, Off-Balance-Sheet Items and Commitments

As at December 31, 2012, the Corporation had operating lease obligations amounting to $1.3 million for facilities. These amounts are repayable over the current and next six fiscal years. The Corporation also had additions to facilities, machinery and equipment purchase commitments totalling $1.4 million (see Note 16 to the interim condensed 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 December 31, 2012, the Corporation had forward foreign exchange contracts with Canadian chartered banks to sell US$130.0 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.0405. These contracts relate mainly to its export sales, and mature at various dates between January 2013 and March 2016, but mainly this and next fiscal year (see Note 10 to the interim condensed consolidated financial statements). This compares to US$145.3 million and US$161.4 million in forward foreign exchange contracts held at March 31, 2012 and December 31, 2011 respectively, at a weighted-average exchange rates of 1.0620 and 1.0690 respectively.

At December 31, 2012 and 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. These contracts cover foreign exchange risks related to certain embedded derivatives and all mature in fiscal 2014. As at December 31, 2011, these contracts totalled US$4.7 million at a weighted-average rate of 1.2262.

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.

In August 2012, following the sale transaction and certain debt repayment, the Corporation repurchased two of the three interest rate swap agreements in place, representing a total notional amount of US$30 million, for a total cost of $1.7 million which was recorded as transaction related costs to the sale transaction. As a result, the Corporation only had one remaining interest-rate swap agreement that fixes the Libor U.S. rate at 3.90% for a notional amount of US$10 million at December 31, 2012.

In September 2012, the Corporation entered into a collar-option which allowed the Corporation, on November 30, 2012, to sell US$90 million at a minimum rate of 0.96 (Canadian dollar over US dollar) and a maximum rate of 1.0035. This collar-option expired in the third quarter without any impact, since the foreign exchange rate at the expiration date was between the minimum and maximum rate of the collar-option.

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, in accordance with 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 December 31, 2012.

Financial and Economic Situation

Modest improvements in the global economy continue to have a positive effect on most of the Corporation's strategic markets. In the large commercial aircraft market, manufacturers are proceeding with production rate increases scheduled on leading programs up to calendar 2014, while stronger corporate profits should provide stimulus to the business jet market. Meanwhile, the military aerospace market remains uncertain, as governments address 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 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 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. Following the sale transaction concluded on August 31, 2012, as well as the special cash distribution paid out to shareholders in December 2012, the Corporation still had cash and cash equivalents of $91.4 million as at December 31, 2012.

The Corporation is in compliance with all of its financial covenants and expects to remain compliant through the next fiscal year. Considering its cash position, that its 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 its major customers are government or worldwide leaders in their respective fields, the Corporation does not expect to have any liquidity issues. The Corporation's 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).

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. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

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. The Corporation will adopt this new standard for its fiscal year beginning on April 1, 2013, and this new standard will have a minimal impact on the consolidated financial statements.

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. The Corporation will adopt this new standard for its fiscal year beginning on April 1, 2013, and this new standard will have an impact on the presentation of the consolidated statement of comprehensive income, while it will have no impact on the accumulated other comprehensive income.

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 will adopt this new standard for its fiscal year beginning on April 1, 2013. The impact of this new standard, should it have been applied to the Corporation's results for the nine-month period ended December 31, 2012, would have increased the pension expense by $327,000 ($239,000 net of income tax expense).

INTERNAL CONTROLS AND PROCEDURES

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

No changes were made to the Corporation's internal controls over financial reporting during the quarter and nine-month period ended December 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
- Availability and Cost of Raw Materials
- Operational Risks
- Impact of Terrorist Activity and Political Instability
- General Economic Conditions
- Military Spending
- Foreign Currency Fluctuations
- Liquidity and Access to Capital Resources
- Restrictive Debt Covenants
- Changing Interest Rates
- External Business Environment
- Warranty Casualty Claim Losses
- Environmental Matters
- Collective Bargaining Agreements
- Skilled Labour
- Pension Plan Liability

SELECTED QUARTERLY FINANCIAL INFORMATION

($'000 Except per share data)	Fiscal Year 2013			Fiscal Year 2012				Fiscal Year 2011
Quarter	**Dec. 31, 2012**	**Sept. 30, 2012**	**June 30, 2012**	**March 31, 2012**	**Dec. 31, 2011**	**Sept. 30, 2011**	**June 30, 2011**	**March 31, 2011**
Average exchange rate used to translate revenues (sales) and expenses [(1)] ($Canadian / 1 equivalent $US)	0.9913	0.9948	1.0102	1.0012	1.0231	0.9802	0.9676	0.9860
Sales from continuing operations	61,742	57,684	63,780	74,784	61,988	55,464	61,292	67,960
EBITDA from continuing operations	7,654	6,972	8,253	11,412	10,240	7,300	8,496	9,118
Net Income from continuing operations	3,296	2,724	3,025	5,602	4,505	2,481	3,287	3,054
Net income	4,585	112,724	6,283	8,962	6,910	4,812	5,797	7,992
Earnings per share for continuing operations ($) - Basic	0.11	0.09	0.10	0.20	0.15	0.08	0.11	0.10
Earnings per share for continuing operations ($) - Diluted	0.11	0.09	0.10	0.20	0.15	0.08	0.11	0.10
Earnings per share ($) - Basic	0.15	3.68	0.21	0.29	0.23	0.16	0.19	0.26
Earnings per share ($) - Diluted	0.15	3.64	0.20	0.29	0.23	0.16	0.19	0.26

(1) Exclusive of forward foreign exchange contracts.

OUTLOOK

Conditions remain mostly favourable in the commercial aerospace market driven by sustained demand from developing economies that offsets softer conditions in the mature European and North American markets. The International Air Transport Association ("IATA") estimates the passenger market grew 5.3% in calendar 2012 and forecasts a 4.5% increase in calendar 2013. Meanwhile, air cargo volume contracted approximately 2.0% in calendar 2012, but is expected to grow by 1.4% in calendar 2013.[1]

In the large commercial aircraft segment, manufacturers are proceeding with production rate increases scheduled on leading programs up to calendar 2014.[2] Reflecting these increases, Boeing and Airbus have delivered more aircraft in calendar 2012 compared with the previous year. Furthermore, their solid order backlogs represent approximately seven years of production at current rates.

Confirming the pending recovery in the business jet market, aircraft shipments were stable in the first nine months of calendar 2012 compared with last year. More importantly, industry sources

1 Source : IATA Industry Financial Forecast December 2012

2 Sources: Airbus press releases May 18, 2011; February 3, 2011. Boeing press releases November 12, 2012; October 23, 2012; January 10, 2012; June 15, 2011.

are calling for sustained growth over a period of possibly five years. Indicators continue to support a recovery, as aircraft utilization is modestly increasing and the number of used aircraft for sale, as a percentage of the fleet, remains relatively stable.[3]

The military aerospace market remains uncertain, as governments address their deficits. The authorized defense budget funding for the United States' 2013 fiscal year calls for a 0.6% base budget reduction.[4] 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 at December 31, 2012, Héroux-Devtek's funded (firm orders) backlog stood at $376 million, versus $378 million three months earlier. 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.

Capital expenditures are expected to reach approximately $15 million in fiscal 2013. The Corporation's healthy balance sheet and funds available under its Credit Facility place Héroux-Devtek in a position to consider strategic acquisitions that would complement its product and service portfolio as well as its technologies.

Assuming the Canadian dollar remains at parity versus the US currency and considering forward foreign exchange contracts, the Corporation anticipates an internal sales growth that could reach up to 5% for the fiscal year ending March 31, 2013 for its continuing operations.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and by the Board of Directors on February 7, 2013. Updated information on the Corporation can be found on the SEDAR website, at www.sedar.com.

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3 Sources: GAMA, JETNET, FAA, Teal Group.

4 Source : U.S. Department of Defense press release January 3, 2013