HÉROUX DEVTEK

MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL POSITION AND OPERATING RESULTS

TABLE OF CONTENTS

Non-IFRS Measures 3
Forward-Looking Statements 4
Overview 4
Foreign Exchange 5
Consolidated Sales 6
Aerospace Segment 7
Industrial Segment 9
Sales by Destination 9
Gross Profit 9
Selling and Administrative Expenses 10
Operating Income 10
Aerospace Segment 11
Industrial Segment 11
Financial Expenses 11
Restructuring Charges 11
Income Tax Expense 12
Net Income 12
Other accumulated comprehensive income (“OACI”) and comprehensive income 13
Credit Facility and Cash and Cash Equivalents 13
Operating Activities 14
Investing Activities 15
Financing Activities 16
Normal Course Issuer Bid 17
Capital Stock, Stock Option and Stock Purchase Plans 17
Stock Appreciation Right and Deferred Share Unit Plans 18
Consolidated Balance Sheets 19
Government assistance 22
Derivatives, Off-Balance-Sheet Items and Commitments 22
Financial and Economic Situation 23
Future Changes in Accounting Policies 24
Internal Controls and Procedures 25
Risks and Uncertainties 25
Selected Quarterly Financial Information 26
Outlook 26
Additional Information and Continuous Disclosure 27

Management Discussion and Analysis
of Financial Position and Operating Results

The purpose of this management discussion and analysis ("MD&A") is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries ("Héroux-Devtek" or the "Corporation") evolved between April 1, 2011 and December 31, 2011. It also compares the operating results and cash flows for the quarter and nine-month period ended December 31, 2011 to those for the same periods in the previous year.

This MD&A should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements for the quarter ended June 30, 2011, six months ended September 30, 2011 and nine months ended December 31, 2011 and the audited consolidated financial statements and MD&A for the year ended March 31, 2011, all of which are available on the Corporation's website at www.herouxdevtek.com. This MD&A is based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), using the Canadian dollar as the reporting currency. 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 third quarter ended December 31, 2011 unaudited interim condensed consolidated financial statements have been prepared in accordance with the International Accounting Standard 34, Interim Financial Reporting, and the requirements of the International Financial Reporting Standard 1, first-time Adoption of International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB"). Except where otherwise noted, all prior period comparative figures have been restated to conform to IFRS.

For details on the most significant adjustments to the consolidated financial statements of prior periods, see Note 17 – *Conversion to International Financial Reporting Standards* – to the unaudited interim condensed consolidated financial statements of the quarter and nine-month period ended December 31, 2011.

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

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

Non-IFRS Measures

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

The computation of EBITDA using financial statements prepared under Previous GAAP ("EBITDA – Previous GAAP") differs somewhat from the computation of EBITDA using financial statements prepared under IFRS ("EBITDA – IFRS"). Listed below is a reconciliation of EBITDA – Previous GAAP to EBITDA – IFRS for the quarter and nine-month period ended December 31, 2010:

($’000)	Quarter ended December 31, 2010	Nine months ended December 31, 2010
EBITDA – Previous GAAP	**14,204**	**36,465**
Adjustments:		
Finance leases	408	1,232
Graded method to amortize the cost of granted stock options	25	111
Pension plans	86	259
Interest accretion on pension plans	(38)	(116)
Total adjustments	481	1,486
EBITDA – IFRS	**14,685**	**37,951**

The Corporation’s EBITDA is calculated as follows:

($’000)	Quarters ended December 31		Nine months ended December 31	
	2011	**2010**	**2011**	**2010**
Net income	6,910	5,165	17,519	11,137
Income tax expense	2,242	2,126	5,410	4,095
Financial expenses	1,629	1,420	4,574	3,898
Amortization	6,124	5,974	17,928	18,184
EBITDA including restructuring charges	16,905	14,685	45,431	37,314
Add: Restructuring charges	-	-	-	637
EBITDA	**16,905**	**14,685**	**45,431**	**37,951**

The $2.2 million increase in EBITDA in the third quarter ended December 31, 2011, compared to last year's third quarter, is essentially explained by an increase in net income of $1.7 million, with a related increase in the income tax expense of $0.1 million, combined with an increase in financial expenses of $0.2 million and amortization of $0.2 million. At year-to-date, the EBITDA increased by $7.5 million, compared to last year, mainly as a result of a higher net income of $6.4 million and higher related income tax expense of $1.3 million.

Forward-Looking Statements

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

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

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

Overview

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

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

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

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

For the third quarter ended December 31, 2011, most of the Corporation's strategic markets have continued to show positive momentum. Sales rose in all three product lines compared to last year. This higher sales volume led to a better absorption of manufacturing overhead costs and, combined with a more favourable product mix, to higher profitability. Although the global macro-economic environment remains volatile, the Corporation anticipates an internal sales growth of approximately 5% for the current fiscal year, assuming the Canadian dollar remains at parity versus the US currency.

RESULTS OF 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. Average rates are used to translate sales (but exclusive of forward foreign exchange contracts) and expenses for the years mentioned, while closing rates translate monetary assets and liabilities denominated in foreign currencies and assets and liabilities of foreign operations.

Canada / US Exchange Rates		December 31, 2011	December 31, 2010
Average rate for quarter ended	$ Canadian/ 1 US $ equivalent	1.0231	1.0128
Average rate for nine months ended	$ Canadian/ 1 US $ equivalent	0.9903	1.0265

Canada / US Exchange Rates		December 31, 2011	March 31, 2011
Closing rate at	$ Canadian/ 1 US $ equivalent	1.0170	0.9696

As shown above, the average value of the Canadian dollar for the quarter ended December 31, 2011 was about 1% lower, when compared to its U.S. counterpart year-over-year, and therefore did not significantly impact the Corporation's results for that period. For the nine-month period ended December 31, 2011, the average value of the Canadian dollar, when compared to its U.S. counterpart year-over-year, increased by almost 4% and had more of a negative impact on the U.S.-denominated sales and results of the Corporation, including those from its Canadian operations. The variation in the closing rate since March 31, 2011 also had a significant impact on the Corporation's U.S.-denominated balance sheet accounts at the end of this quarter, when compared to last year's year-end balances. Currency fluctuation impact on the Corporation's sales, gross profit and specific balance sheet elements can be found later in this MD&A.

The Corporation makes use of derivative financial instruments, in accordance with its hedging policy, to hedge foreign currency fluctuation exposure risks (Canadian dollar over U.S. dollar) in an effort to mitigate these risks. At December 31, 2011, the Corporation had forward foreign exchange contracts to sell US$161.4 million at a weighted-average rate of 1.0690 maturing over the next four fiscal years, with the majority maturing over the next two fiscal years.

At December 31, 2011, 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 U.S. dollar) related to certain embedded derivatives.

Consolidated Sales

Consolidated sales for the third quarter ended December 31, 2011 increased 8.8% to $93.4 million, from $85.8 million last year. The impact of the Canadian dollar against the US currency reduced consolidated sales by $0.5 million or 0.5%, when compared to last year. Excluding this unfavourable impact, sales were $8.0 million or 9.3% higher, as a result of higher military aftermarket customer requirements and production rates ramp-up in large commercial and business jet markets in the Aerospace segment, combined with a stronger customer demand in the Industrial segment.

At year-to-date, consolidated sales totalled $271.3 million, 7.8% higher than last year's sales of $251.6 million. This favourable variation in sales of $19.7 million includes the following:

- A $22.7 million or 9.0% 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 1.7% favourable impact as a result of having a full nine-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 $7.4 million or 2.9%, 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:

	Quarters ended December 31				Nine months ended December 31			
	2011	2010	Variance		2011	2010	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Total Aerospace	83,645	79,463	4,182	5.3	245,930	232,472	13,458	5.8
Total Industrial	9,767	6,380	3,387	53.1	25,357	19,106	6,251	32.7
Total	**93,412**	**85,843**	**7,569**	**8.8**	**271,287**	**251,578**	**19,709**	**7.8**

This quarter and year-to-date, the increase in Aerospace sales of $4.8 million or 6.0% to $83.6 million and of $19.9 million or 8.6% to $245.9 million, when compared to the same periods last year, were partially offset by a negative US/CAD currency impact of $0.6 million or 0.7% and of $6.5 million or 2.8% respectively. As mentioned previously, the year-to-date increase in sales includes the additional $4.4 million in sales resulting from having a full nine-month period in Landing Gear USA. As to the Industrial segment this quarter and year-to-date, sales increased by $3.4 million or 53.1% to $9.8 million and by $6.3 million or 32.7% to $25.4 million respectively, when compared to the same periods 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:

	Quarters ended December 31				Nine months ended December 31			
Product Lines	2011	2010	Variance		2011	2010	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Landing Gear	59,031	55,370	3,661	6.6	170,595	163,226	7,369	4.5
Aerostructure	24,495	23,872	623	2.6	74,656	68,886	5,770	8.4
Other aerospace products	119	221	(102)	(46.2)	679	360	319	88.6
Total	**83,645**	**79,463**	**4,182**	**5.3**	**245,930**	**232,472**	**13,458**	**5.8**

This fiscal year, when compared to last year, sales of the Landing Gear product line increased by $3.7 million or 6.6% to $59.0 million this quarter and by $7.4 million or 4.5% to $170.6 million

at year-to-date. 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 aftermarket 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. Year-to-date sales also include a $4.4 million or 2.7% favourable impact, as a result of having a full nine-month period this year in Landing Gear USA.

This fiscal year, when compared to last year, Aerostructure product line sales increased by $0.6 million or 2.6% to $24.5 million this quarter and by $5.8 million or 8.4% year-to-date to $74.7 million due to the following:

- An increase in sales, as production rates are ramping up on the JSF F-35, A-330-340, certain business jet programs and the new business from the Gulfstream (GV) program. At year-to-date, it also includes production ramp-up sales on the B-429 helicopter program.
- Partially offset by the negative US/CAD currency impact, the lower customer requirements on certain military programs and lower production rates on the regional turboprop Dash 8 program.

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

	Quarters ended December 31				Nine months ended December 31			
	2011	2010	Variance		2011	2010	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Military [1]	51,172	49,496	1,676	3.4	148,972	143,671	5,301	3.7
Commercial	32,473	29,967	2,506	8.4	96,958	88,801	8,157	9.2
Total Aerospace	**83,645**	**79,463**	**4,182**	**5.3**	**245,930**	**232,472**	**13,458**	**5.8**

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

Military sales were $1.7 million or 3.4% higher this quarter to $51.2 million and $5.3 million or 3.7% higher at year-to-date to $149.0 million, despite the negative US/CAD currency impact. As mentioned above, military sales reflect the increase in JSF sales and higher aftermarket sales partially offset by lower customer requirements on the F-16 and F-22 programs. Year-to-date sales also include $4.4 million or a 3.1% favourable impact on sales, resulting from having a full nine-month period of Landing Gear USA sales, compared to last year.

Commercial sales were $2.5 million or 8.4% higher this quarter to $32.5 million and $8.2 million or 9.2% higher at year-to-date to $97.0 million, despite the negative US/CAD currency impact. This increase is the result of higher production rates in large commercial and business jet programs, in addition to the new Gulfstream (GV) business partially offset by lower customer requirements in regional aircraft and in certain helicopter programs.

Industrial Segment

Sales for the Industrial segment were as follows:

	Quarters ended December 31				Nine months ended December 31			
	2011	**2010**	**Variance**		**2011**	**2010**	**Variance**	
	($'000)	**($'000)**	**($'000)**	**%**	**($'000)**	**($'000)**	**($'000)**	**%**
Gas Turbine	3,998	2,526	1,472	58.3	10,733	8,180	2,553	31.2
Other Industrial	5,769	3,854	1,915	49.7	14,624	10,926	3,698	33.8
Total	**9,767**	**6,380**	**3,387**	**53.1**	**25,357**	**19,106**	**6,251**	**32.7**

For the third quarter and for the nine-month period ended December 31, 2011, 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:

	Quarters ended December 31		Nine months ended December 31	
	2011	**2010**	**2011**	**2010**
	(%)	**(%)**	**(%)**	**(%)**
Canada	24	24	26	27
US	70	70	70	68
International	6	6	4	5
Total	**100**	**100**	**100**	**100**

The year-to-date changes in the sales-by-destination mix reflect the impact of increased sales in the U.S., mainly as a result of increased sales in Landing Gear USA and in the Industrial segment.

Gross Profit

This fiscal year, when compared to last year, consolidated gross profit as a percentage of sales increased by 0.5% to 18.3% this quarter, and by 1.9% to 17.1% for the nine-month period. 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 Aerospace segment combined with certain manufacturing improvements. This fiscal year, the negative impact on gross profit for start-up costs incurred for the establishment of the new Mexico facility was $0.3 million, representing 0.3% of sales this quarter and $0.5 million or 0.2% of sales at year-to-date.

The US/CAD currency fluctuations negatively impacted the Corporation's gross profit in dollars this quarter by $0.3 million or 0.2%, and at year-to-date by $2.2 million or 0.4%, 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.

In the Aerospace segment, for this quarter and year-to-date, Landing Gear product line's gross profit in dollars and as a percentage of sales was higher than last year, mainly as a result of a better product mix. This quarter and at year-to-date, the Aerostructure product line's gross profit in dollars and as a percentage of sales was also higher than last year, despite the start-up costs incurred this year for the implementation of the new Mexico facility and the higher initial manufacturing costs incurred in the production of components for new programs. The increased sales volume in that segment favourably impacted gross profit margins as a result of better absorption of manufacturing overhead costs.

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. It also reflects the favourable impact from the continuous manufacturing improvement initiatives in this segment.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2011	**2010**	**2011**	**2010**
Selling and administrative expenses ($'000)	6,348	6,560	18,796	18,430
% of sales	6.8	7.6	6.9	7.3

Selling and administrative expenses stood at $6.3 million or 6.8% of sales and $18.8 million or 6.9% as a percentage of sales respectively for the quarter and nine-month period ended December 31, 2011. This year's expenses include $0.2 million this quarter and $0.4 million at year-to-date of costs incurred for the start-up of the new Mexico facility. In addition, the year-to-date expenses reflect the impact of having a full nine-month period for Landing Gear USA this year, when compared to last year. This quarter, selling and administrative expenses include a gain on currency translation on net monetary assets of $0.1 million, compared to a loss of $0.1 million last year. At year-to-date, the gain on currency translation on net monetary assets was $0.3 million, compared to a loss of $0.5 million last year.

Operating Income

Consolidated operating income stood at $10.8 million or 11.5% of sales for the quarter ended December 31, 2011, up $2.1 million or 1.4% of sales from $8.7 million or 10.1% of sales for the same period last year. At year-to-date, consolidated operating income stood at $27.5 million or 10.1% of sales, an increase of $7.7 million or 2.2% of sales when compared to $19.8 million or 7.9% of sales for the same period last year. This is the result of higher sales and gross profit in both Aerospace and Industrial segments, as explained above.

Aerospace Segment

This quarter, Aerospace operating income was $8.2 million or 9.9% of sales, compared to $7.6 million or 9.6% of sales last year. Excluding the impact of the new Mexico facility start-up costs this year, the Aerospace segment's operating income was $8.7 million or 10.4% of sales for the quarter ended December 31, 2011, an increase of $1.1 million or 0.8% of sales from last year's operating income. The increased operating income reflects the impact of higher sales and a better product sales mix as already explained above.

For the nine-month period ended December 31, 2011, the Aerospace segment's operating income stood at $21.5 million or 8.7% of sales, compared to $17.1 million or 7.4% of sales last year. Excluding the unfavourable impact of the new Mexico facility start-up costs this year of $0.9 million, partially offset by the favourable impact of having a full nine-month period of results from Landing Gear USA this year of $0.2 million, the Aerospace segment's operating income was $22.2 million or 9.0% of sales for the nine-month period ended December 31, 2011, an increase of $5.1 million or 1.6% of sales from last year's operating income. The increased operating income reflects the impact of increased sales and gross profit already explained above.

Industrial Segment

This quarter, operating income increased to $2.5 million or 26.0% of sales, compared to $1.1 million or 17.1% of sales last year. At year-to-date, operating income stood at $6.0 million or 23.7% of sales, compared to $2.7 million or 14.0% of sales last year, an increase of $3.3 million or 9.7% of sales. The higher operating income this quarter and at year-to-date 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

Financial expenses stood at $1.6 million for the quarter and $4.6 million for the nine-month period ended December 31, 2011, while it stood at $1.4 million and $3.9 million respectively, for the same periods last year. The difference in the financial expenses of this year, compared to last year, reflects a higher interest accretion expense mainly due to increased governmental authorities loans and a higher amortization of deferred financing costs, following the renewal of the Corporation's Credit Facility last March.

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, during the first six-month period ended September 30, 2010, the Corporation recorded restructuring charges of $0.6 million ($0.4 million, net of income taxes). At December 31, 2011 and March 31, 2011, the building related to this facility was classified in Other assets as an asset held for sale in the Corporation's Consolidated Balance Sheets.

Income Tax Expense

For the quarter ended December 31, 2011, the income tax expense stood at $2.2 million, compared to $2.1 million last year. At year-to-date, the income tax expense stood at $5.4 million, compared to $4.1 million for the same period last year.

For the nine-month period ended December 31, 2011, the Corporation's effective income tax rate was 23.6%, compared to its Canadian blended statutory income tax rate of 27.3%. The effective income tax rate reflects the favourable impact from permanent differences ($1.2 million), and favourable deferred income tax adjustments ($0.2 million), partially offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries ($0.5 million).

For the nine-month period ended December 31, 2010, 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 ($0.3 million) and by a favourable tax adjustment following the conclusion of a prior year tax audit ($0.2 million) somewhat offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries ($0.2 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 third quarter and the nine-month period ended December 31, 2011, the Corporation realized a net income of $6.9 million or 7.4% of sales and $17.5 million or 6.5% of sales respectively, compared to a net income of $5.2 million or 6.0% of sales and $11.1 million or 4.4% of sales for the same periods last year, reflecting the increased operating income 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. For this quarter and at year-to-date, net income includes $0.3 million and $0.7 million of costs, net of taxes, incurred in conjunction with the start-up of the new Mexico facility. This quarter, the Corporation began manufacturing the first production parts in this new facility and anticipates generating revenues in the fourth quarter of the current fiscal year.

	Quarters ended December 31		**Nine months ended December 31**	
	2011	**2010**	**2011**	**2010**
Net income ($'000)	6,910	5,165	17,519	11,137
Earnings per share – basic ($)	0.23	0.17	0.58	0.37
Earnings per share – diluted ($)	0.23	0.17	0.57	0.37

Basic earnings per share figures are based on year-to-date weighted-averages of 30,335,097 common shares outstanding for the nine-month period ended December 31, 2011, and 30,104,849 common shares for the same period last year, while the diluted earnings per share figures are based on year-to-date weighted-averages of 30,659,935 for the nine-month period this year and 30,332,283 for the same period last year. On a year-to-date basis, the increase in the number of

outstanding common shares is essentially due to the issuance of 200,323 common shares under the Corporation's stock option plan and 33,453 common shares under the Corporation's stock purchase and ownership incentive plan ("Stock Purchase Plan")**.**

On February 2, 2012, the date of this MD&A, the Corporation had 30,411,705 common shares and 1,434,677 stock options outstanding with a weighted-average of 3.6 years to maturity.

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

For the nine-month period ended December 31, 2011, the appreciation of the US currency versus the Canadian currency had a significant positive impact on the Corporation's gain arising from translating the financial statements of foreign operations, while it had a significant negative impact on the net losses on the valuation of the Corporation's derivative financial statements 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 negatively impacted the net actuarial losses. These variations significantly impacted the Corporation's OACI and the related comprehensive income for that same period.

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. 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 December 31, 2011, only CAD $60.5 million (US$59.5 million) had been drawn against this Credit Facility, including US$16.5 million in April 2010 to finance the acquisition of Landing Gear USA. 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, 2011, the Corporation had cash and cash equivalents of $49.4 million, compared to $32.9 million as at March 31, 2011, of which $33.0 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:

	Quarters ended December 31		Nine months ended December 31	
	2011 ($'000)	**2010 ($'000)**	**2011 ($'000)**	**2010 ($'000)**
Cash flows from operations	13,885	13,099	37,323	32,997
Net change in non-cash items related to operations	(3,750)	4,262	(2,521)	(5,083)
Cash flows related to operating activities	**10,135**	**17,361**	**34,802**	**27,914**

The $0.8 million and $4.3 million increases in cash flows from operations for the quarter and nine-month period ended December 31, 2011 are essentially explained by the $1.7 million increase in net income ($6.4 million year-to-date) and $0.1 million increase in non-cash interest accretion expense ($0.4 million year-to-date), partially offset by a lower deferred income tax expense of $1.3 million ($2.4 million year-to-date).

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

	Quarters ended December 31		Nine months ended December 31	
	2011 ($'000)	**2010 ($'000)**	**2011 ($'000)**	**2010 ($'000)**
Accounts payable and accrued liabilities, accounts payables-other, and other liabilities (referred to as "Accounts payable")	2,801	738	(4,566)	(4,729)
Accounts receivable	2,298	8,489	15,359	6,764
Inventories	(5,893)	(498)	(8,812)	7,974
Progress billings	1,036	(2,154)	(6,025)	(11,132)
Income tax payable and receivable	(956)	627	1,596	199
Effect of changes in exchange rate	(932)	(339)	1,989	(792)
All others	(2,104)	(2,601)	(2,062)	(3,367)
	(3,750)	**4,262**	**(2,521)**	**(5,083)**

For the third quarter ended December 31, 2011, the increase in accounts payable, inventories and progress billings is in line with the expected increase in sales volume in the last quarter of this fiscal year. 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 this quarter, compared to last year's fourth quarter, which historically has been the best quarter of the fiscal year. The increase in inventories is the result of the increased

production rates for the upcoming quarters in the commercial aerospace sector, while the reduction in progress billings reflects a higher commercial funded backlog business mix, compared to military.

For the nine-month period ended December 31, 2010, the lower level of business activity last year reduced the accounts receivable, inventories, accounts payable and progress billings level, when compared to year-end balances. In addition, the reduction of days in receivable due to improved accounts receivable collection also reduced the accounts receivable.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended December 31		**Nine months ended December 31**	
	2011 ($'000)	**2010 ($'000)**	**2011 ($'000)**	**2010 ($'000)**
Additions to property, plant and equipment	(3,626)	(4,731)	(13,531)	(13,824)
Net increase in finite-life intangible assets	(1,550)	(2,393)	(7,716)	(6,122)
Proceeds on disposal of property, plant and equipment	335	71	370	141
Business acquisition	-	-	-	(28,813)
Cash flows relating to investing activities	**(4,841)**	**(7,053)**	**(20,877)**	**(48,618)**

On April 28, 2010, the Corporation invested $28.8 million to acquire substantially all the net assets of Landing Gear USA.

This quarter and at year-to-date, the additions to property, plant and equipment stood at $8.1 million and $17.1 million respectively ($4.7 million and $13.8 million last year). This year, these additions shown in the table above include the positive variation in unpaid additions of $0.4 million (negative variation of $2.7 million at year-to-date) and are presented net of machinery and equipment acquired through finance leases of $4.1 million and $6.3 million (none last year). Capital expenditures for fiscal 2012 are expected to represent about $27 million including a $5 million investment in relation to the new Mexico facility. The Mexico project could represent total capital investments and commitments of up to $20 million over three years.

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

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2011 ($'000)	**2010 ($'000)**	**2011 ($'000)**	**2010 ($'000)**
Increase in long-term debt	814	3,041	4,090	21,916
Repayment of long-term debt	(1,119)	(1,242)	(4,278)	(4,411)
Repurchase of common shares	-	(72)	-	(3,570)
Issuance of common shares	76	84	1,189	1,001
Cash flows relating to financing activities	**(229)**	**1,811**	**1,001**	**14,936**

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. 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 new governmental authorities loans received.

This year and last year's repayment of long-term debt includes repayment of finance leases and of a promissory note which was issued in relation to the acquisition of Landing Gear USA. It also includes only at year-to-date, repayments of governmental authorities loans.

During the 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 for a total cash consideration of $954,000. The Corporation also issued 12,135 and 33,453 common shares respectively, under its stock purchase plan during the quarter and nine-month period ended December 31, 2011, for cash considerations of $76,000 and $235,000.

During the quarter and nine-month period ended December 31, 2010, the Corporation issued 15,285 and 48,241 common shares respectively, under its stock purchase plan for cash considerations of $84,000 and $254,000. For the nine-month period ended December 31, 2010, the Corporation also issued 157,221 common shares (all in the first semester), following the exercise of stock options, for a cash consideration of $747,000. During the same periods, the Corporation repurchased 12,600 and 617,700 common shares respectively under the normal course issuer bid, launched in November 2009 ("NCIB") for total cash considerations of $72,000 and $3,570,000.

At December 31, 2011, 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.

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.

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 December 31, 2011, the Corporation had 30,407,574 common shares outstanding (30,173,798 as at March 31, 2011).

During the 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. For the quarter and nine-month period ended December 31, 2011, 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 nine-month period ended December 31, 2010, the Corporation issued 157,221 common shares, following the exercise of stock options at a weighted-average price of $4.75 for a total cash consideration of $747,000. During the quarter and nine-month period ended December 31, 2010, the Corporation also issued 15,285 and 48,241 common shares respectively, under the Corporation's stock purchase plan at weighted-average prices of $5.55 and $5.27 for total cash considerations of $84,000 and $254,000.

During the nine-month period ended December 31, 2011, 242,000 stock options were granted, all in the second quarter (138,000 stock options last year, all in the second quarter) while no stock options were cancelled (55,000 stock options were cancelled in the first semester last year).

At December 31, 2011, 1,434,677 stock options were issued and outstanding with a weighted-average of 3.6 years to maturity and a weighted-average exercise price of $6.45 (see Note 12 to the interim condensed consolidated financial statements).

This year, during the second quarter, 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, 2011, 2,573,257 common shares had not been granted yet under the Stock Option Plan and 320,217 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, outstanding SARs issued prior to August 2010 are still in effect. At March 31, 2011 and at December 31, 2011, 143,000 and 130,500 SARs were still outstanding at weighted-average granted prices of $6.21 and $6.32 respectively, which expire on various dates from fiscal 2013 to 2016. For the nine-month period ended December 31, 2011, 12,500 SARs were exercised (all in the second quarter) 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 nine-month period ended December 31, 2011, the Corporation issued 37,718 DSUs (all in the first semester). This year, DSU reversal of expense amounted to $5,000 for this quarter and represented an expense of $221,000 for the nine-month period ended December 31, 2011 (see Note 12 to the interim condensed consolidated financial statements).

Consolidated Balance Sheets

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

Item	Change ($ million)	Explanation
Cash and cash equivalents	16.5	See consolidated statements of cash flows.
Accounts receivable	(15.4)	Decrease coming from lower sales in the third quarter this year, compared to last year's fourth quarter record sales and the decrease in days in receivables explained by the continued good accounts receivable collection effort. This decrease was partially offset by the impact of the weaker Canadian dollar on U.S.-denominated accounts receivable, when compared to March 31, 2011 ($1.9 million).
Inventories	8.8	The increase is consistent with the increased production rates in the commercial aerospace sector and the expected sales increase in the fourth quarter of the current fiscal year. It also includes the impact of the weaker Canadian dollar on the Corporation's U.S. subsidiaries ($2.5 million).
Derivative financial instruments (current assets)	(5.0)	Reflects the variation in the Corporation's balance sheets of short-term derivative financial instruments measured at fair value.
Other current assets	2.8	This variation is mostly the result of an increase of $2.6 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	3.0	Due to: • Purchases of property, plant and equipment of $17.1 million; • A higher US/CAD exchange rate used to convert the net assets of U.S. subsidiaries ($2.7 million). Net of: • Amortization expense ($16.3 million); • Disposal of fixed assets ($0.5 million).

Item	Change ($ million)	Explanation
Finite-life intangible assets, net (includes a $2.4 million backlog, net)	6.3	Due to: • An increase in finite-life intangible assets ($7.7 million), representing the increase in capitalized development costs for Aerospace long-term contracts; • A higher US/CAD exchange rate used to convert the net assets of U.S. subsidiaries ($0.2 million). Net of: • Amortization expense on the underlying value of the backlog ($1.1 million); • Amortization expense of the finite-life intangible assets ($0.5 million).
Derivative financial instruments (long-term assets)	(5.9)	Reflects the variation in the Corporation's balance sheets of long-term derivative financial instruments measured at fair value.
Goodwill	1.1	Increase resulting from the higher US/CAD exchange rate used to convert the goodwill included in the Corporation's U.S. subsidiaries.
Accounts payable and accrued liabilities	(0.6)	Decrease resulting from lower sales in the third quarter this year compared to last year's fourth quarter record sales partially offset by the impact of the weaker Canadian dollar since March 31, 2011 on U.S.-denominated accounts payable and accrued liabilities ($1.2 million).
Accounts payable - other	(2.8)	Decrease reflecting lower unpaid portion of property, plant and equipment additions.
Progress billings (current and long-term)	(6.0)	The reduction in progress billings mainly reflects a higher commercial funded backlog business mix, compared to military, 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 ($0.6 million).

Item	Change ($ million)	Explanation
Derivative financial instruments (current liabilities)	0.3	Reflects the variation in the Corporation's balance sheets of short-term derivative financial instruments measured at fair value.
Long-term debt (including current portion)	11.0	Due to: • Governmental authorities loans received to support Aerospace development program investments ($4.1 million); • New finance leases ($6.3 million); • Interest accretion on governmental authorities loans ($1.2 million); • Amortization of deferred financing costs related to the new financing structure ($0.3 million); • A higher US/CAD exchange rate used to convert the long-term debt denominated in US dollars ($3.4 million). Net of: • Capital repayment of long-term debt ($4.3 million).
Derivative financial instruments (long-term liabilities)	2.3	Reflects the variation in the Corporation's balance sheets of long-term derivative financial instruments measured at fair value.
Capital stock	1.8	Represents the common shares issued under the Corporation's Stock Option plan, following the exercise of stock options ($1.6 million) and under the Stock Purchase plan ($0.2 million).
Retained earnings	16.1	The increase mainly reflects the Corporation's net income for the first nine-month period of the current fiscal year.

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

	December 31, 2011	March 31, 2011
Working capital ratio	2.62:1	2.52:1
Cash and cash equivalents	$49.4 million	$32.9 million
Long-term debt-to-equity ratio	0.45:1	0.44:1
Net debt-to-equity ratio[(1)]	0.28:1	0.32:1

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

The increase in the long-term debt-to-equity ratio essentially reflects the impact from a higher US/CAD foreign exchange closing rate at December 31, 2011.

Government assistance

For the third quarter ended December 31, 2011, the Corporation recorded as a reduction of cost of sales an amount of $1.2 million ($0.9 million last year), and as a reduction of the related capital expenditures or capitalized development costs, an amount of $0.7 million ($1.6 million last year) for government assistance. At year-to-date, the Corporation recorded $2.6 million ($1.9 million last year) as a reduction of cost of sales and $2.2 million ($3.0 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 and the discounted portion of the governmental authorities loans.

Derivatives, Off-Balance-Sheet Items and Commitments

The Corporation had operating lease obligations amounting to $4.6 million as at December 31, 2011, for buildings and facilities. These amounts are repayable over the next ten fiscal years. At December 31, 2011, the Corporation also had machinery and equipment purchase commitments totalling $5.1 million (see Note 15 to the interim condensed consolidated financial statements).

At December 31, 2011, the Corporation had forward foreign exchange contracts with Canadian chartered banks to sell US$161.4 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.0690. These contracts relate mainly to its export sales, and mature at various dates between January 2012 and March 2015, but mainly over the next two fiscal years (see Note 9 to the interim condensed consolidated financial statements). This compares to US$159.0 million and US$143.1 million in forward foreign exchange contracts held at March 31, 2011 and December 31, 2010 respectively, at weighted-average exchange rates of 1.1032 and 1.1288.

At December 31, 2011, the Corporation also entered into forward foreign exchange contracts to sell US$4.7 million at a weighted-average rate (Canadian dollar over U.S. dollar) of 1.2262 ($US7.7 million at a weighted-average rate of 1.2343 at March 31, 2011 and $US8.5 million at a weighted-average rate of 1.2359 at December 31, 2010). 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 another amount of US$20 million, will mature in December 2015.

In March 2011, the Corporation designated certain long-term debt as hedge of its net investments in U.S. operations. This designation is still in effect as of December 31, 2011.

Financial and Economic Situation

Gradual improvements in the global economy had a positive effect on most of the Corporation's strategic markets in the first nine months of its 2012 fiscal year. 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 address their deficits. However, as the economic recovery remains fragile, 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, will put additional pressure on upcoming results. As already mentioned, and as highlighted in the Outlook section, Management maintains its focus on operational efficiencies through continued lean manufacturing initiatives, cost reduction initiatives and forward foreign exchange contracts to mitigate the negative currency fluctuations.

From a financial standpoint, the Corporation has a healthy balance sheet and is presently in compliance with all of its financial covenants and expects to be so 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 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).

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 amendment to IAS 1 will be effective for the Corporation's fiscal years 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 years beginning on April 1, 2013, with earlier application permitted.

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

INTERNAL CONTROLS AND PROCEDURES

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

No changes were made to our internal controls over financial reporting during the quarter and the nine-month period ended December 31, 2011 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, which are more fully described in the Corporation's MD&A for the year ended March 31, 2011.

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

SELECTED QUARTERLY FINANCIAL INFORMATION

($'000 Except per share data)	Fiscal Year 2012 (IFRS)			Fiscal Year 2011 (IFRS)				Fiscal Year 2010 (Previous GAAP)
	Dec. 31, 2011	**Sept. 30, 2011**	June 30, 2011	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	**March 31, 2010**
Average exchange rate used to translate revenues (sales) and expenses (1) ($Canadian / 1 equivalent $US)	**1.0231**	0.9802	0.9676	0.9860	1.0128	1.0391	1.0276	1.0409
Sales	**93,412**	86,002	91,873	105,994	85,843	83,194	82,541	84,965
EBITDA (2)	**16,905**	13,578	14,948	19,146	14,684	11,300	11,966	12,267
Net income	**6,910**	4,812	5,797	7,992	5,165	2,654	3,318	4,405
Earnings per share ($) - basic	**0.23**	0.16	0.19	0.26	0.17	0.09	0.11	0.14
Earnings per share ($) - diluted	**0.23**	0.16	0.19	0.26	0.17	0.09	0.11	0.14

(1) Exclusive of forward foreign exchange contracts.

(2) Excluding restructuring charges related to the closure of the Rivière-des-Prairies plant of $368 for the quarter ended June 30, 2010 and of $269 for the quarter ended September 30, 2010.

OUTLOOK

Conditions continue to be favourable in the commercial aerospace market although recent uncertainty about the situation in Europe has slightly reduced projected growth in air travel. The IATA's most recent forecast calls for 4.0% growth in the passenger market for calendar 2012, versus a preliminary estimate of 6.1% for calendar 2011, while air cargo volume is expected to remain stable in calendar 2012, after contracting slightly in calendar 2011.[1]

In the large commercial aircraft segment, manufacturers have announced several production rate increases on leading programs for calendar years 2012 to 2014[2]. Reflecting these increases, Boeing and Airbus are each forecasting higher deliveries in calendar 2012 than in the previous year. Furthermore, they have collectively received new net orders for more than 2,200 aircraft in calendar 2011, twice the number of orders obtained a year earlier.

The business jet market saw further signs of recovery in calendar 2011 as aircraft utilization increased and the number of used aircraft for sale, as a percentage of the fleet, declined from a year ago. Despite the relatively weak economic recovery, business jet shipments are expected to

1 Source : IATA Industry Financial Forecast December 2011

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

increase modestly in calendar 2012, but industry sources are calling for subsequent acceleration and sustained growth over a period of possibly five years.[3]

The military aerospace market has stabilized as governments are addressing 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 JSF program, the Corporation still anticipates producing a higher number of shipsets in fiscal 2012, compared to fiscal 2011 resulting from the ramp-up of two variants, combined with a higher share of total production.

Conditions remain favourable in the Corporation's main Industrial products markets. In the power generation industry, leading North American equipment manufacturers continue to report increases in new orders. Backlogs are also strongly rising for leading heavy equipment manufacturers.[4]

Capital expenditures for fiscal 2012 are expected to be approximately $27 million, including an investment of $5 million related to the new facility in Mexico.

The integration of Landing Gear USA is mostly completed and the 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 December 31, 2011, Héroux-Devtek's funded (firm orders) backlog stood at $515 million, versus $526 million three months earlier and $502 million at the beginning of the current fiscal year. Despite this solid backlog and strong customer relationships, the Corporation must seek further productivity gains and continue to streamline its cost base to remain globally competitive in light of the volatility of the Canadian dollar and the uncertainty surrounding its continuous fluctuation versus the US currency.

Assuming the Canadian dollar remains at parity versus the US currency and considering forward foreign exchange contracts, the Corporation anticipates an internal sales growth of approximately 5% for the fiscal year ending March 31, 2012, compared to last year. As many important programs will ramp up more significantly beyond this fiscal year, the Corporation believes growth should accelerate beyond the current fiscal year. 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 and by the Board of Directors on February 2, 2012. Updated information on the Corporation can be found on the SEDAR website, at www.sedar.com.

---

3 Sources: JETNET, FAA, Teal Group, Forecast International.

4 Sources : GE press release January 20, 2012; Caterpillar press release January 26, 2012