MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL POSITION AND OPERATING RESULTS

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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 April 1, 2011 and June 30, 2011. It also compares the operating results and cash flows for the first quarter ended June 30, 2011 to those for the same period in the previous year.

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended June 30, 2011 and the audited consolidated financial statements and MD&A for the year ended March 31, 2011, both of which are available on the Corporation's website at www.herouxdevtek.com. The Corporation reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

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.

Effective April 1, 2011, the Corporation adopted IFRS as the Corporation's basis of financial reporting, using April 1, 2010 as the transition date. As such, the Corporation's first quarter 2011 unaudited consolidated financial statements and the accompanying notes, form part of the first annual interim condensed consolidated financial statements to be prepared in accordance with IFRS for the year ending March 31, 2012. These first quarter 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 financial statements of prior periods, see Note 24 – *Conversion to International Financial Reporting Standards* – to the unaudited interim condensed consolidated financial statements of the three-month period ended June 30, 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 three-month period ended June 30, 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").

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 ended June 30, 2010 and for the fiscal year ended March 31, 2011:

($'000)	**Quarter ended June 30, 2010**	**Fiscal year ended March 31, 2011**
EBITDA – Previous GAAP	**11,448**	**54,830**
Adjustments:		
Time-related discounts applied to provisions	-	229
Finance leases	411	1,633
Graded method to amortize the cost of granted stock options	60	211
Pension plans	86	346
Interest accretion on pension plans	(39)	(154)
Total adjustments	518	2,265
EBITDA – IFRS	**11,966**	**57,095**

The Corporation's EBITDA is calculated as follows:

Quarter ended June 30 ($'000)	**2011**	**2010**
Net income	5,797	3,318
Income tax expense	1,843	986
Financial expenses	1,443	1,200
Amortization	5,865	6,094
EBITDA including restructuring charges	14,948	11,598
Restructuring charges	-	368
EBITDA	**14,948**	**11,966**

The $3.0 million increase in EBITDA in the first quarter ended June 30, 2011, compared to last year's first quarter, is essentially explained by an increase in net income of $2.5 million, with a related increase in the income tax expense of $0.9 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 first quarter ended June 30, 2011, most of the Corporation's strategic markets have shown positive momentum. Sales increased in all three product lines, despite the negative impact of an increase in the value of the Canadian dollar versus the U.S. currency. This higher sales volume led to a better absorption of manufacturing overhead costs and to higher profitability. As the economy continues to progress, the Corporation anticipates an internal sales growth of approximately 5% for the current fiscal year, assuming the Canadian dollar remains at parity versus the U.S. currency.

RESULTS OF OPERATIONS

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

As previously disclosed in last year's audited consolidated financial statements, on April 28, 2010, the Corporation announced that it had concluded the acquisition, through a U.S. subsidiary, of substantially all the net assets of U.S.-based Eagle Tool & Machine Co ("Eagle") and of its subsidiary, All Tool Inc ("E2"), two privately owned manufacturers of precision machined products mainly for the military aerospace industry (now referred to as "Landing Gear USA"), with annual sales of approximately $40 million, prior to the acquisition, based on their December 31, 2009 fiscal year-end and of $45 million for an eleven-month period in the Corporation's 2011 fiscal year. (see note 6 to the interim condensed consolidated financial statements).

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

Net assets acquired ($'000)		**Source of funds ($'000)**	
Working capital	$ 16,797	Credit Facility	$ 16,711
Property, plant and equipment	8,498	Cash	12,102
Backlog	1,390	Promissory note, 5% repayable over 40 months	3,721
Goodwill	5,849		
	$ 32,534		**$ 32,534**

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

Throughout this MD&A, Management has explained the consolidated first quarter results which include the results of Landing Gear USA. Last year's first quarter results for Landing Gear USA are for the period from April 28, 2010 to June 30, 2010, which is not a full quarter, when compared to this year's first quarter. For all significant elements explained, Management has singled out this impact on the first quarter results to help readers understand the year-over-year change.

Foreign Exchange

The Corporation is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its self-sustaining foreign operations and from transactions denominated mainly in U.S. 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		**June 30, 2011**	**June 30, 2010**
Average rate for quarter ended	1$ Canadian/ US $ equivalent	0.9676	1.0276

Canada / US Exchange Rates		**June 30, 2011**	**March 31, 2011**
Closing rate at	1$ Canadian/ US $ equivalent	0.9645	0.9696

As shown above, the average value of the Canadian dollar for the quarter ended June 30, 2011, when compared to its U.S. counterpart, year-over-year, increased by more than 6% and, naturally, added pressure to 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 was minimal, reducing the currency impact on the Corporation's U.S.-denominated balance sheet accounts at the end of this quarter, when compared to 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 June 30, 2011, the Corporation had forward foreign exchange contracts totalling US$158.4 million at a weighted-average exchange rate of 1.0900 maturing over the next four fiscal years, with the majority maturing over the next two fiscal years.

At June 30, 2011, the Corporation had also entered into forward foreign exchange contracts totalling US$6.5 million at a weighted-average rate of 1.2320 maturing over the next three fiscal years, to cover foreign exchange risks (Canadian dollar over U.S. dollar) related to certain embedded derivatives.

Consolidated Sales

Consolidated sales for the three months ended June 30, 2011 increased 11.3% to $91.9 million from $82.5 million last year. This 11.3% increase includes a $5.3 million additional contribution from Landing Gear USA, representing an increased throughput combined with the impact of having full quarter results this year, when compared to last year. In addition, sales were higher in the Aerospace segment, as production rates are ramping up with commercial customers and also in the Industrial segment. The impact of the Canadian dollar, against the U.S. currency, reduced consolidated sales by $3.4 million or 4.2% compared to last year.

The Corporation's sales by segment were as follows:

	Quarters ended June 30			
	2011	**2010**	**Variance**	
	($'000)	**($'000)**	**($'000)**	**%**
Total Aerospace	84,645	76,042	8,603	11.3
Total Industrial	7,228	6,499	729	11.2
Total	**91,873**	**82,541**	**9,332**	**11.3**

This year's Aerospace sales, excluding the additional $5.3 million sales contribution of Landing Gear USA, increased $6.3 million or 8.3%, when compared to last year. This increase was partially offset by a negative US/CAD currency impact of $3.0 million or 3.9%. The Industrial sales increased by $1.1 million or 17.4%, excluding the unfavourable currency impact of $0.4 million or 6.2%, as a result of increased heavy equipment product sales.

Aerospace Segment

Sales for the Aerospace segment were as follows:

	Quarters ended June 30			
Product Lines	**2011**	**2010**	**Variance**	
	($'000)	**($'000)**	**($'000)**	**%**
Landing Gear	59,404	54,274	5,130	9.5
Aerostructure	24,939	21,694	3,245	15.0
Other aerospace products	302	74	228	308.1
Total	**84,645**	**76,042**	**8,603**	**11.3**

Sales of the Landing Gear product line increased by 9.5% or $5.1 million, mainly as a result of additional sales from Landing Gear USA. Sales resulting from increased production rates in large commercial markets, mainly the B-777 program and business jet markets, were partially offset by the negative US/CAD currency impact and reduced customer requirements in certain helicopter and regional jet programs.

Aerostructure product line sales increased 15.0% or $3.2 million for the first quarter ended June 30, 2011, despite the negative impact of a stronger Canadian dollar on this product line's US denominated sales and lower customer requirements on F-16, F-18 and F-15 military programs. This increase in sales was driven by increased sales to the JSF F-35 and B-429 helicopter programs, as production rates are ramping up, along with new business from the Gulfstream (GV) program and higher business jet product requirements.

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

	Quarters ended June 30			
	2011	2010	Variance	
	($'000)	($'000)	($'000)	%
Military [(1)]	50,253	46,369	3,884	8.4
Commercial	34,392	29,673	4,719	15.9
Total Aerospace	**84,645**	**76,042**	**8,603**	**11.3**

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

Excluding the additional sales from Landing Gear USA, military sales were 2.0% lower than last year while commercial sales were 15.1% higher than last year. As mentioned above, military sales reflect the increase in JSF sales, offset by the negative impact of a stronger Canadian dollar and by lower customer requirements on the F-16, F-18 and F-15 programs. The commercial sales increase is the result of higher production rates on the B-777, B-429 and business jet programs, in addition to the new Gulfstream (GV) business.

Industrial Segment

Sales for the Industrial segment were as follows:

	Quarters ended June 30			
	2011	2010	Variance	
	($'000)	($'000)	($'000)	%
Gas Turbine	3,320	3,159	161	5.1
Other Industrial	3,908	3,340	568	17.0
Total	**7,228**	**6,499**	**729**	**11.2**

Industrial sales were higher than last year, boosted by higher demand for Heavy Equipment in the mining industry and, to a lesser degree, in the Gas Turbine sector.

Sales by Destination

The Corporation’s sales by destination were as follows:

	Quarters ended June 30	
	2011 (%)	**2010 (%)**
Canada	28	30
US	68	66
International	4	4
Total	**100**	**100**

The sales by destination mix mainly reflects the impact of increased sales in the U.S., as a result of increased Landing Gear USA sales, combined with increased sales in the Industrial segment.

Gross Profit

Consolidated gross profit increased from 14.3% to 16.8% of sales for the three months ended June 30, 2011. This mainly resulted from the Corporation’s overall increase in sales, which allowed for an increased absorption of manufacturing overhead costs.

This quarter, Landing Gear USA had almost no impact on the Corporation’s overall gross profit as a percentage of sales, as opposed to a negative impact of 0.5% for the same period last year.

The continued strengthening of the Canadian dollar this year negatively impacted the Corporation’s gross profit in dollars by $0.7 million or 0.2% when expressed as a percentage of sales. Besides the natural hedging from the purchase of raw materials in US dollars, the Corporation mitigates the currency impact by the use of forward foreign exchange contracts.

In the Aerospace segment, Landing Gear product line gross profit in dollars was higher than last year, mainly as a result of higher throughput in Landing Gear USA. This quarter, Landing Gear USA had a positive impact of 0.2% on Landing Gear product line gross profit, compared to a 0.9% negative impact for the same period last year. Compared to last year, the Aerostructure product line significantly improved its gross profit in dollars and as a percentage of sales. This is in line with the sales increase and the related increased production volume that resulted in higher absorption of manufacturing overhead costs, combined with expected improvement in manufacturing efficiency. Last year, the Aerostructure product line was negatively impacted by a lower production volume, which had an unfavourable impact on its gross profit. In the Industrial segment, the gross profit margin in dollars and as a percentage of sales also improved significantly, boosted by higher sales for Heavy Equipment which also resulted in increased absorption of manufacturing overhead costs, when compared to last year.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	Quarters ended June 30	
	2011	**2010**
Selling and administrative expenses ($'000)	6,396	5,964
% of sales	7.0	7.2

Selling and administrative expenses of $6.4 million were $0.4 million higher than last year, and 0.2% higher as a percentage of sales. The increase is mainly attributable to expenses incurred this year in relation to the start-up of the new Mexico facility ($0.2 million), in addition to having full quarter results for Landing Gear USA this year, when compared to last year. The selling and administrative expenses include a loss on currency translation on net monetary assets of $0.1 million this year, compared to a loss of $0.2 million last year.

Operating Income

Consolidated operating income stood at $9.1 million or 9.9% of sales this year, an increase from last year's operating income of $5.9 million or 7.1% of sales. This is the result of higher sales and gross profit in both Aerospace and Industrial segments, as explained above.

Aerospace Segment

Aerospace operating income was $7.6 million or 9.0% of sales this year, compared to $5.1 million or 6.8% of sales last year. Excluding Landing Gear USA, this year's Aerospace segment operating income was $6.1 million or 8.4% of sales, an increase from last year's operating income of $4.7 million or 6.9% of sales. The increased operating income reflects the impact of increased sales and gross profit already explained above.

Industrial Segment

Operating income increased to $1.5 million or 20.5% of sales this year from $0.7 million or 11.3% of sales last year, as a result of higher sales and gross profit in this segment, as explained above.

Financial Expenses

Financial expenses stood at $1.4 million for the quarter, while it stood at $1.2 million for the three months ended June 30, 2010. The difference in the financial expenses of this year compared to last year mainly reflects the impact of having a higher portion of the Credit Facility being fixed through interest swap agreements at a higher rate than the short-term interest rate. It also reflects a higher amortization of deferred financing costs following the renewal of the Credit Facility and higher interest accretion mainly due to increased governmental authorities loans.

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. The Corporation recorded restructuring charges of $0.4 million during the quarter ended June 30, 2010 and $0.6 million for the fiscal year ended March 31, 2011. At June 30, 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 June 30, 2011, the income tax expense stood at $1.8 million compared to $1.0 million last year.

The Corporation's effective income tax rate for the three months ended June 30, 2011 was 24.1%, compared to its Canadian blended statutory income tax rate of 27.1%. The effective income tax rate reflects the favourable impact from permanent differences ($0.3 million), and favourable deferred income tax adjustments ($0.1 million), partially offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries ($0.2 million).

For the quarter ended June 30, 2010, the Corporation's effective income tax rate was 22.9% compared to the Corporation's Canadian blended statutory income tax rate of 28.4%. The difference can be explained by the favourable impact on the Corporation's effective income tax rate coming from permanent differences ($0.2 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 ($0.1 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 first quarter of fiscal 2012, the Corporation posted net income of $5.8 million compared to $3.3 million in last year's first quarter, reflecting the increased operating income in both segments of the Corporation. This quarter's net income includes $0.2 million of costs, net of taxes, incurred in conjunction with the start-up of the Mexico facility. The Corporation anticipates producing its first components early in calendar year 2012. Last year's net income is shown net of restructuring charges incurred for the closing of a facility, as already explained above.

	Quarters ended June 30	
	2011	**2010**
Net income ($'000)	5,797	3,318
Earnings per share – basic ($)	0.19	0.11
Earnings per share – diluted ($)	0.19	0.11

Basic earnings per share figures are based on weighted-averages of 30,214,742 common shares outstanding for the first quarter ended June 30, 2011, and 30,236,562 for the same period last year, while the diluted earnings per share figures are based on weighted-averages of 30,515,588 for this quarter and 30,450,460 for last year. This quarter's variance in the number of outstanding common shares is essentially due to the issuance of 200,323 common shares under the stock option plan and 9,975 common shares under the Corporation's stock purchase and ownership incentive plan**.**

On August 3, 2011, the date of this MD&A, the Corporation had 30,387,791 common shares and 1,199,677 stock options outstanding with a weighted-average of 3.6 years to maturity.

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility and Cash and Cash Equivalent

In general terms, the Corporation has a healthy financial situation and is well positioned to face its financing needs. 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 five-year Credit Facility allows the Corporation and its subsidiaries to borrow up to $150 million, either in Canadian or US currency equivalent and will mature in March 2016. 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 June 30, 2011, only CAD $57.4 million (US$59.5 million) had been drawn against this Credit Facility, including US$16.5 million in April 2010 to finance the acquisition of Eagle and E2 described earlier. Considering the Corporation's cash and cash equivalents position, its available Credit facility and level of expected capital investments and results, the Corporation's management does not expect any liquidity risk in the foreseeable future. At June 30, 2011, the Corporation had cash and cash equivalents of $40.1 million, compared to $32.9 million as at March 31, 2011, of which $29.7 million ($25.1 million at March 31, 2011) had been invested in short-term deposits with Banks.

Operating Activities

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

	Quarters ended June 30	
	2011 ($'000)	**2010 ($'000)**
Cash flows from operations	12,811	10,592
Net change in non-cash items related to operations	1,522	(8,622)
Cash flows related to operating activities	**14,333**	**1,970**

The $2.2 million increase in cash flows from operations for the first quarter ended June 30, 2011 is essentially explained by the $2.5 million increase in net income, partially offset by a lower amortization expense of $0.2 million and a lower deferred income taxes expense of $0.2 million.

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

	Quarters ended June 30 2011 ($'000)	2010 ($'000)
Accounts payable and accrued liabilities, accounts payable – other, and other liabilities	(12,714)	(7,787)
Accounts receivable	17,659	475
Inventories	381	4,757
Progress billings	(2,557)	(5,776)
All others	(1,247)	(291)
	1,522	**(8,622)**

For the first quarter ended June 30, 2011, the $17.7 million decrease in accounts receivable and the $12.7 million decrease in accounts payable and accrued liabilities, accounts payable – other, and other liabilities are mainly the result of a lower sales volume in this year's first quarter, compared to last year's fourth quarter, which is historically the best quarter of the year. The $2.6 million reduction in progress billings results from a lower funded backlog for military aftermarket landing gear business in line with reduced customers' requirements.

For the first quarter ended June 30, 2010, the reduction in accounts payable and accrued liabilities, accounts payable – other, other liabilities, progress billings, and inventories resulted from a reduced level of business activity in last year's first quarter.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended June 30 2011 ($'000)	2010 ($'000)
Additions to property, plant and equipment	(4,206)	(3,195)
Net increase in finite-life intangible assets	(2,037)	(2,150)
Proceeds on disposal of property, plant and equipment	32	25
Business acquisition	-	(28,813)
Others	(1,500)	-
Cash flows relating to investing activities	**(7,711)**	**(34,133)**

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

Additions to property, plant and equipment stood at $4.2 million ($3.2 million in last year's first quarter) and were mostly related to normal maintenance projects. Capital expenditures for fiscal 2012 are expected to represent about $26 million including a $5 million investment in relation to the new Mexico facility. The Mexico project could represent total capital investments of up to $20 million over the next 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 June 30	
	2011 ($'000)	**2010 ($'000)**
Increase in long-term debt	1,493	17,566
Repayment of long-term debt	(1,797)	(1,923)
Repurchase of common shares	-	(3,168)
Issuance of common shares	1,032	229
Cash flows relating to financing activities	**728**	**12,704**

The increase in long-term debt this year reflects new governmental authorities loans received to support the Corporation's development costs for Aerospace programs, while the increase last year represents the drawing of US$16.5 million from the Corporation's Credit Facility to finance the acquisition of Eagle and E2 last year. The $1.8 million ($1.9 million last year) repayment of long-term debt includes repayment of finance leases, governmental authorities loans and a promissory note.

During the first quarter ended June 30, 2011, the Corporation issued 200,323 common shares following the exercise of stock options for a total cash consideration of $954,000, and 9,975 common shares under its stock purchase and ownership incentive plan for a cash consideration of $78,000.

During the quarter ended June 30, 2010, the Corporation repurchased 546,000 common shares under the normal course issuer bid launched in November 2009 ("NCIB") at an average price of $5.80 for a total cash consideration of $3,168,000 (see Normal Course Issuer Bid below and Note 18 to the interim condensed consolidated financial statements).

At June 30, 2011, the Corporation was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants through fiscal 2012.

Normal Course Issuer Bid

On November 25, 2009, the Corporation launched a second 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 Plan and Stock Purchase and Ownership Incentive Plan (Stock Purchase Plan)

At June 30, 2011, the Corporation had 30,384,096 common shares outstanding (30,173,798 as at March 31, 2011).

During the three months ended June 30, 2011, the Corporation issued 200,323 common shares following the exercise of stock options at a weighted-average price of $4.76 for a total cash consideration of $954,000 and 9,975 common shares under the Corporation’s stock purchase plan at a weighted-average price of $7.80 for a total cash consideration of $78,000.

During the first quarter ended June 30, 2010, the Corporation issued 17,185 common shares at a weighted-average price of $5.04 for a total cash consideration of $87,000, under the Corporation’s stock purchase plan. The Corporation also issued 35,000 common shares pursuant to the exercise of stock options. These shares were issued at an average price of $4.06 for a total cash consideration of $142,000.

During the first quarter ended June 30, 2011, 7,000 stock options were granted (none last year) while no stock options were cancelled (28,000 last year).

At June 30, 2011, 1,199,677 stock options were issued and outstanding with a weighted-average of 3.6 years to maturity and a weighted-average exercise price of $6.22 (see Note 18 to the interim condensed consolidated financial statements).

At June 30, 2011, the aggregate number of common shares reserved for issuance under the Stock Option Plan amounted to 2,808,257 of which 43,718 shares have not been granted yet. The aggregate number of common shares reserved for issuance under the Stock Purchase Plan amounted to 340,000 of which 20,006 have not been issued yet as of the same date.

Due to the limited number of common shares remaining under the Stock Option and Stock Purchase and Ownership Incentive plans, the aggregate number of shares available for future granting or issuance under these plans will be replenished, subject to the approval by the shareholders of the Corporation at the next Annual and Special Meeting to be held on August 4, 2011.

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

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

Stock Appreciation Right and Deferred Share Unit Plans

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 June 30, 2011, 143,000 SARs were still outstanding at a weighted-average granted price of $6.21, which expire on various dates from fiscal 2012 to 2016.

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

The DSU enables the participants to receive 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 remeasured at each reporting period. Each director can also elect, each fiscal year, to have up to 50% of his director's annual retainer fees converted into DSUs. These DSUs vest over a one-year period.

During the quarter ended June 30, 2011, for the first time, the Corporation issued 15,171 DSUs (see Note 18 to the interim condensed consolidated financial statements). DSU expense amounted to $125,000.

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between June 30, 2011 and March 31, 2011:

Item	Change ($ million)	Explanation
Cash and cash equivalents	7.2	See consolidated statements of cash flows.
Accounts receivable	(17.7)	Decrease coming from lower sales in the first quarter this year, compared to last year's fourth quarter sales and decrease in days in receivables explained by the continued good accounts receivable collection effort. It also included the impact of the stronger Canadian dollar since March 31, 2011 on U.S.-denominated accounts receivable ($0.2 million).
Other current assets	2.0	This variation is mostly the result of an increase of $1.0 million in investments and other tax credits receivable, which is consistent with increased eligible development costs and an increase of $0.7 million in sales tax receivable.
Property, plant and equipment, net	(2.5)	Due to: • Purchases of property, plant and equipment of $3.3 million, excluding a variation of $0.9 million in unpaid capital assets at June 30, 2011, when compared to March 31, 2011. Net of: • Amortization expense ($5.3 million); • Disposal of fixed assets ($0.1 million); • A lower US/CAD exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries ($0.4 million).

Item	Change ($ million)	Explanation
Finite-life intangible assets, net (includes a $2.9 million backlog, net)	1.5	Due to: • An increase in finite-life intangible assets ($2.0 million), representing the increase in capitalized development costs for Aerospace long-term contracts. Net of: • Amortization expense on the underlying value of the backlog ($0.3 million); • Amortization of the finite-life intangible assets ($0.2 million).
Accounts payable and accrued liabilities	(11.2)	Decrease resulting from lower sales in the first quarter this year compared to last year's fourth quarter sales. This decrease also includes the impact of the stronger Canadian dollar since March 31, 2011 on U.S.-denominated accounts payable and accrued liabilities ($0.1 million).
Long-term debt (including current portion)	(0.2)	Due to: • Governmental authorities loans received to support Aerospace development program investments ($1.5 million); • Interest accretion on governmental authorities loans ($0.4 million); • Amortization of deferred financing costs ($0.1 million); Net of: • Net capital repayment of long-term debt ($1.8 million); • A lower US/CAD exchange rate used to convert the long-term debt denominated in US dollars ($0.4 million).
Progress billings (current and long-term)	(2.6)	The reduction in progress billings mainly reflects a lower backlog on military aftermarket business and a lower US/CAD exchange rate used to convert the progress billings denominated in U.S. dollars for the U.S. subsidiaries ($0.1 million).
Capital stock	1.7	Represents the common shares issued under the Corporation's stock purchase and ownership plan ($0.1 million) and following the exercise of stock options ($1.6 million).
Retained earnings	5.8	The increase reflects the Corporation's net income for the first quarter of fiscal 2012.

At June 30, 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:

	June 30, 2011	**March 31, 2011**
Working capital ratio	2.70:1	2.52:1
Cash and cash equivalents	$40.1 million	$32.9 million
Long-term debt-to-equity ratio	0.42:1	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.

Government assistance

For the first quarter ended June 30, 2011, the Corporation recorded as a reduction of cost of sales an amount of $0.3 million ($0.6 million last year), and as a reduction of the related capital expenditures or capitalized development costs, an amount of $1.2 million ($0.4 million last year) 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 leases amounting to $5.7 million as at June 30, 2011, for buildings and facilities. These amounts are repayable over the next eleven fiscal years. At June 30, 2011, the Corporation also had machinery and equipment purchase commitments totalling $5.3 million (see Note 22 to the interim condensed consolidated financial statements).

At June 30, 2011, the Corporation had forward foreign exchange contracts with Canadian chartered banks totalling US$158.4 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.0900. These contracts relate mainly to its export sales, and mature at various dates between June 2011 and March 2015 (see Note 12 to the interim condensed consolidated financial statements). This compares to US$159.0 million and US$149.9 million in forward foreign exchange contracts held at March 31, 2011 and June 30, 2010 respectively, at a weighted-average exchange rate of 1.1032 and 1.1388.

At June 30, 2011, the Corporation also entered into forward foreign exchange contracts totalling US$6.5 million at a weighted-average rate (Canadian dollar over U.S. dollar) of 1.2320 ($US7.7

million at a weighted-average rate of 1.2343 at March 31, 2011 and $US10.3 million at a weighted-average rate of 1.2386 at June 30, 2010) maturing over the next three fiscal years, to cover foreign exchange risk related to certain embedded derivatives.

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

On March 31, 2011, the Corporation designated certain long-term debt as hedge of its net investments in self-sustaining U.S. operations.

Financial and Economic Situation

Gradual improvements in the global economy throughout fiscal 2011 and early in fiscal 2012 have reversed certain negative trends of the previous two fiscal years. In the large commercial aircraft markets, manufacturers have announced production rate increases for calendar years 2011 to 2014, while most of the Corporation's key industrial markets are gathering further momentum. Still, the Corporation continues to carefully monitor its strategy and risk management, as unforeseen events, such as the tsunami in Japan and unrest in the Middle East and North Africa, can have negative short-term effects. Meanwhile, the military aerospace market has stabilized, as governments address their deficits.

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, which should help reduce the risks associated with any potential slowdown in specific markets.

Furthermore, the value of the Canadian dollar, when compared to the U.S. 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 for the remainder of the 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 short-term elements that could jeopardize the going concern of its operations. That being said, and understanding that the Corporation operates, in part, in sectors subject to economic volatility, Management will remain prudent (see Risks and Uncertainties and Outlook sections below).

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, 2013, 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. The standard will be effective for the Corporation's fiscal year beginning on April 1, 2013, with earlier application permitted.

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

INTERNAL CONTROLS AND PROCEDURES

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 ended June 30, 2011, except for those required to support the preparation of the Corporation's financial statements under IFRS, 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

OUTLOOK

Conditions continue to be favourable in the commercial aerospace market. Despite high fuel prices and uncertainty following unrest in the Middle East and North Africa, as well as the tsunami in Japan, the IATA is forecasting growth of 5.5% for passenger markets and of 4.4% for air cargo in calendar 2011.[1]

In the large commercial aircraft segment, manufacturers have announced several production rate increases on leading programs for calendars 2011 to 2014[2]. Furthermore, new orders received in the first half of calendar 2011 exceed levels of the prior year and both Boeing and Airbus are forecasting higher deliveries for the year.

The business jet market is seeing further signs of recovery in 2011. Aircraft utilization continues to increase and the proportion of used aircraft for sale is still declining. However, stronger global economic growth is only expected to yield a rebound in industry shipments in calendar 2012.[3]

The military aerospace market is stabilizing as governments address their deficits. Still, the proposed U.S. Defense budget for the fiscal year ending September 30, 2012, calls for an overall funding increase of 4% and of nearly 8% for procurement. As to the JSF program, despite the two-year probation on the short take-off and vertical landing (STOVL) variant, the Corporation anticipates to produce a higher number of shipsets in fiscal 2012, compared to fiscal 2011. This results from the ramp-up of the other two variants, combined with a higher share of total

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1 Source: IATA Air Transport Market Analysis, May 2011

2 Sources: Boeing press releases June 15, 2011; Dec. 20, 2010; Sept. 16, 2010; June 15, 2010; May 17, 2010; March 19, 2010. Airbus press releases May 18, 2011; February 3, 2011; July 30, 2010; March 9, 2010.

3 Sources: JETNET, FAA.

production. In Canada, the Government's decision to purchase 65 JSF aircraft should benefit the Canadian aerospace industry.

Conditions remain favourable in the Corporation's main Industrial products markets. In the power generation industry, leading North American equipment manufacturers have reported increased new orders in the past quarters. Backlogs are also strongly rising for leading heavy equipment manufacturers.[4]

Capital expenditures for fiscal 2012 are expected to be approximately $26 million, including an investment of $5 million related to the new facility in Mexico.

The integration of Landing Gear USA is mostly completed and the priority for fiscal 2012 will be to optimize operations and maximize efficiencies by further specializing facilities. This progress, combined with a healthy balance sheet and the recent increase in 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 June 30, 2011, Héroux-Devtek's funded (firm orders) backlog stood at $509 million, up from $502 million at the beginning of the year. Despite this solid backlog and strong customer relationships, the Corporation must seek further productivity gains and continue to streamline its cost base to remain globally competitive in light of the volatility of the Canadian dollar and the uncertainty surrounding its continuous fluctuation versus the US currency.

Assuming the Canadian dollar remains at parity versus the US currency and considering forward foreign exchange contracts, the Corporation anticipates an internal sales growth of approximately 5% for the fiscal year ending March 31, 2012. As many important programs will ramp up more significantly beyond this fiscal year, the Corporation 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 August 3, 2011. Updated information on the Corporation can be found on the SEDAR website, at www.sedar.com.

[4] Sources : GE press release July 22, 2011; Caterpillar press release July 22, 2011