HÉROUX DEVTEK

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

For the quarter ended June 30, 2012

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

TABLE OF CONTENTS

Management Discussion and Analysis of Financial Position and Operating Results

The purpose of this management discussion and analysis ("MD&A") is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries ("Héroux-Devtek" or the "Corporation") evolved between March 31, 2012 and June 30, 2012. It also compares the operating results and cash flows for the first quarter ended June 30, 2012 to those for the same period in the previous year.

This analysis should be read in conjunction with the Corporation’s unaudited interim condensed consolidated financial statements for the quarters ended June 30, 2012 and 2011, and the audited consolidated financial statements and MD&A for the fiscal year ended March 31, 2012, both of which are available on the Corporation’s website at www.herouxdevtek.com. This MD&A is based on our unaudited interim condensed consolidated financial statements prepared in accordance with IAS 34, Interim Financial Reporting, using the Canadian dollar as the reporting currency. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Non-IFRS Measures

The Corporation uses earnings before interest, taxes, depreciation and amortization ("EBITDA") to assess its financial performance. EBITDA is a financial measure not prescribed by IFRS. However, the Corporation’s management as well as investors, consider these to be useful information to assist them in evaluating the Corporation's profitability, liquidity and ability to generate funds to finance its operations and capital investment needs.

The Corporation’s EBITDA is calculated as follows:

Quarters ended June 30 ($’000)	**2012**	**2011**
Net income	6,283	5,797
Income tax expense	2,080	1,843
Financial expenses	1,640	1,443
Amortization	6,122	5,865
EBITDA	**16,125**	**14,948**

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 large commercial and business jet, regional aircraft and helicopter markets. On the military side, the Corporation provides parts and services for all major military aircraft, mainly in the United States.

Héroux-Devtek's main products for the Industrial segment are large components for 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, for heavy equipment and other industrial markets, including the wind energy sector (see below Subsequent Event – Sale of Aerostructure and Industrial Product Line Operations).

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. Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions, but exclusive of forward foreign exchange contracts, while the statement of income of foreign operations is translated at the average exchange rate for the fiscal year. Forward foreign exchange contracts, for the purpose of hedge accounting, are classified as cash flow hedges in accordance with the Corporation's accounting policies. The closing rates translate monetary assets and liabilities denominated in foreign currencies and assets and liabilities of foreign operations. The average exchange rates for the quarters ended June 30, 2012 and 2011, and the closing rates at June 30, 2012 and March 31, 2012 were as follows:

Canada / US Exchange Rates		**June 30, 2012**	**June 30, 2011**
Average rate for quarters ended	$ Canadian/ 1 US $ equivalent	**1.0102**	0.9676

Canada / US Exchange Rates		**June 30, 2012**	**March 31, 2012**
Closing rate at	$ Canadian/ 1 US $ equivalent	**1.0181**	0.9975

As shown above, the average value of the Canadian dollar for the quarter ended June 30, 2012 was about 4% lower, when compared to its U.S. counterpart year-over-year, and therefore had a positive impact on U.S.-denominated sales and the results of the Corporation, including those from its Canadian operations. The variation in the closing rate since March 31, 2012 had no material impact on the Corporation's U.S.-denominated balance sheet accounts at the end of this quarter, when compared to last year end balances. Currency fluctuation impact on the Corporation's sales, gross profit and specific balance sheet elements can be found later in this MD&A.

The Corporation makes use of derivative financial instruments, in accordance with its hedging policy, to hedge foreign currency fluctuation exposure risks (Canadian dollar over US dollar) in an effort to mitigate these risks. As at June 30, 2012, the Corporation had forward foreign exchange contracts to sell US$147.7 million at a weighted-average rate of 1.0561 maturing at various dates between July 2012 and March 2016, with the majority maturing this and next fiscal year.

As at June 30, 2012, the Corporation had also entered into forward foreign exchange contracts to sell US$4.7 million at a weighted-average rate of 1.2262 all maturing in fiscal 2014, to cover foreign exchange risks (Canadian dollar over US dollar) related to certain embedded derivatives.

Consolidated Sales

Consolidated sales for the three-month period ended June 30, 2012 increased by $7.4 million or 8.0% to $99.2 million from $91.9 million last year. The impact of the Canadian dollar against the US currency increased consolidated sales by $1.5 million or 1.6%, when compared to last year.

The Corporation's sales by segment were as follows:

	Quarters ended June 30			
	2012	2011	Variance	
	($'000)	($'000)	($'000)	%
Total Aerospace	**88,769**	84,645	4,124	4.9
Total Industrial	**10,458**	7,228	3,230	44.7
Total	**99,227**	**91,873**	**7,354**	**8.0**

The increase in Aerospace sales of $4.1 million or 4.9% to $88.8 million, when compared to last year, is mainly the result of increased production rates in the commercial market. This increase also includes a US/CAD favorable currency impact of $1.0 million or 1.2%. As to the Industrial segment, sales increased by $3.2 million or 44.7% to $10.5 million, when compared to last year, as a result of increased heavy equipment product sales in the mining industry.

Aerospace Segment

Sales for the Aerospace segment were as follows:

	Quarters ended June 30			
Product Lines	2012	2011	Variance	
	($'000)	($'000)	($'000)	%
Landing Gear	**60,873**	59,404	1,469	2.5
Aerostructure	**27,734**	24,939	2,795	11.2
Other aerospace products	**162**	302	(140)	(46.4)
Total	**88,769**	**84,645**	**4,124**	**4.9**

Landing Gear product line's sales increased by $1.5 million or 2.5% to $60.9 million, when compared to last year. This is the result of increased production rates on large commercial programs, mainly the B-777 and B-737 programs, and from higher customer requirements on the LJ-45 business jet program.

Aerostructure product line's sales increased by $2.8 million or 11.2% to $27.7 million, when compared to last year, including a $0.9 million or 3.8% favorable US/CAD currency impact on this product line's U.S.-denominated sales. This increase results from the increased sales on business jet programs and additional customer requirements on the F-16 aftermarket program, which were partially offset by lower production rates on the regional turboprop Dash 8 program. It also reflects, to a lesser extent, the sales increase in the Joint Strike Fighter ("JSF") program.

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

	Quarters ended June 30			
	2012	**2011**	**Variance**	
	($'000)	**($'000)**	**($'000)**	**%**
Military *(1)*	**51,787**	50,253	1,534	3.1
Commercial	**36,982**	34,392	2,590	7.5
Total Aerospace	**88,769**	**84,645**	**4,124**	**4.9**

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

Military sales were $1.5 million or 3.1% higher this quarter to $51.8 million, when compared to last year. As mentioned above, military sales reflect the increase in JSF sales and higher customer requirements on the F-16 aftermarket program.

Commercial sales were $2.6 million or 7.5% higher this quarter to $37.0 million. This increase is the result of higher production rates in large commercial and business jet programs, partially offset by lower production rates on the regional turboprop Dash 8 program.

Industrial Segment

Sales for the Industrial segment were as follows:

	Quarters ended June 30			
	2012	**2011**	**Variance**	
	($'000)	**($'000)**	**($'000)**	**%**
Gas Turbine	**3,465**	3,320	145	4.4
Other Industrial	**6,993**	3,908	3,085	78.9
Total	**10,458**	**7,228**	**3,230**	**44.7**

For the quarter ended June 30, 2012, Industrial sales were higher than last year, boosted by higher demand for heavy equipment in the mining industry.

Sales by Destination

The Corporation's sales by destination were as follows:

	Quarters ended June 30	
	2012 (%)	**2011 (%)**
Canada	**24**	28
US	**69**	68
International	**7**	4
Total	**100**	**100**

The sales by destination mix reflects the impact of increased Aerospace sales in Mexico and sales growth in the Industrial segment.

Gross Profit

Consolidated gross profit as a percentage of sales increased by 0.7% to 17.6% this quarter, when compared to last year, despite the negative impact on gross profit of the start-up costs incurred for the new Mexico facility of $0.4 million or 0.4% of sales. The gross profit improvement mainly resulted from a better product mix, combined with manufacturing cost improvements realized this quarter in the Aerospace segment.

The US/CAD currency fluctuations positively impacted the Corporation's gross profit in dollars this quarter by $0.3 million, when compared to last year, but had no impact on gross profit, 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, Landing Gear product line's gross profit in dollars and as a percentage of sales was higher this quarter, compared to last year, mainly as a result of a better product mix and manufacturing improvements. The Aerostructure product line's gross profit in dollars and as a percentage of sales was also higher this quarter, compared to last year, despite the impact of the start-up costs incurred this year, following the implementation of the new Mexico facility last year and the lower absorption of certain manufacturing costs. This increased gross profit is the result of higher F-16 aftermarket sales and certain manufacturing improvements realized in that product line, while last year's gross profit included higher initial manufacturing costs incurred in the production of components for certain new programs.

In the Industrial segment, the gross profit margin in dollars was higher, when compared to last year, as a result of increased product sales for heavy equipment in the mining industry. This quarter's gross profit, as a percentage of sales, was comparable to last year.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	Quarters ended June 30	
	2012	**2011**
Selling and administrative expenses ($'000)	**7,420**	6,396
% of sales	**7.5**	7.0

Selling and administrative expenses stood at $7.4 million or 7.5% of sales for the quarter ended June 30, 2012, an increase of $1.0 million or 0.5% of sales from $6.4 million or 7.0% of sales last year. The increase is mainly related to non-recurring costs incurred for certain specific projects. This quarter, the gain on currency translation on net monetary assets included in the selling and administrative expenses was minimal, while last year it represented a loss on currency translation of $0.1 million.

Operating Income

Consolidated operating income stood at $10.0 million or 10.1% of sales for the quarter ended June 30, 2012, up $0.9 million or 0.2% of sales from $9.1 million or 9.9% of sales last year. This is the result of higher sales and gross profit in both the Aerospace and Industrial segments, as explained above.

Aerospace Segment

Aerospace operating income was $7.6 million or 8.6% of sales this quarter, compared to $7.6 million or 9.0% of sales last year. Excluding the impact of start-up costs incurred for the new Mexico facility, the Aerospace segment's operating income was $8.3 million or 9.5% of sales and $7.8 million or 9.3% of sales, respectively, for the quarters ended June 30, 2012 and 2011. This is the result of gross profit improvements in that segment, partially offset by the impact of certain non-recurring costs included in selling and administrative expenses incurred this year, as mentioned previously.

Industrial Segment

Operating income increased to $2.4 million or 22.5% of sales, compared to $1.5 million or 20.5% of sales last year. The higher operating income this quarter reflects the increased gross profit in dollars resulting from higher sales and also lower selling and administrative expenses in dollars and as a percentage of sales incurred in that business segment.

Financial Expenses

Financial expenses stood at $1.6 million for the quarter, compared to $1.4 million last year. The additional financial expenses this quarter reflect the higher governmental authorities' loans and obligations under finance leases when compared to last year.

Income Tax Expense

For the quarter ended June 30, 2012, the income tax expense stood at $2.1 million, compared to $1.8 million last year.

This quarter, the Corporation's effective income tax rate was 24.9%, compared to its Canadian blended statutory income tax rate of 26.3%. The effective income tax rate reflects the favourable impact from permanent differences ($0.4 million), partially offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries ($0.3 million).

The Corporation's effective income tax rate for the same period last year was 24.1%, compared to its Canadian blended statutory income tax rate of 27.2%. The effective income tax rate reflects the favourable impact from permanent differences ($0.4 million), partially offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries ($0.2 million).

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

Net Income

For the quarter ended June 30, 2012, the Corporation posted a net income of $6.3 million or 6.3% of sales, compared to a net income of $5.8 million or 6.3% of sales last year, reflecting the increase in sales and related operating income in both segments of the Corporation. This quarter, the net loss incurred in conjunction with the start-up of the new Mexico facility amounted to $0.5 million, compared to $0.2 million last year, representing an unfavorable year-over-year impact of 0.3% of sales.

	Quarters ended June 30	
	2012	**2011**
Net income ($'000)	**6,283**	5,797
Earnings per share – basic ($)	**0.21**	0.19
Earnings per share – diluted ($)	**0.20**	0.19

Basic earnings per share figures are based on weighted-averages of 30,448,869 common shares outstanding for the first quarter ended June 30, 2012, and 30,214,742 common shares for the same period last year, while the diluted earnings per share figures are based on weighted-averages of 30,817,641 for this quarter and 30,515,588 for last year. The increase in the number of outstanding common shares from June 30, 2011 to June 30, 2012 is mainly related to the issuance of 200,323 common shares under the Corporation's stock option plan (see Note 10 to the interim condensed consolidated financial statements).

On August 1, 2012, the date of this MD&A, the Corporation had 30,457,349 common shares and 1,411,344 stock options outstanding with a weighted-average of 3.1 years to maturity.

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

For the quarter ended June 30, 2012, the appreciation of the US currency versus the Canadian currency had a positive impact on the Corporation's gain arising from translating the financial statements of foreign operations, while it had a negative impact on the net losses on the valuation of the Corporation's derivative financial instruments measured at fair value, and on the net losses on hedge of net investments in U.S. operations. In addition, the lower than expected return on plan assets of the Corporation's defined benefit pension plans, and the lower interest rate to discount the defined benefit obligations, negatively impacted the net actuarial losses. These variations significantly impacted the Corporation's OACI and the related comprehensive income for the quarter ended June 30, 2012.

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility and Cash and Cash Equivalents

In general terms, the Corporation has a healthy financial situation and is well positioned to face its financing needs. In March 2011, the Corporation renewed and increased its Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") with a syndicate of five Canadian Banks and their US affiliates or branches, and a Canadian branch of a U.S. Bank. This Credit Facility allows the Corporation and its subsidiaries to borrow up to $150 million, either in Canadian or US currency equivalent and will mature in March 2016 (see Note 9 to the interim condensed consolidated financial statements). It also includes an accordion feature to increase the Credit Facility up to $225 million, during the term of the Credit Agreement, subject to approval by the lenders. To June 30, 2012, only CAD $60.6 million (US$59.5 million) had been drawn against this Credit Facility (see Subsequent Event – Sale of Aerostructure and Industrial Product Line Operations). 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 June 30, 2012, the Corporation had cash and cash equivalents of $62.5 million, compared to $62.0 million as at March 31, 2012, of which $40.5 million ($39.9 million at March 31, 2012) 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 June 30	
	2012 ($'000)	**2011 ($'000)**
Cash flows from operations	**13,101**	12,811
Net change in non-cash items related to operations	**(1,197)**	1,522
Cash flows related to operating activities	**11,904**	**14,333**

The $0.3 million increase in cash flows from operations for the quarter ended June 30, 2012 is mainly explained by the $0.5 million increase in net income.

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

	Quarters ended June 30	
	2012 ($'000)	**2011 ($'000)**
Accounts receivable	**4,138**	17,659
Inventories	**(2,735)**	381
Accounts payable and accrued liabilities, accounts payable – other, and other liabilities	**(319)**	(12,714)
Progress billings	**(1,988)**	(2,557)
All others	**(293)**	(1,247)
	(1,197)	**1,522**

For the quarter ended June 30, 2012, the decrease in accounts receivable results from the lower sales volume this quarter, compared to last year's fourth quarter, which is historically the best quarter of the year, partially offset by the impact of a higher US/CAD foreign exchange closing rate used to convert the U.S.-denominated accounts receivable at period-end. The increase in inventories reflects the increased production rates for the upcoming quarters in the commercial sector. The reduction in progress billings mainly reflects a higher commercial funded backlog business mix, compared to military, and a reduced backlog on certain military programs.

For the 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 was mainly the result of a lower sales volume in last year's first quarter, compared to the previous year's fourth quarter. The $2.6 million reduction in progress billings resulted from a lower funded backlog for the military aftermarket landing gear business.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended June 30	
	2012 ($'000)	**2011 ($'000)**
Additions to property, plant and equipment	**(4,600)**	(5,706)
Net increase in finite-life intangible assets	**(3,354)**	(2,037)
Proceeds on disposal of property, plant and equipment	**4**	32
Cash flows relating to investing activities	**(7,950)**	**(7,711)**

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

	Quarters ended June 30	
	2012 ($'000)	**2011 ($'000)**
Additions, as per segment information (see note 14 to the interim condensed consolidated financial statements)	**3,324**	4,659
Variation in unpaid additions included in Accounts payable – Other at period-end	**1,276**	1,047
Additions, as per statements of cash flows	**4,600**	**5,706**

Additions to property, plant and equipment stood at $3.3 million this quarter ($4.7 million in last year's first quarter) and were mostly related to normal maintenance capital expenditure projects. Capital expenditures for fiscal 2013 are expected to be about $25 million, including $12 million to $15 million for the Landing Gear product line and $3 million for the new Mexico facility.

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

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended June 30	
	2012 ($'000)	**2011 ($'000)**
Increase in long-term debt	**-**	1,493
Repayment of long-term debt	**(4,410)**	(1,797)
Issuance of common shares	**85**	1,032
Cash flows relating to financing activities	**(4,325)**	**728**

The increase in long-term debt for the quarter ended June 30, 2011, reflects new governmental authorities' loans received to support the Corporation's development costs for Aerospace programs.

This year and last year's repayment of long-term debt includes the scheduled repayment of governmental authorities' loans, finance leases for machinery and equipment and a promissory note.

During the quarter ended June 30, 2012, the Corporation issued 11,093 common shares under the Corporation's stock purchase and ownership incentive plan ("Stock purchase plan") for a total cash consideration of $85,000. For the same period last year, 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 plan, for a total cash consideration of $78,000 (see below).

At June 30, 2012, the Corporation was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants through fiscal 2013.

Capital Stock, Stock Option and Stock Purchase Plans

At June 30, 2012, the Corporation had 30,453,463 common shares outstanding (30,442,370 as at March 31, 2012).

During the first three months ending June 30, 2012, the Corporation issued 11,093 common shares under the Corporation's stock purchase plan at a weighted-average price of $7.63, for a total cash consideration of $85,000.

During the first three months ending 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 also issued 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.

At June 30, 2012, 1,411,344 stock options were issued and outstanding with a weighted-average of 3.2 years to maturity and a weighted-average exercise price of $6.48 (see Note 10 to the interim condensed consolidated financial statements). During the first quarter ended June 30, 2012, no stock options were granted or cancelled (7,000 granted and no stock options cancelled last year).

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

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

At June 30, 2012, 2,784,924 common shares had not been issued yet under the Stock Option Plan and 297,661 common shares had not been issued yet under the Stock Purchase Plan.

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

At June 30, 2012, 130,500 SARs were still outstanding at a weighted-average granted price of $6.32, which expire on various dates from fiscal 2013 to 2016. For the quarters ended June 30, 2012 and 2011, no SARs were exercised or cancelled. In August 2010, the SAR plan has been replaced by the DSU plan.

At June 30, 2012, on a cumulative basis, 37,718 DSUs were outstanding. During the quarter ended June 30, 2012, no DSUs were issued by the Corporation (15,172 DSUs in 2011).

For the quarter ended June 30, 2012, SAR reversal of expense amounted to $110,000 ($75,000 in 2011) while DSU reversal of expense amounted to $14,000 (expense of $125,000 in 2011) (see Note 10 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 June 30, 2012 and March 31, 2012:

Item	Change ($ million)	Explanation
Cash and cash equivalents	0.5	See consolidated statements of cash flows.
Accounts receivable	(4.1)	Decrease resulting from lower sales in the first quarter this year, compared to last year's fourth quarter sales. This decrease was partially offset by the impact of a higher US/CAD exchange rate used to convert U.S.-denominated accounts receivable, when compared to March 31, 2012 (impact of $1.0 million).
Inventories	2.7	The increase reflects the increased production rates for the upcoming quarters in the commercial sector and the higher US/CAD exchange rate used to convert the inventories of the U.S. subsidiaries, when compared to March 31, 2012 (impact of $1.0 million).
Derivative financial instruments (current assets)	(1.4)	Reflects the variation in the Corporation's balance sheets of short-term derivative financial instruments measured at fair value. The decrease is mainly the result of a lower differential between the weighted-average US/CAD rates of forward foreign exchange contracts on hand and the closing rate of conversion used, as of both balance sheet dates.
Other current assets	0.7	This variation is essentially the result of an increase of $0.6 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	(0.9)	Due to: • Purchases of property, plant and equipment of $3.3 million; • A higher US/CAD exchange rate used to convert the net assets of U.S. subsidiaries, when compared to March 31, 2012 (impact of $1.4 million). Net of: • Amortization expense ($5.6 million).

Item	Change ($ million)	Explanation
Finite-life intangible assets, net (includes a $1.8 million backlog, net)	2.9	Due to: • An increase in capitalized development costs for Aerospace long-term contracts ($3.3 million); • An increase in software ($0.1 million); Net of: • Amortization expense on the underlying value of the backlog ($0.3 million); • Amortization expense of software ($0.2 million).
Derivative financial instruments (long-term assets)	(1.3)	Reflects the variation in the Corporation's balance sheets of long-term derivative financial instruments measured at fair value. The decrease is mainly the result of a lower differential between the weighted-average US/CAD rates of forward foreign exchange contracts on hand and the closing rate of conversion used, as of both balance sheet dates.
Accounts payable and accrued liabilities	1.7	Increase reflecting higher inventory level in commercial sector and the impact of a higher US/CAD exchange rate used to convert the U.S.-denominated accounts payable and accrued liabilities, when compared to March 31, 2012 (impact of $0.6 million).
Accounts payable – other	(1.3)	Decrease reflecting lower unpaid portion of property, plant and equipment additions.
Progress billings (current and long-term)	(2.0)	The reduction in progress billings mainly reflects a higher commercial funded backlog business mix, compared to military, and a reduced backlog on certain military programs. This reduction was partially offset by the impact of a higher US/CAD exchange rate used to convert the progress billings denominated in US dollars for the U.S. subsidiaries, when compared to March 31, 2012 (impact of $0.3 million).
Income tax payable	(1.9)	Decrease reflecting the income tax payments made in this first quarter related to the balance due from the last fiscal year, partially offset by income tax expense recorded for the same period.
Derivative financial instruments (short-term liabilities)	1.1	Reflects the variation in the Corporation's balance sheets of short-term derivative financial instruments measured at fair value. The increase is mainly the result of a higher differential between the weighted-average US/CAD rates of forward foreign exchange contracts on hand and the closing rate of conversion used, as of both balance sheet dates.

Item	Change ($ million)	Explanation
Long-term debt (including current portion)	(2.3)	Due to: • Capital repayment of long-term debt ($4.4 million). Net of: • Interest accretion on governmental authorities loans ($0.4 million); • Amortization of deferred financing costs related to the Credit Facility ($0.1 million); • A higher US/CAD exchange rate used to convert the long-term debt denominated in US dollars, when compared to March 31, 2012 ($1.6 million).
Accumulated other comprehensive income	(1.0)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of foreign operations and on hedge of net investments in U.S. operations, combined with the net gains (losses), net of taxes, on the fair value of the financial instruments designated as cash flow hedges.
Retained earnings	4.8	The increase reflects the Corporation's net income for the quarter ended June 30, 2012, partially offset by the defined benefit actuarial losses of the Corporation's defined benefit pension plans for the quarter ended June 30, 2012.

At June 30, 2012 and March 31, 2012, the Corporation's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio*(1)* were as follows:

	June 30, 2012	**March 31, 2012**
Working capital ratio	**2.81:1**	2.76:1
Cash and cash equivalents	**$62.5 million**	$62.0 million
Long-term debt-to-equity ratio	**0.43:1**	0.44:1
Net debt-to-equity ratio*(1)*	**0.22:1**	0.23:1

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

Government assistance

During the quarter ended June 30, 2012, the Corporation recorded as a reduction of cost of sales an amount of $0.6 million ($0.3 million last year), and as a reduction of the capitalized development costs, an amount of $0.4 million ($1.2 million last year) for government assistance.

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

Derivatives, Off-Balance-Sheet Items and Commitments

As at June 30, 2012, the Corporation had operating lease obligations amounting to $4.7 million for buildings and facilities. These amounts are repayable over the current and next nine fiscal years. The Corporation also had additions to facilities and machinery and equipment purchase commitments totalling $4.2 million (see Note 13 to the interim condensed consolidated financial statements).

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

At June 30, 2012, the Corporation had forward foreign exchange contracts with Canadian chartered banks to sell US$147.7 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.0561. These contracts relate mainly to its export sales, and mature at various dates between July 2012 and March 2016, but mainly this and next fiscal year (see Note 7 to the interim condensed consolidated financial statements). This compares to US$145.3 million and US$158.4 in forward foreign exchange contracts held at March 31, 2012 and June 30, 2011 respectively, at a weighted-average exchange rate of 1.0620 and 1.0900 respectively.

At June 30, 2012 and March 31, 2012, the Corporation had also entered into forward foreign exchange contracts to sell US$4.7 million at a weighted-average rate (Canadian dollar over US dollar) of 1.2262. These contracts cover foreign exchange risks related to certain embedded derivatives and all mature in fiscal 2014. As at June 30, 2011, these contracts totalled US$6.5 million at a weighted-average rate of 1.2320.

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

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

In March 2011, the Corporation designated certain long-term debt as hedge of its net investments in U.S. operations. This designation was still in effect as at June 30, 2012.

Subsequent Event - Sale of Aerostructure and Industrial Product Line Operations

On July 16, 2012, the Corporation executed a definitive agreement for the sale of substantially all of its Aerostructure and Industrial product line operations to Precision Castparts Corp. ("PCC"), a public company traded on the New York Stock Exchange, for a cash consideration of $300 million, subject to post-closing adjustments. The Corporation expects to realize net cash proceeds of approximately $230 million from the sale, after related taxes and expenses.

The transaction, which has been approved by the Board of Directors of the Corporation on July 16, 2012, is expected to close in the second quarter of the current fiscal year and is subject to customary regulatory approvals and other approvals for this type of transaction. However, the transaction is not subject to shareholders' approval.

Assets to be acquired by PCC include the Corporation's Dorval (Quebec), Querétaro (Mexico) and Arlington (Texas) Aerostructure product line manufacturing sites, as well as the Cincinnati (Ohio) Industrial product line manufacturing sites. The total assets to be acquired and the liabilities to be assumed by PCC included in the Corporation's interim condensed consolidated financial statements as at June 30, 2012 amounted to $142.8 million and $22.1 million, respectively. The funded (firm orders) backlog related to the businesses to be sold and included in the Corporation' funded backlog as at June 30, 2012 amounted to $94.9 million.

The sales, gross profit, operating income and EBITDA related to the operations to be sold represented the following amounts for the quarters ended June 30, 2012 and 2011 and for the last fiscal year ended March 31, 2012:

	Quarters ended June 30		**Fiscal Year ended March 31**
	2012 ($'000)	**2011 ($'000)**	**2012 ($'000)**
Sales	**35,447**	30,582	126,808
Gross profit	**6,944**	6,037	24,923
Operating income	**4,990**	4,002	16,841
EBITDA	**7,872**	6,452	27,275

The Aerostructure product line is part of the Corporation's Aerospace segment while the Industrial product line forms the Industrial segment.

The Corporation is currently evaluating various alternatives for the use of the anticipated net proceeds, including a distribution to shareholders and certain debt repayment. The net proceeds will also be used for the repayment of the finance lease obligations of the businesses to be sold, which represented an amount of $16.8 million as at June 30, 2012. The anticipated debt repayment could also include a partial repayment of about $39.0 million mainly against the

Banks' credit facility. On that basis, the Corporation should have a cash and cash equivalent position of approximately $235 million on a pro forma basis, following the conclusion of the sale of the Aerostructure and Industrial product line operations to PCC.

As for the Landing Gear product line and Toronto-based Magtron operations to be continued, total consolidated sales amounted to $253.5 million while the amortization expense was $13.6 million both for the last fiscal year ended March 31, 2012.

The expected capital expenditures for the operations to be continued will represent up to $15 million for the current fiscal year.

Financial and Economic Situation

Modest improvements in the global economy continue to have a positive effect on most of the Corporation's strategic markets. In the large commercial aircraft market, manufacturers are proceeding with production rate increases scheduled on leading programs up to calendar 2014, while stronger corporate profits should provide stimulus to the business jet market. Meanwhile, the military aerospace market remains uncertain, as governments address their deficits. However, the economy remains fragile because of the debt situation of several countries and geopolitical instability in certain regions. Consequently, Héroux-Devtek continues to carefully monitor its strategy and risk management.

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

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

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

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

FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9 *Financial Instruments*

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

IFRS 13 *Fair Value Measurement*

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

IAS 1 *Financial Statement Presentation*

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

IAS 19 *Employee Benefits*

In June 2011, the IASB amended IAS 19, *Employee Benefits*. Amongst other changes, the amendments require entities to compute the financing cost component of defined benefit plans by applying the discount rate used to measure post-employment benefit obligations to the net post-employment benefit obligations (usually, the present value of defined benefit obligations less the fair value of plan assets). This amendment should result in a higher net financing cost for the Corporation. Furthermore, the amendments to IAS 19 enhance the disclosure requirements for defined benefit plans, providing additional information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The amendment to IAS 19 will be effective for the Corporation's fiscal year beginning on April 1, 2013, with earlier application permitted.

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

INTERNAL CONTROLS AND PROCEDURES

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

No changes were made to the Corporation's internal controls over financial reporting during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

RISKS AND UNCERTAINTIES

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

($'000 Except per share data)	Fiscal Year 2013	Fiscal Year 2012				Fiscal Year 2011			
	June 30, 2012	March 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010
Average exchange rate used to translate revenues (sales) and expenses (1) ($Canadian / 1 equivalent $US)	**1.0102**	1.0012	1.0231	0.9802	0.9676	0.9860	1.0128	1.0391	1.0276
Sales	**99,227**	109,049	93,412	86,002	91,873	105,994	85,843	83,194	82,541
EBITDA	**16,125**	19,291	16,905	13,578	14,948	19,145	14,684	11,300	11,966
Net income	**6,283**	8,962	6,910	4,812	5,797	7,992	5,165	2,654	3,318
Earnings per share ($) - basic	**0.21**	0.29	0.23	0.16	0.19	0.26	0.17	0.09	0.11
Earnings per share ($) - diluted	**0.20**	0.29	0.23	0.16	0.19	0.26	0.17	0.09	0.11

(1) Exclusive of forward foreign exchange contracts.

OUTLOOK

Conditions are mostly favourable in the commercial aerospace market although uncertainty about the European economy should slightly reduce world air travel growth in calendar 2012. The IATA's most recent forecast calls for 4.8% growth in the passenger market for calendar 2012, versus a 5.9% increase in calendar 2011, while air cargo volume is expected to rise only 0.3% in calendar 2012, after contracting slightly in calendar 2011.[1]

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

Although new business jet sales declined slightly in the first quarter of calendar 2012, industry sources are calling for shipments to increase in the latter half of the year followed by sustained growth over a period of possibly five years. Several indicators support a pending recovery, such as increased aircraft utilization and a reduction in the number of used aircraft for sale, as a percentage of the fleet.[3]

The military aerospace market remains uncertain, as governments address their deficits. The proposed defense budget funding request for the United States' 2013 fiscal year calls for a 1%

1 Source : IATA Industry Financial Forecast June 2012
2 Sources: Airbus press releases May 18, 2011; February 3, 2011. Boeing press releases June 15, 2011; Dec. 20, 2010.
3 Sources: JETNET, FAA, Teal Group.

base budget reduction.[4] Still, the Corporation believes its diversified military portfolio, balanced between new component manufacturing and aftermarket products and services, should lessen its exposure to defense budget cutbacks.

As at June 30, 2012, Héroux-Devtek's funded (firm orders) backlog stood at $480 million (including $94.9 million for the businesses to be sold), versus $493 million three months earlier. Despite this solid backlog and strong customer relationships, the Corporation will continue to enhance productivity and streamline its cost base to remain competitive in light of the increasingly global character of the aerospace industry.

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

Assuming the Canadian dollar remains at parity versus the US currency and considering forward foreign exchange contracts, the Corporation anticipates an internal sales growth of approximately 5% for the Corporation's operations to be continued in the fiscal year ending March 31, 2013. As many important programs will gradually ramp up in the next few fiscal years, the Corporation believes growth should be sustained over that period.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and by the Board of Directors on August 1, 2012. Updated information on the Corporation can be found on the SEDAR website, at www.sedar.com.

[4] Source : U.S. Department of Defense press release February 13, 2012