MANAGEMENT DISCUSSION AND ANALYSIS OF

FINANCIAL POSITION AND OPERATING RESULTS

For the quarter ended September 30, 2014

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Management Discussion and Analysis of Financial Position and Operating Results

The purpose of this management discussion and analysis ("MD&A") is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries ("Héroux-Devtek" or the "Corporation") evolved between March 31, 2014 and September 30, 2014. It also compares the operating results and cash flows for the quarter and six-month period ended September 30, 2014 to those for the same periods in the previous year.

This analysis should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements for the quarter ended June 30, 2014 and six-month period ended September 30, 2014, and the audited consolidated financial statements and MD&A for the fiscal year ended March 31, 2014, all of which are available on the Corporation's website at www.herouxdevtek.com. This MD&A is based on the 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 the earnings before interest, tax, depreciation and amortization ("EBITDA"), adjusted EBITDA, adjusted net income and adjusted earnings per share to assess its financial performance. These financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. However, the Corporation's management, as well as investors, consider these metrics 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 and adjusted EBITDA are calculated as follows:

	Quarters ended September 30,		Six months ended September 30,	
($'000)	**2014**	**2013**	**2014**	**2013**
Net income	**3,273**	2,584	**6,773**	5,398
Income tax expense (recovery)	**431**	(486)	**1,119**	488
Financial expenses	**1,270**	963	**2,974**	1,686
Amortization expense	**4,241**	3,193	**8,358**	6,429
EBITDA	**9,215**	6,254	**19,224**	14,001
Acquisition-related costs	**—**	264	**—**	264
Restructuring charges	**763**	—	**1,114**	—
Adjusted EBITDA	**9,978**	6,518	**20,338**	14,265

For the quarter and six-month period ended September 30, 2014, the increase in adjusted EBITDA compared to last year mainly reflects the results of APPH (acquired on February 3, 2014) and an improved gross profit, partially offset by higher selling and administrative expenses, as explained in the following sections.

The Corporation's adjusted net income and adjusted earnings per share are calculated as follows:

	Quarters ended September 30,		Six months ended September 30,	
($'000, except per share data)	**2014**	**2013**	**2014**	**2013**
Net income	**3,273**	2,584	**6,773**	5,398
Acquisition-related costs, net of taxes	**—**	210	**—**	210
Restructuring charges, net of taxes	**566**	—	**822**	—
Adjusted net income	**3,839**	2,794	**7,595**	5,608
Earnings per share - basic and diluted	**0.09**	0.08	**0.20**	0.17
Acquisition-related costs, net of taxes	**—**	0.01	**—**	0.01
Restructuring charges, net of taxes	**0.02**	—	**0.02**	—
Adjusted earnings per share - basic and diluted	**0.11**	0.09	**0.22**	0.18

See sections below for explanations on the variations of the net income and earnings per share, basic and diluted, during the quarter and six-month period ended September 30, 2014, when compared to last year.

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 (including those presented in the Outlook section) 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; 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; successful integration of APPH; risk of litigation; and the impact of accounting policies issued by international standard setters. Some of these factors are further discussed under Risks and Uncertainties in this MD&A. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

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

Overview

Héroux-Devtek and its subsidiaries mainly specialize in the design, development, manufacture, repair and overhaul of landing gear systems and components used principally in the Aerospace market. The Corporation has also built a strong, well-recognized design engineering team.

The Corporation is the third largest landing gear company in the world, supplying both the commercial and military sectors of the Aerospace market with new landing gear systems and components as well as aftermarket products and services (including spare parts and repair and overhaul services).

On February 3, 2014, the Corporation acquired the entire share capital of U.K.-based APPH Limited and U.S.-based APPH Wichita, Inc., subsidiaries of BBA Aviation Plc. APPH is an integrated provider of landing gear and hydraulic systems and assemblies for original equipment manufacturer ("OEM") and aftermarket applications. APPH Limited's main operations are based in Runcorn and Nottingham, United Kingdom and APPH Wichita, Inc. in Wichita, Kansas. Following the acquisition, the Corporation covers the European market and has further increased and diversified its customer base.

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, in the United States and in Europe, following the acquisition of APPH. As such, a significant portion of the Corporation's sales are made to a limited number of customers located in Canada, the United States and Europe.

The Corporation's head office is located in Longueuil, Québec with facilities in the Greater Montreal area (Longueuil, Laval and St-Hubert); Kitchener and Toronto, Ontario; Springfield and Cleveland, Ohio; Wichita, Kansas; as well as Bolton, Runcorn and Nottingham in the United Kingdom. All facilities are involved in the fabrication of landing gear systems and components with the exception of the Toronto facility ("Magtron"), which manufactures electronic enclosures, heat exchangers and cabinets for airborne radar, electro-optic systems and aircraft controls, and the Bolton facility ("Bolton"), which manufactures fluid filters for aircraft engines.

Acquisition of APPH

On February 3, 2014, the Corporation signed an agreement to acquire the entire share capital of U.K. - based APPH Limited and U.S. - based APPH Wichita Inc. (collectively "APPH"), from BBA Aviation Plc (LSE : BBA), for a consideration of US$124.2 million ($138.7 million), net of US$3.8 million ($4.3 million) of cash acquired. The transaction was financed with the Corporation's available cash for US$54.9 million ($61.3 million) and existing Credit Facility for US$69.3 million ($77.4 million).

APPH is an integrated provider of landing gear and hydraulic systems and assemblies for OEM and aftermarket applications. APPH specializes in the design, engineering, manufacturing and aftermarket support of landing gear and hydraulic systems and assemblies for fixed and rotary wing civil and military aircraft. Héroux-Devtek acquired four plants located in the United Kingdom and one plant in Wichita, Kansas. These plants have a combined workforce of approximately 400 employees, including a design engineering department staffed with 40 professionals. APPH's main design programs include landing gear systems for the Hawk (BAE Systems), SAAB 340, SAAB 2000, SAAB Gripen, AW101 (AgustaWestland), C27J Spartan (Alenia) and EC175 aircraft (Airbus Helicopters).

APPH expands the Corporation's geographical operations into the European market, provides the Corporation with significant content on several leading programs, further increases and diversifies the Corporation's customer base, and provides greater exposure to the attractive aftermarket business. With a majority of its revenues coming from programs where it holds design authority rights on life-cycle mandates, APPH also provides Héroux-Devtek with an increased proportion of proprietary programs compared to built-to-print activities.

Throughout this MD&A, Management has explained the consolidated results for the quarter and the six-month period ended September 30, 2014 which include the results of APPH. For all significant elements explained, Management has singled out the acquisition impact on the current year's results to help readers understand the year-over-year change excluding the acquisition.

Boeing B-777 and B-777X Contract

In December 2013, Héroux-Devtek's wholly-owned subsidiary HDI Landing Gear USA Inc. signed a long-term contract with The Boeing Company ("Boeing") to supply complete landing gear systems for the Boeing B-777 and B-777X programs. This contract is the largest ever awarded to Landing Gear operations.

Under the terms of the long-term contract, HDI Landing Gear USA Inc. will supply complete landing gear systems, including the main and nose landing gear, and the nose landing gear drag strut. The contract includes manufacturing parts for Boeing to sell in the aftermarket. Under the multi-year contract, deliveries will begin in early calendar 2017, with an option to extend the contract through 2028.

In order to successfully carry out this important long-term contract, the Corporation has put in place an investment plan of approximately $90 million, spanning essentially the Corporation's fiscal years ending on March 31, 2015 and 2016, directly related to this contract. The investments will include the expansion of the existing facility network as well as investments in leading-edge machinery and equipment for component manufacturing and system assembly. The investments are in addition to planned regular maintenance capital investments currently projected at approximately $30 million over this two-year period (see below).

Financing for the investment plan will be secured essentially by the Corporation's available cash, its existing Credit Facility and through new finance leases.

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 and in British pounds ("GBP"). Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions, but exclusive of forward foreign exchange contracts ("FFEC"), while the statement of income of foreign operations is translated at the average exchange rate for the quarter. FFEC, for the purpose of hedge accounting, are classified and accounted for as cash flow hedges in accordance with the Corporation's accounting policies. At balance sheet dates, 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 and six-month periods ended September 30, 2014 and 2013, and the closing rates as at September 30, 2014 and March 31, 2014 were as follows:

$ Canadian / 1 US $ equivalent	**September 30, 2014**	**September 30, 2013**
Average rate for quarters ended	1.0893	1.0385
Average rate for six months ended	1.0899	1.0309
$ Canadian / 1 US $ equivalent	**September 30, 2014**	**March 31, 2014**
Closing rates	1.1200	1.1055
$ Canadian / 1 GBP equivalent	**September 30, 2014**	**September 30, 2013**
Average rate for quarters ended	1.8168	—
Average rate for six months ended	1.8261	—
$ Canadian / 1 GBP equivalent	**September 30, 2014**	**March 31, 2014**
Closing rates	1.8157	1.8430

As shown above, the average values of the Canadian dollar for the quarter and six-month period ended September 30, 2014 were respectively 4.9% and 5.7% lower, when compared to its U.S. counterpart, year-over-year, and had a positive impact on the U.S.-denominated sales and results of the Corporation, exclusive of FFEC fluctuations, including those from its Canadian operations. The variations in the above closing rates ("foreign currency rates") since March 31, 2014 had a favorable impact (gain) on the Corporation's balance sheet accounts denominated in U.S. currency at the end of this quarter, while it had a negative impact (loss) on the balance sheet accounts denominated in GBP currency. Currency fluctuation impact on the Corporation's sales, gross profit and specific balance sheet elements can be found later in this MD&A.

The Corporation makes use of derivative financial instruments, in accordance with its hedging policy, to hedge foreign currency fluctuation exposure risks (Canadian dollar over US dollar) in an effort to mitigate these risks. At September 30, 2014, the Corporation had FFEC totaling US$121.8 million at a weighted-average rate of 1.0778 maturing at various dates between October 2014 and March 2018, with the majority maturing this and next fiscal years.

Consolidated Sales

For the second quarter ended September 30, 2014, consolidated sales increased by $27.7 million or 49.1% to $84.1 million from $56.4 million last year. Excluding sales representing $23.5 million from the acquisition of APPH, consolidated sales were $60.6 million, higher by $4.2 million or 7.5% compared to last year. This is the result of higher commercial sales of $2.6 million or 9.4%, mainly resulting from higher sales on certain large commercial programs and by entry into production of the new Embraer Legacy 450/500 program. This also includes higher military sales of $1.7 million or 5.7% mainly due to an increased sales volume with Boeing on the CH-47 helicopter program. Exchange fluctuations increased sales by $1.5 million or 2.7%, when compared to last year.

At year-to-date, consolidated sales increased by $51.1 million or 42.8% to $170.5 million from $119.4 million last year. Excluding sales representing $47.7 million from the acquisition of APPH, consolidated sales were $122.8 million, higher by $3.4 million or 2.9% compared to last year. This is the result of higher commercial sales of $7.4 million or 13.4% mainly resulting from the same reasons explained above partially offset by lower military sales of $4.0 million or 6.2%. Exchange fluctuations increased sales by $3.7 million or 3.1%, when compared to last year.

Sales can be broken down by sector as follows:

	Quarters ended September 30,				Six months ended September 30,			
	2014	**2013**	**Variance**		**2014**	**2013**	**Variance**	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Commercial	**37,521**	27,034	10,487	38.8	**80,850**	55,274	25,576	46.3
Military *(1)*	**46,565**	29,368	17,197	58.6	**89,644**	64,100	25,544	39.9
Total	**84,086**	56,402	27,684	49.1	**170,494**	119,374	51,120	42.8

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

Commercial sales were $10.5 million or 38.8% higher this quarter to $37.5 million from $27.0 million last year, and $25.6 million or 46.3% higher at year-to-date to $80.9 million from $55.3 million last year. Excluding commercial sales of APPH, commercial sales were $2.6 million or 9.4% higher for the quarter and $7.4 million or 13.4% higher at year-to-date. This increase is the result of higher production rates on certain large commercial programs, essentially the B-777 and B-787 programs, and from higher business jet sales mainly resulting from entry into production of the new Embraer Legacy 450/500 program.

Military sales were $17.2 million or 58.6% higher this quarter to $46.6 million from $29.4 million last year, and $25.5 million or 39.9% higher at year-to-date to $89.6 million from $64.1 million last year. Excluding military sales of APPH, military sales were $1.7 million or 5.7% higher for the quarter but $4.0 million or 6.2% lower at year-to-date. This increase in military sales this quarter is the result of the increased sales volume on the F-35 program and the CH-47 helicopter program with Boeing, partially offset by a slowdown in repair and overhaul activities and lower electronic enclosure and cabinet sales at the Magtron operations resulting from lower customer requirements. At year-to-date, the decrease in military sales is the result of lower spare part requirements mainly on the C-5A program and the slowdown in repair and overhaul activities with the U.S. government, partially offset by the increased sales volume on the F-35 program and the CH-47 helicopter program with Boeing. This decrease in military sales also reflects the lower electronic enclosure and cabinet sales at Magtron. The decrease in military sales reflects the weaker U.S. military market, as evidenced by the reduced funding of the U.S. base defense budget in recent years.

Sales by Destination

The Corporation's sales by destination were as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2014	**2013**	**2014**	**2013**
	(%)	(%)	(%)	(%)
Canada	**21**	35	**22**	34
U.S.	**53**	59	**51**	61
United Kingdom	**11**	—	**12**	—
Other countries	**15**	6	**15**	5
Total	**100**	100	**100**	100

The second quarter and year-to-date changes in the sales by destination mix mainly reflect the impact of increased sales to the United Kingdom and other countries, mainly other European customers, as a result of the APPH acquisition, combined with lower aftermarket military sales in the U.S.

Gross Profit

This quarter, consolidated gross profit was $13.1 million, or 15.6% of sales, an increase of $5.2 million, or 1.6%, from $7.9 million or 14.0% of sales last year. At year-to-date, gross profit was $27.3 million, or 16.0% of sales, an increase of $10.2 million, or 1.7% of sales, from $17.0 million or 14.3% last year.

The increase in dollars and as a percentage of sales reflects the APPH acquisition, including its more favorable product mix during the first semester. When excluding the impact of APPH acquisition, the gross profit as a percentage of sales increased to 14.8% and 14.7% for the quarter and six-month period ended September 30, 2014, an increase of 0.8% and 0.4% respectively, when compared to the same periods last year, despite a 1.0% and 0.7% unfavorable impact from currency fluctuations. Besides the natural hedging from the purchase of raw materials in US dollars, the Corporation mitigates the currency impact by the use of FFEC.

This quarter and at year-to-date, the higher consolidated gross profit in dollars and as a percentage of sales, excluding the impact from the acquisition of APPH, is the result of increased efficiency and a better product mix in the military aftermarket. At year-to-date, it also includes lower non-recurring costs incurred from the development of a new landing gear system, when compared to last year, offset by a higher under-absorption of manufacturing overhead costs resulting from the slowdown in repair and overhaul activities, as explained above.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2014	**2013**	**2014**	**2013**
Selling and administrative expenses ($'000)	**7,350**	4,546	**15,288**	9,187
% of sales	**8.7%**	8.1%	**9.0%**	7.7%

For the quarter ended September 30, 2014, selling and administrative expenses stood at $7.4 million or 8.7% of sales, an increase of $2.8 million or 0.6% of sales from $4.5 million or 8.1% of sales last year. Excluding the impact of the acquisition of APPH, this year's selling and administrative expenses stood at $5.2 million or 8.5% of sales. This increase in dollars is mainly explained by an increased stock option expense of $0.3 million and the adoption by the Corporation of a Performance Share Unit Plan ("PSU plan") for management and key employees of $0.4 million - see Note 14 to the interim condensed consolidated financial statements, combined with additional expenses incurred for the Boeing B-777, partially offset by a gain on currency translation on net monetary items denominated in foreign currencies of $0.3 million incurred this quarter, compared to a loss of $0.1 million for the same quarter last year.

For the six-month period ended September 30, 2014, selling and administrative expenses stood at $15.3 million or 9.0% of sales this year, compared to $9.2 million or 7.7% of sales last year. Excluding the impact of the acquisition of APPH, selling and administrative expenses stood at $10.7 million or 8.7% of sales. This increase is mainly explained by an increase in the stock option expense of $0.6 million and PSU expense of $0.4 million, as explained above, combined with a negligible year-to-date gain on currency translation on net monetary items denominated in foreign currencies, compared to a gain of $0.4 million last year.

Operating Income

For the quarter ended September 30, 2014, consolidated operating income stood at $5.7 million or 6.8% of sales, reflecting the contribution of APPH, compared to $3.1 million or 5.4% of sales last year. Excluding the acquisition of APPH, the Corporation's operating income stood at $3.8 million or 6.3% of sales for this quarter, reflecting the higher gross profit partially offset by higher selling and administrative expenses, as explained above.

For the six-month period ended September 30, 2014, consolidated operating income stood at $12.0 million or 7.0% of sales, compared to $7.6 million or 6.3% of sales last year. Excluding the acquisition of APPH, the Corporation's operating income stood at $7.3 million or 6.0% of sales, reflecting the higher gross profit offset by higher selling and administrative expenses, as explained above.

Financial Expenses

For the quarter and six-month period ended September 30, 2014, financial expenses stood at $1.3 million and $3.0 million respectively, compared to $1.0 million and $1.7 million, for the same periods last year.

For the quarter and six-month period ended September 30, 2014, the increase in financial expenses, compared to last year, is mainly explained by additional interest expense of $0.2 million and $0.8 million respectively, resulting from the increased drawings against the Corporation's Credit Facility following the acquisition of APPH, combined with additional interest accretion on increased governmental authorities' loans of $0.1 million and $0.2 million respectively. At year-to-date, it also includes an expense of $0.1 million reflecting the discount rate adjustment related to asset retirement obligations, while it represented a gain of $0.2 million last year.

Restructuring Charges

On January 16, 2014, given the substantial demand reduction for military aftermarket products by the U.S. government, the Corporation announced a plan to optimize and consolidate manufacturing capacity, while further enhancing productivity throughout the organization. These initiatives are in line with the Corporation's operating strategy of focusing on specialized centers of excellence. Furthermore, following the acquisition of APPH, the Corporation incurred restructuring charges related to the integration of APPH's operations, personnel and technology with its pre-existing operations.

For the quarter and six-month period ended September 30, 2014, the Corporation recorded restructuring charges of $0.8 million and $1.1 million respectively (none in 2013) which include employee termination benefits of $0.6 million and $0.8 million and other associated costs of $0.2 million and $0.3 million, respectively. At September 30, 2014, the unpaid portion of the restructuring charges is shown under short-term provisions for $0.6 million ($0.9 million as at March 31, 2014) and other liabilities for $0.5 million ($0.3 million as at March 31, 2014) in the Corporation's Consolidated balance sheets.

Income Tax Expense

For the quarters ended September 30, 2014 and 2013, the income tax expense (recovery) stood at $0.4 million and $(0.5) million, respectively. At year-to-date, the income tax expense stood at $1.1 million, compared to $0.5 million for the same period last year.

This quarter, the Corporation's effective income tax rate was 11.7% (recovery of 23.2% last year), compared to its Canadian blended statutory income tax rate of 26.7% (26.8% last year). The effective income tax rate reflects the favorable impact from permanent differences of $0.5 million ($0.1 million last year) and the positive impact of a higher income tax rate for the Corporation's U.S. subsidiaries of $0.1 million ($0.1 million last year). Last year's income tax expense also includes a reduction of $0.9 million in deferred income tax liabilities in light of changes in tax audit matters, jurisprudence and tax legislation.

For the six-month period ended September 30, 2014, the Corporation's effective income tax rate was 14.2% (8.3% last year), compared to its Canadian blended statutory income tax rate of 26.7% (26.7% last year). The effective income tax rate reflects the favorable impact from permanent differences of $0.9 million ($0.2 million last year) and the positive impact of differences in income tax rate for the Corporation's foreign subsidiaries

of $0.1 million (negligible last year). Last year's income tax expense also includes a reduction of $0.9 million in deferred income tax liabilities in light of changes in tax audit matters, jurisprudence and tax legislation.

Net Income

For the quarter and six-month period ended September 30, 2014, the Corporation posted a net income of $3.3 million or 3.9% of sales ($3.8 million or 4.6% of sales, excluding restructuring charges of $0.6 million, net of taxes) and $6.8 million or 4.0% of sales ($7.6 million or 4.5% of sales, excluding restructuring charges of $0.8 million, net of taxes), respectively, compared to a net income of $2.6 million or 4.6% of sales ($2.8 million or 5.0% of sales, excluding acquisition-related costs of $0.2 million, net of taxes) and $5.4 million or 4.5% of sales ($5.6 million or 4.7% of sales, excluding acquisition-related costs of $0.2 million, net of taxes) for the same periods last year.

	Quarters ended September 30,		Six months ended September 30,	
	2014	**2013**	**2014**	**2013**
Net income ($'000) [1] [2]	**3,273**	2,584	**6,773**	5,398
Earnings per share – basic ($)	**0.09**	0.08	**0.20**	0.17
Earnings per share – diluted ($)	**0.09**	0.08	**0.20**	0.17

[1] *Net of restructuring charges amounting to $0.6 million and $0.8 million, net of taxes, for the quarter and six-month period ended September 30, 2014.*

[2] *Net of acquisition-related costs amounting to $0.2 million net of taxes, for the quarter and six-month period ended September 30, 2013.*

For the six months ended September 30, 2014, basic earnings per share figures are based on year-to-date weighted-averages of 33,871,207 common shares outstanding and 31,521,584 common shares for the same period last year, while the diluted earnings per share figures are based on year-to-date weighted-averages of 33,986,219 for the six-month period this year and 31,677,669 for the same period last year. The increase in the weighted-average number of outstanding common shares from September 30, 2013 to September 30, 2014 is mainly related to the issuance of common shares pursuant to the public offering and concurrent private placements on June 26, 2014 (see below) and issuance of common shares under the Corporation's stock option plan during the second quarter of this fiscal year and the fourth quarter of the previous fiscal year**.**

On November 13, 2014, the date of this MD&A, the Corporation had 35,934,585 common shares and 717,346 stock options outstanding with a weighted-average of 5.7 years to maturity.

Accumulated Other Comprehensive Income ("AOCI") and Comprehensive Income

For the quarter ended September 30, 2014, the other comprehensive loss, included in the comprehensive income, is mainly the result of losses on the valuation of derivative financial instruments resulting from the appreciation of the US currency, compared to the Canadian currency, and losses on hedge of net investments in foreign operations. It also includes losses from re-measurement of the Corporation's defined benefit pension plans resulting essentially from a lower interest rate to discount the defined benefit pension plan obligations. These unfavorable variations on the comprehensive income were partially offset by a net gain arising from the translation of the financial statements of foreign operations, resulting mainly from the appreciation of the US currency, compared to the Canadian currency.

For the six-month period ended September 30, 2014, the other comprehensive loss, included in the comprehensive income, is mainly the result of losses from re-measurement of the Corporation's defined benefit pension plans resulting from a lower interest rate to discount the defined benefit pension plan obligations and by net losses arising from the translation of the financial statements of foreign operations, resulting from the appreciation of the Canadian currency, compared to the British Pound currency, partially offset by a gain on the valuation of derivative financial instruments resulting from the appreciation of the Canadian currency, compared to the US currency, and gains on hedge of net investments in foreign operations.

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. The Corporation had cash and cash equivalents of $50.9 million as at September 30, 2014, compared to $47.3 million at March 31, 2014, that were held in investment accounts mainly with three of the five Canadian Banks and their U.S. affiliates or branches of the Corporation's syndicated banks.

The Corporation has in place a Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") with five Canadian syndicated banks, and their U.S. affiliates or branches, and a Canadian branch of a U.S. bank. This Credit Facility allows the Corporation and its subsidiaries to borrow up to $200 million, either in Canadian, US, British Pound or Euro equivalent currencies and will mature in March 2019. It also includes an accordion feature to increase the Credit Facility by an additional $75 million, during the term of the Credit Agreement, subject to the approval of the lenders.

As at September 30, 2014, the Corporation had $52.0 million drawn against the Credit Facility following the repayment made during the first quarter (see below), compared to $100.9 million as at March 31, 2014. 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.

As at September 30, 2014, the Corporation's net debt position represented the following:

	($'000)
Long-term debt, including current portion[1]	**103,728**
Less: Cash and cash equivalents	**50,942**
Net debt position	**52,786**

[1] *Excluding net deferred financing costs of $1.4 million.*

Operating Activities

During the quarter and six-month periods ended September 30, the Corporation generated cash flows from continuing operations, and used cash and cash equivalents for its operating activities and its discontinued operations as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2014	**2013**	**2014**	**2013**
	($'000)	($'000)	($'000)	($'000)
Cash flows from continuing operations	**7,804**	4,685	**16,282**	11,837
Net change in non-cash items related to continuing operations	**8,138**	(1,653)	**6,715**	(5,298)
Cash flows related to operating activities from continuing operations	**15,942**	3,032	**22,997**	6,539
Cash flows related to operating activities from discontinued operations	**(600)**	—	**(1,082)**	(1,641)
Cash flows related to operating activities	**15,342**	3,032	**21,915**	4,898

For the quarter and six-month period ended September 30, 2014, the $3.1 million and $4.4 million increases in cash flows from continuing operations, when compared to last year's period, are mainly explained by higher net income and amortization expense, both resulting from the APPH acquisition combined with a lower deferred income tax recovery (see above) and a higher stock option expense.

For the quarter and six-month period ended September 30, 2014, cash flows related to operating activities from discontinued operations include final tax payments related to fiscal year 2013, while it included a payment of income taxes for fiscal year 2013 in last fiscal year's first quarter.

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

	Quarters ended September 30,		Six months ended September 30,	
	2014 ($'000)	**2013** ($'000)	**2014** ($'000)	**2013** ($'000)
Accounts receivable	**(1,495)**	3,090	**2,243**	9,705
Inventories	**2,314**	1,094	**2,072**	(434)
Other current assets	**2,037**	693	**2,278**	692
Accounts payable and accrued liabilities, accounts payable-other and other liabilities (referred to as "accounts payable")	**(1,362)**	(4,162)	**(9,909)**	(9,703)
Progress billings	**1,783**	(1,353)	**1,572**	(4,750)
Customer advances	**4,839**	—	**9,826**	—
Income taxes payable and receivable	**(1,018)**	(97)	**(637)**	(655)
All others, including the effect of changes in exchange rate for the Corporation's foreign subsidiaries	**1,040**	(918)	**(730)**	(153)
	8,138	(1,653)	**6,715**	(5,298)

For the quarter, the increase in accounts receivable mainly reflects the impact of a higher US/CAD foreign exchange closing rate used to convert the U.S.-denominated accounts receivable balances this quarter, when compared to the first quarter. For the second quarter and six-month period ended September 30, 2014, the decrease in inventories mainly reflects the reduced backlog on certain military programs net of increased inventories related to a higher commercial funded backlog, while the reduction in accounts payable results from the lower sales volume this quarter, which is historically the lowest quarter of the year due to the vacation period and plant shut-downs. For the same periods, the reduction in other current assets mainly results from a lower investment and other tax credits receivable reflecting the cash received during the periods, while the increase in progress billings and customer advances mainly reflects payments received from a customer in relation to long-term contracts.

For the quarter and six-month period ended September 30, 2013, the decrease in accounts receivable and accounts payable resulted from the lower sales volume in the second quarter, which is historically the lowest quarter of the year due to the vacation period and plant shut-downs. For the same periods, the reduction in progress billings reflected a reduced backlog on certain military programs. The reduction in income taxes payable and receivable for the six-month period ended September 30, 2013 mainly reflected the final payment of income taxes made for fiscal 2013.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2014 ($'000)	**2013** ($'000)	**2014** ($'000)	**2013** ($'000)
Additions to property, plant and equipment	**(5,156)**	(3,340)	**(14,335)**	(6,521)
Deposits on machinery and equipment	**(4,492)**	557	**(5,169)**	90
Net increase in finite-life intangible assets	**(1,366)**	(2,269)	**(1,414)**	(5,264)
Proceeds on disposal of property, plant and equipment	**223**	47	**430**	47
Cash flows related to investing activities	**(10,791)**	(5,005)	**(20,488)**	(11,648)

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

	Quarters ended September 30,		Six months ended September 30,	
	2014	**2013**	**2014**	**2013**
	($'000)	($'000)	($'000)	($'000)
Gross additions to property, plant and equipment	**7,604**	3,795	**15,644**	6,066
Government assistance	**(180)**	(25)	**(289)**	(25)
Additions to property, plant and equipment	**7,424**	3,770	**15,355**	6,041
Variation in unpaid additions included in Accounts payable - other and other liabilities	**(2,268)**	(430)	**(1,020)**	480
Additions, as per statements of cash flows	**5,156**	3,340	**14,335**	6,521

This quarter and at year-to-date, the additions to property, plant and equipment stood at $7.4 million and $15.4 million, respectively ($3.8 million and $6.0 million last year). The increases in additions to property, plant and equipment and deposits on machinery and equipment are essentially related to the investments required in order to supply complete landing gear systems for the B-777 program. Capital expenditures for fiscal 2015 are expected to be about $75.0 million, including $58.0 million related to the Boeing B-777 contract.

The increase in finite-life intangible assets mainly included capitalized development costs for long-term contracts, essentially for the business jet programs.

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2014	**2013**	**2014**	**2013**
	($'000)	($'000)	($'000)	($'000)
Increase in long-term debt	**1,316**	—	**19,936**	—
Repayment of long-term debt	**(479)**	(486)	**(66,311)**	(3,047)
Issuance of common shares	**250**	66	**48,206**	133
Cash flows related to financing activities	**1,087**	(420)	**1,831**	(2,914)

On June 26, 2014, the Corporation issued 4,255,871 common shares for net proceeds of $47.9 million as a result of the public offering and concurrent private placements (see below). During the quarter and six-month period ended September 30, 2014, the Corporation also received total cash considerations of $0.3 million and $0.4 million, respectively, following the issuance of common shares under the Corporation's stock purchase and ownership incentive plan ("stock purchase plan") and the stock option plan.

The net proceeds of $47.9 million from the public offering and concurrent private placements along with a $16.2 million drawing against the Corporation's Credit Facility was used to repay US$59.3 million ($63.6 million) of debt against the Credit Facility during the first quarter. This year and last year's repayments of long-term debt also include the scheduled repayment of governmental authorities' loans and finance leases for machinery and equipment, while last year it also included the scheduled repayment of a promissory note.

For the quarter and six-month period ended September 30, 2014, the increase in long-term debt also includes new governmental authorities' loans received of $1.3 million and $3.7 million respectively, to support development program investments.

As at September 30, 2014, the Corporation was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants through the current fiscal year.

Capital Stock, Stock Option and Stock Purchase Plans

As at September 30, 2014, the Corporation had 35,928,158 common shares outstanding (31,620,482 as at March 31, 2014).

During the quarter and six-month period ended September 30, 2014, the Corporation issued 46,460 and 4,307,676 common shares, respectively, as follows:

i. On June 26, 2014, the Corporation issued 4,255,871 common shares at a price of $11.75 per share for gross proceeds of $50.0 million pursuant to the public offering and concurrent private placements. The net proceeds of $47.9 million received by the Corporation, net of underwriting commissions and other issuance costs of $1.6 million and $0.5 million respectively, were used to repay indebtedness under its Credit Facility. Deferred income taxes of $0.6 million were recorded related to the issuance costs.

ii. The Corporation issued 11,460 and 16,805 common shares, respectively, at weighted-average prices of $10.14 and $9.94 under the Corporation's stock purchase and ownership incentive plan for total cash consideration of $113,000 and $169,000, respectively.

iii. The Corporation issued 35,000 common shares, following the exercise of stock options for a total cash consideration of $184,000. The initial fair value of these stock options, amounting to $136,000, was credited to issued capital and debited to contributed surplus.

During the quarter and six-month period ended September 30, 2013, the Corporation issued 8,771 and 18,107 common shares, respectively, under the Corporation's stock purchase plan, for total cash considerations of $66,000 and $133,000.

During the quarter and six-month period ended September 30, 2014, 66,345 stock options were granted (none in 2013), 35,000 stock options were exercised (none in 2013), and none were cancelled (none in 2013).

As at September 30, 2014, 717,346 stock options were issued and outstanding with a weighted-average of 5.8 years to maturity and a weighted-average exercise price of $9.77 (see Note 14 to the interim condensed consolidated financial statements).

For the quarter ended September 30, 2014, the stock option plan expense and the stock purchase plan expense amounted to $336,000 and $39,000, respectively ($27,000 and $30,000 in 2013) - see Note 14 to the interim condensed consolidated financial statements.

For the six-month period ended September 30, 2014, the stock option plan expense and the stock purchase plan expense amounted to $646,000 and $78,000, respectively ($63,000 and $61,000 in 2013) - see Note 14 to the interim condensed consolidated financial statements.

As at September 30, 2014, 1,639,781 common shares under the Stock Option Plan and 223,980 common shares under the Stock Purchase Plan had not been issued yet.

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

Until August 2010, the Corporation had a SAR plan where rights were issued to its non-employee directors. Although the SAR plan has since been replaced by a DSU plan effectively approved in May 2011 by the Corporation's Board of Directors, certain SARs issued prior to August 2010 are still in effect.

As at September 30, 2014, 6,000 SARs (27,000 as at September 30, 2013) were still outstanding at a weighted-average granted value of $0.01 ($1.68 last year) which expire in August 2015. During the quarter and six-month period ended September 30, 2014, 11,000 SARs were exercised (12,000 in the second quarter of 2013), no SARs were granted (none in 2013) and no SARS were cancelled (none in 2013).

As at September 30, 2014, 83,158 DSUs were outstanding (62,940 as at September 30, 2013). During the quarter and six-month period ended September 30, 2014, 18,333 DSUs were issued (none in 2013), no DSUs were exercised (12,362 in the second quarter of 2013) and no DSUs were cancelled (none in 2013).

For the quarter and six months ended September 30, 2014, the reversal of SAR expense amounted to $5,000 and $9,000, respectively (expense of $21,000 and $42,000 in 2013) while DSU expense amounted to $64,000 and $85,000, respectively ($59,000 and $117,000 in 2013) - see Note 14 to the interim condensed consolidated financial statements.

On August 15, 2014, the Corporation adopted a PSU plan as part of a long-term incentive plan for management and key employees. The PSU plan is non-dilutive and is settled in cash. The value of each PSU is equal to the volume-weighted average trading price of one common share of the Corporation listed on the TSX for the five consecutive trading days immediately preceding the day on which the value is to be determined

("PSU value"). PSUs vest over a period of three years, following the date of issuance, and the holder is entitled to receive in cash the PSU value for each PSU vested, conditional on the achievement of selected financial targets, and are repayable at the expiration date.

The PSUs are expensed on an earned basis and their costs are determined using a valuation model and re-measured at each reporting period. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in accounts payable and accrued liabilities until the PSUs are exercised at termination date.

For the quarter ended September 30, 2014, the Corporation granted 115,879 PSUs. A PSU expense of $383,000 was recorded during the quarter, and 115,879 PSUs were outstanding at September 30, 2014.

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between September 30, 2014 and March 31, 2014:

Item	September 30, 2014 ($ million)	March 31, 2014 ($ million)	Change ($ million)	Explanation
Cash and cash equivalents	50.9	47.3	3.6	See consolidated statements of cash flows.
Accounts receivable	63.8	66.0	(2.2)	Mainly reflects lower sales in the second quarter this year compared to last year's fourth quarter sales, partially offset by higher US/CAD currency rate used to convert the foreign currency-denominated accounts receivable, when compared to March 31, 2014 (impact of $0.2 million).
Inventories	132.0	134.0	(2.0)	Mainly reflects the reduction in inventories as a result of a reduced backlog for certain military programs net of increased inventories related to higher commercial funded backlog.
Other current assets	29.8	26.9	2.9	Mainly reflects increased deposits made on machinery and equipment in relation to the Boeing B-777 contract partially offset by a reduction in investment and other tax credits receivable reflecting the cash received during the year.
Property, plant and equipment (PPE), net	100.2	92.3	7.9	Mainly reflects the additions ($15.4 million, net of government assistance) combined with a higher US/CAD currency rate used to convert the PPE of the foreign operations ($0.1 million), partially offset by amortization expense ($7.2 million), and disposal of property, plant and equipment ($0.4 million).
Finite-life intangible assets, net	59.2	59.1	0.1	Mainly reflects the additions ($1.4 million, net of government assistance), partially offset by amortization expense ($1.2 million) and a lower GBP/CAD currency rate used to convert the intangible assets of the foreign operations ($0.1 million).
Accounts payable and accrued liabilities	48.9	57.6	(8.7)	Mainly reflects lower sales in the second quarter this year, compared to last year's fourth quarter sales, partially offset by a higher US/CAD currency rate used to convert the U.S. currency-denominated accounts payable and accrued liabilities, when compared to March 31, 2014 (impact of $0.1 million).
Accounts payable - other and other liabilities	4.4	3.8	0.6	Mainly reflects additional unpaid PPE additions (impact of $1.0 million), compared to March 31, 2014, partially offset by amortization expense on deferred revenue ($0.4 million).
Customer advances	19.2	9.4	9.8	Reflects payments received from a customer in relation to long-term contracts.
Progress billings (current and long-term)	9.3	7.7	1.6	Mainly reflects payments received from a customer in relation to a long-term contract.
Long-term debt (including current portion)	102.3	148.9	(46.6)	Reflects scheduled payments of long-term debt ($2.7 million) and the repayment of US$59.3 million ($63.6 million) under the Credit Facility, combined with the impact of exchange fluctuations on the U.S.-denominated long-term debt ($1.6 million). The decrease was partially offset by a drawing on the Credit Facility ($16.2 million) and new governmental loans received this year to support development program investments ($3.7 million), interest accretion on increased governmental authorities' loans ($1.2 million), and amortization of deferred financing costs related to the Credit Facility ($0.2 million).

Item	September 30, 2014 ($ million)	March 31, 2014 ($ million)	Change ($ million)	Explanation
Other liabilities	11.5	10.0	1.5	Increase mainly resulting from losses on re-measurement of the Corporation's defined benefit pension plans ($2.1 million), partially offset by scheduled payments made this semester.
Issued capital	75.1	26.2	48.9	Increase mainly from the net proceeds ($47.9 million) received from the public offering and concurrent private placements, combined with favorable deferred income taxes ($0.6 million) recorded and related to the issuance costs. It also includes the issuance of common shares following the exercise of stock options ($0.2 million) and under the stock purchase plan ($0.2 million).
Retained earnings	211.2	205.9	5.3	Increase reflects the Corporation's net income of $6.8 million in the first semester, partially offset by net losses from re-measurement of $1.5 million on the Corporation's defined benefit pension plans.

As at September 30, 2014 and March 31, 2014, 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:

	September 30, 2014	March 31, 2014
Working capital ratio	**2.70:1**	2.71:1
Cash and cash equivalents	**$50.9 million**	$47.3 million
Long-term debt-to-equity ratio	**0.33:1**	0.60:1
Net debt-to-equity ratio[(1)]	**0.18:1**	0.43:1

[(1)]: Defined as total long-term debt, including the current portion but excluding net deferred financing costs, less cash and cash equivalents over shareholders' equity.

Government Assistance

During the quarters and six-month periods ended September 30, government assistance, deducted from the cost of the related assets or recognized as a reduction of expenses, are as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2014	**2013**	**2014**	**2013**
	($'000)	($'000)	($'000)	($'000)
Other current assets - deposits on machinery and equipment	**$ 1,221**	$ —	**$ 1,221**	$ —
Property, plant and equipment	**180**	25	**289**	25
Finite-life intangible assets	**642**	1,179	**738**	1,489
Cost of sales, selling and administrative expenses	**1,062**	1,056	**1,575**	1,516

The government assistance includes mainly the investment tax and other credits and grants.

Commitments, Derivatives, Off-Balance-Sheet Items and Contingencies

Commitments

As at September 30, 2014, the Corporation had operating lease obligations amounting to $1.9 million for buildings and facilities. These amounts are repayable essentially over the next five fiscal years. The Corporation also had machinery and equipment purchase commitments totaling $54.7 million (see Note 17 to the interim condensed consolidated financial statements) of which $52.1 million ($38.5 million as March 31, 2014) is related to the Boeing B-777 contract.

As at September 30, 2014, the Corporation has issued a letter of credit amounting to $0.2 million (none as at March 31, 2014). This letter of credit was issued to meet certain requirements related to the capital investment plan of the Corporation.

Derivatives, Off-Balance-Sheet Items

As at September 30, 2014, the Corporation had forward foreign exchange contracts ("FFEC") with Canadian chartered banks to sell US$121.8 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.0778. These contracts relate mainly to its Canadian sales expressed in US dollars, and mature at various dates between October 2014 and March 2018, with the majority maturing this and next fiscal years (see Note 11 to the interim condensed consolidated financial statements). This compares to US$127.4 million and US$115.1 million in FFEC held at March 31, 2014 and September 30, 2013, respectively, at weighted-average exchange rates of 1.0628 and 1.0321, respectively.

As at September 30, 2014, March 31, 2014 and September 30, 2013, the Corporation had an interest-rate swap agreement for a total notional amount of US$10 million. The agreement sets the Libor U.S. rate at 2.04% and will mature in December 2015.

As at September 30, 2014 and March 31, 2014, the Corporation had also two additional interest-rate swap agreements for a total notional amount of US$15 million. These interest-rate swap agreements fixed the Libor U.S. rate at 1.65% for the first tranche of US$5 million commencing in March 2014, and at 2.38% for the second tranche of US$10 million commencing in December 2015, both until their maturity in December 2018.

The interest-rate swap rates mentioned above exclude the additional bank relevant margin. The cash flows related to the interest-rate swaps are expected to occur in the same periods as they are expected to affect the net income.

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, which are high-grade financial institutions, in accordance with the Corporation's investment policy. On that basis, the Corporation does not anticipate any breach of agreement by counterparties.

In March 2011 and February 2014, the Corporation designated certain long-term debt as hedge of its net investments in foreign operations. Certain designations were still in effect as at September 30, 2014.

Contingencies

On February 5, 2014, Goodrich Corporation, member of UTC Aerospace Systems ("UTAS") group, filed a request for arbitration against the Corporation to the ICC International Court of Arbitration based on an alleged violation of a non-compete covenant contained in an agreement between Goodrich Corporation and Devtek Aerospace Inc. relating to the manufacturing of pistons. The arbitration date has been set in the second quarter of fiscal 2016.

The Corporation disagrees with the Goodrich Corporation's position and believes that it is acting in conformity with its agreements and accordingly no provision was recorded as of September 30, 2014 and March 31, 2014. While the Corporation cannot predict the final outcome of this arbitration, the Corporation intends to defend its position in this matter and has strong and serious grounds of defense to oppose within the arbitration process.

CHANGES IN ACCOUNTING POLICIES

On April 1, 2014, the Corporation adopted retrospectively the standard below. The adoption of the new standard had no impact on prior periods' comparative figures.

IFRIC 21 Levies

IFRIC 21 clarifies the timing of accounting for a liability for outflow of resources that is imposed by governments in accordance with legislation, based on the activity that triggers the payment. Levies are required to be applied retrospectively for periods beginning April 1, 2014. The

Corporation adopted IFRIC 21 on April 1, 2014 and the adoption of this standard had no impact on the Corporation's interim condensed consolidated financial statements.

Future change in accounting policies

IFRS 15

The IFRS 15, *revenue from contracts with customers*, establishes a single framework for determining the timing and the amount of revenue that can be recognized. These amendments are required to be applied retrospectively for periods beginning April 1, 2017, with earlier application permitted. The Corporation has not yet assessed the impact of these amendments.

INTERNAL CONTROLS AND PROCEDURES

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

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

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

Management's assessment and conclusion on the design of disclosure controls and procedures and internal controls over financial reporting excludes the controls, policies and procedures of APPH which was acquired on February 3, 2014, as permitted by the Canadian Securities Administrators' National Instrument 52-109 for 365 days following an acquisition. APPH's results are included in the September 30, 2014 interim condensed consolidated financial statements of Héroux-Devtek and constituted approximately 32% of total assets as of September 30, 2014, and approximately 28% of revenue for the six-month period then ended.

During the quarter and six-month period ended September 30, 2014, no changes were made to the Corporation's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments that have a variety of risk factors and uncertainties. The Corporation's business, financial condition and results of operations could be materially adversely affected by any of the risks and uncertainties described below. Such risks and uncertainties include, but are not limited to, those mentioned below. Additional risks and uncertainties not presently known to the Corporation or that the Corporation currently believes to be immaterial may also adversely affect its business.

- 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;
- Successful integration of APPH (as hereinafter defined); and
- Risk of litigation (as hereinafter defined).

Risks associated with the acquisition of APPH

The acquisition by the Corporation of APPH was significant and the Corporation may not have the ability to successfully integrate and combine the operations, personnel and technology of APPH with its pre-existing operations. If the integration is not managed successfully by management, the Corporation may not realize the growth opportunities that are anticipated from the acquisition. Even if the Corporation is able to integrate APPH's operations successfully, this integration may not result in the realization of the full benefits of the growth opportunities currently expected within the anticipated time frame, or at all. The integration with APPH may also impose substantial demands on management. There is no assurance that improved operating results will be achieved as a result of the APPH acquisition.

Risk of litigation

The Corporation is subject to the risk of litigation in the ordinary course of business by employees, customers, suppliers, competitors, shareholders, government agencies, or others, through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation is difficult to assess or quantify. Claimants in these types of lawsuits or claims may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits or claims may remain unknown for substantial periods of time. Regardless of outcome, litigation could result in substantial costs to the Corporation. In addition, litigation could divert management's attention and resources away from the day-to-day operations of the Corporation's business.

SELECTED QUARTERLY FINANCIAL INFORMATION

($'000 Except per share data)	**Fiscal Year 2015**		Fiscal Year 2014				Fiscal Year 2013 [1]	
	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012
Sales from continuing operations	**84,086**	86,408	91,212	61,448	56,402	62,972	73,816	61,742
EBITDA from continuing operations [2]	**9,215**	10,009	7,728	7,170	6,254	7,747	10,031	7,672
Adjusted EBITDA from continuing operations [2]	**9,978**	10,360	13,249	8,286	6,518	7,747	10,031	7,672
Net income from continuing operations	**3,273**	3,500	1,230	2,608	2,584	2,814	4,599	3,216
Adjusted net income from continuing operations [2]	**3,839**	3,756	5,953	3,697	2,794	2,814	4,599	3,216
Net income from discontinued operations	**—**	—	—	—	—	—	3,679	1,289
Net income	**3,273**	3,500	1,230	2,608	2,584	2,814	8,278	4,505
Earnings per share from continuing operations ($) – Basic and diluted	**0.09**	0.11	0.04	0.08	0.08	0.09	0.15	0.10
Adjusted earnings per share from continuing operations ($) - Basic & Diluted [2]	**0.11**	0.12	0.19	0.12	0.09	0.09	0.15	0.10
Earnings per share ($) – basic	**0.09**	0.11	0.04	0.08	0.08	0.09	0.26	0.14
Earnings per share ($) – diluted	**0.09**	0.11	0.04	0.08	0.08	0.09	0.26	0.14
Weighted-average number of diluted shares outstanding (in millions)	**36.0**	31.9	31.7	31.7	31.7	31.7	31.7	31.3

(1) Fiscal year 2013 results have been restated following the adoption of the amended IAS 19, *Employee Benefits*.

(2) *See Non-IFRS measures above.*

OUTLOOK

Conditions remain mostly favorable in the commercial aerospace market. The IATA's most recent forecast for calendar 2014 calls for 5.9% growth in the passenger market, while air cargo volume is expected to rise 3.1%[1].

In the large commercial aircraft sector, Boeing and Airbus are proceeding with production rate increases on several leading programs scheduled through calendar 2018[2]. Their backlogs remain strong, representing approximately eight years of production at current rates.

In the business jet market, deliveries increased 9.3% in the first nine months of calendar 2014 and positive signs continue to suggest further improvement in market conditions, such as an increase in U.S. business aircraft movements and a year-over-year decrease in the proportion of the business aircraft fleet for sale. More importantly, industry sources are calling for sustained growth over several years, which would span the planned entry into service of the business jet models for which Héroux-Devtek has designed the landing gear.[3]

Conditions in the military aerospace market are expected to remain difficult, as governments address their deficits. In the U.S., the Department of Defense fiscal year 2015 budget request calls for a base funding similar to funding enacted for fiscal year 2014. Although sequestration cuts were eliminated through the U.S. Government's 2015 fiscal year, current funding requests beyond that horizon exceed planned budget limits, which could affect the Corporation over its ensuing fiscal years. However, as APPH reduces the Corporation's relative exposure to the U.S. military market, a more geographically diversified military portfolio, mainly composed of leading programs, and also balanced between new component manufacturing and aftermarket products and services, should lessen this impact.

As at September 30, 2014, the Corporation's balance sheet remains healthy with cash and cash equivalents of $50.9 million. This amount, combined with funds available under its Credit Facility, will allow Héroux-Devtek to fund expected total capital expenditures of approximately $120 million spanning the course of fiscal years 2015 and 2016, including investments of about $90 million related to the Boeing B-777 landing gear contract.

As at September 30, 2014, Héroux-Devtek's funded (firm orders) backlog stood at $450 million, up from $447 million at the end of the previous quarter. 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.

In the current fiscal year ending March 31, 2015, Héroux-Devtek will benefit from a full-year contribution from APPH, while internal sales should be relatively stable compared with fiscal 2014, excluding the effect of currency variations. As forces driving its main markets are not expected to evolve materially, and also excluding the effect of currency variations, the Corporation anticipates an increase in sales to the commercial aerospace market to be offset by lower internal sales to the military aerospace market. Over a longer-term horizon, Héroux-Devtek's performance will be driven by the initial contribution and subsequent growth of European operations, the start-up of the Boeing B-777 contract, the ramp-up of its landing gear design programs, the achievement by large aircraft manufacturers of their scheduled production rate increases, a sustained recovery in the business jet market, and more stable military conditions beyond fiscal 2015.

With these key drivers, the Corporation believes that it can achieve sales of approximately $500 million within the next five years, assuming no further acquisitions and stable exchange rates between the Canadian dollar, the US dollar and the British pound, as well as considering its FFEC.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee and by the Board of Directors on November 13, 2014. Updated information on the Corporation can be found on the SEDAR website, at www.sedar.com.

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1 Source: Economic Performance of the Airline Industry, IATA, June 2, 2014

2 Sources: Airbus press release February 24, 2014. Boeing press releases October 2, 2014; March 20, 2014; January 24, 2014; October 31, 2013.

3 Sources: JETNET, FAA, Teal Group.