HÉROUX-DEVTEK
QUARTERLY REPORT
THIRD QUARTER ENDED
DECEMBER 31, 2011

A WORLD-CLASS PRESENCE

HÉROUX DEVTEK

MESSAGE TO SHAREHOLDERS
Third quarter ended December 31, 2011

On behalf of the Board of Directors, I am pleased to present the financial results for Héroux-Devtek's third quarter ended December 31, 2011.

Héroux-Devtek posted another solid performance in the third quarter, as sales rose for all product lines, profitability further increased and our financial position strengthened. During the quarter, we inaugurated our new manufacturing facility in Querétaro, Mexico. This strategic expansion further enhances our flexibility, value proposition to OEMs and overall competitiveness. It also makes Héroux-Devtek a stronger organization, fully capable of meeting growing demand in its core markets and of providing its customers with value-added products and services at the most optimal cost.

Consolidated sales for the third quarter were $93.4 million, an increase of 8.8% from $85.8 million for the same period last year. Aerospace sales were $83.6 million in the third quarter of fiscal 2012, up 5.3% from $79.5 million last year. Landing Gear product sales rose 6.6% to $59.0 million, as increased activity for certain large commercial aircraft programs, mainly the B-777, and higher military aftermarket customer requirements more than offset lower customer demand in the regional aircraft and certain commercial helicopter markets as well as unfavourable currency fluctuations. Aerostructure product sales grew 2.6% to $24.5 million due to higher sales for business jet programs and the JSF program, which more than offset lower sales to certain military programs, as well as lower customer requirements for regional aircraft programs. Industrial sales totalled $9.8 million in the third quarter of fiscal 2012, compared with $6.4 million a year earlier. This solid 53.1% increase reflects greater demand for heavy equipment in the mining industry and higher sales to the power generation sector.

Fluctuations in the value of the Canadian dollar versus the US currency decreased third quarter sales by $0.5 million, or 0.5%, compared with last year, and reduced gross profit by $0.3 million, or 0.2% of sales. The impact of currency movements on the Corporation's gross profit is mitigated by the use of forward foreign exchange sales contracts and the natural hedging from the purchase of materials made in U.S. dollars.

Reflecting a more favourable product mix, greater efficiency and a better absorption of manufacturing overhead costs from higher sales, earnings before interest, taxes, depreciation and amortization ("EBITDA") were $16.9 million, or 18.1% of sales, compared with $14.7 million, or 17.1% of sales last year. Operating income stood at $10.8 million, or 11.5% of sales, up from $8.7 million, or 10.1% of sales last year.

Net income increased 33.8% to $6.9 million, or $0.23 per share, fully diluted, from $5.2 million, or $0.17 per share, fully diluted, a year ago. Results for the third quarter of fiscal 2012 include expenses of $315,000 net of income tax, or $0.01 per share, related to the start-up of the new facility in Mexico.

For the first nine months of fiscal 2012, consolidated sales amounted to $271.3 million, up 7.8% from $251.6 million a year earlier. Excluding the additional contribution of Landing Gear USA in the first quarter and the unfavourable currency impact, year-to-date sales increased 9.0%. Aerospace sales rose 5.8% to $245.9 million, while Industrial sales grew 32.7% to reach $25.4 million. EBITDA totalled $45.4 million, or 16.7% of sales, versus $38.0 million, or 15.1% of sales, a year earlier, while operating income stood at $27.5 million, or 10.1% of sales, compared with $19.8 million, or 7.9% of sales, last year. Net income totalled $17.5 million or $0.57 per share, fully diluted, versus $11.1 million or $0.37 per share, fully diluted, in the prior year. Results for the first nine months of fiscal 2012 include start-up costs of $653,000 net of income taxes, or $0.02 per share, related to the new facility in Mexico, while restructuring charges, related to the closure of the Rivière-des-Prairies facility, reduced net income by $0.02 per share, net of income taxes, in the first nine months of fiscal 2011.

As at December 31, 2011, Héroux-Devtek's funded (firm orders) backlog stood at $515 million, versus $526 million three months earlier and $502 million at the beginning of the fiscal year, and remains well diversified.

Conditions remain favourable in the commercial aerospace market. Large commercial aircraft manufacturers should implement several production rate increases on leading programs up to calendar 2014, new orders rose significantly in calendar 2011 and Boeing and Airbus are both forecasting increased deliveries for calendar 2012. The business jet market continues to see positive signs and shipments are expected to increase modestly in calendar 2012, followed by subsequent growth acceleration. The military aerospace market has stabilized as governments address their deficits. As to the JSF program, Héroux-Devtek still anticipates to produce a higher number of shipsets in fiscal 2012, compared to fiscal 2011 due to the ramp-up of two variants and a higher share of the total production. Finally, the Corporation's main industrial markets continue to have solid momentum, as new orders and backlogs for its main customers continue to increase.

Going forward, Héroux-Devtek will benefit from the ramp-up of several important commercial aerospace programs for which it has significant content, while its military portfolio is diversified and balanced between new component manufacturing and the aftermarket, which should lessen the impact of potential defense budget cutbacks. In parallel, our healthy balance sheet allows us to look for strategic acquisitions that would enhance our product portfolio and technologies, as well as create sustainable value for our shareholders. In the short-term, and considering the strong fourth-quarter results achieved last year, we continue to anticipate an internal sales growth of approximately 5% for the current fiscal year ending March 31, 2012, assuming the Canadian dollar remains at parity versus the U.S. currency.

Gilles Labbé
President and Chief Executive Officer
February 3, 2012

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Third Quarter ended December 31, 2011

Héroux-Devtek Inc.

Notice of Disclosure of Non-Auditor Review of Interim Condensed Consolidated Financial Statements for the quarters ended December 31, 2011 and 2010.

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if the external auditors have not performed a review of the financial statements, the financial statements must be accompanied by a notice indicating that they have not been reviewed by the external auditors.

The accompanying unaudited interim condensed consolidated financial statements of the Corporation for the quarters ended December 31, 2011 and 2010, have been prepared in accordance with the International Accounting Standard 34, Interim Financial Reporting, and the requirements of the International Financial Reporting Standard 1, First-time Adoption of International Financial Reporting Standards, and are the responsibility of the Corporation's management.

The Corporation's external auditors, Ernst & Young LLP, have not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of financial statements by the external auditors of an entity.

February 3, 2012.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(For the quarters ended December 31, 2011 and 2010)

TABLE OF CONTENTS

CONSOLIDATED BALANCE SHEETS
As at December 31, 2011 and March 31, 2011
(In thousands of Canadian dollars) (Unaudited)

	Notes	December 31, 2011	March 31, 2011
Assets			
Current assets			
Cash and cash equivalents		$ 49,377	$ 32,910
Accounts receivable		47,264	62,623
Income tax receivable		-	716
Inventories		143,649	134,837
Derivative financial instruments	9	5,884	10,923
Other current assets	10	17,511	14,738
		263,685	256,747
Property, plant and equipment, net	4	153,716	150,677
Finite-life intangible assets, net	4	24,748	18,486
Derivative financial instruments	9	4,212	10,132
Goodwill		37,004	35,887
Other assets	7	611	611
Total assets		$ 483,976	$ 472,540
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		$ 51,988	$ 52,577
Accounts payable - other		1,369	4,128
Provisions		12,227	11,786
Progress billings		21,297	24,555
Income tax payable		2,502	1,622
Derivative financial instruments	9	1,117	852
Current portion of long-term debt	11	10,225	6,353
		100,725	101,873
Long-term debt	11	106,243	99,155
Provisions		4,302	4,805
Progress billings		6,043	8,810
Derivative financial instruments	9	3,477	1,158
Deferred income tax liabilities		14,216	18,931
Other liabilities		13,230	13,265
		248,236	247,997
Shareholders' equity			
Issued capital	12	101,982	100,136
Contributed surplus		2,974	3,330
Accumulated other comprehensive income (loss)	13	3,543	9,947
Retained earnings		127,241	111,130
		235,740	224,543
		$ 483,976	$ 472,540

Commitments (Note 15)

The accompanying notes, including Note 17 – *Conversion to International Financial and Reporting Standards*, are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
For the periods ended December 31, 2011 and 2010
(In thousands of Canadian dollars, except per share data) (Unaudited)

		Quarters ended December 31		Nine months ended December 31	
	Notes	2011	2010	2011	2010
Sales		$ 93,412	$ 85,843	$ 271,287	$ 251,578
Cost of sales	4, 5	76,283	70,572	224,988	213,381
Gross profit		17,129	15,271	46,299	38,197
Selling and administrative expenses	5	6,348	6,560	18,796	18,430
Operating income		10,781	8,711	27,503	19,767
Financial expenses	6	1,629	1,420	4,574	3,898
Income before income tax expense and restructuring charges		9,152	7,291	22,929	15,869
Restructuring charges	7	-	-	-	637
Income before income tax expense		9,152	7,291	22,929	15,232
Income tax expense		2,242	2,126	5,410	4,095
Net income		$ 6,910	$ 5,165	$ 17,519	$ 11,137
Earnings per share – basic	8	$ 0.23	$ 0.17	$ 0.58	$ 0.37
Earnings per share - diluted	8	$ 0.23	$ 0.17	$ 0.57	$ 0.37

The accompanying notes, including Note 17 – *Conversion to International Financial and Reporting Standards*, are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the periods ended December 31, 2011 and 2010
(In thousands of Canadian dollars) (Unaudited)

For the quarters ended December 31

	Notes		2011		2010
	13				
Net income		$	6,910	$	5,165
Other comprehensive income (loss):					
Loss arising from translating the financial statements of foreign operations			(4,331)		(2,654)
Cash flow hedges:					
Net gains on valuation of derivative financial instruments, net of income taxes of $1,452 ($1,497 in 2010)			3,769		4,442
Net gains on derivative financial instruments transferred to net income, net of income taxes of $458 ($659 in 2010)			(1,191)		(1,815)
Net gains on hedge of net investments in U.S. operations, net of income taxes of $242			1,614		-
Defined benefit pension plans:					
Actuarial losses, net of income taxes recovery of $33 ($34 in 2010)			(84)		(93)
Other comprehensive income (loss)		$	(223)	$	(120)
Comprehensive income		$	6,687	$	5,045

For the nine-month periods ended December 31

	Notes		2011		2010
	13				
Net income		$	17,519	$	11,137
Other comprehensive income (loss):					
Gain (loss) arising from translating the financial statements of foreign operations			5,521		(1,449)
Cash flow hedges:					
Net gains (losses) on valuation of derivative financial instruments, net of income taxes expense (recovery) of ($1,008) ($1,515 in 2010)			(2,914)		4,583
Net gains on derivative financial instruments transferred to net income, net of income taxes of $2,435 ($1,594 in 2010)			(6,660)		(4,389)
Net losses on hedge of net investments in U.S. operations, net of income taxes recovery of $469			(2,351)		-
Defined benefit pension plans:					
Actuarial losses, net of income taxes recovery of $993 and of ($512 in 2010)			(2,646)		(1,410)
Net change in asset limit and minimum funding requirements, net of income taxes of $449			1,238		-
Other comprehensive income (loss)		$	(7,812)	$	(2,665)
Comprehensive income		$	9,707	$	8,472

The accompanying notes, including Note 17 – *Conversion to International Financial and Reporting Standards*, are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the periods ended December 31, 2011 and 2010
(In thousands of Canadian dollars) (Unaudited)

For the nine-month period ended December 31, 2011

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income (loss) (AOCI)	Retained earnings	Shareholders' equity
Balance at March 31, 2011		$100,136	$3,330	$9,947	$111,130	$224,543
Common shares:	12					
Issued under the Stock option plan		1,611	(657)	-	-	954
Issued under the Stock purchase and ownership incentive plan		235	-	-	-	235
Stock-based compensation expense	12	-	301	-	-	301
Net income		-	-	-	17,519	17,519
Other comprehensive income (loss)		-	-	(6,404)	(1,408)	(7,812)
Balance at December 31, 2011		$101,982	$2,974	$3,543	$127,241	$235,740

For the nine-month period ended December 31, 2010

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income (AOCI)	Retained earnings	Shareholders' equity
Balance at April 1, 2010		$100,641	$3,145	$11,198	$96,079	$211,063
Common shares:	12					
Issued under the Stock option plan		747	-	-	-	747
Issued under the Stock purchase and ownership incentive plan		254	-	-	-	254
Repurchased under the Corporation's normal course issuer bid		(1,979)	-	-	(1,591)	(3,570)
Stock-based compensation expense	12	-	170	-	-	170
Net income		-	-	-	11,137	11,137
Other comprehensive income (loss)		-	-	(1,255)	(1,410)	(2,665)
Balance at December 31, 2010		$99,663	$3,315	$9,943	$104,215	$217,136

The accompanying notes, including Note 17 – *Conversion to International Financial and Reporting Standards*, are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the periods ended December 31, 2011 and 2010
(In thousands of Canadian dollars) (Unaudited)

		Quarters ended December 31		Nine months ended December 31	
	Notes	2011	2010	2011	2010
Cash and cash equivalents provided by (used for):					
Operating activities					
Net income		$ 6,910	$ 5,165	$ 17,519	$ 11,137
Items not requiring an outlay of cash:					
Amortization expense	5	6,124	5,974	17,928	18,184
Deferred income taxes		(57)	1,244	(497)	1,864
Loss on sale of property, plant and equipment		126	229	154	306
Amortization of deferred financing costs	6	110	42	330	126
Interest accretion expense	6	554	421	1,588	1,210
Stock-based compensation expense	12	118	24	301	170
Cash flows from operations		13,885	13,099	37,323	32,997
Net change in non-cash items related to operations	14	(3,750)	4,262	(2,521)	(5,083)
Cash flows related to operating activities		10,135	17,361	34,802	27,914
Investing activities					
Additions to property, plant and equipment (1)		(3,626)	(4,731)	(13,531)	(13,824)
Net increase in finite-life intangible assets		(1,550)	(2,393)	(7,716)	(6,122)
Proceeds on disposal of property, plant and equipment		335	71	370	141
Business acquisition		-	-	-	(28,813)
Cash flows related to investing activities		(4,841)	(7,053)	(20,877)	(48,618)
Financing activities					
Increase in long-term debt		814	3,041	4,090	21,916
Repayment of long-term debt		(1,119)	(1,242)	(4,278)	(4,411)
Repurchase of common shares	12	-	(72)	-	(3,570)
Issuance of common shares	12	76	84	1,189	1,001
Cash flows related to financing activities		(229)	1,811	1,001	14,936
Effect of changes in exchange rates on cash and cash equivalents		(1,106)	(1,196)	1,541	(533)
Change in cash and cash equivalents during the periods		3,959	10,923	16,467	(6,301)
Cash and cash equivalents at beginning of periods		45,418	29,367	32,910	46,591
Cash and cash equivalents at end of periods		$ 49,377	$ 40,290	$ 49,377	$ 40,290
Interest and taxes reflected in operating activities:					
Interest paid		$ 921	$ 899	$ 2,733	$ 2,537
Income taxes paid		$ 1,992	$ 155	$ 4,040	$ 406

(1) The additions to property, plant and equipment for the quarter and nine-month period this year were $8,060 and $17,091 respectively ($4,731 and $13,824 last year). These additions shown above include the variation of unpaid additions at period end, net of those acquired through finance leases.

The accompanying notes, including Note 17 – *Conversion to International Financial and Reporting Standards*, are an integral part of these consolidated financial statements.

Note 1. Nature of activities and corporate information

Héroux-Devtek Inc. is incorporated under the laws of Québec. Its head office and registered office are domiciled at Complexe St-Charles, 1111 St-Charles Street West, suite 658, East Tower, Longueuil (Québec), Canada. Héroux-Devtek Inc. and its subsidiaries (the "Corporation") specialize in the design, development, manufacture, repair and overhaul of systems and components used principally in the aerospace and industrial segments.

Note 2. Basis of preparation

The interim condensed consolidated financial statements for the quarter and nine-month period ended December 31, 2011 were prepared in accordance with IAS 34, Interim Financial Reporting. The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the interim condensed consolidated financial statements for the quarters ended June 30, 2011 and September 30, 2011. In addition, the interim condensed consolidated financial statements for the quarter ended June 30, 2011 contain certain incremental annual disclosures under International Financial Reporting Standards ("IFRS") not included in the annual financial statements for the year ended March 31, 2011 prepared in accordance with previous Canadian GAAP. Accordingly, these interim condensed consolidated financial statements for the quarter and nine-month period ended December 31, 2011 should be read together with the annual consolidated financial statements for the year ended March 31, 2011 prepared in accordance with previous Canadian GAAP as well as the interim condensed consolidated financial statements for the quarter ended June 30, 2011.

These interim consolidated financial statements were approved for issue by the Board of Directors of the Corporation on February 2, 2012.

Note 3. Recent accounting pronouncements

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.

Note 4. Government assistance

During the quarter ended December 31, 2011, the Corporation recorded as government assistance an amount of $1,208 as a reduction of cost of sales ($867 for the quarter ended December 31, 2010) and an amount of $736 ($1,578 for the quarter ended December 31, 2010) as a reduction of the related property, plant and equipment or capitalized development costs.

During the nine-month period ended December 31, 2011, the Corporation recorded as government assistance an amount of $2,633 as a reduction of cost of sales ($1,854 for the nine-month period ended December 31, 2010) and an amount of $2,179 ($3,049 for the nine-month period ended December 31, 2010) as a reduction of the related property, plant and equipment or capitalized development costs.

Note 5. Cost of sales, selling and administrative expenses

The main components for the quarters and nine-month periods ended December 31, are as follows:

	Quarters ended December 31		Nine months ended December 31	
	2011	2010	2011	2010
Raw material and purchased parts	$ 31,541	$ 28,969	$ 96,085	$ 88,884
Employee costs	31,576	29,999	93,058	87,470
Amortization	6,124	5,974	17,928	18,184
Others	13,390	12,190	36,713	37,273
	$ 82,631	$ 77,132	$ 243,784	$ 231,811

Note 6. Financial expenses

Financial expenses for the quarters and nine-month periods ended December 31 comprise the following:

	Quarters ended December 31		Nine months ended December 31	
	2011	2010	2011	2010
Interest	$ 897	$ 952	$ 2,467	$ 2,520
Interest accretion expense on governmental authorities loans	434	352	1,234	990
Amortization of deferred financing costs	110	42	330	126
Standby fees	108	23	322	66
Other interest accretion expense	120	69	354	220
	1,669	1,438	4,707	3,922
Gain on financial instruments classified as FVTPL[(1)] - Interest income	(40)	(18)	(133)	(24)
	$ 1,629	$ 1,420	$ 4,574	$ 3,898

[(1)] Fair value through profit or loss

Note 7. Restructuring charges

On May 13, 2010, the Corporation launched an initiative to optimize and consolidate production capacity in its Aerospace segment, while further enhancing productivity at its Québec-based facilities. Consequently, the Corporation's Rivière-des-Prairies, Québec, facility was closed in September 2010 and its production was transferred to the Corporation's other facilities in the Greater Montreal area. During the first six-month period ended September 30, 2010, the Corporation recorded restructuring charges of $637 ($454 net of income taxes). At December

31, 2011 and March 31, 2011, the value of the building related to this facility amounts to $611 and is classified as an asset held for sale, and is shown in Other assets in the consolidated balance sheets.

Note 8. Earnings per share

The following table sets forth the elements used to compute basic and diluted earnings per share for the quarters and nine-month periods ended December 31:

	Quarters ended December 31		Nine months ended December 31	
	2011	2010	2011	2010
Net income	$ 6,910	$ 5,165	$ 17,519	$ 11,137
Weighted-average number of common shares outstanding	30,402,527	30,070,815	30,335,097	30,104,849
Effect of dilutive stock options of the Corporation	262,290	244,588	324,838	227,434
Weighted-average diluted number of common shares outstanding	30,664,817	30,315,403	30,659,935	30,332,283

The diluted earnings per share calculation does not take into consideration the potential dilutive effect of certain stock options of the Corporation since their impact is anti-dilutive. During the quarter and nine-month period ended December 31, 2011, 570,000 and 350,000 stock options respectively of the Corporation's plan (1,078,000 for both corresponding periods in 2010) were excluded from the diluted earnings per share calculation.

Note 9. Derivative financial instruments

Forward foreign exchange contracts

At December 31, 2011, the Corporation had forward foreign exchange contracts to sell US$161.4 million at a weighted-average rate of 1.0690 (Canadian dollar over U.S. dollar, "cad/usd"). At March 31, 2011 and December 31, 2010, these contracts totalled US$159.0 million at a weighted-average rate of 1.1032 cad/usd and US$143.1 million at a weighted-average rate of 1.1288 cad/usd, respectively. These contracts mature over the next four fiscal years, with the majority maturing over the next two fiscal years.

At December 31, 2011, the Corporation had also entered into forward foreign exchange contracts to sell US$4.7 million at a weighted-average rate of 1.2262 cad/usd. At March 31, 2011 and December 31, 2010, these contracts totalled US$7.7 million at a weighted-average rate of 1.2343 cad/usd and US$8.5 million at a weighted-average rate of 1.2359 cad/usd, respectively. These contracts cover foreign exchange risk related to certain embedded derivative financial instruments and all mature in fiscal 2014.

Interest rate swap agreements

At December 31, 2011 and March 31, 2011, the Corporation had entered into three interest rate swap agreements for a total notional amount of US$40 million, which fix the Libor rate at 3.90% for an amount of US$20 million and at 3.91% for another amount of US$20 million, and will mature in December 2015.

Note 10. Other current assets

	December 31, 2011	March 31, 2011
Investment and other tax credits receivable	$ 10,989	$ 8,427
Sales tax receivable	1,968	1,713
Deposits on machinery and equipment (Note 15)	445	223
Prepaid expenses	2,846	2,498
Others	1,263	1,877
	$ 17,511	$ 14,738

Note 11. Long-term debt

	December 31, 2011	March 31, 2011
Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") of up to $150,000 - either in Canadian or U.S. currency equivalent, maturing on March 15, 2016, which bears interest at Libor plus 1.875% as at December 31, 2011 and March 31, 2011 representing an effective interest rate of 2.2% (2.2% at March 31, 2011). The Credit Facility includes an accordion feature to increase the Credit Facility up to $225 million subject to lenders' consent. At December 31 and March 31, 2011, the Corporation used US$59,500 on the Credit Facility.	$ 60,512	$ 57,691
Governmental authorities loans, repayable in variable annual instalments, with various expiry dates until 2026.	32,470	27,707
Obligations under finance leases, all bearing fixed interest rates between 3.1% and 9.3% maturing from November 2012 to January 2019, with amortization periods ranging from five to eight years, secured by the related property, plant and equipment, net of interest of $2,881 ($2,299 at March 31, 2011).	23,412	19,760
Promissory note, repayable in monthly instalments over 40 months up to July 2013, bearing fixed interest at 5% and guaranteed by the Corporation.	1,942	2,548
Deferred financing costs, net	(1,868)	(2,198)
	116,468	105,508
Less: current portion	10,225	6,353
	$ 106,243	$ 99,155

Note 12. Issued capital

Authorized

Voting common shares, without par value	Unlimited
First preferred shares, issuable in series, without par value	Unlimited
Second preferred shares, issuable in series, without par value	Unlimited

The rights, privileges, restrictions and conditions related to the preferred shares are established by the Board of Directors.

For the quarter and nine-month period ended December 31, 2011, variations in common shares issued are as follows:

	Quarter ended December 31, 2011		Nine-months ended December 31, 2011	
	Number	Issued capital	Number	Issued capital
Common shares issued and fully paid				
Opening balance	30,395,439	$ 101,906	30,173,798	$ 100,136
Issued for cash on exercise of stock options	-	-	200,323	1,611
Issued for cash under the Stock purchase and ownership incentive plan	12,135	76	33,453	235
Closing balance	30,407,574	$ 101,982	30,407,574	$ 101,982

Issuance of common shares

During the quarter and nine month period ended December 31, 2011, the Corporation issued 12,135 and 233,776 common shares respectively at weighted-average prices of $6.24 and $5.09 for total cash considerations of $76 and $1,189. This includes 200,323 common shares which were issued (all in the first quarter) following the exercise of stock options for a total cash consideration of $954. The initial fair value of these stock options amounting to $657 was transferred in the issued capital from the contributed surplus in the quarter ending June 30, 2011. The remainder of 12,135 and 33,453 common shares were issued under the Corporation's stock purchase and ownership incentive plan for total cash considerations of $76 and $235.

During the quarter and nine-month period ended December 31, 2010, the Corporation issued 15,285 and 205,462 common shares respectively, at weighted-average prices of $5.55 and $4.87 for total cash considerations of $84 and $1,001. This includes 157,221 common shares for the nine-month period (all in the first semester) which were issued following the exercise of stock options for a total cash consideration of $747. The remainder of 15,285 and 48,241 common shares were issued under the Corporation's stock purchase and ownership incentive plan for total cash considerations of $84 and $254.

Normal course issuer bid

In fiscal 2010, on November 25, 2009, the Corporation launched a normal course issuer bid ("NCIB") under which the Corporation could repurchase up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding shares. The NCIB terminated on November 24, 2010.

During the quarter and nine-month period ended December 31, 2010, the Company repurchased 12,600 and 617,700 common shares respectively, at average prices of $5.82 and $5.78 for total cash considerations of $72 and $3,570 under the NCIB. The excess ($30 and $1,591) of the cost of the common shares repurchased over their average book value ($42 and $1,979) was accounted for as a reduction of retained earnings.

A. Stock option plan

During the second quarter ended September 30, 2011, the aggregate number of shares available for future issuance under the stock option plan has been replenished, due to the limited number of common shares remaining under this plan and following the approval by the shareholders of the Corporation at the last Annual and Special Meeting of shareholders.

The number of common shares reserved for issuance represents 2,808,257 of which 2,573,257 shares had not been granted yet at December 31, 2011.

During the quarters and nine-month periods ended December 31, the number of stock options varied as follows:

	Quarter ended December 31, 2011		Quarter ended December 31, 2010	
	Weighted-average exercise price	Number of stock options	Weighted-average exercise price	Number of stock options
Balance at beginning of quarter	$6.45	1,434,677	$5.91	1,481,000
Granted	-	-	-	-
Exercised	-	-	-	-
Cancelled / forfeited	-	-	-	-
Balance at end of quarter	$6.45	1,434,677	$5.91	1,481,000

	Nine months ended December 31, 2011		Nine months ended December 31, 2010	
	Weighted-average exercise price	Number of stock options	Weighted-average exercise price	Number of stock options
Balance at beginning of period	$6.00	1,393,000	$5.83	1,555,221
Granted	7.68	242,000	5.94	138,000
Exercised	4.76	(200,323)	4.75	(157,221)
Cancelled / forfeited	-	-	7.19	(55,000)
Balance at end of period	$6.45	1,434,677	$5.91	1,481,000

For the quarter and nine-month period ended December 31, 2011, the stock option expense amounted to $118 and $301 respectively ($24 and $170 in 2010).

B. Stock purchase and ownership incentive plan

During the quarter and nine-month period ended December 31, 2011, 12,135 and 33,453 common shares were issued respectively (15,285 and 48,241 in 2010) and 5,004 and 13,686 common shares were attributed to the participating employees (6,132 and 19,176 in 2010), under the stock purchase and ownership incentive plan. For the quarter and nine-month period ended December 31, 2011, the expense related to the attributed common shares amounted to $35 and $106 respectively ($37 and $112 in 2010).

During the second quarter ended September 30, 2011, the aggregate number of shares available for future issuance under the stock purchase and ownership incentive plan has been replenished, due to the limited number of common shares remaining under this plan and following the approval by the shareholders of the Corporation at the last Annual and Special Meeting of shareholders.

The number of common shares reserved for issuance represents 340,000 of which 320,217 had not been issued yet under this plan at December 31, 2011.

C. Stock appreciation right (SAR) plan

At December 31, 2011, on a cumulative basis, 130,500 SARs were still outstanding (143,000 at December 31, 2010) at a weighted-average granted value of $6.32 ($6.21 at December 31, 2010) which expire on various dates from fiscal 2013 to 2016.

SAR reversals of expense amounted to $84 this quarter ($30 last year) and $271 for the nine-month period ended December 31, 2011 (expense of $83 last year).

During the quarter and nine-month period ended December 31, 2011, no SARs were granted or cancelled (none granted or cancelled last year) and 12,500 SARs were exercised, all in the second quarter (7,500 exercised in 2010).

The SAR plan was effective until August 2010 and has since been replaced by the deferred share unit plan (DSU) approved in May 2011 (see below). Outstanding SARs issued prior to that date are still in effect.

D. Deferred share unit plan

During the nine-month period ended December 31, 2011, the Corporation issued 37,718 DSUs (all in the first semester). DSU reversal of expense amounted to $5 for this quarter and represented an expense of $211 for the nine-month period ended December 31, 2011.

Note 13. Accumulated other comprehensive income (loss)

Changes in accumulated other comprehensive income (loss) are as follows:

	Exchange differences on translation of foreign operations	Cash flow hedges	Hedge of net investments in U.S. operations	Total
Balance at September 30, 2011	$ 6,279	$ 778	$ (3,375)	$ 3,682
Other comprehensive income (loss)	(4,331)	2,578	1,614	(139)
Balance at December 31, 2011	$ 1,948	$ 3,356	$ (1,761)	$ 3,543
Balance at March 31, 2011	$ (3,573)	$ 12,930	$ 590	$ 9,947
Other comprehensive income (loss)	5,521	(9,574)	(2,351)	(6,404)
Balance at December 31, 2011	$ 1,948	$ 3,356	$ (1,761)	$ 3,543

	Exchange differences on translation of foreign operations	Cash flow hedges	Hedge of net investments in U.S. operations	Total
Balance at September 30, 2010	$ 1,205	$ 8,765	$ -	$ 9,970
Other comprehensive income (loss)	(2,654)	2,627	-	(27)
Balance at December 31, 2010	$ (1,449)	$ 11,392	$ -	$ 9,943
Balance at April 1, 2010	$ -	$ 11,198	$ -	$ 11,198
Other comprehensive income (loss)	(1,449)	194	-	(1,255)
Balance at December 31, 2010	$ (1,449)	$ 11,392	$ -	$ 9,943

Note 14. Net change in non-cash items related to operations

For the quarters and nine-month periods ended December 31, the net change in non-cash items related to operations is detailed as follows:

	Quarters ended December 31		Nine months ended December 31	
	2011	2010	2011	2010
Accounts receivable	$ 2,298	$ 8,489	$ 15,359	$ 6,764
Income tax receivable	-	315	716	(425)
Inventories	(5,893)	(498)	(8,812)	7,974
Other current assets	(1,672)	(2,142)	(2,000)	(1,265)
Accounts payable and accrued liabilities and, other liabilities	2,479	1,867	(1,807)	(4,196)
Accounts payable – other	322	(1,129)	(2,759)	(533)
Provisions	(432)	(459)	(62)	(2,102)
Progress billings	1,036	(2,154)	(6,025)	(11,132)
Income tax payable	(956)	312	880	624
Effect of changes in exchange rate[1]	(932)	(339)	1,989	(792)
	$ (3,750)	$ 4,262	$ (2,521)	$ (5,083)

(1) Reflects the total impact of changes in exchange rate during the related period on non-cash items listed above for the Corporation's U.S. subsidiaries.

Note 15. Commitments

The Corporation has released purchase orders relating to new machinery and equipment which have not been delivered yet to the Corporation's facilities. These outstanding purchase orders at December 31, 2011 amounted to $5,051 ($3,938 at March 31, 2011) for which an amount of $445 ($223 at March 31, 2011) in deposits on machinery and equipment were made and are included in other current assets.

Note 16. Segment information

Based on the nature of the Corporation's markets (customers, manufacturing techniques and regulatory requirements), there are two main operating segments: Aerospace and Industrial. The Aerospace segment includes the design, development, manufacture, repair and overhaul and sale of systems and components for military and civil aviation, while the Industrial segment represents essentially the manufacture and sale of gas turbine components and other high precision machined products for the heavy equipment and wind energy industries.

The accounting policies used to account for the operating segments are the same as those described in the summary of significant accounting policies. The Corporation accounts for intersegment and related-party sales and transfers, if any, at the exchange amount which represents the amount of consideration established and agreed to by the parties.

The Landing Gear and Aerostructure cash generating units (CGUs) have been aggregated to form the Aerospace reporting segment. For the purpose of allocating resources and assessing performance, management monitors the results of its operating units in relation to the results of the reporting segment to which they pertain. The Corporation evaluates the performance of its operating segments based on operating income before financial expenses and income tax expense. Financial expenses and income tax expense are managed on a Corporation basis.

	2011			2010		
Quarters ended December 31	Aerospace	Industrial	Total	Aerospace	Industrial	Total
Sales	$ 83,645	$ 9,767	$ 93,412	$ 79,463	$ 6,380	$ 85,843
Results						
Operating income	8,241	2,540	10,781	7,618	1,093	8,711
Financial expenses (unallocated)			1,629			1,420
Income before income tax expense and restructuring charges			9,152			7,291
Assets	452,277	31,699	483,976	438,565	22,551	461,116
Liabilities	239,437	8,799	248,236	240,074	3,907	243,981
Other segment information:						
Additions to property, plant and equipment	7,787	273	8,060	4,225	506	4,731
Increase of finite-life intangible assets	1,550	-	1,550	2,393	-	2,393
Amortization expense	5,569	555	6,124	5,285	689	5,974

Geographic information

	2011			2010		
Quarters ended December 31	Canada	U.S.	Total	Canada	U.S.	Total
Sales	$ 57,763	$ 35,649	$ 93,412	$ 54,135	$ 31,708	$ 85,843
Property, plant and equipment, net	90,019	63,697	153,716	93,854	54,881	148,735
Finite-life intangible assets, net	21,728	3,020	24,748	13,374	3,879	17,253
Goodwill	15,093	21,911	37,004	15,093	22,196	37,289
Export sales[(1)]	$ 35,299			$ 34,486		

During both quarters ended December 31, 2011 and 2010, 70% of sales were made to U.S. customers.

(1) Export sales are attributed to countries based on customer location.

Note 16. Segment information (continued)

Nine months ended December 31	2011 Aerospace	2011 Industrial	2011 Total	2010 Aerospace	2010 Industrial	2010 Total
Sales	$ 245,930	$ 25,357	$ 271,287	$ 232,472	$ 19,106	$ 251,578
Results						
Operating income	21,492	6,011	27,503	17,090	2,677	19,767
Financial expenses (unallocated)			4,574			3,898
Income before income tax expense and restructuring charges			22,929			15,869
Assets	452,277	31,699	483,976	438,565	22,551	461,116
Liabilities	239,437	8,799	248,236	240,074	3,907	243,981
Other segment information:						
Additions to property, plant and equipment	14,857	2,234	17,091	12,863	961	13,824
Increase of finite-life intangible assets	7,621	95	7,716	6,122	-	6,122
Amortization expense	16,232	1,696	17,928	16,198	1,986	18,184

Geographic information

Nine months ended December 31	2011 Canada	2011 U.S.	2011 Total	2010 Canada	2010 U.S.	2010 Total
Sales	$ 167,552	$ 103,735	$ 271,287	$ 159,172	$ 92,406	$ 251,578
Property, plant and equipment, net	90,019	63,697	153,716	93,854	54,881	148,735
Finite-life intangible assets, net	21,728	3,020	24,748	13,374	3,879	17,253
Goodwill	15,093	21,911	37,004	15,093	22,196	37,289
Export sales[1]	$ 99,519			$ 94,142		

During the nine-months ended December 31, 2011 and 2010, 70% and 68% of sales respectively, were made to U.S. customers.

(1) Export sales are attributed to countries based on customer location.

Note 17. Conversion to International Financial Reporting Standards

The Canadian Accounting Standards Board has mandated the adoption of IFRS effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 for Canadian publicly accountable profit-oriented enterprises.

Consequently, on April 1, 2011, the Corporation adopted IFRS as the basis of preparation and presentation of its consolidated financial statements. The Corporation has thus prepared its consolidated financial statements for the quarter and nine-month period ended December 31, 2011 in conformity with IFRS. The consolidated financial statements of the current fiscal year ending March 31, 2012 (and for periods ending during such current fiscal year) have been and will be prepared in accordance with IFRS. The consolidated financial statements of the fiscal year ended March 31, 2011, the quarter and nine-month period ended December 31, 2010, as well as the opening balance sheet as at April 1, 2010 (transition date), have been restated to conform to IFRS.

Prior to current fiscal year 2012, the consolidated financial statements were prepared and presented on the basis of generally accepted accounting principles then in effect in Canada ("Previous GAAP").

Reconciliations of Previous GAAP to IFRS

IFRS 1 requires an entity to reconcile on a consolidated basis shareholder's equity, net income, comprehensive income and cash flows for prior periods. The impact of converting to IFRS on the Corporation's statements of cash flows compared with its Previous GAAP statements of cash flows is directly related to the impacts on the consolidated statements of income, consolidated statements of comprehensive income and the consolidated balance sheets as described below. The line items of the consolidated statements of cash flows most affected by the conversion to IFRS are: Net income, Amortization expense, Deferred income taxes, Interest accretion expense and Repayment of long-term debt.

The following represents the reconciliations from Previous GAAP to IFRS for the respective periods noted for the shareholders' equity, net income and comprehensive income:

17.1 Reconciliation of shareholders' equity as at December 31, 2010:

	Note		
Shareholders' equity under Previous GAAP as at December 31, 2010			224,348
Adjustments:			
On shareholders' equity as of April 1, 2010			(6,029)
On net income for the nine-month period ended December 31, 2010, which have an impact on shareholders' equity as at December 31, 2010	17.3	334	
• Stock-based compensation expense included in the consolidated statements of income	A4	(111)	223
Adjustments to other comprehensive income for the nine-month period ended December 31, 2010 which have an impact on shareholders' equity as at December 31, 2010			
• Pension plans - Actuarial loss	17.3		(1,410)
• Other	17.3		4
Total adjustments			(7,212)
Shareholders' equity under IFRS as at December 31, 2010			217,136

17.2 Reconciliation of net income and comprehensive income for the quarter ended December 31, 2010:

	Reference	Previous GAAP	Adjustments	IFRS
Sales		85,843	-	85,843
Cost of sales[1]	A1, A2, A3	70,798	(226)	70,572
Gross profit		15,045	226	15,271
Selling and administrative expenses	A4	6,586	(26)	6,560
Operating income		8,459	252	8,711
Financial expenses	A1, A2	1,300	120	1,420
Income before income tax expense		7,159	132	7,291
Income tax expense	A1, A2, A3	2,095	31	2,126
Net income		5,064	101	5,165
Other comprehensive income (loss), net of income taxes:		(28)	1	(27)
Pension plans - Actuarial loss	A3	-	(93)	(93)
Total – Other comprehensive income (loss)		(28)	(92)	(120)
Comprehensive income (loss)		5,036	9	5,045

(1) Including amortization of $5,745 under Previous GAAP and of $5,974 under IFRS.

17.3 Reconciliation of net income and comprehensive income for the nine-month period ended December 31, 2010:

	Reference	Previous GAAP	Adjustments	IFRS
Sales		251,578	-	251,578
Cost of sales[1]	A1, A2, A3	214,060	(679)	213,381
Gross profit		37,518	679	38,197
Selling and administrative expenses	A4	18,542	(112)	18,430
Operating income		18,976	791	19,767
Financial expenses	A1, A2	3,533	365	3,898
Income before income tax expense and restructuring charges		15,443	426	15,869
Restructuring charges		637	-	637
Income before income tax expense		14,806	426	15,232
Income tax expense	A1, A2, A3	4,003	92	4,095
Net income		10,803	334	11,137
Other comprehensive income (loss), net of income taxes:		(1,259)	4	(1,255)
Pension plans - Actuarial loss	A3	-	(1,410)	(1,410)
Total – Other comprehensive income (loss)		(1,259)	(1,406)	(2,665)
Comprehensive income (loss)		9,544	(1,072)	8,472

(1) Including amortization of $17,489 under Previous GAAP and of $18,184 under IFRS.

Following are explanations of Previous GAAP – IFRS adjustments in relation to the above reconciliations (Reference):

A. Exemptions ("E") applied

IFRS 1-*First-time Adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from the general requirement to apply IFRS, effective for the April 1, 2010 consolidated opening balance sheet. The Corporation has applied the following exemptions:

E1. IFRS 3-*Business Combinations* is applied to acquisitions of subsidiaries that occurred after March 31, 2004. Accordingly, the Corporation has reviewed certain business acquisition purchase price determinations and allocations. The effect is a decrease in the goodwill and shareholders' equity, at transition date.

E2. The Corporation has elected to recognize all unamortized cumulative actuarial losses on pensions and other retirement benefits. The effect is an increase in other liabilities and a decrease in shareholders' equity, at transition date.

E3. As of April 1, 2010, the Corporation has elected to transfer the exchange differences on translation of foreign operations of $15,816 from accumulated other comprehensive income to retained earnings. This has no impact on shareholders' equity at that date.

B. Adjustments ("A") resulting from the transition from Previous GAAP to IFRS

A1. Leases

Under Previous GAAP, capital and operating leases were based on quantitative tests for lease classification. IFRS requires qualitative and quantitative assessments of lease classification and, as a result, certain leases for machinery and equipment accounted for as operating leases under Previous GAAP are now accounted for as finance leases under IFRS.

A2. Provisions

The consolidated balance sheet includes provisions representing estimated amounts that the Corporation expects to pay in the future. Under Previous GAAP, these amounts were not discounted to account for the time period in which these obligations will be settled. As required by IAS 37-*Provisions, Contingent Liabilities and Contingent Assets,* certain provision amounts have been discounted. The effect on shareholders' equity at December 31, 2010 is not significant.

A3. Pensions and other retirement benefits

To conform to IAS 19-*Employee Benefits*, the Corporation:

- adopted the projected unit credit method to determine the actuarial value of accrued benefit obligations. Under Previous GAAP, the Corporation used accrued benefit methods. The change of method has no significant effect on shareholders' equity.
- wrote-off unamortized vested past-service costs and transitional obligation. The change results in an increase in other liabilities and a decrease in shareholders' equity.

Under Previous GAAP, actuarial gains and losses were amortized through the consolidated statement of income using a corridor approach. Under IFRS, the Corporation has elected to recognize all actuarial gains and losses in other comprehensive income as incurred. As a result of this election, variations arising from the effect of applying IFRIC 14-*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* are recorded in other comprehensive income in the period in which they occur. IFRIC 14 limits the measurement of defined benefit assets and may also give rise to a liability.

A4. Stock-based compensation

Under Previous GAAP, the Corporation amortized the cost of granted stock options using the straight-line method. In order to conform to IFRS 2–*Share-based payment*, the Corporation adopted the graded method to amortize the cost of granted stock options. The change of method results in an increase in contributed surplus and a corresponding decrease in retained earnings. This has no impact on shareholders' equity.

C. Reclassifications resulting from the transition from Previous GAAP to IFRS

A5. Progress billings

Under Previous GAAP, progress billings received from customers were deducted from related inventories. As required by IFRS, progress billings of $33,365 at March 31, 2011, are classified as short-term and long-term liabilities.

A6. Provisions

IFRS requires that provisions be presented separately in the consolidated balance sheet. Accordingly, certain provisions classified under accounts payable and accrued liabilities and other liabilities under Previous GAAP, are presented separately.

A7. Derivative financial instruments – assets and liabilities

IFRS require that derivative financial instruments be presented separately in the consolidated balance sheet.

A8. Deferred income taxes

Under Previous GAAP, "future income taxes" are referred to as "deferred income taxes" under IFRS. Under Previous GAAP, future income taxes were classified as current or non-current based on the classification of assets and liabilities to which future income tax assets and liabilities were related. As required by IFRS, all deferred income tax assets and liabilities are classified as non-current.

Note 18. Reclassification

Comparative figures for the consolidated financial statements as at December 31, 2010 and March 31, 2011 have been reclassified to conform to the December 31, 2011 presentation.

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 April 1, 2011 and December 31, 2011. It also compares the operating results and cash flows for the quarter and nine-month period ended December 31, 2011 to those for the same periods in the previous year.

This MD&A should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements for the quarter ended June 30, 2011, six months ended September 30, 2011 and nine months ended December 31, 2011 and the audited consolidated financial statements and MD&A for the year ended March 31, 2011, all of which are available on the Corporation's website at www.herouxdevtek.com. This MD&A is based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), using the Canadian dollar as the reporting currency. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Effective April 1, 2011, the Corporation adopted IFRS as the Corporation's basis of financial reporting, using April 1, 2010 as the transition date. The third quarter ended December 31, 2011 unaudited interim condensed consolidated financial statements have been prepared in accordance with the International Accounting Standard 34, Interim Financial Reporting, and the requirements of the International Financial Reporting Standard 1, first-time Adoption of International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB"). Except where otherwise noted, all prior period comparative figures have been restated to conform to IFRS.

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

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

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

Non-IFRS Measures

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

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

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

The Corporation's EBITDA is calculated as follows:

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

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

Forward-Looking Statements

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

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

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

Overview

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

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

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

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

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

RESULTS OF OPERATIONS

Foreign Exchange

The Corporation is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its foreign operations and from transactions denominated mainly in US dollars. Average rates are used to translate sales (but exclusive of forward foreign exchange contracts) and expenses for the years mentioned, while closing rates translate monetary assets and liabilities denominated in foreign currencies and assets and liabilities of foreign operations.

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

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

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

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

At December 31, 2011, the Corporation had also entered into forward foreign exchange contracts to sell US$4.7 million at a weighted-average rate of 1.2262 all maturing in fiscal 2014, to cover foreign exchange risks (Canadian dollar over U.S. dollar) related to certain embedded derivatives.

Consolidated Sales

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

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

- A $22.7 million or 9.0% increase in sales, mainly as a result of increased production rates in the commercial markets of the Aerospace segment and higher customer demand in the Industrial segment.
- A $4.4 million or 1.7% favourable impact as a result of having a full nine-month period this year at Landing Gear USA (acquisition of Eagle Tool & Machine Co. and of its subsidiary, All Tool Inc., closed on April 28, 2010 in the last fiscal year).
- A partial offset of $7.4 million or 2.9%, caused by the unfavourable currency impact resulting from a stronger Canadian dollar, when compared to the US currency.

The Corporation's sales by segment were as follows:

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

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

Aerospace Segment

Sales for the Aerospace segment were as follows:

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

This fiscal year, when compared to last year, sales of the Landing Gear product line increased by $3.7 million or 6.6% to $59.0 million this quarter and by $7.4 million or 4.5% to $170.6 million at year-to-date. This is the result of increased production rates on business jet and also large commercial programs, mainly the B-777 and A-320, and from higher military aftermarket customer requirements. This increase was partially offset by lower customer demand in regional jet and certain commercial helicopter markets and by the negative US/CAD currency impact on this product line's U.S. denominated sales. Year-to-date sales also include a $4.4 million or 2.7% favourable impact, as a result of having a full nine-month period this year in Landing Gear USA.

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

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

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

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

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

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

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

Industrial Segment

Sales for the Industrial segment were as follows:

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

For the third quarter and for the nine-month period ended December 31, 2011, Industrial sales were higher than last year, boosted by higher demand in the Gas Turbine sector, and by Other Industrial sales for heavy equipment in the mining industry.

Sales by Destination

The Corporation's sales by destination were as follows:

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

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

Gross Profit

This fiscal year, when compared to last year, consolidated gross profit as a percentage of sales increased by 0.5% to 18.3% this quarter, and by 1.9% to 17.1% for the nine-month period. This mainly resulted from the Corporation's overall increase in sales, which allowed for an increased absorption of manufacturing overhead costs, a better product mix in Aerospace segment combined with certain manufacturing improvements. This fiscal year, the negative impact on gross profit for start-up costs incurred for the establishment of the new Mexico facility was $0.3 million, representing 0.3% of sales this quarter and $0.5 million or 0.2% of sales at year-to-date.

The US/CAD currency fluctuations negatively impacted the Corporation's gross profit in dollars this quarter by $0.3 million or 0.2%, and at year-to-date by $2.2 million or 0.4%, when expressed as a percentage of sales. Besides the natural hedging from the purchase of raw material in US dollars, the Corporation mitigates the currency impact by the use of forward foreign exchange contracts.

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

In the Industrial segment, the gross profit margins in dollars and as a percentage of sales improved significantly, when compared to last year. This is the result of the increase in sales and higher absorption of manufacturing overhead costs. It also reflects the favourable impact from the continuous manufacturing improvement initiatives in this segment.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

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

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

Operating Income

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

Aerospace Segment

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

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

Industrial Segment

This quarter, operating income increased to $2.5 million or 26.0% of sales, compared to $1.1 million or 17.1% of sales last year. At year-to-date, operating income stood at $6.0 million or 23.7% of sales, compared to $2.7 million or 14.0% of sales last year, an increase of $3.3 million or 9.7% of sales. The higher operating income this quarter and at year-to-date reflects the increased gross margin resulting from higher sales, the better absorption of manufacturing overhead costs and the impact from the continuous manufacturing improvements already explained above.

Financial Expenses

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

Restructuring Charges

Last year, on May 13, 2010, the Corporation launched an initiative to optimize and consolidate production capacity in its Aerospace segment, while further enhancing productivity at its Québec-based facilities. Consequently, the Corporation's Rivière-des-Prairies, Québec, facility was closed in September 2010 and its production was transferred to the Corporation's other facilities in the Greater Montreal area. Last year, during the first six-month period ended September 30, 2010, the Corporation recorded restructuring charges of $0.6 million ($0.4 million, net of income taxes). At December 31, 2011 and March 31, 2011, the building related to this facility was classified in Other assets as an asset held for sale in the Corporation's Consolidated Balance Sheets.

Income Tax Expense

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

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

For the nine-month period ended December 31, 2010, the Corporation's effective income tax rate was 26.9% compared to the Corporation's Canadian blended statutory income tax rate of 28.7%. The difference can be explained by the favourable impact on the Corporation's effective income tax rate coming from permanent differences ($0.3 million) and by a favourable tax adjustment following the conclusion of a prior year tax audit ($0.2 million) somewhat offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries ($0.2 million).

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

Net Income

For the third quarter and the nine-month period ended December 31, 2011, the Corporation realized a net income of $6.9 million or 7.4% of sales and $17.5 million or 6.5% of sales respectively, compared to a net income of $5.2 million or 6.0% of sales and $11.1 million or 4.4% of sales for the same periods last year, reflecting the increased operating income in both segments of the Corporation. Last year's net income is shown net of restructuring charges incurred for the closing of a facility, as already explained above. For this quarter and at year-to-date, net income includes $0.3 million and $0.7 million of costs, net of taxes, incurred in conjunction with the start-up of the new Mexico facility. This quarter, the Corporation began manufacturing the first production parts in this new facility and anticipates generating revenues in the fourth quarter of the current fiscal year.

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

Basic earnings per share figures are based on year-to-date weighted-averages of 30,335,097 common shares outstanding for the nine-month period ended December 31, 2011, and 30,104,849 common shares for the same period last year, while the diluted earnings per share figures are based on year-to-date weighted-averages of 30,659,935 for the nine-month period this year and 30,332,283 for the same period last year. On a year-to-date basis, the increase in the number of outstanding common shares is essentially due to the issuance of 200,323 common shares under the Corporation’s stock option plan and 33,453 common shares under the Corporation’s stock purchase and ownership incentive plan (“Stock Purchase Plan”)**.**

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

Other accumulated comprehensive income (“OACI”) and comprehensive income

For the nine-month period ended December 31, 2011, the appreciation of the US currency versus the Canadian currency had a significant positive impact on the Corporation’s gain arising from translating the financial statements of foreign operations, while it had a significant negative impact on the net losses on the valuation of the Corporation’s derivative financial statements measured at fair value, and on the net losses on hedge of net investments in U.S. operations. In addition, the lower than expected return on plan assets of the Corporation’s defined benefit pension plans negatively impacted the net actuarial losses. These variations significantly impacted the Corporation’s OACI and the related comprehensive income for that same period.

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility and Cash and Cash Equivalents

In general terms, the Corporation has a healthy financial situation and is well positioned to face its financing needs. In March 2011, the Corporation renewed and increased its Senior Secured Syndicated Revolving Credit Facilities through one Senior Secured Syndicated Revolving Credit Facility (“Credit Facility”) with a syndicate of five Canadian Banks and their US affiliates or branches, and a Canadian branch of a U.S. Bank. This Credit Facility allows the Corporation and its subsidiaries to borrow up to $150 million, either in Canadian or US currency equivalent and will mature in March 2016. It also includes an accordion feature to increase the Credit Facility up to $225 million, during the term of the Credit Agreement, subject to approval by the lenders. To December 31, 2011, only CAD $60.5 million (US$59.5 million) had been drawn against this Credit Facility, including US$16.5 million in April 2010 to finance the acquisition of Landing Gear USA. Considering the Corporation’s cash and cash equivalents position, its available Credit facility and level of expected capital investments and results, the Corporation’s management does not expect any significant liquidity risk in the foreseeable future. At December 31, 2011, the Corporation had cash and cash equivalents of $49.4 million, compared to $32.9 million as at March 31, 2011, of which $33.0 million ($25.1 million at March 31, 2011) had been invested in short-term deposits with its syndicated banks.

Operating Activities

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

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

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

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

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

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

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

Investing Activities

The Corporation's investing activities were as follows:

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

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

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

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

Financing Activities

The Corporation's financing activities were as follows:

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

For the quarter and nine-month period ended December 31, 2011, the increase in long-term debt reflects new governmental authorities loans received to support the Corporation's development costs for Aerospace programs. Last year's increase in long-term debt represents the drawing of US$16.5 million from the Corporation's Credit Facility to finance the acquisition of Landing Gear USA and new governmental authorities loans received.

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

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

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

At December 31, 2011, the Corporation was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants through the next fiscal year.

Normal Course Issuer Bid

In fiscal 2010, on November 25, 2009, the Corporation launched a new NCIB, with the approval of the Toronto Stock Exchange (TSX). Under the terms of the NCIB, the Corporation could acquire up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding common shares of the Corporation as of November 19, 2009. The NCIB terminated on November 24, 2010. During that period, the Corporation repurchased 711,100 common shares at an average net price of $5.68 per share for a total cash consideration of $4.0 million.

All common shares purchased by the Corporation through the NCIB were made on the open market through the facilities of the TSX or other Canadian marketplaces in accordance with the policies of the TSX, and were surrendered by the Corporation to its transfer agent for cancellation.

Capital Stock, Stock Option and Stock Purchase Plans

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

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

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

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

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

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

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

At December 31, 2011, 2,573,257 common shares had not been granted yet under the Stock Option Plan and 320,217 common shares had not been issued yet under the Stock Purchase Plan.

Stock Appreciation Right and Deferred Share Unit Plans

Until August 2010, the Corporation had a Stock Appreciation Right (SAR) plan where rights were issued to its non-employee directors. Although the SAR plan has since been replaced by a Deferred Share Unit ("DSU") plan effectively approved in May 2011, outstanding SARs issued prior to August 2010 are still in effect. At March 31, 2011 and at December 31, 2011, 143,000 and 130,500 SARs were still outstanding at weighted-average granted prices of $6.21 and $6.32 respectively, which expire on various dates from fiscal 2013 to 2016. For the nine-month period ended December 31, 2011, 12,500 SARs were exercised (all in the second quarter) at an exercise price of $5.00, since they were about to mature.

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

The DSU enables the participants to receive compensation at the termination date, as a member of the Board of Directors, a cash amount equal to the quoted price of the Corporation's common share for each DSU. These DSUs are expensed on an earned basis and their costs are determined using a valuation model and re-measured at each reporting period. Each director can also elect, each fiscal year, to have up to 50% of his director's annual retainer fees converted into DSUs. These DSUs vest over a one-year period.

During the nine-month period ended December 31, 2011, the Corporation issued 37,718 DSUs (all in the first semester). This year, DSU reversal of expense amounted to $5,000 for this quarter and represented an expense of $221,000 for the nine-month period ended December 31, 2011 (see Note 12 to the interim condensed consolidated financial statements).

Consolidated Balance Sheets

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

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

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

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

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

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

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

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

Government assistance

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

This government assistance includes mainly the investment tax and other credits and the discounted portion of the governmental authorities loans.

Derivatives, Off-Balance-Sheet Items and Commitments

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

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

At December 31, 2011, the Corporation also entered into forward foreign exchange contracts to sell US$4.7 million at a weighted-average rate (Canadian dollar over U.S. dollar) of 1.2262 ($US7.7 million at a weighted-average rate of 1.2343 at March 31, 2011 and $US8.5 million at a weighted-average rate of 1.2359 at December 31, 2010). These contracts cover foreign exchange risks related to certain embedded derivatives and all mature in fiscal 2014.

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

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

Financial and Economic Situation

Gradual improvements in the global economy had a positive effect on most of the Corporation's strategic markets in the first nine months of its 2012 fiscal year. In the large commercial aircraft market, manufacturers have announced several production rate increases for leading programs stretching out to calendar 2014, while most of the Corporation's key industrial markets are gathering further momentum. Meanwhile, the military aerospace market has stabilized, as governments address their deficits. However, as the economic recovery remains fragile, Héroux-Devtek continues to carefully monitor its strategy and risk management.

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

Furthermore, the rapid fluctuations in the value of the Canadian dollar, when compared to the US currency, will put additional pressure on upcoming results. As already mentioned, and as highlighted in the Outlook section, Management maintains its focus on operational efficiencies through continued lean manufacturing initiatives, cost reduction initiatives and forward foreign exchange contracts to mitigate the negative currency fluctuations.

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

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

FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9 Financial Instruments

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

IFRS 13 Fair Value Measurement

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

IAS 1 Financial Statement Presentation

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

IAS 19 Employee Benefits

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

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

INTERNAL CONTROLS AND PROCEDURES

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

No changes were made to our internal controls over financial reporting during the quarter and the nine-month period ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments with a variety of risk factors and uncertainties that could have a material adverse effect on the Corporation's business, financial condition and results of operations. Such risks and uncertainties include, but are not limited to, those mentioned below, which are more fully described in the Corporation's MD&A for the year ended March 31, 2011.

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

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(1) Exclusive of forward foreign exchange contracts.

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

OUTLOOK

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

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

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

1 Source : IATA Industry Financial Forecast December 2011

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

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

The military aerospace market has stabilized as governments are addressing their deficits. Still, the Corporation believes its diversified military portfolio, balanced between new component manufacturing and aftermarket products and services, should lessen its exposure to defense budget cutbacks. As to the JSF program, the Corporation still anticipates producing a higher number of shipsets in fiscal 2012, compared to fiscal 2011 resulting from the ramp-up of two variants, combined with a higher share of total production.

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

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

The integration of Landing Gear USA is mostly completed and the Corporation is in the process of ramping up production at its new facility in Mexico. This progress, combined with a healthy balance sheet and funds available under its Credit Facility, places Héroux-Devtek in a position to consider other strategic acquisitions that would complement its product portfolio and its technologies.

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

Assuming the Canadian dollar remains at parity versus the US currency and considering forward foreign exchange contracts, the Corporation anticipates an internal sales growth of approximately 5% for the fiscal year ending March 31, 2012, compared to last year. As many important programs will ramp up more significantly beyond this fiscal year, the Corporation believes growth should accelerate beyond the current fiscal year. Management is confident of achieving its long-term goal to grow internally and through strategic alliances at 10% per year, on average, assuming a stable currency environment.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee and by the Board of Directors on February 2, 2012. Updated information on the Corporation can be found on the SEDAR website, at www.sedar.com.

---

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

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