



GROWING **BY** DESIGN

HÉROUX-DEVTEK — QUARTERLY REPORT
SECOND QUARTER ENDED SEPTEMBER 30, 2012



MESSAGE TO SHAREHOLDERS

Second quarter ended September 30, 2012

On behalf of the Board of Directors, I am pleased to present the financial results for Héroux-Devtek's second quarter of fiscal 2013 ended September 30, 2012.

These results reflect the sale of substantially all of the Corporation's Aerostructure and Industrial Products operations (the "sale transaction") on August 31, 2012 to Precision Castparts Corp. for proceeds of \$232.0 million, net of related taxes and expenses. Assets sold by Héroux-Devtek included the Aerostructure manufacturing sites in Dorval (Quebec), Querétaro (Mexico) and Arlington (Texas), as well as the Cincinnati (Ohio) Industrial Products manufacturing sites. Héroux-Devtek retained all of its Landing Gear product line and the Magtron operations. As a result of the sale transaction, the Corporation recorded a gain on the disposal of discontinued operations of \$107.1 million, net of related taxes, in the quarter ended September 30, 2012.

Reflecting proceeds from the sale transaction, Héroux-Devtek had cash and cash equivalents of \$291.2 million, as at September 30, 2012. Considering the amount drawn against the Corporation's Credit Facility, as well as income tax and expenses payable in regards to the sale transaction, Héroux-Devtek's net cash position stood at \$211.1 million as at September 30, 2012.

Given this cash position, the Board of Directors of Héroux-Devtek approved a special cash distribution to shareholders of \$5.00 per common share, or \$160.0 million based on up to 32 million common shares, to be paid on December 19, 2012 to shareholders of record on November 20, 2012. Subject to shareholders' approval, the distribution would consist of a partial reduction and repayment of the Corporation's issued capital of \$2.70 per share (\$86.4 million), and of a dividend of \$2.30 per share (\$73.6 million). If the capital reduction is not approved by the shareholders, the special distribution will consist of a special dividend of \$5.00 per share.

The Board determined that the special distribution represents an appropriate use of Héroux-Devtek's financial resources following the completion of the sale transaction, as it provides shareholders with an adequate return on their investment, while allowing the Corporation to maintain a solid financial position. The Board decided to retain financial resources to ensure adequate funding of expected capital and other investments and potential opportunities for future growth, including strategic acquisitions. It will periodically review Héroux-Devtek's cash position and capital requirements and evaluate available alternatives to enhance shareholder value.

A Special Meeting of Shareholders will be held on December 18, 2012 to approve the proposed capital reduction and repayment. Full details of the special distribution, including a summary description of the principal Canadian federal income tax considerations applicable to shareholders, will be included in the management proxy circular that will be mailed on or about November 26, 2012.

Consolidated sales from continuing operations for the second quarter of fiscal 2013 reached \$57.7 million, up 4.0% from \$55.5 million a year earlier. Sales to the commercial aerospace market rose 15.5% to \$24.9 million driven by higher production rates for certain large commercial aircraft and business jet programs, as well as increased aftermarket sales for the Learjet 45 business jet and CL-415 amphibious aircraft programs. Sales to the military aerospace market decreased 3.3% to \$32.8 million essentially due to lower electronic enclosure and cabinet sales at Magtron. Fluctuations in the value of the Canadian dollar versus the US currency decreased second quarter sales by \$0.3 million, or 0.5%, compared with last year.

Earnings before interest, taxes, depreciation and amortization (“EBITDA”) from continuing operations were \$7.0 million, or 12.1% of sales, compared with \$7.3 million, or 13.2% of sales, last year. This variation mainly reflects certain non-recurring costs associated with the development of a new landing gear system program and lower production at Magtron that resulted in the under-absorption of manufacturing overhead costs. Operating income from continuing operations stood at \$3.9 million, or 6.7% of sales, versus \$3.9 million, or 7.1% of sales, last year.

Net income from continuing operations amounted to \$2.7 million, or \$0.09 per diluted share, up 9.8% from \$2.5 million, or \$0.08 per diluted share, a year ago. Income from discontinued operations of \$110.0 million reflects the aforementioned net gain and net income from the businesses sold up to the completion of the sale transaction. As a result, net income stood at \$112.7 million, or \$3.64 per diluted share.

For the first six months of fiscal 2013, consolidated sales from continuing operations amounted to \$121.5 million, up 4.0% from \$116.8 million a year earlier. EBITDA from continuing operations totalled \$15.2 million, or 12.5% of sales, versus \$15.8 million, or 13.5% of sales, a year earlier, due to a \$0.8 million increase in stock-based compensation expenses in the first six months of fiscal 2013. Operating income from continuing operations stood at \$8.9 million, or 7.3% of sales, compared with \$9.0 million, or 7.7% of sales, last year. Net income from continuing operations totalled \$5.7 million, or \$0.19 per diluted share, versus \$5.8 million, or \$0.19 per diluted share, in the prior year. Reflecting the net gain and net income from discontinued operations, net income for the first half of fiscal 2013 stood at \$119.0 million, or \$3.86 per diluted share.

During the quarter, Héroux-Devtek received a license from The Boeing Company to service the H-47 Chinook aircraft landing gear in nearly a dozen countries. The license makes Héroux-Devtek eligible to offer its services to fabricate replacement parts and carry out repair and overhaul services for the landing gear of all variants of the Chinook aircraft. The agreement also includes option renewal periods beyond the initial five-year period.

As at September 30, 2012, Héroux-Devtek’s funded (firm orders) backlog stood at \$378 million, versus \$385 million three months earlier, and remains well diversified.

Conditions remain favourable in the commercial aerospace market. Large commercial aircraft manufacturers are proceeding with production rate increases on certain leading programs and are forecasting higher deliveries for calendar 2012. New orders remain solid and backlogs represent approximately seven years of production at current rates. The business jet market continues to see positive signs and shipments should increase in calendar 2012, followed by sustained growth in subsequent years driven by a better economy and the introduction of several new aircraft, including three models for which Héroux-Devtek is currently developing the landing gear. The military aerospace market remains uncertain, as governments address their deficits, but the Corporation’s diversified military portfolio, balanced between new component manufacturing and aftermarket products and services, should lessen its exposure to defense budget cutbacks.

Looking ahead, Héroux-Devtek will focus on leveraging its strengths and know-how in the landing gear industry. In so doing, we will further enhance our status as a world-class organization in our major markets. The Corporation’s balance sheet will remain healthy after the special distribution, enabling us to consider other strategic acquisitions and investments that would enhance our product portfolio and provide new technology. For the current fiscal year ending March 31, 2013, we continue to anticipate an internal sales growth from continuing operations of approximately 5%, assuming the Canadian dollar remains at parity versus the U.S. currency.

Gilles Labbé
President and Chief Executive Officer
November 9, 2012



INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Second Quarter ended September 30, 2012

Héroux-Devtek Inc.

Notice of Disclosure of Non-Auditor Review of Interim Condensed Consolidated Financial Statements for the quarters ended September 30, 2012 and 2011.

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 September 30, 2012 and 2011, have been prepared in accordance with the International Accounting Standard 34, Interim Financial Reporting 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.

November 9, 2012.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(For the quarters ended September 30, 2012 and 2011)

TABLE OF CONTENTS

CONSOLIDATED BALANCE SHEETS	6
CONSOLIDATED STATEMENTS OF INCOME	7
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME.....	8
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY	10
CONSOLIDATED STATEMENTS OF CASH FLOWS.....	11
Note 1. Nature of activities and corporate information	12
Note 2. Basis of preparation	12
Note 3. Future changes in accounting policies.....	12
Note 4. Discontinued operations	13
Note 5. Government assistance.....	14
Note 6. Cost of sales, selling and administrative expenses.....	15
Note 7. Financial expenses	15
Note 8. Earnings per share.....	15
Note 9. Cash and cash equivalents	16
Note 10. Derivative financial instruments	16
Note 11. Other current assets.....	16
Note 12. Long-term debt.....	17
Note 13. Issued capital	17
Note 14. Accumulated other comprehensive income (loss).....	19
Note 15. Net change in non-cash items related to continuing operations.....	20
Note 16. Commitments	20
Note 17. Segment information	20
Note 18. Subsequent event – Special Distribution to Shareholders	21
Note 19. Reclassification	21

CONSOLIDATED BALANCE SHEETS

As at September 30, 2012 and March 31, 2012

(In thousands of Canadian dollars) (Unaudited)

	Notes	September 30, 2012	March 31, 2012
Assets	12		
Current assets			
Cash and cash equivalents	9	\$ 291,226	\$ 62,007
Accounts receivable		37,174	59,677
Income tax receivable		-	1,500
Inventories		107,979	135,323
Derivative financial instruments	10	6,922	6,471
Other current assets	11	14,908	16,492
		458,209	281,470
Property, plant and equipment, net		78,279	153,208
Finite-life intangible assets, net	5	24,105	24,514
Derivative financial instruments	10	2,012	3,236
Goodwill		19,008	36,068
Asset held for sale		611	611
Total assets		\$ 582,224	\$ 499,107
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 41,430	\$ 56,319
Accounts payable - other		8,914	3,010
Provisions		11,183	12,157
Progress billings		9,021	16,393
Income tax payable		51,592	2,381
Derivative financial instruments	10	1,126	827
Current portion of long-term debt	12	6,050	10,867
		129,316	101,954
Long-term debt	12	54,430	108,249
Provisions		5,272	4,866
Progress billings		4,744	7,512
Derivative financial instruments	10	717	2,700
Deferred income tax liabilities		10,156	17,071
Other liabilities		13,768	12,788
		218,403	255,140
Shareholders' equity			
Issued capital	13	104,584	102,202
Contributed surplus		2,491	3,059
Accumulated other comprehensive income	14	3,677	2,515
Retained earnings		253,069	136,191
		363,821	243,967
		\$ 582,224	\$ 499,107

Discontinued operations, Commitments and Subsequent event (Notes 4, 16 and 18)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

For the periods ended September 30, 2012 and 2011

(In thousands of Canadian dollars, except per share data) (Unaudited)

	Notes	Quarters ended September 30,		Six months ended September 30,	
		2012	2011	2012	2011
Continuing operations					
Sales		\$ 57,684	\$ 55,464	\$ 121,464	\$ 116,756
Cost of sales	5, 6	49,819	47,306	103,120	99,156
Gross profit		7,865	8,158	18,344	17,600
Selling and administrative expenses	6	3,997	4,239	9,463	8,600
Operating income		3,868	3,919	8,881	9,000
Financial expenses	7	947	919	1,943	1,772
Income before income tax expense from continuing operations		2,921	3,000	6,938	7,228
Income tax expense		197	519	1,189	1,460
Net income from continuing operations		2,724	2,481	5,749	5,768
Discontinued operations	4	110,000	2,331	113,258	4,841
Net income		\$ 112,724	\$ 4,812	\$ 119,007	\$ 10,609
Earnings per share for continuing operations - basic	8	\$ 0.09	\$ 0.08	\$ 0.19	\$ 0.19
Earnings per share for continuing operations - diluted	8	\$ 0.09	\$ 0.08	\$ 0.19	\$ 0.19
Earnings per share – basic	8	\$ 3.68	\$ 0.16	\$ 3.90	\$ 0.35
Earnings per share – diluted	8	\$ 3.64	\$ 0.16	\$ 3.86	\$ 0.35

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the periods ended September 30, 2012 and 2011

(In thousands of Canadian dollars) (Unaudited)

For the quarters ended September 30

	Notes	2012	2011
	14		
Other comprehensive income from continuing operations:			
Gain (loss) arising from translating the financial statements of foreign operations		\$ (1,601)	\$ 2,788
Cash flow hedges:			
Net gains (losses) on valuation of derivative financial instruments, net of income tax expense (recovery) of \$1,290 (\$2,731 in 2011)		3,574	(7,578)
Net gains on derivative financial instruments transferred to net income, net of income tax expense of \$539 (\$948 in 2011)		(1,483)	(2,587)
Net gains (losses) on hedges of net investments in U.S. operations, net of income tax expense (recovery) of \$106 (\$240 in 2011)		709	(1,697)
Defined benefit pension plans:			
Actuarial losses, net of income tax recovery of \$240 (\$717 in 2011)		(658)	(1,930)
Net change in asset limit and minimum funding requirements, net of income tax expense of \$nil (\$50 in 2011)		-	202
Other comprehensive income (loss) from continuing operations		541	(10,802)
Discontinued operations	4	982	4,136
Other comprehensive income (loss)		\$ 1,523	\$ (6,666)
Comprehensive income (loss)			
Continuing operations:			
Net income		\$ 2,724	\$ 2,481
Other comprehensive income (loss)		541	(10,802)
Comprehensive income (loss) from continuing operations		3,265	(8,321)
Discontinued operations:			
Net income		110,000	2,331
Other comprehensive income (loss)		982	4,136
Comprehensive income (loss) from discontinued operations		110,982	6,467
Comprehensive income (loss)		\$ 114,247	\$ (1,854)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the periods ended September 30, 2012 and 2011

(In thousands of Canadian dollars) (Unaudited)

For the six-month periods ended September 30

	Notes	2012	2011
	14		
Other comprehensive income from continuing operations:			
Gain (loss) arising from translating the financial statements of foreign operations		\$ (894)	\$ 2,711
Cash flow hedges:			
Net gains (losses) on valuation of derivative financial instruments, net of income tax expense (recovery) of \$937 (\$2,026 in 2011)		2,543	(5,503)
Net gains on derivative financial instruments transferred to net income, net of income tax expense of \$1,086 (\$1,977 in 2011)		(2,985)	(5,469)
Net gains (losses) on hedge of net investments in U.S. operations, net of income tax expense (recovery) of \$46 (\$263 in 2011)		317	(1,466)
Defined benefit pension plans:			
Actuarial losses, net of income tax recovery of \$775 (\$960 in 2011)		(2,129)	(2,562)
Net change in asset limit and minimum funding requirements, net of income tax expense of \$nil (\$449 in 2011)		-	1,238
Other comprehensive income (loss) from continuing operations		(3,148)	(11,051)
Discontinued operations	4	2,181	3,462
Other comprehensive income (loss)		\$ (967)	\$ (7,589)
Comprehensive income (loss)			
Continuing operations:			
Net income		\$ 5,749	\$ 5,768
Other comprehensive income (loss)		(3,148)	(11,051)
Comprehensive income (loss) from continuing operations		2,601	(5,283)
Discontinued operations:			
Net income		113,258	4,841
Other comprehensive income (loss)		2,181	3,462
Comprehensive income (loss) from discontinued operations		115,439	8,303
Comprehensive income (loss)		\$ 118,040	\$ 3,020

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the periods ended September 30, 2012 and 2011

(In thousands of Canadian dollars) (Unaudited)

For the six-month period ended September 30, 2012

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income (loss) (AOCI)	Retained earnings	Shareholders' equity
Balance as at March 31, 2012		\$102,202	\$3,059	\$2,515	\$136,191	\$243,967
Common shares:	13					
Issued under the Stock option plan		2,214	(503)	-	-	1,711
Cancelled under the Stock option plan		-	(258)	-	-	(258)
Issued under the Stock purchase and ownership incentive plan		168	-	-	-	168
Stock-based compensation expense	13	-	193	-	-	193
Net income		-	-	-	119,007	119,007
Other comprehensive income (loss)		-	-	1,162	(2,129)	(967)
Balance as at September 30, 2012		\$104,584	\$2,491	\$3,677	\$253,069	\$363,821

For the six-month period ended September 30, 2011

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income (loss) (AOCI)	Retained earnings	Shareholders' equity
Balance as at March 31, 2011		\$100,136	\$3,330	\$9,947	\$111,130	\$224,543
Common shares:	13					
Issued under the Stock option plan		1,611	(657)	-	-	954
Issued under the Stock purchase and ownership incentive plan		159	-	-	-	159
Stock-based compensation expense	13	-	183	-	-	183
Net income		-	-	-	10,609	10,609
Other comprehensive income (loss)		-	-	(6,265)	(1,324)	(7,589)
Balance as at September 30, 2011		\$101,906	\$2,856	\$3,682	\$120,415	\$228,859

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended September 30, 2012 and 2011

(In thousands of Canadian dollars) (Unaudited)

	Notes	Quarters ended September 30,		Six months ended September 30,	
		2012	2011	2012	2011
Cash and cash equivalents provided by (used for):					
Operating activities					
Net income from continuing operations		\$ 2,724	\$ 2,481	\$ 5,749	\$ 5,768
Items not requiring an outlay of cash:					
Amortization expense	6	3,104	3,381	6,344	6,796
Deferred income tax expense (recovery)		(642)	(1,089)	(720)	(1,258)
Loss (gain) on sale of property, plant and equipment		(80)	-	(97)	1
Amortization of deferred financing costs	7	110	110	220	220
Interest accretion expense and discount rate adjustments	7	698	551	1,274	1,034
Stock-based compensation expense	13	78	120	193	183
Cash flows from continuing operations		5,992	5,554	12,963	12,744
Net change in non-cash items related to continuing operations	15	(4,585)	503	(8,600)	(7,237)
Operating activities of discontinued operations		(675)	4,277	8,273	19,160
Cash flows related to operating activities		732	10,334	12,636	24,667
Investing activities					
Additions to property, plant and equipment ^{(1) (2)}		(2,972)	(3,845)	(6,443)	(8,135)
Net decrease (increase) in finite-life intangible assets ⁽²⁾		607	(3,838)	(2,501)	(5,699)
Proceeds on disposal of property, plant and equipment ⁽²⁾		88	3	92	17
Net proceeds from sale of discontinued operations	4	272,796	-	272,796	-
Investing activities of discontinued operations		(2,919)	(645)	(4,294)	(2,219)
Cash flows related to investing activities		267,600	(8,325)	259,650	(16,036)
Financing activities					
Increase in long-term debt		-	1,783	-	3,276
Repayment of long-term debt	4	(37,715)	(792)	(40,438)	(1,529)
Issuance of common shares	13	1,794	81	1,879	1,113
Financing activities of discontinued operations		(1,521)	(570)	(3,208)	(1,630)
Cash flows related to financing activities		(37,442)	502	(41,767)	1,230
Effect of changes in exchange rates on cash and cash equivalents		(2,162)	2,796	(1,300)	2,647
Change in cash and cash equivalents during the periods		228,728	5,307	229,219	12,508
Cash and cash equivalents at beginning of periods		62,498	40,111	62,007	32,910
Cash and cash equivalents at end of periods		\$ 291,226	\$ 45,418	\$ 291,226	\$ 45,418
Interest and taxes reflected in operating activities:					
Interest paid for continuing operations		\$ 663	\$ 773	\$ 1,436	\$ 1,536
Income taxes paid for continuing operations		\$ 948	\$ 239	\$ 4,718	\$ 420
Interest paid for discontinued operations		\$ 79	\$ 140	\$ 268	\$ 276
Income taxes paid for discontinued operations		\$ 1,201	\$ 130	\$ 432	\$ 1,628

(1) The additions to property, plant and equipment for the quarter and six-month period this year were \$4,012 and \$6,207 respectively (\$1,811 and \$5,054 last year). These additions shown above include the variation of unpaid additions at period end, net of those acquired through finance leases.

(2) From continuing operations.

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended September 30, 2012 and 2011
(In thousands of Canadian dollars, except share data) (Unaudited)

Note 1. Nature of activities and corporate information

Héroux-Devtek Inc. is incorporated under the laws of Québec. Its head office is 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 aircraft landing gear, hydraulic flight control actuators and fracture-critical components. It also includes the manufacture of electronic enclosures, heat exchangers and cabinets for suppliers of airborne radar, electro-optic systems and aircraft controls (see Note 4 – Discontinued operations).

Note 2. Basis of preparation

The interim condensed consolidated financial statements for the quarter ended September 30, 2012 were prepared in accordance with IAS 34, *Interim Financial Reporting*. Therefore, certain information and disclosures have been omitted or condensed. 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 most recent annual audited consolidated financial statements. Accordingly, these interim condensed consolidated financial statements for the quarter ended September 30, 2012 should be read together with the annual audited consolidated financial statements and notes thereto included in the Company's Annual Report for the fiscal year ended March 31, 2012.

These interim consolidated financial statements were approved for issue by the Board of Directors of the Corporation on November 8, 2012.

Note 3. 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. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

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. The Corporation will adopt this new standard for its fiscal year beginning on April 1, 2013 and, this new standard will have a minimal impact on the consolidated financial statements.

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. The Corporation will adopt this new standard for its fiscal year beginning on April 1, 2013 and, this new standard will have an impact on the presentation of the consolidated statement of comprehensive income, while it will have no impact on the accumulated other comprehensive income.

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 will adopt this new standard for its fiscal year beginning on April 1, 2013. The impact of this new standard, should it have been applied to the Corporation's results for the six-month period ended September 30, 2012, would have increased the pension expense by \$218 (\$159 net of income tax expense).

Note 4. Discontinued operations

On July 16, 2012, the Corporation executed a definitive agreement for the sale of substantially all of its Aerostructure and Industrial product line operations to Precision Castparts Corporation ("PCC"), a public company traded on the New York Stock Exchange ("sale transaction"). The net assets acquired by PCC include the Corporation's Dorval (Quebec), Querétaro (Mexico) and Arlington (Texas) Aerostructure product line manufacturing sites, as well as the Cincinnati (Ohio) Industrial product line manufacturing sites. Prior to the sale transaction, the Aerostructure product line was part of the Corporation's Aerospace segment, while the Industrial product line formed the Industrial segment. Therefore, all of the operations of the businesses sold are now excluded from the Corporation's segmented information. Following this sale transaction, the Corporation is now operating only in the Aerospace segment and is comprised essentially of the landing gear product line and Magtron operations.

The sale transaction was concluded on August 31, 2012 with gross sale proceeds, including post-closing adjustments expected to be finalized by the end of the current quarter, of \$298.1 million paid essentially in cash. Taking into consideration the related taxes and transaction expenses, the net proceeds amount to \$232.0 million. The gain of \$157.7 million on the sale transaction, net of the related taxes of \$50.6 million, amounted to \$107.1 million.

Concurrently to the sale transaction, the Corporation has proceeded with the \$16 million reduction of finance lease obligations and the repayment of a \$1 million governmental authorities' loan related to the businesses sold. The Corporation also proceeded with a partial repayment of US\$37.5 million (\$37.0 million) against the Syndicated Banks' Credit Facility ("Credit Facility") and repurchased two of the three interest rate swap agreements in place, representing a total notional amount of US\$30 million, for a total cost of \$1.7 million which was recorded as a transaction expense to the sale transaction.

Following the sale transaction explained above, income and expenses from discontinued operations are now reported, separately from income and expenses from continuing operations, down to the level of net income in the consolidated statements of income for the quarter and six-month period ended September 30, 2012 and the comparable periods of last year.

Net income related to the discontinued operations for the quarters and six-month periods ended September 30, are presented below:

	Quarters ended		Six months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Sales	\$ 22,634	\$ 30,538	\$ 58,081	\$ 61,119
Cost of sales	16,915	25,005	45,423	49,549
Gross profit	5,719	5,533	12,658	11,570
Selling and administrative expenses	1,254	1,813	3,207	3,848
Operating income	4,465	3,720	9,451	7,722
Financial expenses	411	583	1,047	1,173
Gain from sale of discontinued operations	157,686	-	157,686	-
Income before income tax expense	161,740	3,137	166,090	6,549
Income tax expense related to discontinued operations	1,180	806	2,272	1,708
Income tax expense related to the gain from sale of discontinued operations	50,560	-	50,560	-
Net income	\$ 110,000	\$ 2,331	\$ 113,258	\$ 4,841
Earnings per share – basic from discontinued operations	\$ 3.59	\$ 0.08	\$ 3.71	\$ 0.16
Earnings per share – diluted from discontinued operations	\$ 3.55	\$ 0.08	\$ 3.67	\$ 0.16

Comprehensive income related to the discontinued operations for the quarters and six-month periods ended September 30, are presented as follows:

	Quarters ended September 30,	
	2012	2011
Other comprehensive income:		
Gain (loss) arising from translating the financial statements of foreign operations	\$ (1,276)	\$ 7,455
Cash flow hedges:		
Net gain (losses) on valuation of derivative financial instruments, net of income tax expense (recovery) of \$nil (\$247) in 2011)	-	(684)
Net gains on derivative financial instruments transferred to net income, net of income tax expense of \$416	1,154	-
Net gain (losses) on hedges of net investments in U.S. operations, net of income tax expense (recovery) of \$165 (\$408) in 2011)	1,104	(2,635)
Other comprehensive income from discontinued operations	982	4,136
Net income from discontinued operations	110,000	2,331
Total comprehensive income from discontinued operations	\$ 110,982	\$ 6,467

	Six months ended September 30,	
	2012	2011
Other comprehensive income:		
Gain (loss) arising from translating the financial statements of foreign operations	\$ 759	\$ 7,141
Cash flow hedges:		
Net gain (losses) on valuation of derivative financial instruments, net of income tax expense (recovery) of \$365 (\$434) in 2011)	989	(1,180)
Net gain (losses) on hedges of net investments in U.S. operations, net of income tax expense (recovery) of \$641 (\$448) in 2011)	433	(2,499)
Other comprehensive income from discontinued operations	2,181	3,462
Net income from discontinued operations	113,258	4,841
Total comprehensive income from discontinued operations	\$ 115,439	\$ 8,303

The net proceeds of \$272,796 in the statement of cash flows represents essentially the cash consideration received net of the reduction in the related finance lease obligations of the businesses sold along with the paid transaction expenses at September 30, 2012.

Note 5. Government assistance

During the quarter ended September 30, 2012, the Corporation recorded as government assistance for continuing operations an amount of \$578 as a reduction of cost of sales (\$842 for the quarter ended September 30, 2011) and an amount of \$931 (\$200 for the quarter ended September 30, 2011) as a reduction of the related property, plant and equipment or the capitalized development costs, presented under Finite-life intangible assets.

During the six-month period ended September 30, 2012, the Corporation recorded as government assistance for continuing operations an amount of \$1,132 as a reduction of cost of sales (\$1,174 for the six-month period ended September 30, 2011) and an amount of \$1,304 (\$1,443 for the six-month period ended September 30, 2011) as a reduction of the related property, plant and equipment or the capitalized development costs, presented under Finite-life intangible assets.

Note 6. Cost of sales, selling and administrative expenses

The main components of cost of sales, selling and administrative expenses related to continuing operations for the quarters and six-month periods ended September 30, are as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2012	2011	2012	2011
Raw materials and purchased parts	\$ 23,692	\$ 19,902	\$ 47,260	\$ 41,013
Employee costs	20,318	21,087	44,842	45,570
Amortization of property, plant and equipment and finite-life intangible assets	3,104	3,381	6,344	6,796
Others	6,702	7,175	14,137	14,377
	\$ 53,816	\$ 51,545	\$ 112,583	\$ 107,756

Note 7. Financial expenses

Financial expenses of continuing operations for the quarters and six-month periods ended September 30 comprise the following:

	Quarters ended September 30,		Six months ended September 30,	
	2012	2011	2012	2011
Interest expense	\$ 226	\$ 211	\$ 466	\$ 387
Interest accretion on governmental authorities loans	438	410	885	800
Amortization of deferred financing costs (Note 12)	110	110	220	220
Standby fees	107	106	211	210
Other interest accretion expense and discount rate adjustments	260	141	389	234
	1,141	978	2,171	1,851
Gain on financial instruments classified as FVTPL ⁽¹⁾ - Interest income	(194)	(59)	(228)	(79)
	\$ 947	\$ 919	\$ 1,943	\$ 1,772

⁽¹⁾ Fair value through profit or loss.

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 six-month periods ended September 30:

	Quarters ended September 30,		Six months ended September 30,	
	2012	2011	2012	2011
Weighted-average number of common shares outstanding	30,626,070	30,390,433	30,537,527	30,302,586
Effect of dilutive stock options of the Corporation	358,911	323,847	286,387	361,556
Weighted-average number of common diluted shares outstanding	30,984,981	30,714,280	30,823,914	30,664,142

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 six-month period ended September 30, 2012, nil and 266,000 stock options respectively of the Corporation's plan (350,000 and 335,000 for the quarter and six-month period in 2011) were excluded from the diluted earnings per share calculation.

Note 9. Cash and cash equivalents

	September 30, 2012	March 31, 2012
Cash at banks	\$ 202,226	\$ 22,073
Short-term deposits	89,000	39,934
	<u>\$ 291,226</u>	<u>\$ 62,007</u>

The cash and cash equivalents are held in investment accounts and in short-term deposits with Canadian Banks and their U.S. affiliates or branches of the Corporation's syndicated banks. Cash at banks is held in investment accounts earning interest at a floating rate based on daily bank deposit rates, while the short-term deposits are made for varying periods up to three months and earn interest at the respective short-term deposit rates.

Note 10. Derivative financial instruments

Forward foreign exchange contracts

As at September 30, 2012, the Corporation had forward foreign exchange contracts to sell US\$136.3 million at a weighted-average rate of 1.0498 (Canadian dollar over U.S. dollar, "cad/usd"). As at March 31, 2012 and September 30, 2011, these contracts totalled US\$145.3 million at a weighted-average rate of 1.0620 cad/usd and US\$164.8 million at a weighted-average rate of 1.0742 cad/usd, respectively. These contracts mature at various dates between October 2012 and March 2016, with the majority maturing this and next fiscal years.

As at September 30, 2012 and March 31, 2012, the Corporation had also entered into forward foreign exchange contracts to sell US\$4.7 million at a weighted-average rate of 1.2262 cad/usd. As at September 30, 2011, these contracts totalled US\$5.5 million at a weighted-average rate of 1.2292 cad/usd. These contracts cover foreign exchange risk related to certain embedded derivative financial instruments and all mature in fiscal year 2014.

Interest rate swap agreements

As at September 30, 2012, the Corporation had entered into one interest rate swap agreement for a notional amount of US\$10 million, which fix the Libor rate at 3.90%, and will mature in December 2015. In August 2012, following the sale transaction, the Corporation repurchased for a cost of US\$1,695, two interest rate swap agreements outstanding in August 2012 for a total notional amount of US\$30 million (see Note 4 – Discontinued operations).

As at March 31, 2012, 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 amounts totalling US\$20 million, and will mature in December 2015.

Collar option – foreign exchange contract

In September 2012, the Corporation had entered into a derivative financial instrument, a collar option which allows the Corporation, on November 30, 2012, to sell US\$90 million at a minimum rate of 0.96 usd/cad and a maximum rate of 1.0035 usd/cad. This derivative financial instrument is used as a hedge of net investments in U.S. operations.

Note 11. Other current assets

	September 30, 2012	March 31, 2012
Investment and other tax credits receivable	\$ 7,700	\$ 10,845
Sales tax receivable	1,257	1,488
Deposits on machinery and equipment (Note 16)	-	292
Prepaid expenses	1,256	2,533
Others	4,695	1,334
	<u>\$ 14,908</u>	<u>\$ 16,492</u>

Note 12. Long-term debt

	September 30, 2012	March 31, 2012
Senior Secured Syndicated Revolving 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% representing an effective interest rate of 2.1% as at September 30, 2012 and March 31, 2012, secured by all assets of the Corporation and its subsidiaries. The Credit Facility includes an accordion feature to increase the Credit Facility up to \$225 million subject to lenders' consent. As at September 30, 2012, the Corporation used US\$22,000 on the Credit Facility (US\$59,500 as at March 31, 2012). ⁽¹⁾	\$ 21,630	\$ 59,351
Governmental authorities' loans, repayable in variable annual instalments, with various expiry dates until fiscal year 2030. ⁽¹⁾	31,937	34,825
Obligations under finance leases, all bearing fixed interest rates between 3.3% and 7.2%, maturing from March 2013 to July 2019, with amortization periods ranging from five to seven years, secured by the related property, plant and equipment, net of interest of \$758 (\$2,862 as at March 31, 2012). ⁽¹⁾	7,491	25,161
Promissory note, repayable in monthly instalments over 40 months up to July 2013, bearing fixed interest at 5% and guaranteed by the Corporation.	960	1,537
Deferred financing costs, net	(1,538)	(1,758)
	60,480	119,116
Less: current portion	6,050	10,867
	\$ 54,430	\$ 108,249

⁽¹⁾ See Note 4 – Discontinued operations.

Note 13. Issued capital

For the quarter and six-month period ended September 30, 2012, variations in common shares issued are as follows:

	Quarter ended September 30, 2012		Six-months ended September 30, 2012	
	Number	Issued capital	Number	Issued capital
Common shares issued and fully paid				
Opening balance	30,453,463	\$ 102,287	30,442,370	\$ 102,202
Issued for cash on exercise of stock options	353,538	2,214	353,538	2,214
Issued for cash under the Stock purchase and ownership incentive plan	9,414	83	20,507	168
Closing balance	30,816,415	\$ 104,584	30,816,415	\$ 104,584

Issuance of common shares

During the quarter and six-month period ended September 30, 2012, the Corporation issued 362,952 and 374,045 common shares respectively, at weighted-average prices of \$4.94 and \$5.02 for total cash considerations of \$1,794 and \$1,879. This includes 353,538 common shares which were issued (all in the second quarter), following the exercise of stock options for a total cash consideration of \$1,711. The initial fair value of these stock options, amounting to \$503 was transferred to the issued capital from the contributed surplus in the quarter ended September 30, 2012. The remainder of 9,414 and 20,507 common shares respectively were issued under the Corporation's stock purchase and ownership incentive plan for total cash considerations of \$83 and \$168.

During the quarter and six-month period ended September 30, 2011, the Corporation issued 11,343 and 221,641 common shares respectively, at weighted-average prices of \$7.13 and \$5.02 for total cash considerations of \$81 and \$1,113. 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 to the issued capital from the contributed surplus in the quarter ending June 30, 2011. The remainder of 11,343 and 21,318 common shares respectively were issued under the Corporation's stock purchase and ownership incentive plan for total cash considerations of \$81 and \$159.

A. Stock option plan

Last year, during the fiscal year ended March 31, 2012, 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 Annual and Special Meeting of shareholders held on August 4, 2011. The number of common shares reserved for issuance represents 2,808,257 of which 2,431,386 shares had not been issued yet as at September 30, 2012.

During the quarters and six-month periods ended September 30, the number of stock options varied as follows:

	Quarter ended September 30, 2012		Quarter ended September 30, 2011	
	Weighted-average exercise price	Number of stock options	Weighted-average exercise price	Number of stock options
Balance at beginning of quarter	\$6.48	1,411,344	\$6.22	1,199,677
Granted	-	-	7.65	235,000
Exercised	4.84	(353,538)	-	-
Cancelled / forfeited	8.79	(111,900)	-	-
Balance at end of quarter	\$6.82	945,906	\$6.45	1,434,677

	Six months ended September 30, 2012		Six months ended September 30, 2011	
	Weighted-average exercise price	Number of stock options	Weighted-average exercise price	Number of stock options
Balance at beginning of period	\$6.48	1,411,344	\$6.00	1,393,000
Granted	-	-	7.68	242,000
Exercised	4.84	(353,538)	4.76	(200,323)
Cancelled / forfeited	8.79	(111,900)	-	-
Balance at end of period	\$6.82	945,906	\$6.45	1,434,677

For the quarter and six-month period ended September 30, 2012, the stock option expense amounted to \$78 and \$193 respectively (\$120 and \$183 in 2011).

B. Stock purchase and ownership incentive plan

During the quarter and six-month period ended September 30, 2012, 9,414 and 20,507 common shares were issued respectively (11,343 and 21,318 in 2011) and 3,827 and 8,404 common shares respectively were attributed to the participating employees (4,642 and 8,682 in 2011), under the stock purchase and ownership incentive plan. For the quarter and six-month period ended September 30, 2012, the expense related to the attributed common shares amounted to \$38 and \$76 respectively (\$36 and \$71 in 2011).

Last year, during the fiscal year ended March 31, 2012, 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 Annual and Special Meeting of shareholders held on August 4, 2011. The number of common shares reserved for issuance represents 340,000 of which 288,247 had not been issued yet under this plan as at September 30, 2012.

C. Stock appreciation right ("SAR") plan

As at September 30, 2012, on a cumulative basis, 92,200 SARs were still outstanding (130,500 as at September 30, 2011) at a weighted-average granted value of \$6.99 (\$6.32 as at September 30, 2011) which expire on various dates from fiscal years 2014 to 2016.

For the quarter and six-month period ended September 30, 2012, SAR expense amounted to \$634 and \$524 respectively (reversal of expense amounted to \$82 and \$187 in 2011).

During the quarter and six-month period ended September 30, 2012, 5,800 SARs were cancelled (none granted or cancelled last year) and 32,500 SARs were exercised (12,500 were exercised in 2011).

In August 2010, the SAR plan has been replaced by the deferred share unit plan (see below).

D. Deferred share unit (“DSU”) plan

During the quarter and six-month period ended September 30, 2012, 18,243 DSUs were issued by the Corporation (all in the second quarter) (22,547 and 37,718 DSUs in 2011) and 8,090 DSUs were exercised (all in the second quarter). As at September 30, 2012, on a cumulative basis, 47,871 DSUs were outstanding (37,718 as at September 30, 2011).

For the quarter and six-month period ended September 30, 2012, DSU expense amounted to \$336 and \$322 respectively (\$91 and \$216 in 2011).

Note 14. 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	Hedges of net investments in U.S. operations	Total
Balance at June 30, 2012	\$ 1,972	\$ 1,342	\$ (1,818)	\$ 1,496
Other comprehensive income (loss):				
Continuing operations	(1,601)	2,091	709	1,199
Discontinued operations	(1,276)	1,153	1,105	982
Balance at September 30, 2012	\$ (905)	\$ 4,586	\$ (4)	\$ 3,677
Balance at March 31, 2012	\$ (771)	\$ 4,038	\$ (752)	\$ 2,515
Other comprehensive income (loss):				
Continuing operations	(894)	(442)	317	(1,019)
Discontinued operations	760	990	431	2,181
Balance at September 30, 2012	\$ (905)	\$ 4,586	\$ (4)	\$ 3,677

	Exchange differences on translation of foreign operations	Cash flow hedges	Hedges of net investments in U.S. operations	Total
Balance at June 30, 2011	\$ (3,964)	\$ 11,627	\$ 957	\$ 8,620
Other comprehensive income (loss):				
Continuing operations	2,788	(10,165)	(1,697)	(9,074)
Discontinued operations	7,455	(684)	(2,635)	4,136
Balance at September 30, 2011	\$ 6,279	\$ 778	\$ (3,375)	\$ 3,682
Balance at March 31, 2011	\$ (3,573)	\$ 12,930	\$ 590	\$ 9,947
Other comprehensive income (loss):				
Continuing operations	2,711	(10,972)	(1,466)	(9,727)
Discontinued operations	7,141	(1,180)	(2,499)	3,462
Balance at September 30, 2011	\$ 6,279	\$ 778	\$ (3,375)	\$ 3,682

Note 15. Net change in non-cash items related to continuing operations

For the quarters and six-month periods ended September 30, the net change in non-cash items related to continuing operations is detailed as follows:

	Quarters ended September 30		Six months ended September 30	
	2012	2011	2012	2011
Accounts receivable	\$ 2,548	\$ (3,078)	\$ 5,350	\$ 4,367
Income tax receivable	-	428	-	716
Inventories	(128)	(2,982)	(3,571)	(6,212)
Other current assets	(744)	1,255	(684)	49
Accounts payable and accrued liabilities, accounts payable – other and, other liabilities	(3,111)	3,657	(1,865)	(4,820)
Provisions	294	219	180	684
Progress billings	(1,438)	(2,191)	(4,342)	(6,102)
Income tax payable	(770)	1,431	(2,920)	2,426
Effect of changes in exchange rate ⁽¹⁾	(1,236)	1,764	(748)	1,655
	\$ (4,585)	\$ 503	\$ (8,600)	\$ (7,237)

⁽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 16. Commitments

The Corporation has released purchase orders relating to new additions to facilities and machinery and equipment which have not been delivered yet to the Corporation's facilities. These outstanding purchase orders as at September 30, 2012 amounted to \$179 (\$2,843 as at March 31, 2012) for which an amount of \$nil (\$292 as at March 31, 2012) in deposits on machinery and equipment were made and are included in the Corporation's other current assets.

Note 17. Segment information

Following the sale transaction (see Note 4 – Discontinued operations), the Corporation has now only one operating segment, which is the Aerospace segment. Consequently, the information by operating segment is no longer relevant and required.

Geographic information

Geographic information related to the continuing operations represents the following:

Quarters ended September 30	2012			2011		
	Canada	U.S.	Total	Canada	U.S.	Total
Sales	\$ 45,543	\$ 12,141	\$ 57,684	\$ 43,921	\$ 11,543	\$ 55,464
Property, plant and equipment, net	65,834	12,445	78,279	69,210	9,767	78,977
Finite-life intangible assets, net	23,670	435	24,105	20,461	903	21,364
Goodwill	13,838	5,170	19,008	13,838	6,053	19,891
Export sales ⁽¹⁾	\$ 27,016			\$ 28,170		

During the quarters ended September 30, 2012 and 2011, 62% and 70% of sales respectively, were made to U.S. customers.

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

Six months ended September 30	2012			2011		
	Canada	U.S.	Total	Canada	U.S.	Total
Sales	\$ 97,124	\$ 24,340	\$ 121,464	\$ 93,094	\$ 23,662	\$ 116,756
Property, plant and equipment, net	65,834	12,445	78,279	69,210	9,767	78,977
Finite-life intangible assets, net	23,670	435	24,105	20,461	903	21,364
Goodwill	13,838	5,170	19,008	13,838	6,053	19,891
Export sales ⁽¹⁾	\$ 60,946			\$ 61,136		

During the six-month period ended September 30, 2012 and 2011, 65% and 69% of sales respectively, were made to U.S. customers.

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

Note 18. Subsequent event – Special Distribution to Shareholders

On November 8, 2012, following the sale transaction, the Board of Directors of the Corporation approved a special cash distribution of \$5.00 per share to be paid on December 19, 2012 to shareholders of record on November 20, 2012. The Board of Directors determined that it was appropriate to proceed with this special distribution to the shareholders, following the sale transaction mentioned above, and that the Corporation would still maintain a healthy financial situation, post-special distribution, considering, among other things, the expected capital and other investments and results of the Corporation.

The Board of Directors has called a special shareholder meeting to be held on December 18, 2012 to consider the adoption of a special resolution to reduce the amount of the Corporation's issued capital by \$2.70 per share (\$86.4 million). The Board of Directors has also declared a special cash dividend in an amount to be equal to the difference between \$5.00 per share and the per share amount of the capital reduction that will be approved by the shareholders at the meeting, if any.

As of November 8, 2012, based on the number of the Corporation common shares and stock options outstanding, the special cash distribution to shareholders should represent approximately \$160.0 million (assuming up to 32 million common shares).

Note 19. Reclassification

Comparative figures for the consolidated financial statements as at September 30, 2011 have been reclassified to conform to the September 30, 2012 presentation.



**MANAGEMENT DISCUSSION AND ANALYSIS OF
FINANCIAL POSITION AND OPERATING RESULTS**

For the quarter ended September 30, 2012

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND
OPERATING RESULTS

TABLE OF CONTENTS

Non-IFRS Measures	24
Forward-Looking Statements	25
Overview	25
Discontinued operations	26
Results of Operations	27
Foreign Exchange	28
Consolidated Sales	29
<i>Sales by Destination</i>	<i>30</i>
Gross Profit	30
Selling and Administrative Expenses	31
Operating Income	31
Financial Expenses	31
Income Tax Expense	32
Net Income	32
Other accumulated comprehensive income (“OACI”) and comprehensive income	33
Liquidity and Capital Resources	34
<i>Credit Facility and Cash and Cash Equivalents</i>	<i>34</i>
<i>Operating Activities</i>	<i>35</i>
<i>Investing Activities</i>	<i>36</i>
<i>Financing Activities</i>	<i>38</i>
Capital Stock, Stock Option and Stock Purchase Plans	38
Stock Appreciation Right and Deferred Share Unit Plans	39
Consolidated Balance Sheets	41
Government assistance	43
Derivatives, Off-Balance-Sheet Items and Commitments	43
Subsequent event - Special Distribution to Shareholders	44
Financial and Economic Situation	45
Future Changes in Accounting Policies	47
Internal Controls and Procedures	48
Risks and Uncertainties	48
Selected Quarterly Financial Information	49
Outlook	49
Additional Information and Continuous Disclosure	50

Management Discussion and Analysis of Financial Position and Operating Results

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

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

Non-IFRS Measures

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

The Corporation's EBITDA from continuing operations, consisting essentially of the landing gear product line and Magtron operations (see Discontinued operations below), is calculated as follows:

(\$'000)	<u>Quarters ended</u>		<u>Six months ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	2012	2011	2012	2011
Net income from continuing operations	2,724	2,481	5,749	5,768
Income tax expense	197	519	1,189	1,460
Financial expenses	947	919	1,943	1,772
Amortization	3,104	3,381	6,344	6,796
EBITDA	6,972	7,300	15,225	15,796

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

On August 31, 2012, the Corporation concluded the sale of substantially all of its Aerostructure and Industrial product line operations ("sale transaction") (See Discontinued operations below). Following this transaction, Héroux-Devtek and its subsidiaries mainly specialize in the design, development, manufacture, repair and overhaul of landing gear systems and components used principally in the Aerospace market. The Corporation has also built a strong, well-recognized design engineering team.

The Corporation is the third largest landing gear company in the world, supplying both the commercial and military sectors of the Aerospace market with new landing gear systems and components as well as aftermarket products and services (including spare parts and repair and overhaul services). In the commercial sector, the Corporation is active in the large commercial and business jet, regional aircraft and helicopter markets. On the military side, the Corporation provides parts and services for all major military aircraft, mainly in the United States. 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.

The Corporation's head office is located in Longueuil, Québec with facilities in the Greater Montreal area (Longueuil, Laval and St-Hubert); Kitchener and Toronto, Ontario; as well as Springfield and Cleveland, Ohio. All facilities are involved in the fabrication of landing gear

systems and components with the exception of the Toronto facility (“Magtron”), which manufactures electronic enclosures, heat exchangers and cabinets for suppliers of airborne radar, electro-optic systems and aircraft controls. This facility provides competencies in vacuum and dip brazing metal joining technologies and became Canada's first facility to be Nadcap certified in aluminum vacuum brazing.

Discontinued operations

On July 16, 2012, the Corporation executed a definitive agreement for the sale of substantially all of its Aerostructure and Industrial product line operations to Precision Castparts Corporation (“PCC”), a public company traded on the New York Stock Exchange. The net assets acquired by PCC include the Corporation’s Dorval (Quebec), Querétaro (Mexico) and Arlington (Texas) Aerostructure product line manufacturing sites, as well as the Cincinnati (Ohio) Industrial product line manufacturing sites.

The sale transaction was concluded on August 31, 2012 with gross sale proceeds, including post-closing adjustments expected to be finalized by the end of the current quarter, of \$298.1 million paid essentially in cash. Taking into consideration the related taxes and transaction expenses, the net proceeds amount to \$232.0 million. The gain of \$157.7 million on the sale transaction, net of the related taxes of \$50.6 million, amounted to \$107.1 million.

Net income from discontinued operations and related to the sale transaction is comprised of the following:

(\$'000)	<u>Quarters ended</u>		<u>Six months ended</u>	
	<u>September 30</u>	<u>September 30</u>	<u>September 30</u>	<u>September 30</u>
	2012	2011	2012	2011
Net gain from the sale transaction	107,126	-	107,126	-
Net income from operations sold ⁽¹⁾	2,874	2,331	6,132	4,841
Net income from discontinued operations	110,000	2,331	113,258	4,841

⁽¹⁾ Up to August 31, 2012.

Concurrently to the sale transaction, the Corporation has proceeded with the \$16 million reduction of finance lease obligations and the repayment of a \$1 million governmental authorities’ loan related to the businesses sold. The Corporation also proceeded with a partial repayment of US\$37.5 million (\$37.0 million) against the Syndicated Banks’ Credit Facility (“Credit Facility”) and repurchased two of the three interest rate swap agreements in place, representing a total notional amount of US\$30 million, for a total cost of \$1.7 million which was recorded as a transaction expense to the sale transaction.

The sales, gross profit, operating income and EBITDA related to the continuing and discontinued operations represented the following amounts for the last fiscal year ended March 31, 2012:

	<u>Total Consolidated</u> (\$'000)	<u>Discontinued Operations</u> (\$'000)	<u>Continuing Operations</u> (\$'000)
Sales	380,336	126,808	253,528
Gross profit	67,630	24,923	42,707
Operating income	40,669	16,841	23,828
EBITDA	64,722	27,275	37,447

RESULTS OF OPERATIONS

Following the sale transaction explained above, income and expenses from discontinued operations are now reported separately from income and expenses from continuing operations, down to the level of net income in the consolidated statements of income for the quarter and six-month period ended September 30, 2012 and the comparable periods of last year.

Prior to the sale transaction, the Aerostructure product line was part of the Corporation's Aerospace segment, while the Industrial product line formed the Industrial segment. Therefore, all of the operations of the businesses sold are now excluded from the Corporation's segmented information. Following this sale transaction, the Corporation is now operating only in the Aerospace segment and is comprised essentially of the landing gear product line and Magtron operations.

Foreign Exchange

The Corporation is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its foreign operations and from transactions denominated mainly in US dollars. Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions, but exclusive of forward foreign exchange contracts (“FFEC”), while the statement of income of foreign operations is translated at the average exchange rate for the fiscal year. FFEC, for the purpose of hedge accounting, are classified as cash flow hedges in accordance with the Corporation’s accounting policies. The closing rates translate monetary assets and liabilities denominated in foreign currencies and assets and liabilities of foreign operations. The average exchange rates for the quarter and six-month periods ended September 30, 2012 and 2011, and the closing rates at September 30, 2012 and March 31, 2012 were as follows (\$ Canadian / 1 US \$ equivalent):

Canada / US Exchange Rates	September 30, 2012	September 30, 2011
Average rate for quarters ended	<u>0.9948</u>	<u>0.9802</u>
Average rate for six months ended	<u>1.0025</u>	<u>0.9739</u>

Canada / US Exchange Rates	September 30, 2012	March 31, 2012
Closing rate at	<u>0.9832</u>	<u>0.9975</u>

As shown above, the average value of the Canadian dollar for the quarter and six-month period ended September 30, 2012 was respectively 1.5% and 2.9% lower, when compared to its U.S. counterpart year-over-year. Overall, the variation in the closing rate since March 31, 2012 had no material impact on the Corporation’s U.S.-denominated balance sheet accounts at the end of this quarter, when compared to last year-end balances. Currency fluctuation impact on the Corporation’s sales, gross profit and specific balance sheet elements can be found later in this MD&A.

The Corporation makes use of derivative financial instruments, in accordance with its hedging policy, to hedge foreign currency fluctuation exposure risks (Canadian dollar over US dollar) in an effort to mitigate these risks. As at September 30, 2012, the Corporation had forward foreign exchange contracts to sell US\$136.3 million at a weighted-average rate of 1.0498. These contracts mature at various dates between October 2012 and March 2016, with the majority maturing this and next fiscal year.

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

For the continuing operations, the results and main variations for the quarter and six-month period ended September 30, 2012 (taking into account that the Corporation's second quarter is traditionally the lowest quarter of the year in terms of sale throughput due to the vacation period and plant shutdowns) are as follows.

Consolidated Sales

Consolidated sales for the second quarter ended September 30, 2012 increased by \$2.2 million or 4.0% to \$57.7 million from \$55.5 million last year. This is mainly the result of higher sales in the commercial sector which were partially offset by the negative impact of exchange fluctuations, which reduced consolidated sales by \$0.3 million or 0.5%, when compared to last year.

At year-to-date, consolidated sales totalled \$121.5 million, 4.0% higher than last year's sales of \$116.8 million. This increase is the result of a 12.3% sales increase in the commercial sector, mainly resulting from higher production rates on large commercial and business jet programs. The impact resulting from exchange fluctuations was not significant for the first six months of the current year.

Consolidated sales can be broken down as follows:

	<u>Quarters ended</u>				<u>Six months ended</u>			
	<u>September 30</u>				<u>September 30</u>			
	<u>2012</u>	<u>2011</u>	<u>Variance</u>		<u>2012</u>	<u>2011</u>	<u>Variance</u>	
	<u>(\$'000)</u>	<u>(\$'000)</u>	<u>(\$'000)</u>	<u>%</u>	<u>(\$'000)</u>	<u>(\$'000)</u>	<u>(\$'000)</u>	<u>%</u>
Military ⁽¹⁾	32,834	33,950	(1,116)	(3.3)	70,312	71,196	(884)	(1.2)
Commercial	24,850	21,514	3,336	15.5	51,152	45,560	5,592	12.3
Total	57,684	55,464	2,220	4.0	121,464	116,756	4,708	4.0

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

Military sales were \$1.1 million or 3.3% lower this quarter to \$32.8 million and \$0.9 million or 1.2% lower at year-to-date to \$70.3 million, when compared to last year. The decrease in sales for the quarter and at year-to-date is essentially the result of lower electronic enclosure and cabinet sales at the Magtron facility.

Commercial sales were \$3.3 million or 15.5% higher this quarter to \$24.9 million and \$5.6 million, or 12.3% higher at year-to-date to \$51.2 million, when compared to last year. These increases are the result of higher sales on large commercial programs, mainly from the higher production rates on the A-340 program and production ramp-up on the B-787 program. It also includes the impact of a higher production rate on certain business jet programs, mainly the Challenger program, and of higher aftermarket sales on the Bombardier LJ-45 and CL-415 programs.

Sales by Destination

The Corporation's sales by destination were as follows:

	<u>Quarters ended</u>		<u>Six months ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	2012	2011	2012	2011
	(%)	(%)	(%)	(%)
Canada	33	27	30	28
US	62	70	65	69
International	5	3	5	3
Total	100	100	100	100

This second quarter and the year-to-date changes in the sales by destination mix, compared to last year, mainly reflect the impact of increased aftermarket commercial sales in Canada and higher commercial sales to certain European customers (mainly from the A-340 program).

Gross Profit

This quarter, consolidated gross profit as a percentage of sales decreased by 1.1% to 13.6% from 14.7% last year, while at year-to-date, it remained at the same level as last year at 15.1%.

The US/CAD currency fluctuations negatively impacted the Corporation's gross profit in dollars this quarter by \$0.3 million or 0.4%, when expressed as a percentage of sales, and at year-to-date by \$0.4 million or 0.3%, 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.

This quarter and at year-to-date, consolidated gross profit was impacted by higher non-recurring costs incurred in the development of a new landing gear system program and by a higher under-absorption of manufacturing overhead costs that resulted from lower production volume at the Magtron operations. At year-to-date, these negative impacts on gross profit were offset as a result of a better product mix and certain manufacturing improvements realized in the first quarter of this fiscal year.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	<u>Quarters ended</u>		<u>Six months ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Selling and administrative expenses (\$'000)	3,997	4,239	9,463	8,600
% of sales	6.9	7.6	7.8	7.4

Selling and administrative expenses stood at \$4.0 million or 6.9% of sales for the quarter ended September 30, 2012, a decrease of \$0.2 million or 0.7% of sales from \$4.2 million or 7.6% of sales last year. This quarter, the expense related to stock-based compensation was higher by \$1.0 million when compared to last year, reflecting the appreciation in the Corporation's stock price traded on the Toronto Stock Exchange. This higher expense was more than offset by lower professional fees when compared to last year. This quarter, the loss on currency translation on net monetary assets included in the selling and administration expenses was minimal, while last year it represented a gain of \$0.3 million.

For the six-month period ended September 30, 2012, selling and administrative expenses stood at \$9.5 million or 7.8% of sales, an increase of \$0.9 million or 0.4% of sales from \$8.6 million or 7.4% of sales last year. This is mainly explained by higher expenses related to stock-based compensation of \$0.8 million when compared to last year. At year-to-date, the loss on currency translation on net monetary assets was also minimal, compared to a gain of \$0.2 million last year.

Operating Income

Consolidated operating income stood at \$3.9 million or 6.7% of sales for the quarter ended September 30, 2012, a decrease of 0.4% of sales from \$3.9 million or 7.1% of sales last year. This is the result of a lower gross profit partially offset by lower selling and administrative expenses, as explained above.

For the first six months ended September 30, 2012, consolidated operating income stood at \$8.9 million or 7.3% of sales, compared to \$9.0 million or 7.7% of sales last year. The lower operating income in dollars and as a percentage of sales is the result of a higher stock-based compensation expense, as explained above.

Financial Expenses

Financial expenses stood at \$0.9 million and at \$1.9 for the quarter and six-month period ended September 30, 2012, while it stood at \$0.9 million and \$1.8 million, respectively, for the same periods last year. The additional financial expenses at year-to-date reflect the higher interest accretion on increased governmental authorities' loans and the negative impact from the discount rate adjustments. These expenses were partially offset by higher interest income resulting from the cash proceeds received from the sale transaction.

Income Tax Expense

For the quarter ended September 30, 2012, the income tax expense stood at \$0.2 million, compared to \$0.5 million last year. At year-to-date, the income tax expense stood at \$1.2 million, compared to \$1.5 million for the same period last year.

For the six-month period ended September 30, 2012, the Corporation's effective income tax rate was 17.1%, compared to its Canadian blended statutory income tax rate of 26.0%. The effective income tax rate reflects the favourable impact from permanent differences (\$0.3 million) partially offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries (\$0.1 million). It also includes a reduction in deferred income tax liabilities in light of changes in tax audit matters (\$0.4 million).

For the six-month period ended September 30, 2011, the Corporation's effective income tax rate was 20.2%, compared to its Canadian blended statutory income tax rate of 26.9%. The effective income tax rate reflects the favourable impact from permanent differences (\$0.3 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 (\$0.1 million).

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

Net Income

For the quarter and six-month period ended September 30, 2012, the Corporation posted a net income from continuing operations of \$2.7 million or 4.7% of sales and of \$5.7 million or 4.7% of sales, respectively, compared to a net income of \$2.5 million or 4.5% of sales, and \$5.8 million or 4.9% of sales for the same periods last year.

Net income for the quarter and at year-to-date includes the net income of discontinued operations for the quarter and six-month period ended September 30, 2012 of \$110.0 million and \$113.3 million, respectively, compared to \$2.3 million and \$4.8 million for the same period last year. Net income from discontinued operations for the quarter and at year-to-date includes a net gain of \$107.1 million, from the sale transaction, as explained above (see Note 4 to the interim condensed consolidated financial statements).

	<u>Quarters ended</u>		<u>Six months ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Net income from continuing operations (\$'000)	2,724	2,481	5,749	5,768
Net income from discontinued operations (\$'000)	110,000	2,331	113,258	4,841
Net income (\$'000)	112,724	4,812	119,007	10,609
Earnings per share – basic (\$)	3.68	0.16	3.90	0.35
Earnings per share – diluted (\$)	3.64	0.16	3.86	0.35
Earnings per share for continuing operations – basic and diluted (\$)	0.09	0.08	0.19	0.19

Basic earnings per share figures are based on year-to-date weighted-averages of 30,537,527 common shares outstanding for the six-month period ended September 30, 2012, and 30,302,586 common shares for the same period last year, while the diluted earnings per share figures are based on year-to-date weighted-averages of 30,823,914 for the six-month period this year and 30,664,142 for the same period last year. On a year-to-date basis, the increase in the number of outstanding common shares is mainly related to the issuance of 353,538 common shares under the Corporation's stock option plan (all in the second quarter) and 20,507 common shares under the Corporation's stock purchase and ownership incentive plan (see Note 13 to the interim condensed consolidated financial statements).

On November 8, 2012, the date of this MD&A, the Corporation had 30,825,967 common shares and 939,839 stock options outstanding with a weighted-average of 3.1 years to maturity.

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

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

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. Following the sale transaction on August 31, 2012, the Corporation had cash and cash equivalents of \$291.2 million at September 30, 2012, compared to \$62.0 million at March 31, 2012, of which \$89.0 million had been invested in short-term deposits (\$39.9 million at March 31, 2012). The remaining cash and cash equivalents was held in investment accounts with three Canadian Banks and their U.S. affiliates or branches of the Corporation's syndicated banks.

In March 2011, the Corporation renewed and increased its Senior Secured Syndicated Revolving Credit Facility with a syndicate of five Canadian Banks and their U.S. affiliates or branches, and a Canadian branch of a U.S. Bank. This Credit Facility allows the Corporation and its subsidiaries to borrow up to \$150 million, either in Canadian or US currency equivalent and will mature in March 2016 (see Note 12 to the interim condensed consolidated financial statements). It also includes an accordion feature to increase the Credit Facility up to \$225 million, during the term of the Credit Agreement, subject to approval by the lenders. Immediately following the sale transaction, the Corporation proceeded with a partial repayment of US\$37.5 million (\$37.0 million) against the Credit Facility. As a result, the Corporation only had \$21.6 million (US\$22.0 million) drawn against the Credit Facility as of September 30, 2012 compared to \$59.4 million at March 31, 2012 (US\$59.5 million). 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 (see Subsequent event - Special Distribution to Shareholders below).

At September 30, 2012, the Corporation had the following net cash position calculated as follows:

	(\$'000)
Cash and cash equivalents	291,226
Less: Credit facility	(21,630)
Less: Income tax payable	(51,592)
Less: Accounts payable – other ⁽¹⁾	(6,918)
Net cash position	211,086

⁽¹⁾ Unpaid portion related to sale transaction expense.

Operating Activities

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

	<u>Quarters ended</u>		<u>Six months ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	2012	2011	2012	2011
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Cash flows from continuing operations	5,992	5,554	12,963	12,744
Net change in non-cash items related to continuing operations	(4,585)	503	(8,600)	(7,237)
Operating activities of discontinued operations	(675)	4,277	8,273	19,160
Cash flows related to operating activities	732	10,334	12,636	24,667

The \$0.4 million increase in cash flows from continuing operations for the quarter ended September 30, 2012, when compared to last year, is mainly explained by a \$0.2 million increase in net income, combined with a \$0.4 million lower deferred income tax recovery, partially offset by a lower amortization expense of \$0.3 million. For the six-month period ended September 30, 2012, the \$0.2 million increase in cash flows from continuing operations, when compared to the same period last year, reflects the \$0.5 million lower deferred income tax recovery and the 0.2 million higher interest accretion expense and discount rate adjustments explained above, partially offset by a lower amortization expense of \$0.5 million

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

	<u>Quarters ended</u>		<u>Six months ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	2012	2011	2012	2011
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Accounts receivable	2,548	(3,078)	5,350	4,367
Inventories	(128)	(2,982)	(3,571)	(6,212)
Progress billings	(1,438)	(2,191)	(4,342)	(6,102)
Income tax payable and receivable	(770)	1,859	(2,920)	3,142
Accounts payable and accrued liabilities, accounts payables-other, and other liabilities (referred to as "Accounts payable")	(3,111)	3,657	(1,865)	(4,820)
Effect of changes in exchange rate	(1,236)	1,764	(748)	1,655
All others	(450)	1,474	(504)	733
	(4,585)	503	(8,600)	(7,237)

For the second quarter and six-month period ended September 30, 2012, the decrease in accounts receivable and accounts payable results from a lower sales volume in the second quarter, which is

traditionally the lowest quarter of the year due to the vacation period and plant shut-downs and a lower US/CAD foreign exchange closing rate for the accounts receivable and accounts payable denominated in US dollars. The reduction in progress billings mainly reflects a higher commercial funded backlog business mix, compared to military, and a reduced backlog on certain military programs. The increase in inventories, essentially from the first quarter, reflects the anticipated increase in production rates for the upcoming quarters in the commercial sector. The reduction in income tax payable and receivable for the six-month period ended September 30, 2012, mainly reflects the final payment of income taxes made in the first quarter for fiscal 2012.

For the second quarter ended September 30, 2011, the increase in accounts receivable and accounts payable was mainly the result of a higher US/CAD foreign exchange closing rate, when compared to June 30, 2011, for the accounts receivable and accounts payable denominated in US dollars. It was also the result of increased sales volume delivered in the last month of the quarter. 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 that mainly resulted from a lower sales volume in the second quarter, compared to the previous year's fourth quarter, which historically, has been the best quarter of the fiscal year. The increase in inventories in the second quarter and at year-to-date was the result of increased production rates in the commercial aerospace sector, while the reduction in progress billings mainly resulted from a lower funded backlog for military aftermarket landing gear products reflecting reduced customer requirements.

Investing Activities

The Corporation's investing activities were as follows:

	<u>Quarters ended</u>		<u>Six months ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	<u>(\$'000)</u>	<u>(\$'000)</u>	<u>(\$'000)</u>	<u>(\$'000)</u>
Additions to property, plant and equipment ⁽¹⁾	(2,972)	(3,845)	(6,443)	(8,135)
Net decrease (increase) in finite-life intangible assets ⁽¹⁾	607	(3,838)	(2,501)	(5,699)
Proceeds on disposal of property, plant and equipment ⁽¹⁾	88	3	92	17
Net proceeds from sale of discontinued operations	272,796	-	272,796	-
Investing activities of discontinued operations	(2,919)	(645)	(4,294)	(2,219)
Cash flows related to investing activities	267,600	(8,325)	259,650	(16,036)

⁽¹⁾ From continuing operations.

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

	<u>Quarters ended</u>		<u>Six months ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	2012	2011	2012	2011
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Additions to property, plant and equipment	4,012	1,811	6,207	5,054
Variation in unpaid additions included in Accounts payable – Other at period-end	(262)	2,034	1,014	3,081
Machinery and equipment acquired through finance leases	(778)	-	(778)	-
Additions, as per statements of cash flows	2,972	3,845	6,443	8,135

This quarter and at year-to-date, the additions to property, plant and equipment for continuing operations stood at \$4.0 million and \$6.2 million respectively (\$1.8 million and \$5.1 million last year). It includes investments in our engineering test facility to support requirements from the new development programs and also normal maintenance capital expenditure projects. Capital expenditures of continuing operations for the current fiscal year are expected to be about \$15 million.

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

Net proceeds from sale of discontinued operations are related to the sale transaction and include the sale proceeds received in cash, net of the finance leases obligations reduction and the transaction expenses paid. The income tax expense related to the sale transaction will be effectively paid mainly in the current quarter of this fiscal year, and the remaining balance will be paid in May 2013. As to the unpaid portion of the sale transaction expenses, it will be paid in the current quarter of this fiscal year.

Financing Activities

The Corporation's financing activities were as follows:

	<u>Quarters ended</u>		<u>Six months ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	<u>(\$'000)</u>	<u>(\$'000)</u>	<u>(\$'000)</u>	<u>(\$'000)</u>
Increase in long-term debt	-	1,783	-	3,276
Repayment of long-term debt	(37,715)	(792)	(40,438)	(1,529)
Issuance of common shares	1,794	81	1,879	1,113
Financing activities of discontinued operations	(1,521)	(570)	(3,208)	(1,630)
Cash flows related to financing activities	(37,442)	502	(41,767)	1,230

This quarter and at year-to-date, the repayment of long-term debt includes the partial repayment of US\$37.5 million (\$37.0 million) against the Credit Facility, following the sale transaction. This year and last year repayment of long-term debt also includes the scheduled repayment of governmental authorities' loans, finance leases for machinery and equipment, and a promissory note.

For the three-month and six-month periods ended September 30, 2011, the increase in long-term debt reflects new governmental authorities' loans received to support the investment in development costs for long-term contracts.

During the quarter and six-month period ended September 30, 2012, the Corporation issued 353,538 common shares (all in the second quarter), following the exercise of stock options for a total cash consideration of \$1,711,000. The Corporation also issued 9,414 and 20,507 common shares, respectively, under the Corporation's stock purchase and ownership incentive plan ("Stock purchase plan") for total cash considerations of \$83,000 and \$168,000. For the same periods last year, 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, and 11,343 and 21,318 common shares, respectively, under its stock purchase plan, for total cash considerations of \$81,000 and \$159,000 (see below).

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

Capital Stock, Stock Option and Stock Purchase Plans

At September 30, 2012, the Corporation had 30,816,415 common shares outstanding (30,442,370 as at March 31, 2012).

During the quarter and six-month period ended September 30, 2012, the Corporation issued 362,952 and 374,045 common shares, respectively, at weighted-average prices of \$4.94 and \$5.02 for total cash considerations of \$1,794,000 and \$1,879,000. This includes 353,538 common shares which were issued (all in the second quarter), following the exercise of stock

options for a total cash consideration of \$1,711,000. The initial fair value of these stock options, amounting to \$503,000 was transferred to the issued capital of the Corporation, from the contributed surplus, during the quarter ended September 30, 2012. The remainder of 9,414 and 20,507 common shares, respectively were issued under the Corporation's stock purchase and ownership incentive plan for total cash considerations of \$83,000 and \$168,000.

During the quarter and six-month period ended September 30, 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. The Corporation also issued 11,343 and 21,318 common shares, respectively, under the Corporation's stock purchase plan at weighted-average prices of \$7.13 and \$7.45 for total cash considerations of \$81,000 and \$159,000.

During the quarter and six-month period ended September 30, 2012, no stock options were granted (235,000 and 242,000 respectively last year) while 353,538 stock options were exercised, all in the second quarter (200,323 last year, all in the first quarter) and 111,900 stock options were cancelled, all in the second quarter (no stock options cancelled during the quarter and six-month period last year).

At September 30, 2012, 945,906 stock options were outstanding with a weighted-average of 3.2 years to maturity and a weighted-average exercise price of \$6.82 (see Note 13 to the interim condensed consolidated financial statements).

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

Common Shares	Stock Option Plan	Stock Purchase Plan	Total Common Shares
Total shares	2,808,258	340,000	3,148,257

At September 30, 2012, 2,431,386 common shares had not been issued yet under the Stock Option Plan and 288,247 common shares had not been issued yet under the Stock Purchase Plan.

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

At September 30, 2012, on a cumulative basis, 92,200 SARs were still outstanding at a weighted-average granted price of \$6.99, which expire on various dates from fiscal 2014 to 2016. For the quarter and six-month period ended September 30, 2012, 32,500 SARs were exercised and 5,800 SARs were cancelled (all in the second quarter). In August 2010, the SAR plan was replaced by the DSU plan.

At September 30, 2012, on a cumulative basis, 47,871 DSUs were outstanding (37,718 last year). During the quarter and six-month period ended September 30, 2012, 18,243 DSUs were issued by the Corporation, all in the second quarter (22,547 and 37,718 DSUs in 2011) and 8,090 DSUs were exercised, all in the second quarter.

For the quarter and six-month period ended September 30, 2012, SAR expense amounted to \$634,000 and \$524,000, respectively (reversal of expense of \$82,000 and \$187,000 in 2011) while DSU expense amounted to \$336,000 and \$322,000 (\$91,000 and \$216,000 in 2011) (see Note 13 to the interim condensed consolidated financial statements).

Consolidated Balance Sheets

The following table reconciles the variations in the consolidated balance sheets between March 31, 2012 and September 30, 2012, assuming that all items related to the operations sold have been reclassified as at March 31, 2012 as held for sale:

	March 31, 2012			Sept. 30, 2012	Variation	Reference
	Consolidated	Held for Sale	Adjusted ⁽¹⁾			
	\$'000	\$'000	\$'000	\$'000	\$'000	
ASSETS						
Current assets						
Cash and cash equivalents	62,007	-	62,007	291,226	229,219	A
Accounts receivable	59,677	(17,153)	42,524	37,174	(5,350)	B
Income tax receivable	1,500	(1,500)	-	-	-	
Inventories	135,323	(30,915)	104,408	107,979	3,571	C
Derivative financial instruments	6,471	-	6,471	6,922	451	
Other current assets	16,492	(2,467)	14,025	14,908	883	
Total current assets	281,470	(52,035)	229,435	458,209	228,774	
Property, Plant and equipment, net	153,208	(74,785)	78,423	78,279	(144)	
Finite-life intangible assets, net	24,514	(2,688)	21,826	24,105	2,279	D
Derivative financial instruments	3,236	-	3,236	2,012	(1,224)	
Goodwill	36,068	(16,986)	19,082	19,008	(74)	
Assets held for sale	611	146,494	147,105	611	(146,494)	E
Total assets	499,107	-	499,107	582,224	83,117	
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities						
Accounts payable and accrued liabilities	56,319	(15,478)	40,841	41,430	589	
Accounts payable, other	3,010	(100)	2,910	8,914	6,004	F
Provisions	12,157	(2,206)	9,951	11,183	1,232	
Progress billings	16,393	(4,846)	11,547	9,021	(2,526)	G
Income tax payable	2,381	576	2,957	51,592	48,635	H
Derivative financial instruments	827	-	827	1,126	299	
Current portion of long-term debt	10,867	(4,364)	6,503	6,050	(453)	I
Liabilities directly associated with the assets of a disposal group classified as held for sale	-	51,006	51,006	-	(51,006)	E
Total current liabilities	101,954	24,588	126,542	129,316	2,774	
Long-term debt	108,249	(14,846)	93,403	54,430	(38,973)	I
Provisions	4,866	-	4,866	5,272	406	
Progress billings	7,512	(953)	6,559	4,744	(1,815)	G
Derivative financial instruments	2,700	-	2,700	717	(1,983)	
Deferred income tax liabilities	17,071	(8,789)	8,282	10,156	1,874	
Other liabilities	12,788	-	12,788	13,768	980	
Total liabilities	255,140	-	255,140	218,403	(36,737)	
Shareholders' equity						
Issued capital	102,202	-	102,202	104,584	2,382	J
Contributed surplus	3,059	-	3,059	2,491	(568)	
Accumulated other comprehensive income	2,515	800	3,315	3,677	362	
Accumulated other comprehensive income directly associated with the assets classified as held for sale	-	(800)	(800)	-	800	K
Retained earnings	136,191	-	136,191	253,069	116,878	
Shareholders' equity	243,967	-	243,967	363,821	119,854	
Total liabilities and shareholders' equity	499,107	-	499,107	582,224	83,117	

⁽¹⁾ Adjusted for held for sale accounts related to operations sold (sale transaction).

The following represents the explanations of balance sheet variations from continuing operations between March 31, 2012 and September 30, 2012 (see Reference in previous table):

- A- The increase of \$229.2 million is mainly the result of the cash proceeds from the sale transaction of \$298.1 million, essentially received in cash, net of related debt repayments of \$54.0 million and expenses incurred for the transaction. See consolidated statement of cash flows for details.
- B- The decrease of \$5.4 million results from lower sales in the second quarter this year, compared to last year's fourth quarter sales, combined with the impact of a lower CAD/US exchange rate used to convert U.S.-denominated accounts receivable, when compared to March 31, 2012 (impact of \$0.4 million).
- C- The increase reflects the anticipated increase in production rates for the upcoming quarters in the commercial sector, partially offset by the impact of a lower CAD/US exchange rate used to convert the inventories of the U.S. subsidiaries, when compared to March 31, 2012 (exchange impact of \$0.4 million).
- D- The variation of \$2.3 million reflects the increase in capitalized development costs for long-term contracts (\$2.6 million) and in software costs (\$0.1 million), net of backlog (\$0.1 million) and software (\$0.3 million) amortization expense.
- E- The decrease reflects the assets disposed of and also liabilities assumed by the buyer, following the sale transaction.
- F- The increase of \$6.0 million reflects the unpaid portion of transaction expenses related to the sale transaction (\$6.9 million) partially offset by the reduced unpaid portion of property, plant and equipment (\$0.9 million).
- G- The decrease of \$4.3 million in current and long-term progress billings mainly reflects a higher commercial funded backlog business mix, compared to military, and a reduced backlog on certain military programs. It also includes the impact of a lower CAD/US exchange rate used to convert the progress billings denominated in US dollars for the U.S. subsidiaries, when compared to March 31, 2012 (exchange impact of \$0.1 million)
- H- The higher income taxes payable mainly reflect the impact from the sale transaction.
- I- The decrease of \$39.4 million in current and long-term debt reflects the partial repayment of US\$37.5 million (\$37.0 million) against the Credit Facility and, the repayment of other long-term debt (\$3.5 million) net of interest accretion on increased governmental authorities' loans (\$0.9 million) and amortization of deferred financing costs related to the Credit Facility (\$0.2 million).
- J- The increase of \$2.4 million represents the common shares issued under the Corporation's stock purchase and ownership incentive plan (\$0.2 million) and following the exercise of stock options (\$2.2 million).
- K- The increase of \$116.9 million reflects the Corporation's net income for the period ended September 30, 2012, partially offset by the negative impact from the lower interest rate to discount the defined benefit pension plan obligations for the same period.

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

	September 30, 2012	March 31, 2012
Working capital ratio	3.54:1	2.76:1
Cash and cash equivalents	\$291.2 million	\$62.0 million
Long-term debt-to-equity ratio	0.15:1	0.44:1
Net debt-to-equity ratio ⁽¹⁾	(0.63:1)	0.23:1

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

Government assistance

During the quarter ended September 30, 2012, the Corporation recorded as a reduction of cost of sales an amount of \$0.6 million (\$0.8 million last year), and as a reduction of the related capital expenditures or capitalized development costs, an amount of \$0.9 million (\$0.2 million last year) for government assistance. At year-to-date, the Corporation recorded \$1.1 million (\$1.2 million last year) as a reduction of cost of sales and \$1.3 million (\$1.4 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 related mainly to the development costs for long-term Aerospace contracts.

Derivatives, Off-Balance-Sheet Items and Commitments

As at September 30, 2012, the Corporation had operating lease obligations amounting to \$1.4 million for facilities. These amounts are repayable over the current and next six fiscal years. The Corporation also had additions to facilities, machinery and equipment purchase commitments totalling \$0.2 million (see Note 16 to the interim condensed consolidated financial statements).

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

At September 30, 2012, the Corporation had forward foreign exchange contracts with Canadian chartered banks to sell US\$136.3 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.0498. These contracts relate mainly to its export sales, and mature at various dates between October 2012 and March 2016, but mainly this and next fiscal year (see Note 10 to the interim condensed consolidated financial statements). This compares to US\$145.3 million and US\$164.8 million in forward foreign exchange contracts held at March 31, 2012 and September 30, 2011 respectively, at a weighted-average exchange rate of 1.0620 and 1.0742 respectively.

At September 30, 2012 and March 31, 2012, the Corporation had also entered into forward foreign exchange contracts to sell US\$4.7 million at a weighted-average rate (Canadian dollar over US dollar) of 1.2262. These contracts cover foreign exchange risks related to certain embedded derivatives and all mature in fiscal 2014. As at September 30, 2011, these contracts totalled US\$5.5 million at a weighted-average rate of 1.2292.

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

In August 2012, following the sale transaction and certain debt repayments, the Corporation repurchased two of the three interest rate swap agreements in place, representing a total notional amount of US\$30 million, for a total cost of \$1.7 million which was recorded as a transaction expense to the sale transaction. As a result, the Corporation only had one remaining interest-rate swap agreement that fix the Libor U.S. rate at 3.90% for a notional amount of US\$10 million at September 30, 2012.

In September 2012, the Corporation entered into a collar-option which allows the Corporation, on November 30, 2012, to sell US\$90 million at a minimum rate of 0.96 (Canadian dollar over US dollar) and a maximum rate of 1.0035. This derivative financial instrument is used as a hedge of net investments in U.S. operations.

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

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

Subsequent event - Special Distribution to Shareholders

On November 8, 2012, following the sale transaction, the Board of Directors of the Corporation approved a special cash distribution of \$5.00 per share to be paid on December 19, 2012 to shareholders of record on November 20, 2012. The Board of Directors determined that it was appropriate to proceed with this special distribution to the shareholders, following the sale transaction mentioned above, and that the Corporation would still maintain a healthy financial

situation, post-special distribution, considering, among other things, the expected capital and other investments and results of the Corporation.

In order to implement the special distribution, the Board of Directors has called a special shareholder meeting to be held on December 18, 2012 to consider the adoption of a special resolution to reduce the amount of the Corporation's issued capital by \$2.70 per share. The Board of Directors has also declared a special cash dividend in an amount to be equal to the difference between \$5.00 per share and the per share amount of the capital reduction that will be approved by the shareholders at the meeting, if any.

On a pro-forma basis, at September 30, 2012, taking into account the \$5.00 per share special cash distribution to the shareholders totalling approximately \$160.0 million (based on up to 32 million shares) and assuming that the special distribution will be composed of a capital reduction of \$2.70 per share (\$86.4 million) and a dividend of \$2.30 per share (\$73.6 million), the Corporation's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio represent the following:

	Pro-Forma September 30, 2012⁽²⁾	Actual September 30, 2012
Working capital ratio	3.08:1	3.54:1
Cash and cash equivalents	\$51.1 million	\$291.2 million
Long-term debt-to-equity ratio	0.16:1	0.15:1
Net debt-to-equity ratio ⁽¹⁾	(0.06:1)	(0.63:1)

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

(2): Net of the Credit Facility used, as well as income tax and expenses payable in regards to the sale transaction.

Financial and Economic Situation

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

While the Corporation's backlog remains strong, deferrals or cancellations of purchase orders could have an adverse impact on future results. The Corporation is striving to maintain a well-balanced portfolio between commercial and military aerospace sales, as well as between new

component manufacturing and aftermarket products and services. This balance should help reduce the risks associated with any potential slowdown in specific markets.

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

From a financial standpoint, the Corporation has a healthy balance sheet. Following the sale transaction concluded on August 31, 2012, the Corporation had cash and cash equivalents of \$291.2 million as at September 30, 2012. The Corporation is in compliance with all of its financial covenants and expects to remain compliant through the next fiscal year, taking into account the special cash distribution explained above. Considering its cash position, that its 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 its major customers are government or worldwide leaders in their respective fields, the Corporation does not expect to have any liquidity issues. The 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. The Corporation has not yet assessed the impact of the adoption of this standard on its consolidated financial statements.

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. The Corporation will adopt this new standard for its fiscal year beginning on April 1, 2013, and this new standard will have a minimal impact on the consolidated financial statements.

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. The Corporation will adopt this new standard for its fiscal year beginning on April 1, 2013, and this new standard will have an impact on the presentation of the consolidated statement of comprehensive income, while it will have no impact on the accumulated other comprehensive income.

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 will adopt this new standard for its fiscal year beginning on April 1, 2013. The impact of this new standard, should it have been applied to the Corporation's results for the six-month period ended September 30, 2012, would have increased the pension expense by \$218,000 (\$159,000 net of income tax expense).

INTERNAL CONTROLS AND PROCEDURES

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

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

RISKS AND UNCERTAINTIES

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

(\$'000 Except per share data)	Fiscal Year 2013		Fiscal Year 2012				Fiscal Year 2011	
	Sept. 30, 2012	June 30, 2012	March 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	March 31, 2011	Dec. 31, 2010
Average exchange rate used to translate revenues (sales) and expenses ⁽¹⁾ (\$Canadian / 1 equivalent \$US)	0.9948	1.0102	1.0012	1.0231	0.9802	0.9676	0.9860	1.0128
Sales from continuing operations	57,684	63,780	74,784	61,988	55,464	61,292	67,960	57,993
EBITDA from continuing operations	6,972	8,253	11,412	10,239	7,300	8,496	9,118	9,064
Net Income from continuing operations	2,724	3,025	5,602	4,505	2,481	3,287	3,054	2,958
Net income	112,724	6,283	8,962	6,910	4,812	5,797	7,992	5,165
Earnings per share for continuing operations (\$) - Basic	0.09	0.10	0.20	0.13	0.08	0.11	0.10	0.10
Earnings per share for continuing operations (\$) - Diluted	0.09	0.10	0.20	0.13	0.08	0.11	0.10	0.10
Earnings per share (\$) - Basic	3.68	0.21	0.29	0.23	0.16	0.19	0.26	0.17
Earnings per share (\$) - Diluted	3.64	0.20	0.29	0.23	0.16	0.19	0.26	0.17

⁽¹⁾ Exclusive of forward foreign exchange contracts.

OUTLOOK

Conditions remain mostly favourable in the commercial aerospace market driven by sustained demand from developing economies that offsets softer conditions in the mature European and North American markets. The IATA's most recent forecast calls for 5.3% growth in the passenger market for calendar 2012, to be followed by a 4.5% increase in calendar 2013. Meanwhile, air cargo volume is expected to shrink 0.4% in calendar 2012, but should grow by 2.4% in calendar 2013.¹

In the large commercial aircraft segment, manufacturers are proceeding with production rate increases scheduled on leading programs up to calendar 2014.² Reflecting these increases, Boeing and Airbus are each forecasting increased deliveries in calendar 2012 compared with the previous year. Furthermore, their solid order backlogs represent approximately seven years of production at current rates.

Confirming the anticipated recovery in the business jet market, aircraft shipments increased 13.1% in the first half of calendar 2012. Furthermore, industry sources are calling for sustained growth over a period of possibly five years. Indicators continue to support a recovery, as aircraft

¹ Source : IATA Industry Financial Forecast September 2012

² Sources: Airbus press releases May 18, 2011; February 3, 2011. Boeing press releases June 15, 2011; January 10, 2012; October 23, 2012.

utilization is modestly increasing and the number of used aircraft for sale, as a percentage of the fleet, remains relatively stable.³

The military aerospace market remains uncertain, as governments address their deficits. The proposed defense budget funding request for the United States' 2013 fiscal year calls for a 1% base budget reduction.⁴ Still, the Corporation believes its diversified military portfolio, balanced between new component manufacturing and aftermarket products and services, should lessen its exposure to defense budget cutbacks.

As at September 30, 2012, Héroux-Devtek's funded (firm orders) backlog stood at \$378 million, versus \$385 million three months earlier. Despite this solid backlog and strong customer relationships, the Corporation will continue to enhance productivity and streamline its cost base to remain competitive in light of the increasingly global character of the aerospace industry.

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

Assuming the Canadian dollar remains at parity versus the US currency and considering forward foreign exchange contracts, the Corporation anticipates an internal sales growth of approximately 5% for the fiscal year ending March 31, 2013 for its continuing operations.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and by the Board of Directors on November 8, 2012. Updated information on the Corporation can be found on the SEDAR website, at www.sedar.com.

³ Sources: GAMA, JETNET, FAA, Teal Group.

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