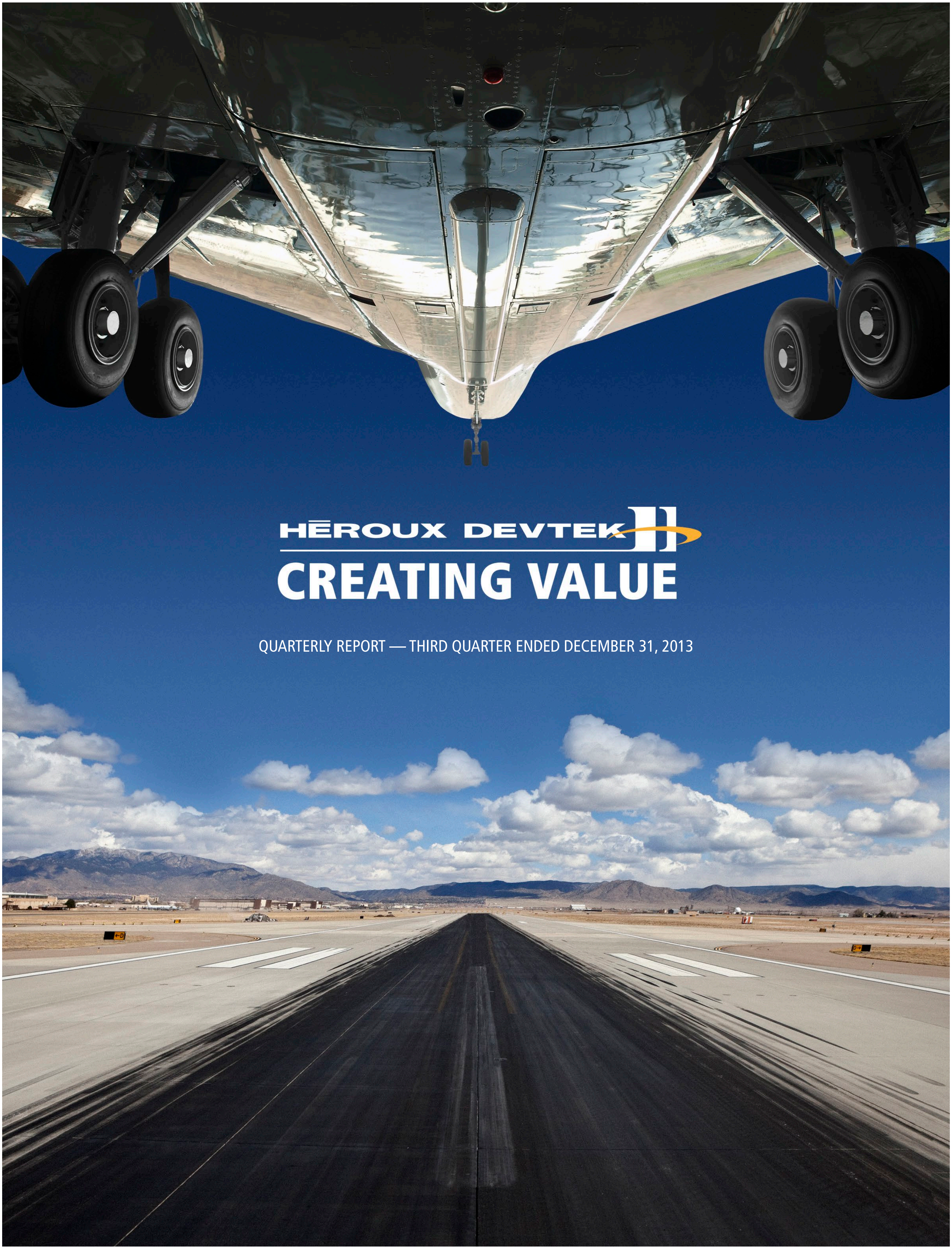

HÉROUX DEVTEK

CREATING VALUE

QUARTERLY REPORT — THIRD QUARTER ENDED DECEMBER 31, 2013

MESSAGE TO SHAREHOLDERS
Third quarter ended December 31, 2013

On behalf of the Board of Directors, I am pleased to present the financial results for Héroux-Devtek's third quarter ended December 31, 2013.

Consolidated sales from continuing operations amounted to $61.4 million, stable compared with $61.7 million in the third quarter of fiscal 2013. Fluctuations in the value of the Canadian currency versus the US currency increased third-quarter sales by $0.2 million compared with last year's third quarter. Sales to the commercial aerospace market increased 3.2% to $28.5 million resulting from new actuator business and production rate increase on the B-777 program, partially offset by lower volume to the regional jet market. Sales to the military aerospace market declined 3.4% to $33.0 million due to a slowdown in repair and overhaul activity, lower spare parts requirements, mainly on the B-2 and F-15 programs, and reduced electronic enclosure and cabinet sales at Magtron resulting from lower customer demand. These factors were partially offset by new business with Boeing on the CH-47 Chinook helicopter program. Lower military sales also reflect a weak U.S. military market due to reduced base defense budget funding and sequestration.

Gross profit reached $10.0 million, or 16.3% of sales, up from $9.4 million, or 15.1% of sales, last year. This increase reflects a favourable military aftermarket product mix, partially offset by a higher under-absorption of manufacturing overhead costs resulting from reduced repair and overhaul activity and lower spare parts volume. Excluding acquisition-related costs of $1.1 million before income taxes, equivalent to $0.04 per diluted share net of income taxes, adjusted EBITDA from continuing operations totalled $8.3 million, or 13.5% of sales, compared with $7.7 million, or 12.4% of sales, last year.

Net income from continuing operations was $2.6 million, or $0.08 per diluted share, in the third quarter of fiscal 2014, versus $3.2 million, or $0.10 per diluted share, in the third quarter of fiscal 2013. Excluding acquisition-related costs net of taxes, earnings per share stood at $0.12 per diluted share in the third quarter of fiscal 2014.

For the first nine months of fiscal 2014, consolidated sales from continuing operations reached $180.8 million, versus $183.2 million a year earlier. Currency variations increased sales by $0.4 million, but reduced gross profit by $1.2 million in the first nine months of fiscal 2014. Excluding acquisition-related costs of $1.4 million before income taxes, equivalent to $0.04 per diluted share net of income taxes, adjusted EBITDA from continuing operations stood at $22.6 million, or 12.5% of sales, compared with $22.9 million, or 12.5% of sales, a year earlier. Net income from continuing operations totalled $8.0 million, or $0.25 per diluted share, versus $8.8 million, or $0.29 per diluted share, in the prior year. Excluding acquisition-related costs net of taxes, earnings per share stood at $0.29 per diluted share in the first nine months of fiscal 2014.

As at December 31, 2013, Héroux-Devtek's balance sheet was healthy with cash and cash equivalents of $98.2 million, or $3.11 per share. At that same date, total debt was $69.7 million, including $23.4 million drawn against the Corporation's authorized Credit Facility of $150.0 million, but excluding net deferred financing costs. As a result, the Corporation's net cash position stood at $28.6 million as at December 31, 2013.

The main highlight of the quarter was the signature, by our wholly-owned subsidiary HDI Landing Gear USA Inc., of a long-term contract with Boeing, to supply complete landing gear systems for the B-777 and B-777X programs. Under the terms of this multi-year contract, the largest ever awarded to our Landing Gear operations, HDI Landing Gear USA Inc. will supply complete landing gear systems, including the main and nose landing gear, and the nose landing gear drag strut. The contract includes manufacturing parts for Boeing to sell in the aftermarket. Deliveries would begin in early calendar 2017, with an option to extend the contract through 2028. We are in the process of finalizing our plan for capital investments required to carry out this mandate. This plan will allow Héroux-Devtek to provide Boeing with cost-effective products of superior quality.

Subsequent to the end of the quarter, Héroux-Devtek announced the acquisition of U.K.-based APPH Limited and U.S.-based APPH Wichita, Inc. (together “APPH”). APPH is an integrated provider of landing gear and hydraulic systems and assemblies for original equipment manufacturer (“OEM”) and aftermarket applications. Héroux-Devtek is acquiring four plants in the United Kingdom and one plant in Wichita, Kansas. These plants have a combined workforce of approximately 400 employees, including a design engineering department staffed with 40 professionals. For the 12-month period ended December 31, 2013, APPH generated revenues of approximately US$77 million and an adjusted EBITDA of approximately US$12.5 million. The purchase price, net of about US$4 million of cash acquired, is approximately US$124 million. The transaction is being financed with the Corporation’s available cash and existing credit facilities.

As at December 31, 2013, Héroux-Devtek’s funded (firm orders) backlog stood at $368 million, versus $361 million at the beginning of the fiscal year, and remains well diversified. This variation reflects initial orders for the long-term contract to supply complete landing gear systems for the B-777 program, partially offset by a lower backlog on certain military programs. On a pro forma basis, the backlog reaches $448 million.

Conditions remain favourable in the commercial aerospace market. Large commercial aircraft manufacturers achieved record deliveries in calendar 2013 and, reflecting robust new orders, their backlogs remain strong, representing eight years of production at current rates. In the business jet market, key indicators indicate a recovery to be sustained over the next few 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 is expected to remain difficult. Although a recent U.S. budgetary agreement may partially alleviate cutbacks imposed by sequestration, conditions remain challenging and the situation could affect the Corporation beyond the current fiscal year, despite having a diversified military portfolio, balanced between new component manufacturing and aftermarket products and services, that should lessen this impact.

Looking ahead, the fourth quarter has historically been our strongest period and this fiscal year should be no exception, but we anticipate that consolidated sales for the fiscal year ending March 31, 2014 will be slightly lower than last year, excluding the impact of the APPH acquisition. For the next fiscal year ending March 31, 2015, Héroux-Devtek will continue to benefit from the sustained strength of the commercial aerospace market and will increasingly gain from the contribution of its design and development programs. These factors should offset persistent weakness in the military aerospace sector, resulting in sales that are expected to remain relatively stable, excluding the impact of the APPH acquisition. More importantly, the significant and immediate strategic benefits stemming from the acquisition of APPH will strengthen our competitive position in the global landing gear market and create further value for our shareholders.

Gilles Labbé
President and Chief Executive Officer
February 7, 2014

HÉROUX DEVTEK

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the quarter ended December 31, 2013

Notice of Disclosure of Non-Auditor Review of Interim Condensed Consolidated Financial Statements for the quarters ended December 31, 2013 and 2012.

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

The accompanying unaudited interim condensed consolidated financial statements of the Corporation for the quarters ended December 31, 2013 and 2012, 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.

February 6, 2014.

CONSOLIDATED BALANCE SHEETS
As at December 31, 2013 and March 31, 2013
(In thousands of Canadian dollars) (Unaudited)

	Notes	December 31, 2013	March 31, 2013
Assets	**12**		
Current assets			
Cash and cash equivalents	**9**	**$ 98,219**	$ 101,256
Accounts receivable		**38,852**	46,550
Income tax receivable		**471**	858
Inventories		**102,968**	100,817
Derivative financial instruments	**10**	**249**	2,935
Other current assets	**11**	**15,913**	12,577
		256,672	264,993
Property, plant and equipment, net	**5**	**76,956**	78,186
Finite-life intangible assets, net	**5**	**32,559**	26,472
Derivative financial instruments	**10**	**—**	284
Deferred income tax assets		**1,812**	—
Goodwill		**19,430**	19,180
Total assets		**$ 387,429**	$ 389,115
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		**$ 39,007**	$ 44,302
Accounts payable - other		**996**	2,378
Provisions		**8,634**	8,901
Progress billings		**7,001**	10,211
Income tax payable		**64**	2,549
Derivative financial instruments	**10**	**2,539**	1,655
Current portion of long-term debt	**12**	**3,456**	3,808
		61,697	73,804
Long-term debt	**12**	**65,214**	59,149
Provisions		**4,713**	5,071
Progress billings		**923**	2,068
Derivative financial instruments	**10**	**1,865**	909
Deferred income tax liabilities		**11,383**	12,425
Other liabilities – Pension and other retirement benefit plans		**6,022**	13,036
		151,817	166,462
Shareholders' equity			
Issued capital	**13**	**25,565**	25,365
Contributed surplus		**1,305**	1,222
Accumulated other comprehensive income	**14**	**3,748**	2,647
Retained earnings		**204,994**	193,419
		235,612	222,653
		$ 387,429	$ 389,115

Discontinued operations, Commitments, Contingencies and Subsequent events (notes 4, 16, 17 and 19)

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

CONSOLIDATED STATEMENTS OF INCOME
For the periods ended December 31, 2013 and 2012
(In thousands of Canadian dollars, except per share data) (Unaudited)

	Notes	Quarters ended December 31, 2013	Quarters ended December 31, 2012	Nine months ended December 31, 2013	Nine months ended December 31, 2012
			(Restated - note 3)		(Restated - note 3)
Continuing operations	**4**				
Sales		**$ 61,448**	$ 61,742	**$ 180,822**	$ 183,206
Cost of sales	**5, 6**	**51,438**	52,392	**153,789**	155,477
Gross profit		**10,010**	9,350	**27,033**	27,729
Selling and administrative expenses	**5, 6**	**4,745**	4,640	**13,932**	14,103
Acquisition-related costs	**6, 19**	**1,116**	—	**1,380**	—
Operating income		**4,149**	4,710	**11,721**	13,626
Financial expenses	**7**	**917**	621	**2,603**	2,816
Income before income tax expense from continuing operations		**3,232**	4,089	**9,118**	10,810
Income tax expense		**624**	873	**1,112**	2,003
Net income from continuing operations		**2,608**	3,216	**8,006**	8,807
Discontinued operations	**4**	**—**	1,289	**—**	114,547
Net income		**$ 2,608**	$ 4,505	**$ 8,006**	$ 123,354
Earnings per share from continuing operations – basic	**8**	**$ 0.08**	$ 0.10	**$ 0.25**	$ 0.29
Earnings per share from continuing operations – diluted	**8**	**$ 0.08**	$ 0.10	**$ 0.25**	$ 0.29
Earnings per share – basic	**8**	**$ 0.08**	$ 0.14	**$ 0.25**	$ 4.01
Earnings per share – diluted	**8**	**$ 0.08**	$ 0.14	**$ 0.25**	$ 3.99

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the periods ended December 31, 2013 and 2012
(In thousands of Canadian dollars) (Unaudited)

For the quarters ended December 31,

	Notes	2013	2012
	14		(Restated - note 3)
Other comprehensive income from continuing operations:			
Items that may be reclassified to net income			
Gain arising from translating the financial statements of foreign operations		$ **3,532**	$ 1,948
Cash flow hedges:			
Net losses on valuation of derivative financial instruments		**(3,230)**	(177)
Net (gains) losses on derivative financial instruments transferred to net income		**219**	(2,720)
Deferred income taxes		**800**	769
		(2,211)	(2,128)
Losses on hedge of net investments in U.S. operations		**(732)**	(257)
Deferred income taxes		**96**	33
		(636)	(224)
Items that are never reclassified to net income			
Defined benefit pension plans:			
Actuarial gains		**732**	197
Net change in asset limit and minimum funding requirements		**520**	—
Deferred income taxes		**(334)**	(52)
		918	145
Other comprehensive income (loss) from continuing operations		**1,603**	(259)
Other comprehensive income (loss)		$ **1,603**	$ (259)

	Notes	2013	2012
Comprehensive income			
Continuing operations:			
Net income		$ **2,608**	$ 3,216
Other comprehensive income (loss)		**1,603**	(259)
Comprehensive income from continuing operations		**4,211**	2,957
Discontinued operations:			
Net income	4	**—**	1,289
Comprehensive income from discontinued operations		**—**	1,289
Comprehensive income		$ **4,211**	$ 4,246

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the periods ended December 31, 2013 and 2012
(In thousands of Canadian dollars) (Unaudited)

For the nine-month periods ended December 31,

	Notes	2013	2012
	14		(Restated - note 3)
Other comprehensive income from continuing operations:			
Items that may be reclassified to net income			
Gain arising from translating the financial statements of foreign operations		**$ 5,021**	$ 1,054
Cash flow hedges:			
Net gains (losses) on valuation of derivative financial instruments		**(3,820)**	3,303
Net gains on derivative financial instruments transferred to net income		**(273)**	(6,791)
Deferred income taxes		**1,084**	918
		(3,009)	(2,570)
Gains (losses) on hedge of net investments in U.S. operations		**(1,047)**	106
Deferred income taxes		**136**	(13)
		(911)	93
Items that are never reclassified to net income			
Defined benefit pension plans:			
Actuarial gains (losses)		**4,874**	(2,490)
Deferred income taxes		**(1,305)**	664
		3,569	(1,826)
Other comprehensive income (loss) from continuing operations		**4,670**	(3,249)
Discontinued operations	4	**—**	2,181
Other comprehensive income (loss)		**$ 4,670**	$ (1,068)
Comprehensive income			
Continuing operations:			
Net income		**$ 8,006**	$ 8,807
Other comprehensive income (loss)		**4,670**	(3,249)
Comprehensive income from continuing operations		**12,676**	5,558
Discontinued operations:			
Net income	4	**—**	114,547
Other comprehensive income	4	**—**	2,181
Comprehensive income from discontinued operations		**—**	116,728
Comprehensive income		**$ 12,676**	$ 122,286

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the periods ended December 31, 2013 and 2012
(In thousands of Canadian dollars) (Unaudited)

For the nine-month period ended December 31, 2013

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Shareholders' equity
Balance as at March 31, 2013		**$ 25,365**	**$ 1,222**	**$ 2,647**	**$ 193,419**	**$ 222,653**
Common shares issued under the Stock purchase and ownership incentive plan	**13**	**200**	**—**	**—**	**—**	**200**
Stock-based compensation expense	**13**	**—**	**83**	**—**	**—**	**83**
Net income		**—**	**—**	**—**	**8,006**	**8,006**
Other comprehensive income		**—**	**—**	**1,101**	**3,569**	**4,670**
Balance as at December 31, 2013		**$ 25,565**	**$ 1,305**	**$ 3,748**	**$ 204,994**	**$ 235,612**

For the nine-month period ended December 31, 2012

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income (loss)	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		8,003	(1,946)	—	—	6,057
Cancelled under the Stock option plan		—	(258)	—	—	(258)
Issued under the Stock purchase and ownership incentive plan		210	—	—	—	210
Stock-based compensation expense	**13**	—	253	—	—	253
Special distribution to shareholders	**4**	(85,152)	—	—	(72,536)	(157,688)
Net income (1)		—	—	—	123,354	123,354
Other comprehensive income (loss) (1)		—	—	758	(1,826)	(1,068)
Balance as at December 31, 2012		**$ 25,263**	**$ 1,108**	**$ 3,273**	**$ 185,183**	**$ 214,827**

(1) Restated - note 3

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the periods ended December 31, 2013 and 2012
(In thousands of Canadian dollars) (Unaudited)

	Notes	Quarters ended December 31, 2013	Quarters ended December 31, 2012	Nine months ended December 31, 2013	Nine months ended December 31, 2012
Cash and cash equivalents provided by (used for):			(Restated - note 3)		(Restated - note 3)
Operating activities					
Net income from continuing operations		**$ 2,608**	$ 3,216	**$ 8,006**	$ 8,807
Items not requiring an outlay of cash:					
Amortization expense	**6**	**3,021**	2,962	**9,450**	9,306
Deferred income taxes		**(1,591)**	125	**(2,759)**	(654)
Gain on sale of property, plant and equipment		**—**	(25)	**(40)**	(122)
Non-cash financial expenses	**7**	**651**	660	**1,806**	2,406
Stock-based compensation expense	**13**	**20**	60	**83**	253
Cash flows from continuing operations		**4,709**	6,998	**16,546**	19,996
Net change in non-cash items related to continuing operations	**15**	**(1,104)**	437	**(6,402)**	(8,490)
Cash flows related to operating activities from continuing operations		**3,605**	7,435	**10,144**	11,506
Cash flows related to operating activities from discontinued operations		**—**	—	**(1,641)**	8,273
Cash flows related to operating activities		**3,605**	7,435	**8,503**	19,779
Investing activities					
Additions to property, plant and equipment		**(5,422)**	(3,081)	**(11,853)**	(9,232)
Net increase in finite-life intangible assets		**(1,173)**	(2,340)	**(6,437)**	(4,841)
Proceeds on disposal of property, plant and equipment		**—**	45	**47**	137
Net proceeds from sale of discontinued operations	**4**	**—**	(48,319)	**—**	224,477
Cash flows related to investing activities of discontinued operations		**—**	—	**—**	(4,294)
Cash flows related to investing activities		**(6,595)**	(53,695)	**(18,243)**	206,247
Financing activities					
Increase in long-term debt	**12**	**6,294**	1,224	**6,294**	1,224
Repayment of long-term debt	**4**	**(390)**	(3,079)	**(3,437)**	(43,517)
Issuance of common shares	**13**	**67**	4,388	**200**	6,267
Special distribution to shareholders	**4**	**—**	(157,688)	**—**	(157,688)
Cash flows related to financing activities of discontinued operations		**—**	—	**—**	(3,208)
Cash flows related to financing activities		**5,971**	(155,155)	**3,057**	(196,922)
Effect of changes in exchange rates on cash and cash equivalents		**2,560**	1,580	**3,646**	280
Change in cash and cash equivalents during the periods		**5,541**	(199,835)	**(3,037)**	29,384
Cash and cash equivalents at beginning of periods		**92,678**	291,226	**101,256**	62,007
Cash and cash equivalents at end of periods		**$ 98,219**	$ 91,391	**$ 98,219**	$ 91,391
Interest and taxes reflected in operating activities:					
Interest paid for continuing operations		**$ 396**	$ 343	**$ 1,147**	$ 1,020
Interest received from continuing operations		**$ 128**	$ 382	**$ 349**	$ 610
Income taxes paid for continuing operations		**$ 69**	$ 204	**$ 1,199**	$ 4,922
Interest paid for discontinued operations		**$ —**	$ 466	**$ —**	$ 1,721
Income taxes paid for discontinued operations		**$ —**	$ 49,145	**$ 1,641**	$ 49,577

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

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 airborne radar, electro-optic systems and aircraft controls through its Magtron operations (see note 4 – Discontinued operations).

Note 2. Basis of preparation

The interim condensed consolidated financial statements for the quarter ended December 31, 2013 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, except for the changes in accounting policies described in note 3. Accordingly, these interim condensed consolidated financial statements for the quarter ended December 31, 2013 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, 2013.

These interim condensed consolidated financial statements were approved for issue by the Board of Directors of the Corporation on February 6, 2014.

Note 3. Changes in accounting policies

On April 1, 2013, the Corporation adopted retrospectively the standards below in accordance with required changes from the International Accounting Standard Board. The adoption of these new standards did not have a material impact on prior periods comparative figures.

IAS 1 *Financial Statement Presentation*

The amended IAS 1, *Presentation of Financial Statements* was adopted retrospectively effective April 1st, 2013. The principal change resulting from the amendments to IAS 1 is the requirement to present separately other comprehensive income items that may be reclassified to income from other comprehensive items that will not be reclassified to income in the consolidated statement of comprehensive income.

IFRS 13 *Fair Value Measurements*

The IFRS 13, *Fair Value Measurements* was adopted retrospectively effective April 1st, 2013, and is a new and comprehensive standard that sets out a framework for measuring at fair value and that provides guidance on required disclosures about fair value measurements.

IAS 19 *Employee Benefits*

The amended IAS 19, *Employee Benefits* was adopted retrospectively effective April 1st, 2013. 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). Also, the net interest cost is now presented in the financial expenses. 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 changes in accounting policy have been accounted for retrospectively in accordance with the transition rules of the amended IAS 19 and the additional required disclosures will be provided in our annual consolidated financial statements for fiscal year 2014.

The impact of the adoption of the amended IAS 19, *Employee Benefits* on the consolidated statement of income and consolidated statement of comprehensive income for the quarter and nine-month period ended December 31, 2012 are as follows:

	Quarter ended	Nine months ended
● Decrease of cost of sales	$ (18)	$ (53)
● Increase of financial expenses	126	378
● Decrease of income tax expense	(28)	(87)
● Decrease of net income from continuing operations and net income	(80)	(238)
● Decrease of actuarial losses, net of income taxes	(80)	(238)
● Increase of other comprehensive income from continuing operations and other comprehensive income	80	238

Note 4. Discontinued operations and special distribution

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 excluded from the Corporation’s segmented information. Following this sale transaction, the Corporation is 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, of $297.8 million paid in cash. Taking into consideration the post-closing adjustments finalized during the last quarter of fiscal year 2013, the net gain amounted to $111.2 million.

Last year, concurrently to the sale transaction, the Corporation proceeded with a $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 transaction related costs to the sale transaction.

Following the sale transaction explained above, income and expenses from discontinued operations before August 31, 2012 are reported separately from income and expenses from continuing operations, down to the level of net income in the consolidated statements of income for all quarters of the fiscal year ended March 31, 2013.

Net income related to the discontinued operations for the quarter and nine-month period ended December 31, 2012, are presented as follows:

	Quarter ended	Nine months ended
Sales	$ —	$ 58,081
Cost of sales	—	45,423
Gross profit	—	12,658
Selling and administrative expenses	—	3,207
Operating income	—	9,451
Financial expenses	—	1,047
Gain from sale of discontinued operations	1,491	159,177
Income before income tax expense from discontinued operations	1,491	167,581
Income tax expense related to discontinued operations	—	2,272
Income tax expense related to the gain from sale of discontinued operations	202	50,762
Net income from discontinued operations	$ 1,289	$ 114,547
Earnings per share from discontinued operations - basic	$ 0.04	$ 3.72
Earnings per share from discontinued operations - diluted	$ 0.04	$ 3.71

Comprehensive income related to the discontinued operations for the quarter and nine-month period ended December 31, 2012, are presented as follows:

	Quarter ended	Nine months ended
Other comprehensive income:		
Items that may be reclassified to net income		
Gain arising from translating the financial statements of foreign operations	$ —	$ 760
Cash flow hedges:		
Net gains on valuation of derivative financial instruments	—	1,355
Deferred income taxes	—	(365)
	—	990
Gains on hedge of net investments in U.S. operations	—	495
Deferred income taxes	—	(64)
	—	431
Other comprehensive income from discontinued operations	—	2,181
Net income from discontinued operations	1,289	114,547
Comprehensive income from discontinued operations	$ 1,289	$ 116,728

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 paid on December 19, 2012 to shareholders of record on November 20, 2012 ("special distribution").

The special distribution to shareholders of $5.00 per share which represented a cash distribution of $157,495 (based on 31,498,905 common shares outstanding on November 20, 2012) made on December 19, 2012 was composed of and recorded as an issued capital reduction of $2.70 per share ($85,047) and of a special cash dividend of $2.30 per share ($72,448) recorded against retained earnings. The transaction costs related to this special distribution to shareholders amounted to $193, net of income taxes, of which $105 was recorded as a reduction of issued capital and $88 against retained earnings.

Note 5. Government assistance

During the quarter ended December 31, 2013, the Corporation recorded as government assistance for continuing operations an amount of $831 ($324 in 2012) as a reduction of incurred cost of sales and selling and administrative expenses and an amount of $1,987 ($531 in 2012) as a reduction of the related property, plant and equipment or capitalized development costs, presented under finite-life intangible assets.

During the nine-month period ended December 31, 2013, the Corporation recorded as government assistance for continuing operations an amount of $2,347 ($1,456 in 2012) as a reduction of incurred cost of sales and selling and administrative expenses and an amount of $3,501 ($1,835 in 2012) as a reduction of the related property, plant and equipment or capitalized development costs, presented under finite-life intangible assets.

Note 6. Cost of sales, selling and administrative expenses and acquisition-related costs

The main components of these expenses related to continuing operations for the quarters and nine-month periods ended December 31, are as follows:

	Quarters ended December 31,		Nine months ended December 31,	
	2013	**2012**	**2013**	**2012**
		(Restated - note 3)		(Restated - note 3)
Raw materials and purchased parts	**$ 23,450**	$ 23,184	**$ 71,348**	$ 70,444
Employee costs	**22,803**	23,346	**67,645**	68,153
Amortization of property, plant and equipment and finite-life intangible assets	**3,021**	2,962	**9,450**	9,306
Others	**8,025**	7,540	**20,658**	21,677
	$ 57,299	$ 57,032	**$ 169,101**	$ 169,580

Foreign exchange gains or losses resulting from the translation of net monetary items denominated in foreign currencies are included in the Corporation's selling and administrative expenses. During the quarter ended December 31, 2013, the foreign exchange gain included in the Corporation's selling and administrative expenses amounted to $256 ($127 in 2012) while it represented a gain of $667 ($138 in 2012) for the nine-month period ended December 31, 2013.

Note 7. Financial expenses

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

	Quarters ended December 31,		Nine months ended December 31,	
	2013	**2012**	**2013**	**2012**
		(Restated - note 3)		(Restated - note 3)
Interest expense	**$ 254**	$ 199	**$ 725**	$ 665
Interest accretion on governmental authorities loans	**331**	361	**1,264**	1,246
Interest on net defined benefit obligations	**114**	126	**343**	378
Amortization of deferred financing costs (note 12)	**110**	110	**330**	330
Standby fees	**140**	144	**421**	355
Other interest accretion expense and discount rate adjustments	**96**	63	**(131)**	452
	1,045	1,003	**2,952**	3,426
Interest income on cash and cash equivalents	**128**	382	**349**	610
	$ 917	$ 621	**$ 2,603**	$ 2,816

Note 8. Earnings per share

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

	Quarters ended December 31,		Nine months ended December 31,	
	2013	**2012**	**2013**	**2012**
Weighted-average number of common shares outstanding	**31,534,391**	31,182,115	**31,525,869**	30,753,456
Effect of dilutive stock options of the Corporation	**172,296**	156,939	**165,347**	133,602
Weighted-average number of common diluted shares outstanding	**31,706,687**	31,339,054	**31,691,216**	30,887,058

The diluted earnings per share calculation does not take into consideration the potential dilutive effect of certain stock options of the Corporation since their impact is anti-dilutive. During the quarter and nine-month period ended December 31, 2013, no stock options of the Corporation's plan (none for the quarter and for the nine-month period in 2012) were excluded from the diluted earnings per share calculation.

Note 9. Cash and cash equivalents

	December 31, 2013	**March 31, 2013**
Cash at banks	**$ 88,195**	$ 91,236
Short-term deposits	**10,024**	10,020
	$ 98,219	$ 101,256

Cash at banks earns interest at floating rates based on daily bank deposit rates. 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 December 31, 2013, the Corporation had forward foreign exchange contracts to sell US$111.7 million at a weighted-average rate of 1.0368 (Canadian dollar over U.S. dollar, "cad/usd"). As at March 31, 2013 and December 31, 2012, these contracts totalled US$123.5 million at a weighted-average rate of 1.0325 cad/usd and US$130.0 million at a weighted-average rate of 1.0405 cad/usd, respectively. As at December 31, 2013, these contracts mature at various dates between January 2014 and March 2017, with the majority maturing this and next fiscal years.

Interest rate swap agreements

As at December 31, 2013, March 31, 2013 and December 31, 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 3.91%, 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 for a total notional amount of US$30 million (see note 4 - Discontinued operations).

Note 11. Other current assets

		December 31, 2013		March 31, 2013
Investment and other tax credits receivable	$	**8,344**	$	9,051
Sales tax receivable		**1,082**		1,405
Deposits on machinery and equipment (note 16)		**3,757**		234
Prepaid expenses		**2,208**		1,540
Others		**522**		347
	$	**15,913**	$	12,577

Note 12. Long-term debt

		December 31, 2013		March 31, 2013
Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") of up to $150,000 - either in Canadian or U.S. currency equivalent, maturing on March 15, 2016, which bears interest at Libor plus 1.875% representing an effective interest rate of 2.1% as at December 31, 2013 and March 31, 2013, 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 December 31, 2013 and March 31, 2013, the Corporation used US$22,000 on the Credit Facility.	$	**23,399**	$	22,352
Governmental authorities loans, repayable in variable annual instalments, with various expiry dates until fiscal year 2030.		**41,950**		36,101
Obligations under finance leases, all bearing fixed interest rates between 3.3% and 6.5% as at December 31, 2013 and March 31, 2013, maturing from January 2016 to July 2019, with amortization periods ranging from five to seven years, secured by the related property, plant and equipment, net of interest of $339 ($542 as at March 31, 2013).		**4,309**		5,420
Promissory note		**—**		402
Deferred financing costs, net		**(988)**		(1,318)
		68,670		62,957
Less: current portion		**3,456**		3,808
	$	**65,214**	$	59,149

Note 13. Issued capital

For the quarter and nine-month period ended December 31, 2013, variations in common shares issued are as follows:

	Quarter ended December 31, 2013		Nine months ended December 31, 2013	
	Number	Issued capital	Number	Issued capital
Common shares issued and fully paid				
Opening balance	**31,529,553**	**$ 25,498**	**31,511,446**	**$ 25,365**
Issued for cash under the stock purchase and ownership incentive plan	**7,709**	**67**	**25,816**	**200**
Closing balance	**31,537,262**	**$ 25,565**	**31,537,262**	**$ 25,565**

Issuance of common shares

During the quarter and nine-month period ended December 31, 2013, the Corporation issued 7,709 and 25,816 common shares respectively, at weighted-average prices of $8.69 and $7.74 under the Corporation's stock purchase and ownership incentive plan for total cash considerations of $67 and $200.

During the quarter and nine-month period ended December 31, 2012, the Corporation issued 682,490 and 1,056,535 common shares respectively, at weighted-average prices of $6.43 and $5.93 for total cash considerations of $4,388 and $6,267. This includes 679,005 and 1,032,543 common shares which were issued, following the exercise of stock options for a total cash consideration of $4,346 and $6,057. During the quarter and nine-month period ended December 31, 2012, the initial fair value of these stock options, amounting to $1,443 and $1,946 respectively was transferred to the issued capital from the contributed surplus of the Corporation. The remainder of 3,485 and 23,992 common shares, respectively, were issued under the Corporation's stock purchase and ownership incentive plan for total cash considerations of $42 and $210.

A. Stock option plan

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

	Quarter ended December 31, 2013		Quarter ended December 31, 2012	
	Weighted-average exercise price	**Number of stock options**	Weighted-average exercise price	Number of stock options
Balance at beginning of quarter	**$3.30**	**259,101**	$6.82	945,906
Exercised	**—**	**—**	6.40	(679,005)
Balance at end of quarter	**$3.30**	**259,101**	$7.90	266,901

	Nine months ended December 31, 2013		Nine months ended December 31, 2012	
	Weighted-average exercise price	**Number of stock options**	Weighted-average exercise price	Number of stock options
Balance at beginning of period	**$3.30**	**259,101**	$6.48	1,411,344
Exercised	**—**	**—**	5.87	(1,032,543)
Cancelled / forfeited	**—**	**—**	8.79	(111,900)
Balance at end of period	**$3.30**	**259,101**	$7.90	266,901

For the quarter and nine-month period ended December 31, 2013, the stock option expense amounted to $20 and $83 respectively ($60 and $253 in 2012).

B. Stock purchase and ownership incentive plan

During the quarter and nine-month period ended December 31, 2013, 7,709 and 25,816 common shares were issued respectively (3,485 and 23,992 respectively in 2012) and 3,162 and 10,591 common shares were attributed to the participating employees (2,431 and 10,835 respectively in 2012), under the stock purchase and ownership incentive plan. For the quarter and nine-month period ended December 31, 2013, the expense related to the attributed common shares amounted to $31 and $92 respectively ($29 and $105 respectively in 2012).

C. Stock appreciation right ("SAR") plan

During the quarter and nine-month period ended December 31, 2013, 7,000 and 19,000 SARs were exercised respectively (53,200 and 85,700 respectively in 2012), no SARs were granted (none in 2012) and no SARs were cancelled (5,800 in the second quarter 2012). As at December 31, 2013, on a cumulative basis, 20,000 SARs were still outstanding (39,000 in 2012) at a weighted-average granted value of $1.60 ($7.39 in 2012) which expire on various dates in fiscal 2015 and 2016.

For the quarter and nine-month period ended December 31, 2013, SAR expense amounted to $32 and $74 respectively ($2 and $526 respectively in 2012).

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

D. DSU plan

As at December 31, 2013, on a cumulative basis, 62,940 DSUs were outstanding (47,871 as at December 31, 2012).

During the quarter and nine-month period ended December 31, 2013, no DSUs were issued (18,243 in the second quarter 2012), no DSUs were cancelled (none in 2012), 12,362 DSUs were exercised, all in the second quarter (8,090 in the second quarter 2012).

For the quarter and nine-month period ended December 31, 2013, DSU expense amounted to $99 and $216 respectively ($40 and $362 respectively in 2012).

Note 14. Accumulated other comprehensive income

Changes in accumulated other comprehensive income are as follows:

	Exchange differences on translation of foreign operations	Cash flow hedges	Hedge of net investments in U.S. operations	Total
Balance as at September 30, 2013	**$ 4,704**	**$ (735)**	**$ (906)**	**$ 3,063**
Other comprehensive income (loss) from continuing operations	3,532	(2,211)	(636)	685
Balance as at December 31, 2013	**$ 8,236**	**$ (2,946)**	**$ (1,542)**	**$ 3,748**
Balance as at March 31, 2013	**$ 3,215**	**$ 63**	**$ (631)**	**$ 2,647**
Other comprehensive income (loss) from continuing operations	5,021	(3,009)	(911)	1,101
Balance as at December 31, 2013	**$ 8,236**	**$ (2,946)**	**$ (1,542)**	**$ 3,748**

	Exchange differences on translation of foreign operations	Cash flow hedges	Hedge of net investments in U.S. operations	Total
Balance as at September 30, 2012	**$ (905)**	**$ 4,586**	**$ (4)**	**$ 3,677**
Other comprehensive income (loss) from continuing operations	1,948	(2,128)	(224)	(404)
Balance as at December 31, 2012	**$ 1,043**	**$ 2,458**	**$ (228)**	**$ 3,273**
Balance as at March 31, 2012	**$ (771)**	**$ 4,038**	**$ (752)**	**$ 2,515**
Other comprehensive income (loss) from continuing operations	1,054	(2,570)	93	(1,423)
Other comprehensive income from discontinued operations (note 4)	760	990	431	2,181
Balance as at December 31, 2012	**$ 1,043**	**$ 2,458**	**$ (228)**	**$ 3,273**

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

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

	Quarters ended December 31,		Nine months ended December 31,	
	2013	**2012**	**2013**	**2012**
		(Restated - note 3)		(Restated - note 3)
Accounts receivable	**$ (2,007)**	$ 765	**$ 7,698**	$ 6,115
Income tax receivable	**266**	—	**387**	—
Inventories	**(1,717)**	(691)	**(2,151)**	(4,262)
Other current assets	**(415)**	(2,547)	**187**	(3,523)
Accounts payable and accrued liabilities, accounts payable – other and, other liabilities	**2,083**	2,766	**(7,530)**	866
Provisions	**(208)**	(779)	**(625)**	(599)
Progress billings	**395**	620	**(4,355)**	(3,722)
Income tax payable	**(68)**	(128)	**(844)**	(3,048)
Effect of changes in exchange rate[1]	**567**	431	**831**	(317)
	$ (1,104)	$ 437	**$ (6,402)**	$ (8,490)

(1) Reflects the total impact of changes in exchange rate during the 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 machinery and equipment which have not been delivered yet to the Corporation's facilities. As at December 31, 2013, these outstanding purchase orders amounted to $10,755 ($2,391 as at March 31, 2013) for which an amount of $3,757 ($234 as at March 31, 2013) in deposits on machinery and equipment were made and are included in the Corporation's other current assets.

Note 17. Contingencies

On February 5, 2014, Goodrich Corporation, member of UTAS group, filed a request for arbitration against Devtek Aerospace Inc., a wholly-owned subsidiary of the Corporation, to the ICC International Court of Arbitration concerning a non-compete covenant contained in an agreement between Goodrich Corporation, and Devtek Aerospace Inc. The dispute involves the Corporation's planned activities relating to the manufacturing of pistons in support of a contract with The Boeing Company.

The Corporation disagrees with UTAS' position and firmly believes that it is acting in conformity with its agreements. While the Corporation cannot predict the final outcome of this arbitration, the Corporation intends to defend its position in this matter.

Note 18. Segment information

Geographic information

Geographic information related to the continuing operations represents the following:

Quarters ended December 31,	2013 Canada	2013 U.S.	2013 Total	2012 Canada	2012 U.S.	2012 Total
Sales	**$ 51,421**	**$ 10,027**	**$ 61,448**	$ 50,479	$ 11,263	$ 61,742
Property, plant and equipment, net	**64,454**	**12,502**	**76,956**	65,126	12,303	77,429
Finite-life intangible assets, net	**32,357**	**202**	**32,559**	25,746	470	26,216
Goodwill	**13,838**	**5,592**	**19,430**	13,838	5,231	19,069
Export sales[(1)]	**$ 29,692**			$ 30,805		

During the quarters ended December 31, 2013 and 2012, 61% and 63% of the Corporation's sales respectively were made to U.S. customers.

Nine months ended December 31,	2013 Canada	2013 U.S.	2013 Total	2012 Canada	2012 U.S.	2012 Total
Sales	**$ 150,344**	**$ 30,478**	**$ 180,822**	$ 147,603	$ 35,603	$ 183,206
Property, plant and equipment, net	**64,454**	**12,502**	**76,956**	65,126	12,303	77,429
Finite-life intangible assets, net	**32,357**	**202**	**32,559**	25,746	470	26,216
Goodwill	**13,838**	**5,592**	**19,430**	13,838	5,231	19,069
Export sales[(1)]	**$ 88,932**			$ 91,751		

During the nine-month periods ended December 31, 2013 and 2012, 61% and 64% of the Corporation's sales respectively were made to U.S. customers.

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

19. Subsequent events

Business acquisition

On February 3, 2014, the Corporation signed an agreement to acquire all of the outstanding shares of U.K. - based APPH Limited and U.S. - based APPH Wichita Inc. (collectively "APPH"), from BBA Aviation Plc (LSE : BBA), for a consideration, net of approximately US$4 million of cash acquired, estimated at US$124 million. APPH is an integrated provider of landing gear and hydraulic systems and assemblies for original equipment manufacture ("OEM") and aftermarket applications, with annual sales of approximately US$77 million. This acquisition expands the Corporation's geographical operations into the European market and further increases and diversifies its customer base.

The transaction was financed with the Corporation's available cash for US$55 million and existing Credit Facility for US$69 million.

Net assets acquired at December 31, 2013 are estimated at US$50 million, excluding US$4 million of cash acquired. Management considers it is impracticable to disclose information about the fair value of the net assets acquired since the findings of the valuation exercise are not yet available.

No revenue or operating profit from APPH was included in the consolidated statement of income as at December 31, 2013.

Restructuring

Given the substantial demand reduction for military aftermarket products in the United States, on January 16, 2014, the Corporation announced a plan to optimize and consolidate manufacturing capacity, while further enhancing productivity throughout the organization. These initiatives are in line with the Corporation's operating strategy of focusing on specialized centers of excellence.

As a result, the Corporation will proceed with the permanent layoffs of approximately 55 employees at its manufacturing plant located at 710 Thurber Street, in Longueuil. The Corporation will continue to carry out such operations at its other centers of excellence in manufacturing. These measures which will result in a charge of approximately $5 million before income taxes, will be recognized over the fourth quarter of the fiscal year ended March 31, 2014 and the first half of the 2015 fiscal year in accordance with International Financial Reporting Standards.

MANAGEMENT DISCUSSION AND ANALYSIS OF

FINANCIAL POSITION AND OPERATING RESULTS

For the quarter ended December 31, 2013

TABLE OF CONTENTS

Management Discussion and Analysis of Financial Position and Operating Results

The purpose of this management discussion and analysis ("MD&A") is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries ("Héroux-Devtek" or the "Corporation") evolved between March 31, 2013 and December 31, 2013. It also compares the operating results and cash flows for the quarter and nine-month period ended December 31, 2013 to those for the same periods in the previous year.

This analysis should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements for the quarter ended June 30, 2013, six-month period ended September 30, 2013 and nine-month period ended December 31, 2013, and the audited consolidated financial statements and MD&A for the fiscal year ended March 31, 2013, all 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 EBITDA, adjusted EBITDA, adjusted net income and adjusted earnings per share to assess its financial performance which are financial measures not prescribed by International Financial Reporting Standards ("IFRS"). However, the Corporation's management, as well as investors, consider these metrics to be useful information to assist them in evaluating the Corporation's profitability, liquidity and ability to generate funds to finance its operations and capital investment needs.

The Corporation's EBITDA and adjusted EBITDA from continuing operations are calculated as follows, see Discontinued Operations below:

	Quarters ended December 31,		Nine months ended December 31,	
($'000)	**2013**	**2012**	**2013**	**2012**
Net income from continuing operations	2,608	3,216	8,006	8,807
Income tax expense	624	873	1,112	2,003
Financial expenses	917	621	2,603	2,816
Amortization expense	3,021	2,962	9,450	9,306
EBITDA	7,170	7,672	21,171	22,932
Acquisition-related costs	1,116	—	1,380	—
Adjusted EBITDA	**8,286**	**7,672**	**22,551**	**22,932**

For the third quarter ended December 31, 2013, the adjusted EBITDA reflects a higher gross profit achieved in the third quarter, while for the nine-month period ended December 31, 2013, the adjusted EBITDA was relatively stable, when compared to last year.

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

	Quarters ended December 31,		Nine months ended December 31,	
($'000)	**2013**	**2012**	**2013**	**2012**
Net income from continuing operations	**2,608**	**3,216**	**8,006**	**8,807**
Acquisition-related costs net of taxes	1,089	—	1,300	—
Adjusted net income from continuing operations	**3,697**	**3,216**	**9,306**	**8,807**
Earnings per share from continuing operations - basic and diluted	0.08	0.10	0.25	0.29
Acquisition-related costs net of taxes	0.04	—	0.04	—
Adjusted earnings per share from continuing operations - basic and diluted	**0.12**	**0.10**	**0.29**	**0.29**

See sections below for explanations on the variations of the adjusted net income from continuing operations and adjusted earnings per share from continuing operations, basic and diluted, during the third quarter and nine-month period ended December 31, 2013, when compared to last year.

Forward-Looking Statements

In the interest of providing shareholders and potential investors with information regarding Héroux-Devtek, including Management's assessment of future plans and operations, certain statements in this MD&A 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 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

During the last fiscal year, 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 worldwide, supplying both the commercial and military sectors of the Aerospace market with 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 airborne radar, electro-optic systems and aircraft controls. This facility provides competencies in vacuum and dips brazing metal joining technologies and became Canada's first facility to be Nadcap certified in aluminum vacuum brazing.

Discontinued Operations and Special Distribution

Last fiscal year, 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 trading 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, of $297.8 million paid in cash. Taking into consideration the post-closing adjustments finalized during the last quarter of fiscal year 2013, the net gain amounted to $111.2 million.

Last fiscal year, concurrently to the sale transaction, the Corporation proceeded with a $16 million reduction of finance lease obligations and the repayment of a $1.0 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 transaction related costs to the sale transaction.

Following the sale transaction, the Board of Directors of the Corporation approved, on November 8, 2012, a special cash distribution of $5.00 per share which was effectively paid on December 19, 2012 to shareholders of record on November 20, 2012. The special distribution to shareholders of $5.00 per share which represented a cash distribution of $157.5 million made on December 19, 2012, was composed of and recorded as an issued capital reduction of $2.70 per share ($85.0 million) and of a special cash dividend of $2.30 per share ($72.5 million) recorded against the retained earnings of the Corporation (see Liquidity and Capital Resources section below).

RESULTS OF OPERATIONS

Following the sale transaction explained above, income and expenses from discontinued operations before August 31, 2012 are reported separately from income and expenses from continuing operations, down to the level of net income in the consolidated statements of income for all quarters of the last fiscal year ended March 31, 2013.

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 excluded from the Corporation's segmented information. Following the sale transaction, the Corporation operates essentially in the Aerospace segment and is comprised of the Landing Gear product line and Magtron operations, as described above.

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 period. FFEC, for the purpose of hedge accounting, are classified as cash flow hedges and transferred to the consolidated statements of income (sales) when the hedged transaction occurs, in accordance with the Corporation's accounting policies. The closing rates translate monetary assets and liabilities denominated in foreign currencies and assets and liabilities of foreign operations.

The average exchange rates for the quarters and nine-month periods ended December 31, 2013 and 2012, and the closing rates as at December 31, 2013 and March 31, 2013 were as follows ($ Canadian / 1 US $ equivalent):

Canada / US Exchange Rates	December 31, 2013	December 31, 2012
Average rate for quarters ended	1.0498	0.9913
Average rate for nine months ended	1.0372	0.9987

Canada / US Exchange Rates	December 31, 2013	March 31, 2013
Closing rates	1.0636	1.0160

As shown above, the average value of the Canadian dollar for the quarter and nine-month period ended December 31, 2013 was respectively 5.9% and 3.9% lower, when compared to its U.S. counterpart, year-over-year, and had a positive impact on the U.S.-denominated sales and results of the Corporation, exclusive of FFEC fluctuations, including those from its Canadian operations. The variation in the closing rate since March 31, 2013 had a favorable impact on the Corporation's U.S.-denominated balance sheet accounts at the end of this quarter, when compared to balances at the end of last fiscal year. 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 December 31, 2013, the Corporation had FFEC to sell US$111.7 million at a weighted-average rate of 1.0368 maturing at various dates between January 2014 and March 2017, with the majority maturing this and next fiscal years.

Consolidated Sales

Consolidated sales for the third quarter ended December 31, 2013 decreased by $0.3 million or 0.5% to $61.4 million from $61.7 million last year. This is the result of lower aftermarket military sales, partially offset by increased sales of $0.9 million or 3.2% in the commercial sector, mainly resulting from higher sales on the B-777 program, net of lower customer requirements in the regional jet market. Exchange fluctuations increased sales by $0.2 million or 0.3%, when compared to last year.

At year-to-date, consolidated sales totaled $180.8 million, 1.3% lower than last year's sales of $183.2 million. The decrease in sales is also explained by lower aftermarket military sales, partially offset by increased sales of $5.0 million or 6.4% in the commercial sector, mainly resulting from higher sales on the B-777 program, net of lower customer requirements in the regional jet market and on the Bombardier CL-415 program. Exchange fluctuations increased sales by $0.4 million or 0.2%, when compared to last year.

Sales can be broken down by sector as follows:

	Quarters ended December 31,				Nine months ended December 31,			
	2013	2012	Variance		2013	2012	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Military [(1)]	**32,972**	34,145	(1,173)	(3.4)	**97,072**	104,457	(7,385)	(7.1)
Commercial	**28,476**	27,597	879	3.2	**83,750**	78,749	5,001	6.4
Total	**61,448**	**61,742**	**(294)**	**(0.5)**	**180,822**	**183,206**	**(2,384)**	**(1.3)**

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

Military sales were $1.2 million or 3.4% lower this quarter to $33.0 million and $7.4 million or 7.1% lower at year-to-date to $97.1 million. The decrease in sales is the result of a slowdown in repair and overhaul activities and lower spare requirements mainly on the B-2 and F-15 programs, both with the U.S. government, partially offset by a new contract with The Boeing Company ("Boeing") on the CH-47 helicopter program. The decrease in military sales is also the result of lower electronic enclosure and cabinet sales at the Magtron operations resulting from lower customer requirements. The lower military sales reflect the weaker U.S. military market, as evidenced by the reduced funding of the U.S. base defense budget and the continued sequestration situation.

Commercial sales were $0.9 million or 3.2% higher this quarter to $28.5 million and $5.0 million or 6.4% higher at year-to-date to $83.8 million. This increase is the result of higher sales on large commercial programs, essentially resulting from new actuator business with Boeing on the B-777 program and production rate increases on the B-777 program, partially offset by lower sales in the regional jet market. At year-to-date, it also reflects lower aftermarket sales on the Bombardier CL-415 program.

Sales by Destination

The Corporation's sales by destination were as follows:

	Quarters ended December 31,		Nine months ended December 31,	
	2013 (%)	2012 (%)	2013 (%)	2012 (%)
Canada	35	32	34	31
US	61	63	61	64
International	4	5	5	5
Total	**100**	**100**	**100**	**100**

This third quarter and year-to-date changes in the sales by destination mix mainly reflect the impact of increased large commercial sales delivered in Canada, combined with lower aftermarket military sales in the U.S.

Gross Profit

This quarter, consolidated gross profit as a percentage of sales was 16.3%, an increase of 1.2% from 15.1% last year, while at year-to-date, it marginally decreased by 0.1% to 15.0% from 15.1%.

The US/CAD currency fluctuations negatively impacted the Corporation's gross profit in dollars this quarter by $0.8 million or 1.3%, and at year-to-date by $1.2 million or 0.7%, 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 FFEC.

This quarter, the consolidated gross profit increase, compared to last year, is mainly due to a favorable military aftermarket product mix, partially offset by higher under-absorption of manufacturing overhead costs at the Longueuil facility resulting from the slowdown in repair and overhaul activities and the lower government spares requirements, as explained above.

At year-to-date, the lower consolidated gross profit is mainly the result of a higher under-absorption of manufacturing overhead costs at the Longueuil facility combined with higher non-recurring costs incurred in the development of a new landing gear system program. These negative impacts on gross profit were partially offset by a favorable military aftermarket product mix combined with lower non-quality costs.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	Quarters ended December 31,		Nine months ended December 31,	
	2013	**2012**	**2013**	**2012**
Selling and administrative expenses ($'000)	**4,745**	4,640	**13,932**	14,103
% of sales	**7.7%**	7.5%	**7.7%**	7.7%

Selling and administrative expenses stood at $4.7 million or 7.7% of sales for the quarter ended December 31, 2013, an increase of $0.1 million or 0.2% of sales from $4.6 million or 7.5% of sales last year. This quarter, Selling and administrative expenses include a gain on currency translation on net monetary items denominated in foreign currencies of $0.3 million, compared to a gain of $0.1 million last year.

For the nine-month period ended December 31, 2013, selling and administrative expenses stood at $13.9 million or 7.7% of sales this year, compared to $14.1 million or 7.7% of sales last year. The decrease is related to a gain on currency translation on net monetary assets of $0.7 million, compared to a gain of $0.1 million last year partially offset by higher research and development expenses incurred this year, when compared to last year, for the development of new technologies and manufacturing improvements related to landing gear systems, which are not capitalized.

Acquisition-related costs

The Company acquisition-related costs were $1.1 million and $1.4 million, respectively, for the quarter and nine-month period ended December 31, 2013.

These costs pertain essentially to the acquisition of APPH Limited and APPH Wichita Inc. See note 19 of our interim condensed consolidated financial statements and section below.

Operating Income

Consolidated operating income stood at $4.1 million or 6.8% of sales for the quarter ended December 31, 2013, compared to $4.7 million or 7.6% of sales last year. The lower operating income in dollars and as a percentage of sales is mainly due this year to acquisition-related costs, partially offset by a higher gross profit, as explained above.

For the nine-month period ended December 31, 2013, consolidated operating income stood at $11.7 million or 6.5% of sales, compared to $13.6 million or 7.4% of sales last year. The lower operating income in dollars and as a percentage of sales is essentially the result of a lower gross profit combined with the acquisition-related costs, as explained above.

Financial Expenses

Financial expenses stood at $0.9 million and at $2.6 million, respectively, for the quarter and nine-month period ended December 31, 2013, compared to $0.6 million and $2.8 million, respectively, for the same periods last year.

This quarter, the higher financial expenses mainly resulted from a lower interest income due to the lower level of cash and cash equivalents, compared to last year, as last year's balance included the cash proceeds received from the sale transaction before the special cash distribution to shareholders amounting to $157.5 million (see below).

For the nine-month period ended December 31, 2013, the lower financial expenses mainly resulted from a discount rate adjustment of $0.3 million recorded on the provision for asset retirement obligations, reflecting the increase in the discount rate for this year, while last year, it reflected a decrease in the discount rate for the comparable period net of lower interest income for the same reason mentioned above.

Income Tax Expense

For the quarters ended December 31, 2013 and 2012, the income tax expense stood at $0.6 million and $0.9 million respectively. At year-to-date, the income tax expense stood at $1.1 million compared to $2.0 million for the same period last year.

For the nine-month period ended December 31, 2013, the Corporation’s effective income tax rate was 12.2%, compared to its Canadian blended statutory income tax rate of 26.7%. The effective income tax rate reflects essentially a reduction in deferred income tax liabilities in light of changes in tax audit matters ($1.1 million) and the favorable impact from permanent differences ($0.2 million).

For the nine-month period ended December 31, 2012, the Corporation's effective income tax rate was 18.5%, compared to its Canadian blended statutory income tax rate of 25.9%. The effective income tax rate reflects the favorable impact from permanent differences ($0.1 million) 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 ($0.8 million).

The increase in the Corporation's blended statutory income tax rate this year, compared to last year, mainly reflects the difference in provincial income tax rates in Canada.

Net Income

For the quarter and nine-month period ended December 31, 2013, the Corporation posted a net income from continuing operations of $2.6 million or 4.2% of sales and $8.0 million or 4.4% of sales, respectively, compared to a net income from continuing operations of $3.2 million or 5.2% of sales and $8.8 million or 4.8% of sales for the same periods last year.

Last year's net income included the net income from discontinued operations of $1.3 million and $114.5 million, respectively, for the quarter and nine-month period ended December 31, 2012. Last year's net income from discontinued operations for the quarter and at year-to-date included a net gain of $107.1 million from the sale transaction, excluding post-closing adjustments, as explained above (see Note 4 to the interim condensed consolidated financial statements).

	Quarters ended December 31,		Nine months ended December 31,	
	2013	**2012**	**2013**	**2012**
Net income from continuing operations ($'000)	**2,608**	3,216	**8,006**	8,807
Net income from discontinued operations ($'000)	—	1,289	—	114,547
Net income ($'000)	**2,608**	4,505	**8,006**	123,354
Earnings per share from continuing operations – basic	**0.08**	0.10	**0.25**	0.29
Earnings per share from continuing operations – diluted	**0.08**	0.10	**0.25**	0.29
Earnings per share – basic ($)	**0.08**	0.14	**0.25**	4.01
Earnings per share – diluted ($)	**0.08**	0.14	**0.25**	3.99

Basic earnings per share figures are based on year-to-date weighted-averages of 31,525,869 common shares outstanding for the nine-month period ended December 31, 2013 and 30,753,456 common shares for the same period last year, while the diluted earnings per share figures are based on year-to-date weighted-averages of 31,691,216 for the nine-month period this year and 30,887,058 for the same period last year. The increase in the weighted-average number of outstanding common shares from December 31, 2012 to December 31, 2013 is mainly related to last fiscal year's issuance of 1,034,543 common shares under the Corporation's stock option plan (see below).

On February 6, 2014, the date of this MD&A, the Corporation had 31,539,575 common shares and 259,101 stock options outstanding with a weighted-average of 3.0 years to maturity.

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

For the quarter and nine-month period ended December 31, 2013, the other comprehensive income, included in the comprehensive income from continuing operations, is mainly the result of actuarial gains, net of change in asset limit and minimum funding requirements, on the Corporation's defined benefit pension plans, resulting from a higher interest rate to discount the defined benefit pension plan obligations, combined with the higher than expected return on plan assets.

Liquidity and Capital Resources

Special Distribution to Shareholders

Last year, 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 which was effectively 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 investment requirements and results of the Corporation.

The special distribution to shareholders of $5.00 per share which represented a cash distribution of $157.5 million (based on 31,498,905 common shares outstanding on November 20, 2012) made on December 19, 2012 was composed of and recorded as an issued capital reduction of $2.70 per share ($85.0 million) and of a special cash dividend of $2.30 per share ($72.5 million) recorded against the retained earnings of the Corporation. The capital reduction, which reduced the Corporation's issued capital, was approved by the shareholders at a special shareholder meeting held on December 18, 2012. The transaction costs related to this special distribution to shareholders amounting to $0.3 million ($0.2 million net of income taxes) were accounted for against the issued capital and retained earnings.

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 for the current fiscal year. The Corporation had cash and cash equivalents of $98.2 million as at December 31, 2013, compared to $101.3 million at March 31, 2013, of which $10.0 million had been invested in short-term deposits ($10.0 million at March 31, 2013). The remaining cash and cash equivalents were held in investment accounts with three Canadian Banks and their U.S. affiliates or branches of the Corporation's syndicated banks.

The Corporation has in place a Senior Secured Syndicated Revolving Credit Facility 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. 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. As at December 31, 2013, the Corporation only had $23.4 million (US$22.0 million) drawn against the Credit Facility compared to $22.4 million (US$22.0 million) as at March 31, 2013. Considering the Corporation's cash and cash equivalents position, its available Credit Facility and level of expected capital investments and results, the Corporation's management does not expect any significant liquidity risk in the foreseeable future.

As at December 31, 2013, the Corporation had the following net cash position, calculated as follows:

	($'000)
Cash and cash equivalents	98,219
Less: Long-term debt, including current portion[(1)]	69,658
Net cash position	28,561

[(1)] *Excluding net deferred financing costs*

Operating Activities

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

	Quarters ended December 31,		**Nine months ended December 31,**	
	2013	**2012**	**2013**	**2012**
	($'000)	**($'000)**	**($'000)**	**($'000)**
Cash flows from continuing operations	**4,709**	6,998	**16,546**	19,996
Net change in non-cash items related to continuing operations	**(1,104)**	437	**(6,402)**	(8,490)
Cash flows related to operating activities from continuing operations	**3,605**	7,435	**10,144**	11,506
Cash flows related to operating activities from discontinued operations	**—**	—	**(1,641)**	8,273
Cash flows related to operating activities	**3,605**	7,435	**8,503**	19,779

The $2.3 million decrease in cash flows from continuing operations for the quarter ended December 31, 2013, when compared to last year's period, is mainly explained by a $1.7 million lower deferred income tax expense combined with a lower net income.

For the nine-month period ended December 31, 2013, the $3.5 million decrease in cash flows from continuing operations, when compared to the same period last year, reflects essentially the favorable impact of discount rate adjustments of $0.6 million, as already explained above, combined with a $2.1 million lower deferred income tax expense and a $0.8 million lower net income.

For the nine-month period ended December 31, 2013, cash flows related to operating activities from discontinued operations include the final payment of income taxes for the last fiscal year ended March 31, 2013.

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

	Quarters ended December 31,		Nine months ended December 31,	
	2013	**2012**	**2013**	**2012**
	($'000)	**($'000)**	**($'000)**	**($'000)**
Accounts receivable	**(2,007)**	765	**7,698**	6,115
Inventories	**(1,717)**	(691)	**(2,151)**	(4,262)
Other current assets	**(415)**	(2,547)	**187**	(3,523)
Accounts payable and accrued liabilities, accounts payable-other, and other liabilities (referred to as "accounts payable")	**2,083**	2,766	**(7,530)**	866
Progress billings	**395**	620	**(4,355)**	(3,722)
Income taxes payable and receivable	**198**	(128)	**(457)**	(3,048)
All others	**359**	(348)	**206**	(916)
	(1,104)	437	**(6,402)**	(8,490)

For the third quarter ended December 31, 2013, the increase in accounts receivable and accounts payable reflects the higher level of activity in the quarter, when compared to the second quarter of this year, and a higher US/CAD foreign exchange closing rate to convert the balances denominated in US dollars. For the nine-month period ended December 31, 2013, the decrease in accounts receivable and accounts payable result from the lower sales volume this quarter, when compared to last year's fourth quarter, which historically is the best quarter of the fiscal year. The increase in inventories for the third quarter and nine-month period ended December 31, 2013 reflects the increase in production rates in the commercial sector, while the reduction in progress billings at year-to-date reflects a reduced backlog on certain military programs.

For the third quarter ended December 31, 2012, the increase in accounts payable reflected the higher level of activity in that quarter, when compared to the second quarter of last year, and a higher US/CAD foreign exchange closing rate to convert the accounts payable denominated in US dollars. The increase in other current assets for the third quarter and nine-month period ended December 31, 2012 was mainly the result of an increase in investment and other tax credits receivable which was consistent with the increased eligible development costs for Aerospace long-term contracts. For the nine-month period ended December 31, 2012, the decrease in accounts receivable resulted from a lower sales volume in last year's third quarter, when compared to the previous year's fourth quarter. The increase in inventories reflected the increase in production rates in the commercial sector, while the reduction in progress billings mainly reflected a higher commercial funded backlog business mix, compared to military, and a reduced backlog on certain military programs. The reduction in income tax payable and receivable for the nine-month period ended December 31, 2012, mainly reflected the final payment of income taxes made in last year's first quarter for fiscal 2012.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
	($'000)	($'000)	($'000)	($'000)
Additions to property, plant and equipment (1)	**(5,422)**	(3,081)	**(11,853)**	(9,232)
Net increase in finite-life intangible assets (1)	**(1,173)**	(2,340)	**(6,437)**	(4,841)
Proceeds on disposal of property, plant and equipment (1)	—	45	**47**	137
Net proceeds from sale of discontinued operations	—	(48,319)	—	224,477
Investing activities of discontinued operations	—	—	—	(4,294)
Cash flows relating to investing activities	**(6,595)**	**(53,695)**	**(18,243)**	**206,247**

(1) *From continuing operations.*

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

	Quarters ended December 31,		Nine months ended December 31,	
	2013	2012	2013	2012
	($'000)	($'000)	($'000)	($'000)
Additions to property, plant and equipment	**1,081**	1,803	**7,122**	8,010
Variation in deposits on machinery and equipment included in Other current assets	**3,613**	—	**3,523**	(292)
Variation in unpaid additions included in Accounts payable - Other at period-end	**728**	1,278	**1,208**	2,292
Machinery and equipment acquired through finance leases	—	—	—	(778)
Additions, as per statements of cash flows	**5,422**	**3,081**	**11,853**	**9,232**

This quarter and at year-to-date, the additions to property, plant and equipment stood at $1.1 million and $7.1 million, respectively ($1.8 million and $8.0 million from continuing operations last year). The variation in deposits on machinery and equipment for the quarter and nine-month period ended December 31, 2013 is essentially explained by deposits made on machinery and equipment in relation to the contract signed with Boeing in the third quarter to supply complete landing gear systems for the B-777 program. This year additions to property, plant and equipment includes mainly capital investments in the St-Hubert Engineering and Longueuil operations facilities to support certain aerospace development programs, along with maintenance capital expenditure requirements.

Capital expenditures for fiscal 2014 are expected to be about $16.0 million, including $4.0 million related to the Landing Gear USA operations and $2.0 million for the engineering facility. While further deposits are expected to be made in the last quarter of this fiscal year, capital expenditures associated with the Boeing B-777 contract will be incurred mainly during fiscal 2015 and 2016.

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

Last year's net proceeds from the sale of discontinued operations were related to the sale transaction and included the sale proceeds received in cash, excluding post-closing adjustments, net of the finance lease obligations reduction and transaction expenses paid. It also included the income tax paid in last year's third quarter in relation to the sale transaction.

Financing Activities

The Corporation’s financing activities were as follows:

	Quarters ended December 31,		Nine months ended December 31,	
	2013	**2012**	**2013**	**2012**
	($’000)	**($’000)**	**($’000)**	**($’000)**
Increase in long-term debt	**6,294**	1,224	**6,294**	1,224
Repayment of long-term debt	**(390)**	(3,079)	**(3,437)**	(43,517)
Issuance of common shares	**67**	4,388	**200**	6,267
Special distribution to shareholders	—	(157,688)	—	(157,688)
Financing activities of discontinued operations	—	—	—	(3,208)
Cash flows relating to financing activities	**5,971**	**(155,155)**	**3,057**	**(196,922)**

On December 19, 2012, the Corporation proceeded with the payment of a special distribution to shareholders of $157.5 million, as previously described. The amount presented in the cash flow also includes the related transaction costs, net of income taxes.

This year and last year's increase in long-term debt reflects new governmental authorities' loans received during the quarter to support Aerospace development program investments.

This quarter's repayment of long-term debt only includes the scheduled repayment of finance leases for machinery and equipment. At year-to-date and for the quarter and nine-month period ended December 31, 2012, repayment of long-term debt includes the repayment of governmental authorities’ loans and finance leases for machinery and equipment, and the final payment of the promissory note. Last year's year-to-date repayments also included the partial repayment of US $37.5 million ($37.0 million) against the Credit Facility, following the sale transaction.

During the quarter and nine-month periods ended December 31, 2013 and 2012, the Corporation issued common shares under the Corporation’s stock purchase and ownership incentive plan (“stock purchase plan”). Last year, the Corporation also issued common shares following the exercise of stock options for a total cash consideration of $4.3 million and $6.1 million, respectively during the third quarter and nine-month period ended December 31, 2012 (see below).

As at December 31, 2013, the Corporation was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants through the current fiscal 2014.

Capital Stock, Stock Option and Stock Purchase Plans

As at December 31, 2013, the Corporation had 31,537,262 common shares outstanding (31,511,446 as at March 31, 2013).

During the quarter and nine-month period ended December 31, 2013, the Corporation issued 7,709 and 25,816 common shares, respectively, under the Corporation's stock purchase plan, for total cash considerations of $67,000 and $200,000. For the same periods last year, the Corporation issued 679,005 and 1,032,543 common shares, respectively, following the exercise of stock options, for total cash considerations of $4,346,000 and $6,057,000, and 3,485 and 23,992 common shares, respectively, under its stock purchase plan, for total cash considerations of $42,000 and $210,000.

During the quarter and nine-month period ended December 31, 2013, no stock options were granted (none in 2012), no stock options were exercised (679,005 and 1,032,543 in 2012), and no stock options were cancelled (111,900 last year, all in the second quarter).

As at December 31, 2013, 259,101 stock options were issued and outstanding with a weighted-average of 3.1 years to maturity and a weighted-average exercise price of $3.30 (see Note 13 to the interim condensed consolidated financial statements).

For the quarter ended December 31, 2013, the stock option plan expense and the stock purchase plan expense amounted to $20,000 and $31,000, respectively ($60,000 and $29,000 in 2012) - see Note 13 to the interim condensed consolidated financial statements.

For the nine-month period ended December 31, 2013, the stock option plan expense and the stock purchase plan expense amounted to $83,000 and $92,000, respectively ($253,000 and $105,000 in 2012) - see Note 13 to the interim condensed consolidated financial statements.

As at December 31, 2013, 1,750,381 common shares had not been issued yet under the Stock Option Plan and 248,405 common shares had not been issued yet under the Stock Purchase Plan.

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

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

As at December 31, 2013, on a cumulative basis, 20,000 SARs (39,000 in 2012) were still outstanding at a weighted-average granted price of $1.60 ($7.39 in 2012), which expire on various dates in fiscal 2015 and 2016. During the quarter and nine-month period ended December 31, 2013, 7,000 and 19,000 SARs were exercised, respectively (53,200 and 85,700 in 2012), no SARs were granted (none in 2012) and no SARs were cancelled (5,800 all in the second quarter in 2012).

As at December 31, 2013, on a cumulative basis, 62,940 DSUs were outstanding (47,871 in 2012). During the quarter and nine-month period ended December 31, 2013, no DSUs were issued (18,243 in the second quarter in 2012), 12,362 DSUs were exercised (all in the second quarter) (8,090 in the second quarter in 2012).

For the quarter and nine-month period ended December 31, 2013, SAR expense amounted to $32,000 and $74,000, respectively (expense of $2,000 and $526,000 respectively in 2012) while DSU expense amounted to $99,000 and $216,000, respectively ($40,000 and $362,000 respectively in 2012) - see Note 13 to the interim condensed consolidated financial statements.

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between December 31, 2013 and March 31, 2013:

Item	March 31, 2013 ($ million)	December 31, 2013 ($ million)	Change ($ million)	Explanation
Cash and cash equivalents	101.3	98.2	(3.1)	See consolidated statements of cash flows
Accounts receivable	46.6	38.9	(7.7)	Decrease resulting from a lower sales volume this quarter, compared to last year's fourth quarter. This decrease was partially offset by the impact of a higher US/CAD exchange rate used to convert the U.S.-denominated accounts receivable, when compared to March 31, 2013 (impact of $1.3 million).
Inventories	100.8	103.0	2.2	Increase mainly reflecting the increased production rate in the commercial sector.
Derivative financial instruments (current and non-current assets)	3.2	0.2	(3.0)	Reflects the variation in the Corporation's balance sheets of derivative financial instruments measured at fair value. The decrease is mainly the result of a lower differential between the weighted-average US/CAD rates of forward foreign exchange contracts on hand and the current forward foreign exchange rate of conversion used, as of both balance sheet dates.
Other current assets	12.6	15.9	3.3	Increase mainly reflecting deposits made on machinery and equipment in relation to the new Boeing B-777 contract.
Finite-life intangible assets, net	26.5	32.6	6.1	Reflects the net increase in capitalized development costs for long-term contracts ($6.6 million) and in software costs ($0.1 million), net of software amortization expense ($0.6 million).

Item	March 31, 2013 ($ million)	December 31, 2013 ($ million)	Change ($ million)	Explanation
Accounts payable and accrued liabilities	44.3	39.0	(5.3)	Decrease mainly resulting from a lower production volume in the last month of the current quarter, when compared to the last month of fiscal year ended March 31, 2013. This decrease was partially offset by the impact of a higher US/CAD exchange rate used to convert U.S.-denominated accounts payable and accrued liabilities, when compared to March 31, 2013 (impact of $0.7 million).
Accounts payable - other	2.4	1.0	(1.4)	Decrease mainly reflecting the lower unpaid portion of property, plant and equipment additions.
Progress billings (current and long-term)	12.3	7.9	(4.4)	The reduction in progress billings mainly reflects a reduced backlog on certain military programs.
Income tax payable (net of income tax receivable)	1.7	(0.4)	(2.1)	Decrease mainly reflecting the final income tax payments made this year related to the balance due from the last fiscal year combined with the use of research and development tax credit
Derivative financial instruments (current and long-term liabilities)	2.6	4.4	1.8	Reflects the variation in the Corporation's balance sheets of derivative financial instruments measured at fair value. The increase is mainly the result of a higher differential between the current forward foreign exchange rate of conversion used and the weighted-average US/CAD rates of forward foreign exchange contracts on hand, as of both balance sheet dates.
Long-term debt (including current portion)	63.0	68.7	5.7	The increase reflects new governmental loan received during the quarter ($6.3 million) combined with the interest accretion on governmental authorities' loans ($1.3 million) and amortization of deferred financing costs related to the Credit Facility ($0.3 million) partially offset by the scheduled repayment of long-term debt ($3.4 million). The increase also includes the impact of a higher US/CAD exchange rate used to convert the U.S. denominated long-term debt, when compared to March 31, 2013 (impact of $1.2 million)
Other liabilities – Pension and other retirement benefit plans	13.0	6.0	(7.0)	Decrease resulting from actuarial gains on the Corporation's defined benefit pension plans (as already explained above), combined with scheduled payments to the pension fund made in the nine-month period ended December 31, 2013.
Retained earnings	193.4	205.0	11.6	The increase reflects the Corporation's net income of $8.0 million for the nine-month period ended December 31, 2013, combined with the defined benefit actuarial net gains of $3.6 million on the Corporation's defined benefit pension plans for the same period.

As at December 31, 2013 and March 31, 2013, the Corporation's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net cash-to-equity ratio[(1)] were as follows:

	December 31, 2013	**March 31, 2013**
Working capital ratio	**4.16:1**	3.59:1
Cash and cash equivalents	**$98.2 million**	$101.3 million
Long-term debt-to-equity ratio	**0.28:1**	0.27:1
Net cash-to-equity ratio[(1)]	**0.13:1**	0.17:1

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

Government Assistance

During the quarter ended December 31, 2013, the Corporation recorded as government assistance for continuing operations an amount of $0.8 million as a reduction of incurred cost of sales and selling and administrative expenses ($0.3 million in 2012), and an amount of $2.0 million ($0.5 million in 2012) as a reduction of the related capital expenditures or capitalized development costs, presented under finite-life intangible assets.

During the nine-month period ended December 31, 2013, the Corporation recorded as governmental assistance for continuing operations an amount of $2.3 million as a reduction of incurred cost of sales and selling and administrative expenses ($1.5 million last year), and an amount of $3.5 million ($1.8 million in 2012) as a reduction of the related capital expenditures or capitalized development costs, presented under finite-life intangible assets.

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

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

As at December 31, 2013, the Corporation had operating lease obligations amounting to $0.9 million for buildings and facilities. These amounts are repayable over the next five fiscal years. The Corporation also had machinery and equipment purchase commitments totaling $10.8 million (see Note 16 to the interim condensed consolidated financial statements) of which $7.8 million is related to the Boeing B-777 contract.

On February 6, 2014, the date of this MD&A, the Corporation had machinery and equipment purchase commitments related to the Boeing B-777 contract totalling $22.6 million.

As at December 31, 2013, the Corporation had forward foreign exchange contracts ("FFEC") with Canadian chartered banks to sell US$111.7 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.0368. These contracts relate mainly to its export sales, and mature at various dates between January 2014 and March 2017, but mainly this and next fiscal year (see Note 10 to the interim condensed consolidated financial statements). This compares to US$123.5 million and US$130.0 million in FFEC held at March 31, 2013 and December 31, 2012, respectively, at weighted-average exchange rates of 1.0325 and 1.0405, respectively. The lower FFEC, compared to last year-end and last year's period, reflects the changes in the funded backlog denominated in U.S. currency.

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

In March 2011, the Corporation designated certain long-term debt as hedge of its net investments in U.S. operations. This designation was still in effect as at December 31, 2013.

Contingencies

On February 5, 2014, Goodrich Corporation, member of UTAS group, filed a request for arbitration against Devtek Aerospace Inc., a wholly-owned subsidiary of the Corporation, to the ICC International Court of Arbitration concerning a non-compete covenant contained in an agreement between Goodrich Corporation, and Devtek Aerospace Inc. The dispute involves the Corporation's planned activities relating to the manufacturing of pistons in support of a contract with The Boeing Company.

The Corporation disagrees with UTAS' position and firmly believes that it is acting in conformity with its agreements. While the Corporation cannot predict the final outcome of this arbitration, the Corporation intends to defend its position in this matter.

Financial and Economic Situation

Improvements in the global economy continue to have a positive effect on most of the Corporation's markets related to commercial aerospace market. In the large commercial aircraft market, Boeing and Airbus had record aircraft deliveries in calendar 2013 and their backlogs remain strong, representing eight years of production at current rates. Business jet shipments declined slightly in the first nine months of calendar 2013, but key indicators, such as increased aircraft utilization and a reduction in the number of used aircraft for sale as a percentage of the fleet, point to improved market conditions going forward.

However, the military aerospace market remains weak as governments address their deficits. In the United States, the Corporation's largest military market, while a recent budgetary agreement may partially alleviate restrictions and cutbacks imposed by sequestration, conditions remain difficult and the situation could affect the Corporation beyond the current fiscal year.

Although growing, the global 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 healthy, 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 sector 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 already mentioned, and as highlighted in the Outlook section, Management maintains its focus on operational efficiencies through continued lean manufacturing initiatives, cost reduction initiatives and FFEC to remain competitive on a global basis.

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

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

CHANGES IN ACCOUNTING POLICIES

On April 1st, 2013, the Corporation adopted retrospectively the standards below in accordance with required changes from the International Accounting Standards Board. The adoption of these new standards did not have a material impact on prior periods' comparative figures.

IAS 1 *Financial Statement Presentation*

The amended IAS 1, Presentation of Financial Statements was adopted retrospectively effective April 1st, 2013. The principal change resulting from the amendments to IAS 1 is the requirement to present separately other comprehensive income items that may be reclassified to income from other comprehensive items that will not be reclassified to income in the consolidated statement of comprehensive income.

IFRS 13 *Fair Value Measurements*

The IFRS 13, Fair Value Measurements was adopted retrospectively effective April 1st, 2013, and is a new and comprehensive standard that sets out a framework for measuring at fair value and that provides guidance on required disclosures about fair value measurements.

IAS 19 *Employee Benefits*

The amended IAS 19, Employee Benefits was adopted retrospectively effective April 1st, 2013. 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). Also, the net interest cost is now presented in the financial expenses. 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 changes in accounting policy have been accounted for retrospectively in accordance with the transition rules of the amended IAS 19 and the additional required disclosures will be provided in our annual consolidated financial statements for fiscal year 2014.

The impact of the adoption of the amended IAS 19, Employee Benefits on the consolidated statement of income and consolidated statement of comprehensive income for the quarter and nine-month period ended December 31, 2012 are as follows:

	Quarter ended	Nine months ended
($'000)		
● Decrease of cost of sales	(18)	(53)
● Increase of financial expenses	126	378
● Decrease of income tax expense	(28)	(87)
● Decrease of net income from continuing operations and net income	(80)	(238)
● Decrease of actuarial losses, net of income taxes	(80)	(238)
● Increase of other comprehensive income from continuing operations and other comprehensive income	80	238

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 nine-month period ended December 31, 2013 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

* Landing Gear - Longueuil collective agreement is expiring on May 1, 2014.

Risks related to integration

With the recent acquisition of APPH (see Subsequent events section below), the Corporation is subject to an operational risk mainly related to the successful integration. A highly efficient and monitored integration plan is necessary in order to generate additional value to the Corporation's shareholders. To limit its risk, the Corporation had previously adopted a targeted and selective acquisition strategy, strict due diligence procedures and is currently developing a detailed integration plan.

SELECTED QUARTERLY FINANCIAL INFORMATION

($'000 Except per share data)	Fiscal Year 2014			Fiscal Year 2013				Fiscal Year 2012
	Dec. 31, 2013	**Sept. 30, 2013**	**June 30, 2013**	March 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	March 31, 2012
Average exchange rate used to translate revenues (sales) and expenses [1] ($Canadian / 1 equivalent $US)	**1.0498**	**1.0385**	**1.0233**	1.0089	0.9913	0.9948	1.0102	1.0012
Sales from continuing operations	**61,448**	**56,402**	**62,972**	73,816	61,742	57,684	63,780	74,777
EBITDA from continuing operations [2]	**7,170**	**6,254**	**7,747**	10,159	7,672	6,989	8,271	11,473
Adjusted EBITDA from continuing operations [2]	**8,286**	**6,518**	**7,747**	10,159	7,672	6,989	8,271	11,473
Net income from continuing operations [2]	**2,608**	**2,584**	**2,814**	4,695	3,216	2,645	2,946	5,558
Net income from discontinued operations	—	—	—	3,679	1,289	110,000	3,258	3,360
Net income [2]	**2,608**	**2,584**	**2,814**	8,374	4,505	112,645	6,204	8,918
Earnings per share from continuing operations ($) – Basic [2]	**0.08**	**0.08**	**0.09**	0.15	0.10	0.09	0.10	0.18
Earnings per share from continuing operations ($) – Diluted [2]	**0.08**	**0.08**	**0.09**	0.15	0.10	0.09	0.10	0.18
Earnings per share ($) – basic [2]	**0.08**	**0.08**	**0.09**	0.27	0.14	3.68	0.20	0.29
Earnings per share ($) – diluted [2]	**0.08**	**0.08**	**0.09**	0.26	0.14	3.64	0.20	0.29
Weighted-average number of diluted shares outstanding (in millions)	**31.7**	**31.7**	**31.7**	31.7	31.3	31.0	30.8	30.8

(1) Exclusive of forward foreign exchange contracts.

(2) Restated, see note 3 to the interim condensed consolidated financial statements.

Subsequent Events

Business acquisition

On February 3, 2014, the Corporation signed an agreement to acquire all of the outstanding shares of U.K.-based APPH Limited and U.S.-based APPH Wichita, Inc. (collectively "APPH"), from BBA Aviation Plc (LSE: BBA).

Headquartered in Runcorn, United Kingdom, APPH specializes in the design, engineering, manufacturing and aftermarket support of landing gear and hydraulic systems and assemblies for fixed and rotary wing civil and military aircraft. Héroux-Devtek is acquiring four plants located in the United Kingdom and one plant in Wichita, Kansas. These plants have a combined workforce of approximately 400 employees, including a design engineering department staffed with 40 professionals. APPH's main design programs include landing gear systems for the Hawk, SAAB Gripen, AW101, C27J Spartan and EC175 aircraft.

For the 12-month period ended December 31, 2013, APPH generated revenues of approximately US$77 million and an adjusted EBITDA of approximately US$12.5 million. The purchase price, net of about US$4 million of cash acquired, is approximately US$124 million. The transaction was financed with the Corporation's available cash for $US55 million and existing Credit Facility for US$69 million.

On a pro-forma basis, at December 31, 2013, taking into account the financial impact due to the acquisition of APPH presented above, the Corporation's cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio represent the following:

	Pro-Forma **December 31, 2013** (2)	**Actual** **December 31, 2013**
Cash and cash equivalents	**$39.7 million**	$98.2 million
Long-term debt-to-equity ratio	**0.59:1**	0.28:1
Net debt-to-equity ratio(1)	**0.43:1**	(0.13:1)

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

(2): Net of cash and Credit Facility used, in regards to the purchase of APPH. Closing rates of 1.0636 used to translate the U.S. denominated cash and cash equivalents and long-term debt.

Net assets acquired at December 31, 2013 are estimated at US$50 million, excluding US$4 million of cash acquired. Management considers it is impracticable to disclose other information about the purchase price allocation since the findings of the valuation exercise are not yet available.

No revenue or operating profit from APPH was included in the consolidated statement of income as at December 31, 2013.

Restructuring

Given the substantial demand reduction for military aftermarket products in the United States, on January 16, 2014, the Corporation announced a plan to optimize and consolidate manufacturing capacity, while further enhancing productivity throughout the organization. These initiatives are in line with the Corporation's operating strategy of focusing on specialized centers of excellence.

As a result, the Corporation will proceed with the permanent layoffs of approximately 55 employees at its manufacturing plant located at 710 Thurber Street, in Longueuil. The Corporation will continue to carry out such operations at its other centers of excellence in manufacturing. These measures which will result in a charge of approximately $5 million before income taxes, will be recognized over the fourth quarter of the fiscal year ending March 31, 2014 and the first half of the 2015 fiscal year in accordance with International Financial Reporting Standards.

OUTLOOK

Conditions remain mostly favorable in the commercial aerospace market. As at the end of November 2013, the passenger market, expressed in revenue-passenger-kilometers, had grown by 5.1% year-over-year, while the cargo market, measured in freight-tonne-kilometers, had risen by 1.4%. In its most recent forecast, the IATA is calling for a robust 6.0% growth in the passenger market for calendar 2014, while air cargo volume is expected to rise 2.1% in calendar 2014.[1]

In the large commercial aircraft segment, Boeing and Airbus both achieved record deliveries in calendar 2013 driven by production rate increases on several leading programs.[2] Reflecting robust new orders in calendar 2013, their backlogs remain strong, representing eight years of production at current rates.

In the business jet market, year-over-year deliveries declined slightly in the first nine months of calendar 2013, but key indicators, such as increased aircraft utilization and a reduction in the number of used aircraft for sale as a percentage of the fleet, point to improved market conditions going forward. More importantly, industry sources are calling for sustained growth over up to possibly five years, a period spanning the planned entry into service of several business jet models for which Héroux-Devtek has designed the landing gear.[3]

Conditions in the military aerospace market remain difficult as governments address their deficits. In the U.S., a recent budgetary agreement may partially alleviate restrictions and cutbacks imposed by sequestration. However, conditions remain challenging and the situation could affect the Corporation beyond the current fiscal year, despite having a diversified military portfolio, balanced between new component manufacturing and aftermarket products and services, that should lessen this impact.

The Corporation's balance sheet remains healthy with cash and cash equivalents of $98.2 million as at December 31, 2013. This amount, combined with funds available under its Credit Facility, will allow Héroux-Devtek to fund expected capital expenditures of approximately $16 million in fiscal 2014 and to finance the acquisition of APPH (see "Subsequent Events").

As at December 31, 2013, Héroux-Devtek's funded (firm orders) backlog stood at $368 million, versus $361 million at the beginning of the fiscal year. This variation reflects initial orders for the long-term contract to supply complete landing gear systems for the B-777 program, partially offset by a lower backlog on certain military programs. On a pro forma basis, taking into account the acquisition of APPH, the backlog reaches $448 million. 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.

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[1] Sources: IATA press releases January 9, 2014; January 13, 2014; IATA Industry Financial Forecast December 2013.

[2] Sources: Airbus press release January 13, 2014; Boeing press release January 6, 2014.

[3] Sources: GAMA, JETNET, FAA, Teal Group, Forecast International.

Looking ahead, the fourth quarter has historically been Héroux-Devtek's strongest period and this fiscal year should be no exception, but we anticipate that consolidated sales for the fiscal year ending March 31, 2014 will be slightly lower than last year, excluding the impact of the APPH acquisition. For the next fiscal year ending March 31, 2015, Héroux-Devtek will continue to benefit from the sustained strength of the commercial aerospace market and will increasingly gain from the contribution of its design and development programs. More importantly, the significant and immediate strategic benefits stemming from the acquisition of APPH will strengthen the Corporation's competitive position in the global landing gear market and create further value for its shareholders. These factors should offset persistent weakness in the military aerospace sector, resulting in sales that are expected to remain relatively stable, excluding the impact of the APPH acquisition. In light of the weak military market, the Corporation must proactively optimize its asset utilization and adapt supply to demand, as evidenced by the recent workforce reductions.

The scenario for the remainder of fiscal 2014 assumes the Canadian dollar remains stable versus the US currency and considers the Corporation's FFEC. Over the long-term, Héroux-Devtek remains committed to its stated goal of growing, internally and through strategic alliances, including business acquisitions, at 10% per year, on average, assuming a stable currency environment.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee and by the Board of Directors on February 6, 2014. Updated information on the Corporation can be found on the SEDAR website, at www.sedar.com.