HÉROUX DEVTEK

GROWING GLOBAL
WITH SUPERIOR EXECUTION

QUARTERLY REPORT
FIRST QUARTER ENDED JUNE 30, 2014

MESSAGE TO SHAREHOLDERS

First quarter ended June 30, 2014

On behalf of the Board of Directors, I am pleased to present the financial results for Héroux-Devtek's fiscal 2015 first quarter ended June 30, 2014. Results include the contribution of APPH Limited and APPH Wichita Inc. (collectively "APPH"), acquired on February 3, 2014.

Consolidated sales grew 37.2% to $86.4 million, up from $63.0 million in the first quarter of fiscal 2014. This $23.4 million increase is essentially attributable to a $24.2 million contribution from APPH. On a comparable basis, sales decreased slightly. Year-over-year fluctuations in the value of the Canadian currency versus the U.S. currency increased first-quarter sales by $2.0 million.

Sales to the commercial aerospace market increased 53.4% to $43.3 million reflecting commercial sales of $10.2 million from APPH. Excluding the latter, commercial sales rose 17.2% as a result of higher production rates for certain large commercial aircraft programs and higher sales to the business jet market reflecting the entry into production of the Embraer Legacy 450/500 program. Sales to the military aerospace market reached $43.1 million, up 24.0% from a year ago driven by a $14.0 million contribution from APPH. Excluding APPH, military sales decreased 16.2% due to a slowdown in repair and overhaul activities, lower spare requirements, mainly on the C-5 program from the U.S. government, and lower electronic enclosures and cabinet sales at Magtron as a result of lower customer requirements. These factors were partially offset by higher sales volume with The Boeing Company ("Boeing") on the CH-47 helicopter program.

Gross profit was $14.2 million, or 16.4% of sales, up from $9.2 million, or 14.5% of sales, last year. The increase in dollars and as a percentage of sales reflects the acquisition of APPH, including its more favourable product mix during the quarter. Excluding APPH, gross profit as a percentage of sales was relatively stable, as a higher under-absorption of manufacturing overhead costs at the Longueuil facility resulting from a slowdown in military repair and overhaul activities was offset by improved efficiency and lower non-recurring costs related to the development of a new landing gear system, when compared to last year. Currency variation had a negative effect equivalent to 0.4% of sales on gross profit compared with last year's first quarter. The impact of currency movements on the Corporation's gross profit is influenced by the use of forward foreign exchange sales contracts and the natural hedging from the purchase of materials made in U.S. dollars.

Reflecting higher gross profit, adjusted EBITDA, which excludes restructuring charges of $0.4 million related to manufacturing capacity optimization and consolidation initiatives announced in January 2014, stood at $10.4 million, or 12.0% of sales, up from $7.7 million, or 12.3% of sales, a year ago. The decrease in adjusted EBITDA as a percentage of sales is due to a loss on currency translation of net monetary items denominated in foreign currencies of $0.4 million this year, as opposed to a $0.5 million gain last year. These contrary variations had a combined year-over-year effect of $0.02 per share, after taxes, on adjusted net income.

Adjusted net income, which excludes restructuring charges of $0.3 million, net of taxes, stood at $3.8 million, or $0.12 per diluted share, in the first quarter of fiscal 2015, versus $2.8 million, or $0.09 per diluted share in the first quarter of fiscal 2014.

As at June 30, 2014, Héroux-Devtek's balance sheet remained healthy with cash and cash equivalents of $43.5 million, or $1.21 per share, while total long-term debt was $100.6 million, including the current portion, but excluding net deferred financing costs. Long-term debt includes $50.3 million drawn against the Corporation's authorized Credit Facility of $200.0 million. As a result, the Corporation's net debt position stood at $57.1 million as at June 30, 2014, while the net-debt-to equity ratio was 0.19:1. During the quarter, the Corporation proceeded with the issuance of 4,255,871 common shares pursuant to a public offering and concurrent private placements. Net proceeds of $47.9 million were used to repay indebtedness under the Credit Facility.

On August 7, 2014, Héroux-Devtek announced that it has been awarded a multi-year contract by Boeing to manufacture torque tubes for the 787 Dreamliner aircraft. Under the terms of the agreement, which represents new business for Héroux-Devtek, shipments are scheduled to begin in early calendar year 2015. The contract is an initial co-production agreement that further strengthens the Corporation's business relationship with Boeing. Production of the 787 Dreamliner is ramping up from the current rate of 10 aircraft per month to 12 aircraft in 2016 and to 14 aircraft by the end of the decade. As of July 31, 2014, Boeing's order backlog for the B-787 program stood at 869 aircraft.

As at June 30, 2014, Héroux-Devtek's funded (firm orders) backlog stood at $447 million, versus $456 million at the beginning of the fiscal year.

Conditions remain favourable in the commercial aerospace market. Large commercial aircraft manufacturers are increasing production rates on certain leading programs through calendar 2017 and order backlogs remain strong, representing eight years of production at current rates. The business jet market continues to improve with higher aircraft shipments and this growth should be sustained over several years driven by a better economy and new aircraft introduction, including three models for which Héroux-Devtek developed the landing gear. The military aerospace market should remain difficult and although sequestration cuts were eliminated through the U.S. Government's 2015 fiscal year, current funding requests beyond that horizon exceed planned budget limits, which could affect the Corporation over its ensuing fiscal years. However, as APPH reduces Héroux-Devtek's relative exposure to the U.S. military market, a more geographically diversified military portfolio, mainly composed of leading programs, and also balanced between new component manufacturing and aftermarket products and services, should lessen this impact.

For fiscal 2015, Héroux-Devtek will benefit from APPH's additional contribution, while internal sales are expected to remain relatively stable compared with last fiscal year, as an increase in internal sales to the commercial aerospace market should be offset by lower internal sales to the military aerospace market. With respect to the second quarter, it is important to remember that it has traditionally been a relatively slower period owing to seasonal factors, such as plant shutdowns and summer vacations. Over the long-term, we are confident to reach our objective of achieving annual sales of approximately $500 million within the next five years, assuming no other acquisitions, as most of our markets are exhibiting robust growth. These favourable conditions should present Héroux-Devtek with further opportunities to demonstrate its world-class capabilities in providing value-added products and services to the global landing gear market.

Gilles Labbé
President and Chief Executive Officer
August 7, 2014

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

First quarter ended June 30, 2014

Notice of Disclosure of Non-Auditor Review of Interim Condensed Consolidated Financial Statements for the quarters ended June 30, 2014 and 2013.

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 June 30, 2014 and 2013, 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.

August 6, 2014.

CONSOLIDATED BALANCE SHEETS
As at June 30, 2014 and March 31, 2014
(In thousands of Canadian dollars) (Unaudited)

	Notes	June 30, 2014	March 31, 2014
Assets	**13**		
Current assets			
Cash and cash equivalents	**10**	**$ 43,492**	$ 47,347
Accounts receivable		**62,304**	66,042
Income tax receivable		**833**	508
Inventories		**134,290**	134,048
Derivative financial instruments	**11**	**711**	283
Other current assets	**12**	**27,326**	26,921
		268,956	275,149
Property, plant and equipment, net	**5**	**95,718**	92,305
Finite-life intangible assets, net	**5**	**58,345**	59,139
Derivative financial instruments	**11**	**1,056**	276
Deferred income tax assets		**2,690**	2,720
Goodwill		**83,513**	84,378
Total assets		**$ 510,278**	$ 513,967
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		**$ 50,414**	$ 57,623
Accounts payable - other and other liabilities		**2,013**	3,791
Provisions		**13,768**	14,990
Customer advances		**14,396**	9,409
Progress billings		**6,710**	6,529
Income tax payable		**914**	690
Derivative financial instruments	**11**	**2,069**	4,781
Current portion of long-term debt	**13**	**3,605**	3,648
		93,889	101,461
Long-term debt	**13**	**95,448**	145,224
Provisions		**4,858**	4,853
Progress billings		**789**	1,181
Derivative financial instruments	**11**	**1,123**	2,477
Deferred income tax liabilities		**9,455**	8,638
Other liabilities		**9,030**	9,994
		214,592	273,828
Shareholders' equity			
Issued capital	**14**	**74,705**	26,187
Contributed surplus	**14**	**1,557**	1,247
Accumulated other comprehensive income	**15**	**9,619**	6,768
Retained earnings		**209,805**	205,937
		295,686	240,139
		$ 510,278	$ 513,967

Commitments and Contingencies (notes 17 and 18)

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

CONSOLIDATED STATEMENTS OF INCOME
For the quarters ended June 30, 2014 and 2013
(In thousands of Canadian dollars, except per share data) (Unaudited)

	Notes		2014		2013
Sales		**$**	**86,408**	$	62,972
Cost of sales	**5, 6**		**72,227**		53,820
Gross profit			**14,181**		9,152
Selling and administrative expenses	**5, 6**		**7,938**		4,641
Operating income			**6,243**		4,511
Financial expenses	**7**		**1,704**		723
Income before income tax expense and restructuring charges			**4,539**		3,788
Restructuring charges	**8**		**351**		—
Income before income tax expense			**4,188**		3,788
Income tax expense			**688**		974
Net income		**$**	**3,500**	$	2,814
Earnings per share – basic	**9**	**$**	**0.11**	$	0.09
Earnings per share – diluted	**9**	**$**	**0.11**	$	0.09

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the quarters ended June 30, 2014 and 2013
(In thousands of Canadian dollars) (Unaudited)

	Notes	2014	2013
	15		
Other comprehensive income:			
Items that may be reclassified to net income			
Gain (loss) arising from translating the financial statements of foreign operations		**$ (3,504)**	$ 3,793
Cash flow hedges:			
Net gains (losses) on valuation of derivative financial instruments		**5,407**	(3,435)
Net gains on derivative financial instruments transferred to net income		**(367)**	(520)
Deferred income taxes		**(1,345)**	1,052
		3,695	(2,903)
Gains (losses) on hedge of net investments in foreign operations		**3,236**	(788)
Deferred income taxes		**(576)**	102
		2,660	(686)
Items that are never reclassified to net income			
Defined benefit pension plans:			
Gains (losses) from remeasurement		**502**	(194)
Deferred income taxes		**(134)**	52
		368	(142)
Other comprehensive income		**$ 3,219**	$ 62
Comprehensive income			
Net income		**$ 3,500**	$ 2,814
Other comprehensive income		**3,219**	62
Comprehensive income		**$ 6,719**	$ 2,876

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the quarters ended June 30, 2014 and 2013
(In thousands of Canadian dollars) (Unaudited)

	Notes		Issued capital		Contributed surplus		Accumulated other comprehensive income		Retained earnings		Shareholders' equity
Balance as at March 31, 2014		**$**	**26,187**	**$**	**1,247**	**$**	**6,768**	**$**	**205,937**	**$**	**240,139**
Common shares issued and fully paid:											
Pursuant to the Public offering and concurrent private placements	14		48,462		—		—		—		48,462
Under the Stock purchase and ownership incentive plan	14		56		—		—		—		56
Stock-based compensation expense	14		—		310		—		—		310
Net income			—		—		—		3,500		3,500
Other comprehensive income			—		—		2,851		368		3,219
Balance as at June 30, 2014		**$**	**74,705**	**$**	**1,557**	**$**	**9,619**	**$**	**209,805**	**$**	**295,686**

	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**	**$**	**222,653**
Common shares issued and fully paid under the Stock purchase and ownership incentive plan	14		67		—		—		—		67
Stock-based compensation expense	14		—		36		—		—		36
Net income			—		—		—		2,814		2,814
Other comprehensive income (loss)			—		—		204		(142)		62
Balance as at June 30, 2013		**$**	**25,432**	**$**	**1,258**	**$**	**2,851**	**$**	**196,091**	**$**	**225,632**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the quarters ended June 30, 2014 and 2013
(In thousands of Canadian dollars) (Unaudited)

	Notes	2014	2013
Cash and cash equivalents provided by (used for):			
Operating activities			
Net income from continuing operations		**$ 3,500**	$ 2,814
Items not requiring an outlay of cash:			
Amortization expense	**6**	**4,117**	3,236
Deferred income taxes		**(140)**	623
Loss (gain) on sale of property, plant and equipment		**(15)**	1
Non-cash financial expenses	**7**	**706**	442
Stock-based compensation expense	**14**	**310**	36
Cash flows from continuing operations		**8,478**	7,152
Net change in non-cash items related to continuing operations	**16**	**(1,423)**	(3,645)
Cash flows related to operating activities from continuing operations		**7,055**	3,507
Cash flows related to operating activities from discontinued operations		**(482)**	(1,641)
Cash flows related to operating activities		**6,573**	1,866
Investing activities			
Additions to property, plant and equipment		**(9,179)**	(3,181)
Deposits on machinery and equipment		**(677)**	(467)
Net increase in finite-life intangible assets		**(48)**	(2,995)
Proceeds on disposal of property, plant and equipment		**207**	—
Cash flows related to investing activities		**(9,697)**	(6,643)
Financing activities			
Increase in long-term debt		**18,620**	—
Repayment of long-term debt		**(65,832)**	(2,561)
Issuance of common shares	**14**	**47,956**	67
Cash flows related to financing activities		**744**	(2,494)
Effect of changes in exchange rates on cash and cash equivalents		**(1,475)**	2,711
Change in cash and cash equivalents during the periods		**(3,855)**	(4,560)
Cash and cash equivalents at beginning of periods		**47,347**	101,256
Cash and cash equivalents at end of periods		**$ 43,492**	$ 96,696
Interest and taxes reflected in operating activities:			
Interest paid for continuing operations		**$ 1,031**	$ 391
Interest received from continuing operations		**$ 33**	$ 110
Income taxes paid for continuing operations		**$ 862**	$ 661
Income taxes paid for discontinued operations		**$ 482**	$ 1,641

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, aircraft controls through its Magtron operations and fluid filters products through its Bolton operations.

The Corporation only operates in one reporting segment, which is the Aerospace segment.

Note 2. Basis of preparation

The interim condensed consolidated financial statements for the quarter ended June 30, 2014 were prepared in accordance with IAS 34, *Interim Financial Reporting*. Therefore, certain information and disclosures have been omitted or condensed. The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the most recent annual audited consolidated financial statements. Accordingly, these interim condensed consolidated financial statements for the quarter ended June 30, 2014 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, 2014.

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

Note 3. Changes in accounting policies

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

IFRIC 21 Levies

IFRIC 21 clarifies the timing of accounting for a liability for outflow of resources that is imposed by governments in accordance with legislation, based on the activity that triggers the payment. Levies is required to be applied retrospectively for periods beginning April 1, 2014. The Corporation adopted IFRIC 21 on April 1, 2014 and the adoption of this standard had no impact on the Corporation's interim consolidated financial statements.

Note 4. Business acquisition

On February 3, 2014, the Corporation signed an agreement to acquire the entire share capital of U.K. - based APPH Limited and U.S. - based APPH Wichita Inc. (collectively "APPH"), from BBA Aviation Plc (LSE : BBA), for a consideration of US$124,184 ($138,738), net of US$3,816 ($4,264) of cash acquired. The acquisition was financed with the Corporation's available cash for US$54,884 ($61,316) and existing credit facility for US$69,300 ($77,422). The transaction was treated as a business combination.

APPH is an integrated provider of landing gear and hydraulic systems and assemblies for original equipment manufacture ("OEM") and aftermarket applications. This acquisition expands the Corporation's geographical operations into the European market and further increases and diversifies its customer base.

The preliminary purchase price allocation that reflects the fair value of the assets acquired and liabilities assumed with any excess allocated to goodwill at February 3, 2014 was as follows:

Cash	$	4,264
Accounts receivable		15,548
Inventories		39,310
Other current assets		854
Total current assets		59,976
Property, plant and equipment		14,896
Finite-life intangible assets (1)		25,469
Deferred income tax assets		1,098
Total non-current assets		41,463
Accounts payable and accrued liabilities		12,535
Accounts payable - other and other liabilities (2)		1,698
Provisions		5,611
Total current liabilities		19,844
Other liabilities (2)		3,306
Total non-current liabilities		3,306
Net identifiable assets and liabilities		78,289
Goodwill on acquisition		64,713
Total consideration		143,002
Cash acquired		4,264
Net cash outflow	**$**	**138,738**

(1) *Mainly customer relationships and contracts representing $25,109.*
(2) *Essentially deferred revenue.*

This purchase price allocation is preliminary, the final purchase price allocation could result in changes to the fair value of assets acquired and liabilities assumed. The final purchase price allocation is expected to be completed as soon as management has gathered all the significant information available and considered necessary in order to finalize this allocation. The goodwill of $64,713 has been mainly allocated to the Landing Gear product line.

Note 5. Government assistance

During the quarter ended June 30, 2014, the Corporation recorded as government assistance for an amount of $513 ($460 in 2013) as a reduction of cost of sales and selling and administrative expenses and an amount of $205 ($310 in 2013) as a reduction of the related property, plant and equipment or capitalized development costs and software, presented under Finite-life intangible assets.

Note 6. Cost of sales, selling and administrative expenses

The main components of these expenses for the quarters ended June 30, are as follows:

		2014		**2013**
Raw materials and purchased parts	**$**	**31,322**	$	25,163
Employee costs		**30,907**		24,038
Amortization of property, plant and equipment and finite-life intangible assets		**4,117**		3,236
Others		**13,819**		6,024
	$	**80,165**	$	58,461

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 June 30, 2014, the foreign exchange loss included in the Corporation's selling and administrative expenses amounted to $421 (gain of $520 in 2013).

Note 7. Financial expenses

Financial expenses for the quarters ended June 30, comprise the following:

	2014	2013
Interest expense	**$ 925**	$ 252
Interest accretion on governmental authorities loans	**573**	469
Interest on net defined benefit obligations	**61**	114
Amortization of deferred financing costs (note 13)	**79**	110
Standby fees	**106**	139
Other interest accretion expense and discount rate adjustments	**(7)**	(251)
	1,737	833
Interest income on cash and cash equivalents	**33**	110
	$ 1,704	$ 723

Note 8. Restructuring charges

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

These restructuring charges should result in a total charge of approximately $5,000 before income taxes of which $1,884 was recorded in the fourth quarter of the last fiscal year. For the quarter ended June 30, 2014, the Corporation recorded restructuring charges of $351 (none in 2013) which include employee termination benefits of $204 and other associated costs of $147. The remaining restructuring charges of $2,765 are expected to be incurred during the remainder of the current fiscal year. The unpaid portion of the restructuring charges at June 30, 2014 is presented under short-term provisions for $477 ($890 as at March 31, 2014) and other liabilities for $486 ($319 as at March 31, 2014) in the Corporation's Consolidated balance sheets.

Note 9. Earnings per share

The following table sets forth the elements used to compute basic and diluted earnings per share for the quarters ended June 30:

	2014	2013
Weighted-average number of common shares outstanding	**31,811,771**	31,517,146
Effect of dilutive stock options of the Corporation	**135,152**	151,496
Weighted-average number of common diluted shares outstanding	**31,946,923**	31,668,642

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 ended June 30, 2014, 502,500 stock options of the Corporation's plan (none in 2013) were excluded from the diluted earnings per share calculation.

Note 10. Cash and cash equivalents

	June 30, 2014	March 31, 2014
Cash at banks	**$ 43,492**	$ 47,347
	$ 43,492	$ 47,347

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Note 11. Derivative financial instruments

Forward foreign exchange contracts

As at June 30, 2014, the Corporation had forward foreign exchange contracts to sell US$117.9 million at a weighted-average rate of 1.0644 (Canadian dollar over U.S. dollar, “cad/usd”). As at March 31, 2014 and June 30, 2013, these contracts totalled US$127.4 million at a weighted-average rate of 1.0628 cad/usd and US$120.0 million at a weighted-average rate of 1.0326 cad/usd, respectively. As at June 30, 2014, these contracts mature at various dates between July 2014 and March 2017, with the majority maturing this and next fiscal year.

Interest rate swap agreements

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

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

The interest-rate swap rates mentioned above excludes the additional bank relevant margin (see note 13). The cash flows related to the interest-rate-swaps are expected to occur in the same periods as they are expected to affect the net income.

Note 12. Other current assets

		June 30, 2014		March 31, 2014
Investment and other tax credits receivable	**$**	**8,721**	$	8,762
Sales tax receivable		**2,021**		1,761
Deposits on machinery and equipment (note 17)		**13,545**		12,868
Prepaid expenses		**2,773**		2,748
Others		**266**		782
	$	**27,326**	$	26,921

Note 13. Long-term debt

		June 30, 2014		March 31, 2014
Senior Secured Syndicated Revolving Credit Facility (“Credit Facility“) of up to $200,000 (either in Canadian, U.S., Euro or British Pound currency equivalent), maturing on March 16, 2019, which US$32,000 bears interest at Libor plus 1.5% (US$91,300 as at March 31, 2014) and $16,200 bears interest at the Bankers' Acceptance rate plus 1.5% as at June 30, 2014 (none as at March 31, 2014), secured by all assets of the Corporation and its subsidiaries. The Credit Facility includes an accordion feature to increase the Credit Facility up to $275 million subject to lenders' consent.	**$**	**50,344**	$	100,932
Governmental authorities loans, repayable in variable annual instalments, with various expiry dates until fiscal year 2030.		**45,612**		44,463
Obligations under finance leases, all bearing fixed interest rates between 3.3% and 6.5% as at June 30, 2014 and March 31, 2014, maturing from January 2016 to February 2021, with amortization periods ranging from five to seven years, secured by the related property, plant and equipment, net of interest of $369 ($436 as at March 31, 2014).		**4,612**		5,071
Deferred financing costs, net		**(1,515)**		(1,594)
		99,053		148,872
Less: current portion		**3,605**		3,648
	$	**95,448**	$	145,224

Senior Secured Syndicated Revolving Credit Facility

On June 26, 2014, as a result of the net proceeds received of $47.9 million from the issuance of 4,255,871 common shares pursuant to the public offering and concurrent private placements (see note 14) and an amount of $16.2 million drawn against the Credit Facility, the Corporation repaid US$59.3 million ($63.6 million) of debt under its Credit Facility.

Note 14. Issued capital

For the quarter ended June 30, 2014, variations in common shares issued are as follows:

	June 30, 2014		
	Number		**Issued capital**
Common shares issued and fully paid			
Opening balance	**31,620,482**	**$**	**26,187**
Issued for cash pursuant to the public offering and concurrent private placements	**4,255,871**		**48,462**
Issued for cash under the stock purchase and ownership incentive plan	**5,345**		**56**
Closing balance	**35,881,698**	**$**	**74,705**

Issuance of common shares

During the quarter ended June 30, 2014, the Corporation issued 4,261,216 common shares as follows:

i. On June 26, 2014, the Corporation issued 4,255,871 common shares at a price of $11.75 per share for gross proceeds of $50.0 million pursuant to the public offering and concurrent private placements. The net proceeds of $47.9 million received by the Corporation, net of underwriting commissions and other issuance costs of $1.6 million and $0.5 million respectively, were used to repay indebtedness under its Credit Facility (see note 13). Deferred income taxes of $562 were recorded related to the issuance costs.

ii. The Corporation issued 5,345 common shares at a weighted-average price of $10.39 under the Corporation's stock purchase and ownership incentive plan for a total cash consideration of $56.

During the quarter ended June 30, 2013, the Corporation issued 9,336 common shares at a weighted-average price of $7.14 for a total cash consideration of $67.

A. Stock option plan

As at June 30, 2014 and March 31, 2014, the number of common shares reserved for issuance of stock options represents 2,808,257 of which 1,674,781 shares had not been issued yet. The options are granted at a subscription price representing the average closing price of the Corporation's common shares on the TSX for the five trading days preceding the grant date. Options granted under the plan vest over a period of four years, with the exception of certain key management employees for which the vesting period is two and three years following the grant date. The options are exercisable over a period no greater than seven years after the grant date.

During the quarters ended June 30, 2014 and 2013, no stock options were granted, exercised or cancelled. As at June 30, 2014 and March 31, 2014, 686,001 stock options were issued and outstanding at a weighted-average exercise price of $9.39.

For the quarter ended June 30, 2014, the stock option plan expense amounted to $310 ($36 in 2013).

B. Stock purchase and ownership incentive plan

During the first quarter ended June 30, 2014, 5,345 common shares were issued (9,336 in 2013) and 3,397 common shares were attributed to the participating employees (3,834 in 2013), under the stock purchase and ownership incentive plan. For the quarter ended June 30, 2014, the expense related to the attributed common shares amounted to $39 ($31 in 2013).

C. Stock appreciation right ("SAR") plan

During the quarters ended June 30, 2014 and 2013, no SARs were granted, exercised or cancelled. As at June 30, 2014 and March 31, 2014, on a cumulative basis, 17,000 SARs were still outstanding at a weighted-average granted value of $1.72 which expire on various dates in fiscal 2015 and 2016.

For the quarter ended June 30, 2014, the reversal of SAR expense amounted to $4 (expense of $21 in 2013).

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

D. DSU plan

As at June 30, 2014 and March 31, 2014, on a cumulative basis, 64,825 DSUs were outstanding.

During the quarters ended June 30, 2014 and 2013, no DSUs were issued, exercised or cancelled.

For the quarter ended June 30, 2014, DSU expense amounted to $21 ($58 in 2013).

Note 15. 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 foreign operations	Total
Balance as at March 31, 2014	**$ 13,156**	**$ (4,680)**	**$ (1,708)**	**$ 6,768**
Other comprehensive income (loss)	(3,504)	3,695	2,660	2,851
Balance as at June 30, 2014	**$ 9,652**	**$ (985)**	**$ 952**	**$ 9,619**
Balance as at March 31, 2013	**$ 3,215**	**$ 63**	**$ (631)**	**$ 2,647**
Other comprehensive income (loss)	3,793	(2,903)	(686)	204
Balance as at June 30, 2013	**$ 7,008**	**$ (2,840)**	**$ (1,317)**	**$ 2,851**

Note 16. Net change in non-cash items related to continuing operations

For the quarters ended June 30, the net change in non-cash items related to continuing operations is detailed as follows:

	2014	2013
Accounts receivable	**$ 3,738**	$ 6,615
Income tax receivable	**(325)**	233
Inventories	**(242)**	(1,528)
Other current assets	**241**	(1)
Accounts payable and accrued liabilities, accounts payable – other and other liabilities	**(8,547)**	(5,541)
Provisions	**(878)**	105
Progress billings	**(211)**	(3,397)
Customer advances	**4,987**	—
Income tax payable	**706**	(791)
Effect of changes in exchange rate[1]	**(892)**	660
	$ (1,423)	$ (3,645)

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

Note 17. 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 June 30, 2014, these outstanding purchase orders amounted to $40,065 ($42,203 as at March 31, 2014) for which an amount of $13,545 ($12,868 as at March 31, 2014) in deposits on machinery and equipment were made and are included in the Corporation's other current assets.

Note 18. Contingencies

On February 5, 2014, Goodrich Corporation, member of UTC Aerospace Systems ("UTAS") group, filed a request for arbitration against the Corporation to the ICC International Court of Arbitration based on an alleged violation of a non-compete covenant contained in an agreement between Goodrich Corporation and Devtek Aerospace Inc. relating to the manufacturing of pistons. The arbitration date has not been set yet.

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

Note 19. Geographic information

Geographic information represents the following:

	2014				2013		
Quarters ended June 30,	**Canada**	**U.S.**	**U.K.**	**Total**	**Canada**	**U.S.**	**Total**
Sales	**$ 51,918**	**$ 14,183**	**$ 20,307**	**$ 86,408**	$ 50,521	$ 12,451	$ 62,972
Property, plant and equipment, net	**67,396**	**16,792**	**11,530**	**95,718**	65,254	12,531	77,785
Finite-life intangible assets, net	**33,604**	**4,181**	**20,560**	**58,345**	29,048	296	29,344
Goodwill	**13,838**	**8,228**	**61,447**	**83,513**	13,838	5,530	19,368
Export sales[(1)]	**$ 39,637**				$ 30,273		

During the quarters ended June 30, 2014 and 2013, 49% and 63% of the Corporation's sales, respectively, were made to U.S. customers.

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

MANAGEMENT DISCUSSION AND ANALYSIS OF

FINANCIAL POSITION AND OPERATING RESULTS

For the quarter ended June 30, 2014

MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL POSITION AND OPERATING RESULTS

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Management Discussion and Analysis
of Financial Position and Operating Results

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

This analysis should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements for the quarters ended June 30, 2014 and 2013, and the audited consolidated financial statements and MD&A for the fiscal year ended March 31, 2014, all of which are available on the Corporation's website at www.herouxdevtek.com. This MD&A is based on 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. These financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. However, the Corporation's management, as well as investors, consider these metrics to be useful information to assist them in evaluating the Corporation's profitability, liquidity and ability to generate funds to finance its operations and capital investment needs.

The Corporation's EBITDA and adjusted EBITDA are calculated as follows:

	Quarters ended June 30,	
($'000)	**2014**	**2013**
Net income	**3,500**	2,814
Income tax expense	**688**	974
Financial expenses	**1,704**	723
Amortization expense	**4,117**	3,236
EBITDA	**10,009**	7,747
Restructuring charges	**351**	—
Adjusted EBITDA	**10,360**	7,747

For the first quarter ended June 30, 2014, the $2.6 million increase in adjusted EBITDA compared to last year mainly reflects the results of APPH (acquired on February 3, 2014) partially offset by higher selling and administrative expenses, as explained in the following sections.

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

	Quarters ended June 30,	
($'000, except per share data)	**2014**	**2013**
Net income	**3,500**	2,814
Restructuring charges, net of taxes of $95	**256**	—
Adjusted net income	**3,756**	2,814
Earnings per share - basic and diluted	**0.11**	0.09
Restructuring charges, net of taxes	**0.01**	—
Adjusted earnings per share - basic and diluted	**0.12**	0.09

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

Forward-Looking Statements

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

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

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

Overview

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

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

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

In the commercial sector, the Corporation is active in the large commercial and business jet, regional aircraft and helicopter markets. On the military side, the Corporation provides parts and services for all major military aircraft, in the United States and in Europe, following the acquisition of APPH. As such, a significant portion of the Corporation's sales are made to a limited number of customers located in Canada, the United States and Europe.

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

Acquisition of APPH

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

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

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

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

Boeing B-777 and B-777X Contract

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

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

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

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

RESULTS OF OPERATIONS

Foreign Exchange

The Corporation is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its foreign operations and from transactions denominated mainly in US dollars and in British pounds ("GBP"). Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions, but exclusive of forward foreign exchange contracts ("FFEC"), while the statement of income of foreign operations is translated at the average exchange rate for the quarter. FFEC, for the purpose of hedge accounting, are classified as cash flow hedges in accordance with the Corporation's accounting policies. The closing rates translate monetary assets and liabilities denominated in foreign currencies and assets and liabilities of foreign operations.

The average exchange rates for the quarters ended June 30, 2014 and 2013, and the closing rates as at June 30, 2014 and March 31, 2014 were as follows:

$ Canadian / 1 US $ equivalent	**June 30, 2014**	**June 30, 2013**
Average rate for quarters ended	1.0905	1.0233
$ Canadian / 1 US $ equivalent	**June 30, 2014**	**March 31, 2014**
Closing rates	1.0670	1.1055
$ Canadian / 1 GBP equivalent	**June 30, 2014**	**June 30, 2013**
Average rate for quarters ended	1.8355	—
$ Canadian / 1 GBP equivalent	**June 30, 2014**	**March 31, 2014**
Closing rates	1.8261	1.8430

As shown above, the average value of the Canadian dollar for the quarter ended June 30, 2014 was 6.6% 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 above closing rates ("foreign currency rates") since March 31, 2014 had a negative impact on the Corporation's balance sheet accounts denominated in foreign currencies 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. At June 30, 2014, the Corporation had FFEC totaling US$117.9 million at a weighted-average rate of 1.0644 maturing at various dates between July 2014 and March 2017, with the majority maturing this and next fiscal year.

Consolidated Sales

Consolidated sales for the first quarter ended June 30, 2014 increased by $23.4 million or 37.2% to $86.4 million from $63.0 million last year. Excluding sales representing $24.2 million from the acquisition of APPH, consolidated sales were $62.2 million, slightly lower compared to last year. This is the result of lower aftermarket military sales, partially offset by increased sales of $4.9 million or 17.2% in the commercial sector, mainly resulting from higher sales on certain large commercial programs and by entry into production of the new Embraer Legacy 450/500 program. Exchange fluctuations increased sales by $2.0 million or 3.2%, when compared to last year.

Sales can be broken down by sector as follows:

	Quarters ended June 30,			
	2014	**2013**	**Variance**	
	($'000)	($'000)	($'000)	%
Commercial	**43,329**	28,240	15,089	53.4
Military *(1)*	**43,079**	34,732	8,347	24.0
Total	**86,408**	62,972	23,436	37.2

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

Commercial sales were $15.1 million or 53.4% higher this quarter to $43.3 million from $28.2 million last year and $4.9 million or 17.2% higher to $33.1 million, when excluding commercial sales of APPH. This increase is the result of higher production rates on certain large commercial programs, essentially the B-777, B-787 and A-320 programs, and from higher business jet sales mainly resulting from entry into production of the new Embraer Legacy 450/500 program.

Military sales were $8.3 million or 24.0% higher this quarter, to $43.1 million from $34.7 million last year, but $5.6 million or 16.2% lower to $29.1 million, when excluding military sales of APPH. The decrease in sales is the result of a slowdown in repair and overhaul activities and lower spare requirements mainly on the C-5 program with the U.S. government, partially offset by an increased sales volume with 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 in recent years.

Sales by Destination

The Corporation's sales by destination were as follows:

	Quarters ended June 30,	
	2014	**2013**
	(%)	(%)
Canada	**25**	33
U.S.	**49**	63
United Kingdom	**13**	—
Other countries	**13**	4
Total	**100**	100

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

Gross Profit

This quarter, consolidated gross profit was $14.2 million, or 16.4% of sales, an increase of $5.0 million, or 1.9%, from $9.2 million or 14.5% of sales last year. The increase in dollars and as a percentage of sales reflects the APPH acquisition, including its more favourable product mix during the quarter. When excluding the impact of the APPH acquisition, this quarter's gross profit as a percentage of sales remained relatively stable at 14.6%, despite a 0.4% unfavorable impact of currency fluctuations. Besides the natural hedging from the purchase of raw materials in US dollars, the Corporation mitigates the currency impact by the use of FFEC.

This quarter, consolidated gross profit, excluding the acquisition of APPH, was impacted by a higher under-absorption of manufacturing overhead costs essentially at the Longueuil facility, resulting from the slowdown in repair and overhaul activities, as explained before. This negative impact on gross profit was offset by improved efficiency and lower non-recurring costs incurred in the development of a new landing gear system, when compared to last year.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	Quarters ended June 30,	
	2014	**2013**
Selling and administrative expenses ($'000)	**7,938**	4,641
% of sales	**9.2%**	7.4%

Selling and administrative expenses stood at $7.9 million or 9.2% of sales for the quarter ended June 30, 2014, an increase of $3.3 million or 1.8% of sales from $4.6 million or 7.4% of sales last year. Excluding the impact of the acquisition of APPH, selling and administrative expenses stood at $5.6 million or 9.0% of sales. The increase is essentially explained by a loss on currency translation on net monetary items denominated in foreign currencies of $0.4 million incurred this year, compared to a gain of $0.5 million last year.

Operating Income

Consolidated operating income stood at $6.2 million or 7.2% of sales for the quarter ended June 30, 2014, reflecting the contribution of APPH, compared to $4.5 million or 7.2% of sales last year. Excluding the acquisition of APPH, the Corporation's operating income stood at $3.5 million or 5.6% of sales for this quarter, reflecting the higher selling and administrative expenses, as explained above.

Financial Expenses

Financial expenses stood at $1.7 million for the quarter ended June 30, 2014, compared to $0.7 million last year. This quarter, the higher financial expenses, compared to last year, are mainly explained by additional interest expenses of $0.7 million resulting from the increased drawings against the Corporation's Credit Facility, combined with a lower interest income due to the lower level of cash and cash equivalents, both as a result of the acquisition of APPH in last year's fourth quarter. Also, last year's financial expenses included a favorable discount rate adjustment of $0.3 million related to asset retirement obligations, while it represented a negligible gain this quarter.

Restructuring Charges

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

These restructuring charges should result in a total charge of approximately $5.0 million before income taxes of which $1.8 million was recorded in the fourth quarter of the last fiscal year. For the quarter ended June 30, 2014, the Corporation recorded restructuring charges of $0.4 million (none in 2013) which include employee termination benefits of $0.2 million and other associated costs of $0.2 million. The remaining restructuring charges of $2.8 million are expected to be incurred during the remainder of the current fiscal year. The unpaid portion of the restructuring charges at June 30, 2014 is presented under short-term provisions for $0.5 million ($0.9 million as at March 31, 2014) and other liabilities for $0.5 million ($0.3 million as at March 31, 2014) in the Corporation's Consolidated balance sheets.

Income Tax Expense

For the quarters ended June 30, 2014 and 2013, the income tax expense stood at $0.7 million and $1.0 million respectively.

This quarter, the Corporation's effective income tax rate was 16.4%, compared to its Canadian blended statutory income tax rate of 26.7%. The effective income tax rate reflects the favorable impact from permanent differences ($0.3 million) and the positive impact of a lower income tax rate for the Corporation's foreign subsidiaries ($0.1 million).

Last year, the Corporation's effective income tax rate was 25.7%, compared to its Canadian blended statutory income tax rate of 26.7%. The effective income tax rate reflected the favorable impact from permanent differences ($0.1 million) partially offset by the negative impact of a higher U.S. income tax rate for the Corporation's U.S. subsidiaries ($0.1 million).

Net Income

For the quarter ended June 30, 2014, the Corporation posted a net income of $3.5 million or 4.1% of sales ($3.8 million or 4.3% of sales, excluding restructuring charges of $0.3 million, net of taxes), compared to a net income of $2.8 million or 4.5% of sales for the same period last year.

	Quarters ended June 30,	
	2014	**2013**
Net income ($'000) (1)	**3,500**	2,814
Earnings per share – basic ($)	**0.11**	0.09
Earnings per share – diluted ($)	**0.11**	0.09

(1) *Net of restructuring charges of $0.3 million, net of taxes.*

Basic earnings per share figures are based on year-to-date weighted-averages of 31,811,771 common shares outstanding for the first quarter ended June 30, 2014 and 31,517,146 common shares for the same period last year, while the diluted earnings per share figures are based on year-to-date weighted-averages of 31,946,923, for this quarter and 31,668,642 last year. The increase in the weighted-average number of outstanding common shares from June 30, 2013 to June 30, 2014 is mainly related to the issuance of shares pursuant to the public offering and concurrent private placements on June 26, 2014 (see below) and issuance of shares under the Corporation's stock option plan during the fourth quarter of the previous fiscal year.

On August 6, 2014, the date of this MD&A, the Corporation had 35,887,357 common shares and 686,001 stock options outstanding with a weighted-average of 5.6 years to maturity.

Accumulated Other Comprehensive Income (“AOCI”) and Comprehensive Income

For the quarter ended June 30, 2014, the other comprehensive income, included in the comprehensive income, is mainly the result of a gain on the valuation of derivative financial instruments resulting from the appreciation of the Canadian currency, compared to the US currency, and gains on hedge of net investments in foreign operations. It also includes gains from remeasurement of the Corporation’s defined benefit pension plans resulting from a higher than expected return on plan assets partially offset by a lower interest rate to discount the defined benefit pension plan obligations. These favorable variations on the comprehensive income were partially offset by a loss arising from the translation of the financial statements of foreign operations, resulting from the appreciation of the Canadian currency, compared to the US and British Pound currencies.

Liquidity and Capital Resources

Credit Facility and Cash and Cash Equivalents

In general terms, the Corporation has a healthy financial situation and is well positioned to face its financing needs. The Corporation had cash and cash equivalents of $43.5 million as at June 30, 2014, compared to $47.3 million at March 31, 2014, that were held in investment accounts with five Canadian Banks and their U.S. affiliates or branches of the Corporation’s syndicated banks.

The Corporation has in place a Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") with five Canadian syndicated banks, and their U.S. affiliates or branches and a Canadian branch of a U.S. bank. This Credit Facility allows the Corporation and its subsidiaries to borrow up to $200 million, either in Canadian, US, British Pound or Euro equivalent currencies and will mature in March 2019. It also includes an accordion feature to increase the Credit Facility up to $275 million, during the term of the Credit Agreement, subject to the approval of the lenders.

As at June 30, 2014, the Corporation had $50.3 million drawn against the Credit Facility, compared to $100.9 million as at March 31, 2014. Considering the Corporation’s cash and cash equivalents position, its available Credit Facility and level of expected capital investments and results, the Corporation’s management does not expect any significant liquidity risk in the foreseeable future.

As at June 30, 2014, the Corporation had the following net debt position, calculated as follows:

	($’000)
Long-term debt, including current portion(1)	**100,568**
Less: Cash and cash equivalents	**43,492**
Net debt position	**57,076**

(1) *Excluding net deferred financing costs of $1.5 million.*

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 June 30,	
	2014	**2013**
	($’000)	($’000)
Cash flows from continuing operations	**8,478**	7,152
Net change in non-cash items related to continuing operations	**(1,423)**	(3,645)
Cash flows related to operating activities from continuing operations	**7,055**	3,507
Cash flows related to operating activities from discontinued operations	**(482)**	(1,641)
Cash flows related to operating activities	**6,573**	1,866

The $1.3 million increase in cash flows from continuing operations for the quarter ended June 30, 2014, when compared to last year's period, is mainly explained by a higher net income and amortization expense both resulting from the APPH acquisition.

This quarter, cash flows related to operating activities from discontinued operations include a final tax payment related to fiscal year 2013, while it included a payment of income taxes for fiscal year 2013 in last fiscal year's first quarter.

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

	Quarters ended June 30,	
	2014	**2013**
	($'000)	($'000)
Accounts receivable	**3,738**	6,615
Inventories	**(242)**	(1,528)
Accounts payable and accrued liabilities, accounts payable-other and other liabilities (referred to as "accounts payable")	**(8,547)**	(5,541)
Progress billings	**(211)**	(3,397)
Customer advances	**4,987**	—
Income taxes payable and receivable	**381**	(558)
All others, including the effect of changes in exchange rate	**(1,529)**	764
	(1,423)	(3,645)

For the first quarter ended June 30, 2014, the decrease in accounts receivable and accounts payable reflects the lower level of activity in the quarter, when compared to last year's fourth quarter, which is historically the best quarter of the year, and lower foreign exchange closing rate (US/CAD) to convert the balances denominated in US currency. The increase in customer advances this year, compared to last year, mainly reflects payments received from a customer in relation to long-term contracts.

For the first quarter ended June 30, 2013, the decrease in accounts receivable and accounts payable was the result of a lower sales volume in last year's first quarter, compared to the previous year's fourth quarter, partially offset by the impact of a higher (US/CAD) foreign exchange closing rate used to convert the U.S.-denominated accounts receivable and accounts payable at period-end. Last year, the increase in inventories mainly reflected the increased volume on the commercial programs, while the reduction in progress billings reflected a higher commercial funded backlog business mix, and a reduced backlog on certain military programs. The reduction in income taxes payable and receivable for the quarter ended June 30, 2013 mainly reflected a payment of income taxes made for fiscal 2013.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended June 30,	
	2014	**2013**
	($'000)	($'000)
Additions to property, plant and equipment	**(9,179)**	(3,181)
Deposits on machinery and equipment	**(677)**	(467)
Net increase in finite-life intangible assets	**(48)**	(2,995)
Proceeds on disposal of property, plant and equipment	**207**	—
Cash flows related to investing activities	**(9,697)**	(6,643)

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

	Quarters ended June 30,	
	2014	**2013**
	($'000)	($'000)
Gross additions to property, plant and equipment	**8,136**	2,581
Government assistance	**(205)**	(310)
Additions to property, plant and equipment	**7,931**	2,271
Variation in unpaid additions included in Accounts payable - Other and other liabilities	**1,248**	910
Additions, as per statements of cash flows	**9,179**	3,181

This quarter, the additions to property, plant and equipment stood at $7.9 million ($2.3 million last year). The increase in additions to property, plant and equipment is essentially related to the capital expenditures required in order to supply complete landing gear systems for the B-777 program. Capital expenditures for fiscal 2015 are expected to be about $75.0 million, including $58.0 million related to the Boeing B-777 contract.

Last year's increase in finite-life intangible assets mainly included capitalized development costs for long-term contracts, essentially for business jet programs.

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended June 30,	
	2014	**2013**
	($'000)	($'000)
Increase in long-term debt	**18,620**	—
Repayment of long-term debt	**(65,832)**	(2,561)
Issuance of common shares	**47,956**	67
Cash flows related to financing activities	**744**	(2,494)

For the quarter ended June 30, 2014, the Corporation issued 4,255,871 common shares for net proceeds of $47.9 million as a result of the public offering and concurrent private placements (see below). During the quarter, the Corporation also received a total cash consideration of $0.1 million ($0.1 million last year) for common shares issued under the Corporation's stock purchase and ownership incentive plan ("stock purchase plan").

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

This quarter's increase in long-term debt also includes a new governmental authorities' loan of $2.4 million received to support development program investments.

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

Capital Stock, Stock Option and Stock Purchase Plans

As at June 30, 2014, the Corporation had 35,881,698 common shares outstanding (31,620,482 as at March 31, 2014).

During the quarter ended June 30, 2014, the Corporation issued 4,261,216 common shares as follows:

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

ii. The Corporation issued 5,345 common shares under the Corporation's stock purchase plan for a total cash consideration of $56,000.

During the quarter ended June 30, 2013, the Corporation issued 9,336 common shares all under the Corporation's stock purchase plan for a total cash consideration of $67,000.

During the quarters ended June 30, 2014 and 2013, no stock options were granted, exercised or cancelled.

As at June 30, 2014, 686,001 stock options were issued and outstanding with a weighted-average of 5.7 years to maturity and a weighted-average exercise price of $9.39 (see Note 14 to the interim condensed consolidated financial statements).

For the quarter ended June 30, 2014, the stock option plan expense and the stock purchase plan expense amounted to $310,000 and $39,000, respectively ($36,000 and $31,000 in 2013) (see Note 14 to the interim condensed consolidated financial statements).

As at June 30, 2014, 1,674,781 common shares had not been issued yet under the Stock Option Plan and 235,440 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 June 30, 2014 and March 31, 2014, on a cumulative basis, 17,000 SARs were still outstanding at a weighted-average granted value of $1.72 which expire on various dates in fiscal 2015 and 2016. During the quarters ended June 30, 2014 and 2013, no SARs were granted, exercised or cancelled.

As at June 30, 2014 and March 31, 2014, on a cumulative basis, 64,825 DSUs were outstanding. During the quarters ended June 30, 2014 and 2013, no DSUs were issued, exercised or cancelled.

For the quarter ended June 30, 2014, the reversal of SAR expense amounted to $4,000 (expense of $21,000 in 2013) while DSU expense amounted to $21,000 ($58,000 in 2013) (see Note 14 to the interim condensed consolidated financial statements).

Consolidated Balance Sheets

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

Item	June 30, 2014 ($ million)	March 31, 2014 ($ million)	Change ($ million)	Explanation
Cash and cash equivalents	43.5	47.3	(3.8)	See consolidated statements of cash flows.
Accounts receivable	62.3	66.0	(3.7)	Mainly reflects lower sales in the first quarter this year compared to last year's fourth quarter sales, combined with lower foreign currency rates used to convert the foreign currency-denominated accounts receivable, when compared to March 31, 2014 (impact of $1.3 million).
Derivative financial instruments (current and non-current assets)	1.8	0.6	1.2	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 weighted-average US/CAD rates of forward foreign exchange contracts on hand and the closing rates of conversion used, as of both balance sheet dates.
Other current assets	27.3	26.9	0.4	Mainly reflects increased deposits made on machinery and equipment in relation to the Boeing B-777 contract.
Property, plant and equipment (PPE), net	95.7	92.3	3.4	Mainly reflects the additions ($7.9 million, net of government assistance), partially offset by amortization expense ($3.6 million), a lower foreign currency rate used to convert the PPE of the foreign operations ($0.7 million) and disposal of property, plant and equipment ($0.2 million).
Finite-life intangible assets, net	58.3	59.1	(0.8)	Reflects essentially the amortization expense ($0.5 million) and a lower foreign currency rate used to convert the intangible assets of the foreign operations ($0.3 million).
Accounts payable and accrued liabilities	50.4	57.6	(7.2)	Mainly reflects lower sales in the first quarter this year compared to last year's fourth quarter sales, combined with a lower foreign currency used to convert the foreign currency-denominated accounts payable and accrued liabilities, when compared to March 31, 2014 (impact of $0.7 million).
Accounts payable - other and other liabilities	2.0	3.8	(1.8)	Mainly reflects reduced unpaid PPE additions (impact of $1.3 million), compared to March 31, 2014.
Customer advances	14.4	9.4	5.0	Reflects payments received from a customer in relation to long-term contracts.
Derivative financial instruments (current and long-term liabilities)	3.2	7.3	(4.1)	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 closing rates 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)	99.1	148.9	(49.8)	Reflects scheduled payments of long-term debt ($2.3 million) and the repayment of US$59.3 million ($63.6 million) under the Credit Facility combined with the impact of a lower US/CAD exchange rate used to convert U.S.-denominated long-term debt ($3.2 million). The decrease was partially offset by a drawing on the Credit Facility ($16.2 million) and new governmental loans received this year to support development program investments ($2.4 million), interest accretion on increased governmental authorities' loans ($0.6 million) and amortization of deferred financing costs related to the Credit Facility ($0.1 million).
Other liabilities	9.0	10.0	(1.0)	Decrease mainly resulting from gains on remeasurement of the Corporation's defined benefit pension plans ($0.5 million), combined with scheduled payments made this quarter.
Issued capital	74.7	26.2	48.5	Increase mainly from the net proceeds ($47.9 million) received from the public offering and concurrent private placements, combined with favorable deferred income taxes ($0.6 million) recorded related to the issuance costs.

Item	June 30, 2014 ($ million)	March 31, 2014 ($ million)	Change ($ million)	Explanation
Contributed surplus	1.6	1.3	0.3	Increase reflects the stock option plan expense ($0.3 million) for the quarter and its counterpart accounted for in the contributed surplus.
Retained earnings	209.8	205.9	3.9	Increase reflects the Corporation's net income of $3.5 million for this quarter ended June 30, 2014, combined with net gains from remeasurement of $0.4 million on the Corporation's defined benefit pension plans recorded this quarter.

As at June 30, 2014 and March 31, 2014, the Corporation's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio(1) were as follows:

	June 30, 2014	**March 31, 2014**
Working capital ratio	**2.86:1**	2.71:1
Cash and cash equivalents	**$43.5 million**	$47.3 million
Long-term debt-to-equity ratio	**0.32:1**	0.60:1
Net debt-to-equity ratio(1)	**0.19:1**	0.43:1

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

Government Assistance

During the first quarter ended June 30, 2014, the Corporation recorded as government assistance an amount of $0.5 million as a reduction of cost of sales and selling and administrative expenses ($0.5 million for the same period last year), and an amount of $0.2 million ($0.3 million for the same period last year) as a reduction of the related property, plant and equipment or capitalized development costs and software, presented under finite-life intangible assets.

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

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

Commitments

As at June 30, 2014, the Corporation had operating lease obligations amounting to $2.1 million for buildings and facilities. These amounts are repayable essentially over the next five fiscal years. The Corporation also had machinery and equipment purchase commitments totaling $40.1 million (see Note 17 to the interim condensed consolidated financial statements) of which $36.2 million ($38.5 million as March 31, 2014) is related to the Boeing B-777 contract.

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

Derivatives, Off-Balance-Sheet Items

As at June 30, 2014, the Corporation had forward foreign exchange contracts ("FFEC") with Canadian chartered banks to sell US$117.9 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.0644. These contracts relate mainly to its export sales, and mature at various dates between July 2014 and March 2017, with the majority maturing this and next fiscal years (see Note 11 to the interim condensed consolidated financial statements). This compares to US$127.4 million and US$120.0 million in FFEC held at March 31, 2014 and June 30, 2013, respectively, at weighted-average exchange rates of 1.0628 and 1.0326, respectively. The lower FFEC, compared to last year's period, reflects the changes in the funded backlog denominated in U.S. currency.

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

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

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

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

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

Contingencies

On February 5, 2014, Goodrich Corporation, member of UTC Aerospace Systems ("UTAS") group, filed a request for arbitration against the Corporation to the ICC International Court of Arbitration based on an alleged violation of a non-compete covenant contained in an agreement between Goodrich Corporation and Devtek Aerospace Inc. relating to the manufacturing of pistons. The arbitration date has not been set yet.

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

CHANGES IN ACCOUNTING POLICIES

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

IFRIC 21 Levies

IFRIC 21 clarifies the timing of accounting for a liability for outflow of resources that is imposed by governments in accordance with legislation, based on the activity that triggers the payment. Levies are required to be applied retrospectively for periods beginning April 1, 2014. The Corporation adopted IFRIC 21 on April 1, 2014 and the adoption of this standard had no impact on the Corporation's interim condensed consolidated financial statements.

INTERNAL CONTROLS AND PROCEDURES

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

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

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

Management's assessment and conclusion on the design of disclosure controls and procedures and internal controls over financial reporting excludes the controls, policies and procedures of APPH which was acquired on February 3, 2014, as permitted by the Canadian Securities Administrators' National Instrument 52-109 for 365 days following an acquisition. APPH's results are included in the June 30, 2014 interim condensed consolidated financial statements of Héroux-Devtek and constituted approximately 33% of total assets as of June 30, 2014, and approximately 28% of revenue for the quarter then ended.

No changes were made to the Corporation's internal controls over financial reporting during the first quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

RISKS AND UNCERTAINTIES

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

- Reliance on large customers;
- Availability and cost of raw materials;
- Operational risks;
- Impact of terrorist activity and political instability;
- General economic conditions;
- Military spending;
- Foreign currency fluctuations;
- Liquidity and access to capital resources;
- Restrictive debt covenants;
- Changing interest rates;
- External business environment;
- Warranty casualty claim losses;
- Environmental matters;
- Collective bargaining agreements;
- Skilled labour
- Pension plan liability
- Successful integration of APPH (as hereinafter defined); and
- Risk of litigation (as hereinafter defined).

Risks associated with the acquisition of APPH

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

Risk of litigation

The Corporation is subject to the risk of litigation in the ordinary course of business by employees, customers, suppliers, competitors, shareholders, government agencies, or others, through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation is difficult to assess or quantify. Claimants in these types of lawsuits or claims may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits or claims may remain unknown for substantial periods of time.

Regardless of outcome, litigation could result in substantial costs to the Corporation. In addition, litigation could divert management's attention and resources away from the day-to-day operations of the Corporation's business.

SELECTED QUARTERLY FINANCIAL INFORMATION

($'000 Except per share data)	**Fiscal Year 2015**	Fiscal Year 2014				Fiscal Year 2013 (1)		
	June 30, 2014	March 31, 2014	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012	Sept. 30, 2012
Sales from continuing operations	**86,408**	91,212	61,448	56,402	62,972	73,816	61,742	57,684
EBITDA from continuing operations (2)	**10,009**	7,728	7,170	6,254	7,747	10,031	7,672	6,989
Adjusted EBITDA from continuing operations (2)	**10,360**	13,249	8,286	6,518	7,747	10,031	7,672	6,989
Net income from continuing operations	**3,500**	1,230	2,608	2,584	2,814	4,599	3,216	2,645
Adjusted net income from continuing operations (2)	**3,756**	5,953	3,697	2,794	2,814	4,599	3,216	2,645
Net income from discontinued operations	**—**	—	—	—	—	3,679	1,289	110,000
Net income	**3,500**	1,230	2,608	2,584	2,814	8,278	4,505	112,645
Earnings per share from continuing operations ($) – Basic and diluted	**0.11**	0.04	0.08	0.08	0.09	0.15	0.10	0.09
Adjusted earnings per share from continuing operations ($) - Basic & Diluted (2)	**0.12**	0.19	0.12	0.08	0.09	0.15	0.10	0.09
Earnings per share ($) – basic	**0.11**	0.04	0.08	0.08	0.09	0.26	0.14	3.68
Earnings per share ($) – diluted	**0.11**	0.04	0.08	0.08	0.09	0.26	0.14	3.64
Weighted-average number of diluted shares outstanding (in millions)	**31.9**	31.7	31.7	31.7	31.7	31.7	31.3	31.0

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

(2) See Non-IFRS measures above.

OUTLOOK

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

In the large commercial aircraft segment, Boeing and Airbus are proceeding with production rate increases on certain leading programs scheduled for calendar years 2014 through 2017, although production of the B-747 will be decreased through calendar 2015[2]. Their backlogs remain strong, representing approximately eight years of production at current rates.

In the business jet market, deliveries increased nearly 12.4% in the first six months of calendar 2014 and positive signs continue to suggest further improvement in market conditions, such as an increase in U.S. business aircraft movements and a year-over-year decrease in the proportion of the business aircraft fleet for sale. More importantly, industry sources are calling for sustained growth over 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 are expected to remain difficult, as governments address their deficits. In the U.S., the Department of Defense FY 2015 budget request calls for a base funding similar to funding enacted for FY 2014. Although sequestration cuts were eliminated through the U.S. Government's 2015 fiscal year, current funding requests beyond that horizon exceed planned budget limits, which could affect the Corporation over its ensuing fiscal years. However, as APPH reduces the Corporation's relative exposure to the U.S. military market, a more geographically diversified military portfolio, mainly composed of leading programs, and also balanced between new component manufacturing and aftermarket products and services, should lessen any impact.

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.

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

2 Sources: Airbus press releases February 24, 2014; April 4, 2013. Boeing press releases March 20, 2014; January 24, 2014; October 31, 2013; October 18, 2013.

3 Sources: JETNET, FAA, Teal Group.

The Corporation's balance sheet remains healthy with cash and cash equivalents of $43.5 million as at June 30, 2014. This amount, combined with funds available under its Credit Facility, will allow Héroux-Devtek to fund expected capital expenditures of approximately $75 million in fiscal 2015, including initial investments of about $58 million related to the Boeing B-777 landing gear contract.

As at June 30, 2014, Héroux-Devtek's funded (firm orders) backlog stood at $447 million, versus $456 million at the end of the previous fiscal year. Despite this solid backlog and strong customer relationships, the Corporation will continue to enhance productivity and streamline its cost base to remain competitive in light of the increasingly global character of the aerospace industry.

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

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

Additional Information and Continuous Disclosure

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