REACHING HIGHER

Héroux-Devtek – Quarterly Report

Second Quarter Ended September 30, 2008

MESSAGE TO SHAREHOLDERS
Second quarter ended September 30, 2008

On behalf of the Board of Directors, I am pleased to present the financial results for Héroux-Devtek's second quarter ended September 30, 2008.

We had a strong performance in the second quarter reflecting solid business activity in our key markets and profitability improvements. Once again, all divisions generated higher sales and gross profit. We are particularly satisfied with robust sales and profitability increases at our Gas Turbine Components Division. Strong military activity was the main driver in Aerospace operations, which remained, however, somewhat affected by unfavourable year-over-year currency movements.

Consolidated sales for the quarter amounted to $77.3 million, an increase of 10.9% over sales of $69.8 million in the same quarter last year. Sales of the Landing Gear Division grew by 9.2% to $44.8 million, mainly reflecting increased military repair and overhaul work as well as greater business jet and helicopter program sales. Aerostructure sales reached $22.9 million, up 9.8% over last year due to catch-up on deliveries for the F-15 and F-22 programs, as well as increased activity in the business jet sector. Industrial sales for the second quarter increased 23.3% to $9.2 million. Sales of Industrial Gas Turbine and Wind Energy components both grew in excess of 20%.

The stronger Canadian dollar reduced second-quarter sales by $2.8 million, or 4.0%, compared with last year and lowered the gross profit margin by 2.8%. The impact of the stronger Canadian dollar against the US currency on the gross profit margin, expressed as a percentage of sales, is mitigated by the use of forward foreign exchange sales contracts and the natural hedging from the purchase of materials made in US dollars.

Consolidated operating income stood at $6.8 million, compared with $5.2 million last year. In the Aerospace segment, operating income was $5.3 million, or 7.8% of sales, compared with $5.4 million, or 8.6% of sales, a year earlier. The decrease as a percentage of sales is mainly attributable to the impact of currency fluctuations on the Landing Gear Division and to higher selling and administrative expenses that included a $0.5-million currency translation loss on net monetary items. Reflecting a significant increase in value-added Industrial Gas Turbine component sales, operating income for the Industrial segment rose to $1.5 million, or 16.3% of sales, compared with an operating loss of $0.2 million last year.

Net income amounted to $4.1 million, or $0.13 per share, fully diluted, compared with $3.1 million, or $0.10 per share, fully diluted, for the same quarter last year.

For the six-month period ended September 30, 2008, sales increased by 7.7% to $159.9 million, versus $148.5 million last year. Operating income was $16.6 million compared with $11.6 million a year earlier. Net income amounted to $9.8 million, or $0.31 per share, fully diluted, versus $7.3 million, or $0.23 per share, fully diluted, a year ago. The stronger Canadian dollar reduced sales by $10.2 million, or 6.8%, compared with last year and lowered the gross profit margin by 3.0%.

During the second quarter, Brazilian aircraft manufacturer Embraer awarded the Landing Gear Division a long-term contract to design, develop, fabricate, assemble, test and deliver landing gear structure and actuation for the Legacy 450 and Legacy 500 business aircraft programs. This life-cycle mandate also includes the provision of spare parts. The Legacy 500 is expected to enter service in the second half of 2012, and the Legacy 450 in the second half of 2013. In addition, the Aerostructure Division signed a letter of agreement with Bell Helicopter Textron accompanied by orders to manufacture primary structural components for the new Bell Helicopter 429, such as cabin, cockpit and aft fuselage components and sub-assemblies. The letter of agreement covers a period up to 2015 and the value of potential orders over that period is currently estimated in stated Canadian currency at about $57 million. Finally, the Landing Gear Division was awarded additional contracts worth in excess of $15.8 million for the repair and production of landing gear components mainly for the B-2, C-5, F-16, P-3 and T-37 aircraft, essentially from the U.S. Air Force and the U.S. Navy. Production will be spread out over the next four years.

Order books remain strong for large commercial aircraft manufacturers, but recent events have yielded uncertain market conditions. First, the current financial and economic crisis may impact existing orders and may also reduce new orders going forward. Second, the Company is closely monitoring the situation at Boeing where labour conflicts have deferred certain deliveries from the third quarter to next quarters. Third, it is worth mentioning that the recent deterioration of the Canadian dollar versus the U.S. currency will not have an immediate favourable impact on the sales in light of the Company's hedging policy while it will contribute to the improvement of the Company's competitiveness for new potential sales contracts. Meanwhile, the military aerospace market remains solid. For example, all System Development and Demonstration (SDD) Joint Strike Fighter (JSF) aircraft workload should be delivered by the end of calendar 2008 and production has already begun on the Low Rate Initial Production (LRIP) aircraft. However, a new U.S. administration may reduce funding of future military budgets. In the power generation industry, the wind energy market continues to experience robust demand, while the currently solid industrial gas turbine market may be impacted over the mid-term by the financial crisis given the large-scale nature of underlying projects.

As our backlog remains solid, we continue to expect achieving close to 10% internal sales growth in fiscal 2009. We are committed to investments in training and lean manufacturing initiatives, while continuing to focus on achieving further productivity improvements to maintain our competitiveness. Very strong customer relationships, favourable positioning in all our key markets and a solid balance sheet are superior attributes that should enable Héroux-Devtek to maintain its current industry leader status.

Gilles Labbé
President and Chief Executive Officer
October 30, 2008

Héroux-Devtek Inc.

Notice of Disclosure of Non-Auditor Review of Interim Financial Statements for the quarters ended September 30, 2008 and 2007.

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 interim financial statements, the interim financial statements must be accompanied by a notice indicating that they have not been reviewed by the external auditors.

The accompanying unaudited interim consolidated financial statements of the Company for the quarters ended September 30, 2008 and 2007, have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the Company's management.

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

Dated this 30th day of October, 2008.

CONSOLIDATED BALANCE SHEETS
As at September 30, 2008 and March 31, 2008
(In thousands of dollars) (Unaudited)

	Notes		September 2008		March 2008
Assets	7				
Current assets					
Cash and cash equivalents		$	30,078	$	24,431
Accounts receivable			43,849		44,887
Income tax receivable			6,182		5,415
Other receivables			3,743		5,420
Inventories	2,6		89,687		86,625
Prepaid expenses			1,243		1,458
Future income taxes			8,806		9,142
Other current assets			6,585		9,235
			190,173		186,613
Property, plant and equipment, net	2		128,805		124,596
Finite-life intangible assets, net	2		8,052		5,787
Other assets			1,126		3,646
Goodwill			36,484		35,812
		$	364,640	$	356,454
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	72,258	$	70,977
Income tax payable	2		2,351		2,349
Future income taxes			6,125		6,680
Current portion of long-term debt	7		4,790		5,011
			85,524		85,017
Long-term debt	7		73,679		72,242
Other liabilities			8,732		8,564
Future income taxes			10,014		9,853
			177,949		175,676
Shareholders' equity					
Capital stock	8		104,421		104,260
Contributed surplus	8		1,351		1,115
Accumulated other comprehensive loss			(12,230)		(9,932)
Retained earnings	2		93,149		85,335
			186,691		180,778
		$	364,640	$	356,454

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

CONSOLIDATED STATEMENTS OF INCOME
For the periods ended September 30, 2008 and 2007
(In thousands of dollars, except share and per share data) (Unaudited)

	Notes	Quarters ended September 30 2008	Quarters ended September 30 2007	Six months ended September 30 2008	Six months ended September 30 2007
Sales		$ 77,340	$ 69,758	$ 159,911	$ 148,534
Cost of sales, including amortization expense		65,039	60,329	132,489	128,485
Gross profit		12,301	9,429	27,422	20,049
Selling and administrative expenses		5,505	4,229	10,823	8,469
Operating income		6,796	5,200	16,599	11,580
Financial expenses, net	7	921	1,506	2,092	2,752
Income before income tax expense		5,875	3,694	14,507	8,828
Income tax expense		1,819	587	4,753	1,570
Net income		$ 4,056	$ 3,107	$ 9,754	$ 7,258
Earnings per share – basic		$ 0.13	$ 0.10	$ 0.31	$ 0.23
Earnings per share – diluted		$ 0.13	$ 0.10	$ 0.31	$ 0.23
Weighted-average number of shares outstanding during the periods		31,657,841	31,622,268	31,651,611	31,587,133

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the periods ended September 30, 2008 and 2007
(In thousands of dollars) (Unaudited)

For the quarter ended September 30, 2008

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive income (loss)
Balance at June 30, 2008		$104,340	$1,235	$(10,930)	$89,093	$ -
Common shares issued:						
Under the stock purchase and ownership incentive plan		81	-	-	-	-
Stock-based compensation expense		-	116	-	-	-
Net income		-	-	-	4,056	4,056
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $1,455		-	-	(3,021)	-	(3,021)
Net gains on derivative financial instruments designated as cash flow hedges in prior years transferred to net income in the current period, net of taxes of $387		-	-	(811)	-	(811)
Cumulative translation adjustment		-	-	2,532	-	2,532
Balance at September 30, 2008		$104,421	$1,351	$(12,230)	$93,149	$2,756

For the six-month period ended September 30, 2008

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive income (loss)
Balance at March 31, 2008, as previously reported		$104,260	$1,115	$(9,932)	$85,335	$ -
Changes in accounting policy:						
Inventories	2	-	-	-	(1,940)	-
Balance at March 31, 2008, adjusted		104,260	1,115	(9,932)	83,395	-
Common shares issued:	8					
Under the stock purchase and ownership incentive plan		161	-	-	-	-
Stock-based compensation expense	8	-	236	-	-	-
Net income		-	-	-	9,754	9,754
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $801		-	-	(1,665)	-	(1,665)
Net gains on derivative financial instruments designated as cash flow hedges in prior years transferred to net income in the current period, net of taxes of $1,362		-	-	(2,836)	-	(2,836)
Cumulative translation adjustment		-	-	2,203	-	2,203
Balance at September 30, 2008		$104,421	$1,351	$(12,230)	$93,149	$7,456

For the quarter ended September 30, 2007

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Cumulative translation adjustment	Retained earnings	Comprehensive income (loss)
Balance at June 30, 2007		$104,093	$769	$(1,768)	$ -	$70,467	$ -
Common shares issued:	5						
Under the stock option plan		-	-	-	-	-	-
Under the stock purchase and ownership plan		56	-	-	-	-	-
Stock-based compensation	5	-	103	-	-	-	-
Net income		-	-	-	-	3,107	3,107
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $1,840		-	-	3,928	-	-	3,928
Net gains on derivative financial instruments designated as cash flow hedges in prior periods transferred to net income in the current period, net of taxes of $898		-	-	(1,866)	-	-	(1,866)
Cumulative translation adjustment		-	-	(3,570)	-	-	(3,570)
Balance at September 30, 2007		$104,149	$872	$(3,276)	$ -	$73,574	$1,599

For the six-month period ended September 30, 2007

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Cumulative translation adjustment	Retained earnings	Comprehensive income (loss)
Balance at March 31, 2007, as previously reported		$103,620	$691	$ -	$(8,034)	$64,571	$ -
Change in accounting policies:	2						
Loans bearing no interest		-	-	-	-	1,745	-
Cumulative translation adjustment		-	-	(8,034)	8,034	-	-
Accumulated gains on derivative financial instruments designated as cash flow hedges, net of taxes of $2,753		-	-	5,597	-	-	-
Balance at March 31, 2007, adjusted		103,620	691	(2,437)	-	66,316	-
Common shares issued:	5						
Under the stock option plan		413	-	-	-	-	-
Under the stock purchase and ownership plan		116	-	-	-	-	-
Stock-based compensation expense	5	-	181	-	-	-	-
Net income		-	-	-	-	7,258	7,258
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $4,762		-	-	9,971	-	-	9,971
Net gains on derivative financial instruments designated as cash flow hedges in prior periods transferred to net income in the current period, net of taxes of $1,334		-	-	(2,772)	-	-	(2,772)
Cumulative translation adjustment		-	-	(8,038)	-	-	(8,038)
Balance at September 30, 2007		$104,149	$872	$(3,276)	$ -	$73,574	$6,419

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the periods ended September 30, 2008 and 2007
(In thousands of dollars) (Unaudited)

	Notes	Quarters ended September 30 2008	Quarters ended September 30 2007	Six months ended September 30 2008	Six months ended September 30 2007
Cash and cash equivalents provided by (used for):					
Operating activities					
Net income		$ 4,056	$ 3,107	$ 9,754	$ 7,258
Items not requiring an outlay of cash:					
Amortization		4,825	4,072	9,489	8,307
Future income taxes		1,242	732	2,169	885
Loss on sales of property, plant and equipment		2	-	2	-
Amortization of deferred financing costs	7	42	30	84	76
Amortization of net deferred loss related to a financial derivative instrument	7	-	18	-	51
Accretion expense of asset retirement obligations and loans bearing no interest	7	275	223	543	465
Stock-based compensation expense	8	116	103	236	181
Cash flows from operations		10,558	8,285	22,277	17,223
Net change in non-cash items related to operations	10	3,416	(3,527)	(5,574)	(14,642)
Cash flows relating to operating activities		13,974	4,758	16,703	2,581
Investing activities					
Purchase of property, plant and equipment		(5,977)	(10,391)	(10,016)	(15,108)
Increase in finite-life intangible assets		(315)	(2)	(1,518)	(6)
Cash flows relating to investing activities		(6,292)	(10,393)	(11,534)	(15,114)
Financing activities					
Increase in long-term debt		2,106	-	2,106	-
Repayment of long-term debt	7	(736)	(641)	(2,153)	(4,187)
Issuance of common shares	8	81	56	161	529
Other		-	-	(185)	-
Cash flows relating to financing activities		1,451	(585)	(71)	(3,658)
Effect of changes in exchange rates on cash and cash equivalents		498	71	549	305
Change in cash and cash equivalents during the periods		9,631	(6,149)	5,647	(15,886)
Cash and cash equivalents at beginning of periods		20,447	10,387	24,431	20,124
Cash and cash equivalents at end of periods		$ 30,078	$ 4,238	$ 30,078	$ 4,238
Supplemental information:					
Interest paid		$ 338	$ 734	$ 1,128	$ 1,544
Income taxes paid		$ 466	$ 202	$ 2,252	$ 496

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the periods ended September 30, 2008 and 2007
(All dollar amounts in thousands, except share data) (Unaudited)

Note 1. Interim Consolidated Financial Statements

The Interim consolidated financial statements include the accounts of Héroux-Devtek Inc. (the "Company") and its subsidiaries, all of which are wholly-owned.

The interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods in their application as the most recent annual financial statements, except for the changes in accounting policies mentioned in note 2. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim financial statements. Such adjustments are of a normal and recurring nature. The results of operations for the interim periods are not necessarily indicative of the operating results for the full year. The interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the fiscal year ended March 31, 2008.

Note 2. Changes in Accounting Policies

ADOPTED IN FIRST QUARTER OF FISCAL YEAR 2009 AND EFFECTIVE APRIL 1, 2008
In the first quarter ended June 30, 2008, the Company adopted four new Handbook Sections issued by the Canadian Institute of Chartered Accountants (CICA):

Section 3031 Inventories
In June 2007, the Accounting Standard Board ("AcSB") released Section 3031, 'Inventories', which replaces Section 3030, 'Inventories'. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") IAS 2, 'Inventories'. The Section prescribes the measurement of inventories at the lower of cost and net realizable value. It provides further guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value and circumstances for their subsequent reversal. It also provides more restrictive guidance on the cost methodologies used to assign costs to inventories and describes additional disclosure requirements. These required additional disclosures relating to inventories are:

- The amount of inventories recognized as an expense
- The amount of any write-down of inventories
- The amount of any reversal of any write-down
- The circumstances or events that led to the reversal of a write-down

As at April 1 2008, the Company adopted the unit cost method in replacement of the average cost method. The unit cost method is a prescribed cost method under which the actual production costs are charged to each unit produced and recognized to income as the unit is delivered. The excess-over-average production costs concept (production costs incurred in the early stage of a contract, in excess of the average estimated unit cost for the entire contract), is not allowed under the unit cost method. In addition, as a result of the more restrictive guidance on the determination of costs, the Company has revised its manufacturing overhead costs allocation policy, whereby abnormal costs are expensed and the allocation of manufacturing overhead costs is specifically determined on normal production capacity. Based on these new rules, the Company has applied these changes in accounting policy by adjusting the opening retained earnings and by making certain reclassifications in the Company's balance sheet as at April 1, 2008. Also, the program tooling costs and development costs, which were recorded as part of inventories in prior years, were either written-off to retained earnings or reclassified to property, plant and equipment and finite-life intangible assets, the amortization of these costs being based on the pre-determined contract quantity. The consolidated financial statements for the prior fiscal year were not restated, as permitted by the new Section.

As at April 1, 2008, the effect of these changes in accounting policy, including certain reclassifications, and their related income tax impact on the Company's consolidated balance sheet was as follows:

		Impact of changes in accounting policy: Inventories		
	Reported as at March 31, 2008	Write-off	Reclassification	Restated as at April 1, 2008
Assets				
Inventories	$ 86,625	$ (2,869)	$(2,878)	$ 80,878
Property, plant and equipment, net	124,596	-	1,691	126,287
Finite-life intangible assets	5,787	-	1,187	6,974
Liabilities				
Income taxes payable	$ 2,349	$ (929)	$ -	$ 1,420
Retained earnings	$ 85,335	$(1,940)	$ -	$ 83,395

Inventory categories

Inventories consist of raw materials, work in process and finished goods which are valued at the lower of cost (unit cost method) and net realizable value.

Progress billings received from customers are deducted from related costs in inventories. Progress billings received in excess of related costs in inventories are classified as customers' advances in accounts payable and accrued liabilities.

Revenue recognition

Revenues from the sale of aerospace and industrial products are recognized as the related units are delivered, the sale price is determinable and collectability is reasonably assured.

Provision for losses on contract, if any, are made as soon as it is determined that total estimated contract costs are expected to exceed the total contract revenue.

Section 1535 Capital Disclosures

This Section establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose the following:

- its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any imposed capital requirements to which it is subject;
- when the entity has not complied with such requirements, the consequences of such non-compliance.

Section 3862 Financial Instruments - Disclosures

This Section modifies the disclosure requirements for financial instruments that were included in Section 3861 'Financial Instruments – Disclosure and Presentation. The new standards require entities to provide disclosures in their financial statements that enable users to evaluate:

- the significance of financial instruments for the entity's financial position and performance;
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 Financial Instruments - Presentation

This Section carries forward unchanged the presentation requirements of the old Section 3861 – Financial Instruments – Disclosure and Presentation (See note 5 to the September 30, 2008 interim consolidated financial statements).

The new disclosure and presentation requirements under Sections 1535 and 3862 referred to above are further outlined in notes 3 and 4 to the September 30, 2008 interim consolidated financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

Goodwill and intangible assets

In February 2008, the AcSB issued Section 3064, 'Goodwill and Intangible Assets', which replaces Section 3062, 'Goodwill and Other Intangible Assets' and Section 3450, 'Research and Development Costs'. For the Company, this Section is effective for interim and annual financial statements beginning on April 1, 2009. This Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with IFRS IAS 38, 'Intangible Assets'.

International Financial Reporting Standards

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. For the Company, the conversion to IFRS will be required for interim and annual financial statements beginning on April 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the mandatory transition date.

The Company is evaluating the effect of these new standards on its consolidated financial statements and is currently developing its IFRS changeover plan.

Note 3. Financial Risk Management

The Company is primarily exposed to market risk, credit risk and credit concentration risk, and liquidity risk as a result of holding financial instruments.

Market risk	Risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is primarily exposed to the following market risks: • Foreign exchange risk • Interest rate risk
Credit risk and Credit concentration risk	Credit risk – Risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation Credit concentration risk - Risk that the business is concentrated on a limited number of customers and financial institutions, which could cause an increased Credit risk as defined above
Liquidity risk	Risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities

Market risk

Foreign exchange risk

The Company is exposed to risks resulting from foreign currency fluctuations arising either from carrying on business in Canada in foreign currencies or through operations in the United States. Based on the last fiscal year ended March 31, 2008, the Company's sales made from its Canadian and American operations and in the related currencies were as follow (calculated based on the Company's consolidated sales):

	CANADIAN OPERATIONS	AMERICAN OPERATIONS	TOTAL
U.S. Currency	49%	28%	77%
Canadian Currency	23%	-	23%
% consolidated sales	72%	28%	100%

In an effort to mitigate the foreign currency fluctuation exposure on sales, the Company makes use of derivative contracts to hedge this exposure, essentially to the U.S. currency and arising from its Canadian operations.

The Company's foreign exchange policy requires the hedging of 50% to 75%, on average, of the identified foreign currency exposure, mainly over the next two fiscal years, of the forecasted cash inflows generated by sales in US currency made by its Canadian operations and related to long-term sales contracts, net of the forecasted cash outflows in US currency made by its Canadian operations and related essentially to its raw material and certain other material costs. This hedging policy also applies to the net forecasted cash inflows/outflows as described above, for certain specific long-term sales contracts, on a very limited basis, for an additional period of one to three fiscal years.

At September 30, 2008 the Company had forward foreign exchange contracts totalling US $135.5 million at an average rate of 1.0674 (US $145.5 million at an average rate of 1.0922 at March 31, 2008) maturing over the next four fiscal years, with the majority maturing over the next two fiscal years.

The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Company's financial instruments as of the balance sheet date. As of September 30, 2008, a 1% strengthening of the Canadian dollar over the US currency, while all other variables would remain fixed, would have decreased the consolidated net income by $140 and increased other comprehensive income by $346.

Interest rate risk

The Company is exposed to interest rate fluctuations primarily due to its variable interest rate on its long-term debt's Banks Credit Facilities (see Note 7 to the interim consolidated financial statements). In addition, the interest rate fluctuations could also have an impact on the Company's interest revenue which is derived from its cash and cash equivalents.

The Company's interest rate policy requires, in general, maintaining an appropriate mix of fixed and variable interest rates debt to mitigate the net impact of fluctuating interest rate.

In July 2007, in order to limit the effect of interest rate variations over a portion of its long-term debt denominated in U.S. currency, the Company has entered into a four-year interest rate swap agreement for an amount of U.S. $15,000 that fixes the Libor U.S. rate at 5.53% and matures on August 1, 2011.

The interest credit risk sensitivity is calculated on the floating rate liability at the end of the quarter. Assuming a 100-basis point increase in interest rate as at September 30, 2008, while all other variables would remain fixed, this would have reduced the Company's consolidated net income for the quarter by $67. For the derivative financial instrument (interest rate swap agreement), a shift of 100-basis point increase in the yield curve, as of September 30, 2008, would have increased the Company's other comprehensive income by $293 while a 100-basis point decrease would have reduced it by $303.

Credit risk and Credit Concentration risk

The credit and credit concentration risks represent counterparty risks where the parties with which the Company enters into the related agreements or contracts could not be able to fulfill their commitments.

Credit risk is primarily related to the potential inability of customers to discharge their obligations in regard to the Company's accounts receivable and, of financial institutions in regard to the Company's cash and cash equivalents, Bank's Credit Facilities and derivative financial instruments.

Credit concentration risk is related to the fact that a significant portion of the Company's sales, approximately 68%, are made to a limited number of customers and that the Company deals mainly with a limited number of financial institutions.

Accounts receivable

The credit and credit concentration risks related to this financial instrument are limited due to the fact that the Company deals generally with large corporations and Government agencies, with the exception of sales made to non-governmental agencies outside North America which represent approximately 1% of the Company's total annual consolidated sales.

Historically, the Company has not made any significant write-off of accounts receivable and the number of days in accounts receivable at September 30, 2008, was at acceptable levels in the industries where the Company evolves.

The credit quality of accounts receivable is monitored on a regular basis through the Company's decentralized operations.

Changes in the allowance for doubtful accounts were as follows for the six months ended September 30, 2008:

Balance at beginning of the period, as at April 1, 2008	$	936
Provision for doubtful accounts		37
Amounts written off		(79)
Effect of foreign exchange rate changes		(3)
Balance at end of the period, as at September 30, 2008	$	891

The Company's trade receivables that are past due but not impaired amounted to $6,363 as at September 30, 2008, of which $400 were more than 90 days past due.

Cash and cash equivalents, Bank's Credit Facilities and derivative financial instruments

The credit and credit concentration risks related to these financial instruments are limited due to the fact that the Company deals only with Canadian chartered banks and their subsidiaries which have acceptable credit ratings.

On that basis, the Company does not anticipate any breach of agreement by counterparties.

The maximum exposure to credit and credit concentration risks for financial instruments represented the following as at September 30, 2008 (See Note 5 to the interim consolidated financial statements):

	Held for Trading (HFT)	Loans and Receivables (L&R)
Cash and cash equivalents	$ 30,078	$ -
Accounts receivable	-	43,849
Other receivable	-	2,327
Other current assets	692	2,593
Other assets	1,046	-

Liquidity Risk

The Company is exposed to the risk of being unable to honour its financial commitments by the deadlines set and under the terms of such commitments and at a reasonable price. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of long-term sales contracts and planned capital expenditures.

The maturity analysis of financial liabilities represented the following as at September 30, 2008 (See Note 5 to the interim consolidated financial statements):

	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	$ 47,006	$ -	$ -	$ -	$ 47,006
Long-term debt (2)	4,901	5,829	64,592 (1)	9,124	84,446
Other liabilities	-	2,953	100	-	3,053

(1) Includes the used Bank's Credit Facilities of $54,761 maturing on October 4, 2011.

(2) Includes interest accretion on loan bearing no interest.

Note 4. Capital Risk Management

The general objectives of the Company's management, in terms of capital management, reside essentially in the preservation of the Company's capacity to continue operating, to continue providing benefits to other stakeholders, and also, in providing an adequate return on investment to its shareholders by selling its products and services at a price commensurate with the level of operating risk assumed by the Company.

The Company thus determines the total amount of capital required consistent with risk levels. This capital structure is adjusted on a timely basis depending on changes in the economic environment and risk characteristics of the underlying assets.

In order to maintain or adjust its capital structure, the Company can:

- Issue new common shares from treasury;
- Redeem common shares;
- Sell certain assets to reduce indebtedness;
- Return capital to shareholders;
- Modify dividends paid to shareholders. However, the Company does not anticipate paying dividends on outstanding shares in the near future.

In the Company's current activity sectors involving long-term contracting and major capital expenditures, the total cash flows generated by the Company must be consistent with its net debt to equity ratio and comparable with wide-spread practices in these sectors. This net debt to equity ratio, represented by net debt divided by shareholders' equity, is the overriding factor in the Company's capital management and monitoring practices.

The net debt is equal to total debt representing the current portion of long-term debt and long-term debt, less cash and cash equivalents. Shareholders' equity includes capital stock, contributed surplus, accumulated other comprehensive income (loss) and retained earnings. In some cases, shareholders' equity may be adjusted by amounts recorded in accumulated other comprehensive income (loss), particularly those related to cash flow hedges, depending on their nature and materiality. Moreover, in some cases and for the same reasons as those indicated above, total debt and shareholders' equity may be adjusted by the amount of subordinated or unsecured loans and off-balance sheet items.

During the three- and six-month periods ended September 30, 2008, the Company pursued the same capital management strategy as last year, which consists in generally maintaining a sufficient net debt to equity ratio, so as to allow access to financing at a reasonable or acceptable cost in relation to risk taken. The Company's net debt to equity ratio, as at September 30, 2008 and as at the end of the fiscal year ended March 31, 2008 was 0.26:1 and 0.29:1, respectively.

Moreover, the Company is not subject to any regulatory capital requirements and the Company's capital management has not changed since the prior year.

Note 5. Financial Instruments

The classification of financial instruments and their carrying amounts and fair values were as follows as at:

	September 30, 2008 Carrying value			Fair Value	March 31, 2008 Carrying value			Fair Value
	HFT	L&R	Total (1)		HFT	L&R	Total (1)	
Financial Assets								
Cash and cash equivalents	$ 30,078	$ -	$30,078	$30,078	$ 24,431	$ -	$ 24,431	$ 24,431
Accounts receivable(2)	-	43,849	43,849	43,849	-	44,887	44,887	44,887
Other receivables(3)	-	2,327	2,327	2,327	-	3,804	3,804	3,804
Other current assets(4)	692	2,593	3,285	3,285	4,406	2,529	6,935	6,935
Other assets(6)	1,046	-	1,046	1,046	3,641	-	3,641	3,641
	$ 31,816	$ 48,769	$ 80,585	$ 80,585	$ 32,478	$ 51,220	$ 83,698	$ 83,698

	September 30, 2008 Carrying value			Fair Value	March 31, 2008 Carrying value			Fair Value
	HFT	Other than HFT	Total (1)		HFT	Other than HFT	Total (1)	
Financial Liabilities								
Accounts payable and accrued liabilities(5)	$ 2,245	$ 44,761	$ 47,006	$ 47,006	$1,391	$ 48,537	$ 49,928	$ 49,928
Long-term debt, including current portion	-	79,071	79,071	80,960	-	77,890	77,890	79,195
Long-term liabilities – Other liabilities(6)	2,773	280	3,053	3,053	2,234	-	2,234	2,234
	$ 5,018	$124,112	$129,130	$131,019	$3,625	$126,427	$130,052	$131,357

(1) Represents only the carrying values of financial assets and liabilities included in the corresponding balance sheet caption.
(2) Comprised of trade receivables.
(3) Comprised of certain other receivables.
(4) Comprised of short-term derivative financial instruments designated in a hedging relationship.
(5) Comprised of trade accounts payable and accrued liabilities, including interest and certain payroll-related liabilities. It also includes short-term derivative financial instruments designated in a hedging relationship.
(6) Comprised of long-term derivative financial instruments designated in a hedging relationship.

Fair value of financial instruments

Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value is determined by reference to quoted bid or ask prices, as appropriate, in the most advantageous active market for the instrument to which the Company has immediate access. When bid and ask prices are unavailable, the Company uses the closing price of the most recent transaction of that instrument. In the absence of an active market, the Company determines fair value based on internal or external valuation models, such as discounted cash flow analysis and using observable market-based inputs.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining these assumptions, the Company uses primarily external, readily observable market inputs, including factors such as interest rates, currency rates, and price and rate volatilities, as applicable. Assumptions or inputs that are not based on observable market data are used when external data are unavailable.

No profit or loss was accounted for the quarters and six-month periods ended September 30, 2008 and 2007 on financial instruments designated as HFT.

Note 6. Inventories

Inventories consist of:

	September 30, 2008	March 31, 2008
Raw materials	$ 48,273	$ 22,761
Work in process and finished goods	65,866	86,511
Less: Progress billings	24,452	22,647
	$ 89,687	$ 86,625

The amount of inventory recognized as cost of sales for the three– and six-month periods ended September 30, 2008, was as follows:

	Quarter ended September 30, 2008	Six-month ended September 30, 2008
Aerospace segment	$ 42,488	$ 99,894
Industrial segment	7,038	13,512
	$ 49,526	$ 113,406

The variation of the write-downs related to inventories for the three- and six month periods ended September 30, 2008, was as follows:

	Quarter ended September 30, 2008	Six-month ended September 30, 2008
Write-down recognized as expense	$ 2,079	$ 3,326
Reversal of any write-down as reduction of the expense	$ 1,133	$ 1,975

The inventory write-down reversal is determined following the revaluation, each quarter-end, of the net realizable value on inventories based on the related sales contracts and production costs. It also includes the charges against this reserve for products delivered during the quarter for which a net realizable value reserve was required and recorded in prior periods.

Note 7. Long-term debt

	September 30, 2008	March 31, 2008
Senior Secured Syndicated Revolving Credit Facilities ("Credit Facilities") of up to $125,000 ($80,000 as of March 31, 2008) (see below), either in Canadian or U.S. currency equivalent, maturing on October 4, 2011, with no extension, which bear interest at bankers' acceptance plus 1.0% for the Canadian Credit Facilities at September 30, 2008 (representing an effective interest rate of 4.1%) and at Libor plus 1.0% at September 30, 2008 for the U.S. Credit Facilities (representing an effective interest rate of 3.5%), and bankers' acceptance plus 1.0% for the Canadian Credit Facilities at March 31, 2008 (representing an effective interest rate of 4.6%) and Libor plus 1.0% at March 31, 2008 for the U.S. Credit Facilities (representing an effective interest rate of 3.7%).		
At September 30 and March 31, 2008, the Company used $9,000 and U.S. $43,000 on the Credit Facilities.	$ 54,761	$ 53,140
Loans bearing no interest, repayable in variable annual instalments, with various expiry dates until 2017.	13,651	12,977
Obligations under capital leases bearing interest between 4.2% and 9.0% maturing between November 2008 and November 2014, with amortization periods varying between five to eight years, secured by the related property, plant and equipment, net of interest of $1,482 ($1,797 at March 31, 2008).	10,659	11,773
Deferred financing costs, net	(602)	(637)
	78,469	77,253
Less: current portion	4,790	5,011
	$ 73,679	$ 72,242

Senior Secured Syndicated Revolving Credit Facilities

In fiscal year 2007, the Company successfully concluded the amendment and extension of its Credit Facilities whereas the previous revolving operating and term facilities were combined into Senior Secured Revolving Credit Facilities that will mature on October 4, 2011, with no extension.

These Credit Facilities allow the Company and its subsidiaries to borrow up to $125,000 (either in Canadian and U.S. currency equivalent – see below), from a group of banks and their American subsidiaries or branches and are used for working capital, capital expenditures and other general corporate purposes, are secured by all assets of the Company, and its subsidiaries and are subject to certain restrictive covenants and corporate guarantees granted by the Company and its subsidiaries. On April 14, 2008, the Company increased its $80 million Credit Facilities to $125 million, essentially under the same terms and conditions.

Interest rates vary based on Prime, Bankers' acceptance, Libor or U.S. base rate plus a relevant margin depending on the level of the Company's indebtedness and cash flows.

These Credit Facilities are governed by two credit agreements (Canadian and American).

The financial expenses, for the three- and six-month periods ended September 30, are comprised of:

	Quarters ended September 30		Six months ended September 30	
	2008	2007	2008	2007
Interest	$ 621	$ 1,286	$ 1,650	$ 2,303
Interest accretion on loans bearing no interest	223	172	438	363
Amortization of deferred financing costs	42	30	84	76
Standby fees	96	51	117	109
Accretion expense of asset retirement obligations	52	51	105	102
Amortization of net deferred loss related to financial derivative instrument	-	18	-	51
Gain on financial instruments classified as HFT - Interest revenue	(113)	(102)	(302)	(252)
Financial expenses, net	$ 921	$ 1,506	$ 2,092	$ 2,752

Note 8. Capital stock

Authorized capital stock

The authorized capital stock of the Company consists of the following:

An unlimited number of voting common shares, without par value;
An unlimited number of first preferred shares, issuable in series; and
An unlimited number of second preferred shares, issuable in series.

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

The issued and outstanding capital stock of the Company consists of the following:

	September 30, 2008	March 31, 2008
31,662,536 common shares at September 30, 2008 (31,639,019 at March 31, 2008)	$104,421	$104,260

Issuance of common shares

During the three- and six-month periods ended September 30, 2008, the Company issued 12,230 and 23,517 common shares respectively, at weighted average prices of $6.58 and $6.81 respectively for a total net cash consideration of $81 and $161. These shares were all issued under the Company’s stock purchase and ownership plan.

During the three- and six-month periods ended September 30, 2007, the Company issued 6,430 common shares and 97,151 common shares respectively, at weighted average prices of $8.63 and $5.44 respectively for a total net cash consideration of $56 and $529. A number of 83,300 common shares were issued (all in the first quarter of fiscal 2008) following the exercise of stock options for a total cash consideration of $413 and the remainder of 13,851 common shares were issued under the Company's stock purchase and ownership incentive plan for a total net cash consideration of $116.

Stock option plan

The Company has a stock option plan where options to purchase common shares are issued to officers and key employees. The Company expenses all granting of stock options based on their earned period, using the Black-Scholes valuation model to determine their fair value. The expense related to stock options recorded in the quarter ended September 30, 2008 amounted to $116 ($103 for the quarter ended September 30, 2007) and to $236 for the six-month period ended September 30, 2008 ($181 in 2007).

During the three- and six-month periods ended September 30, 2008, no stock options were granted and 65,000 options were cancelled (all in the first quarter of fiscal 2009).

During the three- and six-month periods ended September 30, 2007, 355,000 stock options were granted (all in the second quarter of fiscal 2008) at a granted value of $9.90 per share. These options are performance based and are vesting over a four-year period and can be exercised over a seven-year period.

At September 30, 2008, the Company had 1,209,221 outstanding stock options at a weighted exercise average price of $6.52 which will expire over the next six years (between June 2009 and August 2014).

Stock purchase and ownership incentive plan

On September 2, 2004, the Board of Directors of the Company approved a stock purchase and ownership incentive plan to induce management employees to hold, on a long-term basis, common shares of the Company.

During the three- and six-month periods ended September 30, 2008, 12,230 and 23,517 common shares were issued (130,677 since the beginning of the plan) and 5,073 and 9,725 common shares attributed to the participating employees respectively (57,303 since the beginning of the plan). For the three- and six-month periods ended September 30, 2008, the expense related to the attributed common shares amounting to $38 and $75 respectively, is recorded as compensation expense and is included in the Company's selling and administrative expenses.

During the three- and six-month periods ended September 30, 2007, 6,430 and 13,851 common shares were issued (93,309 since the beginning of the plan) and 2,833 and 6,121 common shares attributed to the participating employees respectively (41,420 since the beginning of the plan). For the three- and six-month periods ended September 30, 2007, the expense related to the attributed common shares amounting to $28 and $58 respectively, is recorded as compensation expense and is included in the Company's selling and administrative expenses.

Stock appreciation right plan

The Company has a stock appreciation right plan (SAR) under which rights are issued to its non-employee directors. The SAR enables the participants to receive by way of bonus, on the exercise date of a SAR, a cash amount equal to the excess of the market price of the Company’s common share over the granted price of the SAR.

During the three- and six-month periods ended September 30, 2008, 30,000 SARs were granted (all in the second quarter of fiscal 2009) at a granted value of $7.29 (24,000 SARs at a granted value of $9.90 for the same period in fiscal 2008 and all in the second quarter of fiscal 2008) . The SARs are expensed on an earned basis and their costs are determined based on the Company’s common shares quoted market value over their granted price. During the three- and six-month periods ended September 30, 2008, no expense was recorded for SARs.

During the second quarter and six-month period ended September 30, 2008, no SARs were exercised (7,500 SARs at an average granted value of $6.56 last year) and 7,500 SARs were cancelled (9,000 SARs for the same period in 2007).

At September 30, 2008, on a cumulative basis, 118,000 SARs were still outstanding at a weighted-average granted value of $6.56 which expires at various dates between fiscal years 2009 and 2014.

Note 9. Pension and other retirement benefit plans

Description of benefit plans

The Company has funded and unfunded defined benefit pension plans as well as defined contribution pension plans that provide pension benefits to its employees. Retirement benefits provided by the defined benefit pension plans are based on either years of service and flat amount, years of service and final average salary, or set out by individual agreements.

Benefits provided by the post-retirement benefit plans are set out by individual agreements, which mostly provide for life insurance coverage and health care benefits. Since their amount is not significant, they are not included in figures below.

Defined pension plan obligations are impacted by factors including interest rate, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The total pension costs for the three- and six-month periods ended September 30 are as follows:

	Quarters ended September 30		Six months ended September 30	
	2008	2007	2008	2007
Defined benefit pension costs	$ 206	$ 214	$ 638	$ 440
Defined contribution pension costs	468	396	906	767
	$ 674	$ 610	$ 1,544	$ 1,207

Note 10. Net change in non-cash items related to operations

The net change in non-cash items related to operations for the three- and six-month periods ended September 30 can be detailed as follows:

	Quarters ended September 30		Six months ended September 30	
	2008	2007	2008	2007
Accounts receivable	$ 4,148	$ 391	$ 1,038	$ 6,829
Income tax receivable	(906)	(1,867)	(767)	(1,886)
Other receivables	589	4,906	1,677	(1,585)
Inventories	(5,018)	(4,394)	(8,809)	3,039
Prepaid expenses	348	109	215	(265)
Other current assets	1,316	1,535	1,148	248
Accounts payable and accrued liabilities and, other liabilities	1,520	(2,379)	(1,875)	(17,031)
Income tax payable	401	256	931	569
Effect of changes in exchange rate	1,018	(2,084)	868	(4,560)
	$ 3,416	$ (3,527)	$ (5,574)	$ (14,642)

Note 11. Segmented information

Quarters ended September 30
Activity Segments

	2008			2007		
	Aerospace	Industrial	Total	Aerospace	Industrial	Total
Sales	$ 68,126	$ 9,214	$ 77,340	$ 62,284	$ 7,474	$ 69,758
Operating income (loss)	5,293	1,503	6,796	5,360	(160)	5,200
Financial expenses			921			1,506
Income before income tax expense			5,875			3,694
Assets	340,705	23,935	364,640	306,839	19,143	325,982
Goodwill	35,531	953	36,484	34,357	891	35,248
Purchase of property, plant and equipment	5,899	78	5,977	9,851	540	10,391
Increase in finite-life intangible assets	315	-	315	2	-	2
Amortization	4,813	12	4,825	3,472	600	4,072

Geographic Segments

	2008			2007		
	Canada	U.S.	Total	Canada	U.S.	Total
Sales	$ 53,512	$ 23,828	$ 77,340	$ 50,599	$ 19,159	$ 69,758
Property plant and equipment, net	77,646	51,159	128,805	71,928	38,728	110,656
Finite-life intangible assets, net	3,116	4,936	8,052	864	5,045	5,909
Goodwill	17,534	18,950	36,484	17,534	17,714	35,248
Export sales (1)	$ 28,341			$ 27,336		

66% of the Company's sales (64% in 2007) were to U.S. customers.

(1) Export sales are attributed to countries based on the location of the customers.

Six months ended September 30
Activity Segments

	2008			2007		
	Aerospace	Industrial	Total	Aerospace	Industrial	Total
Sales	$ 142,119	$ 17,792	$ 159,911	$ 134,202	$ 14,332	$ 148,534
Operating income (loss)	13,695	2,904	16,599	11,785	(205)	11,580
Financial expenses			2,092			2,752
Income before income tax expense			14,507			8,828
Assets	340,705	23,935	364,640	306,839	19,143	325,982
Goodwill	35,531	953	36,484	34,357	891	35,248
Purchase of property, plant and equipment	8,583	1,433	10,016	14,348	760	15,108
Increase in finite-life intangible assets	1,518	-	1,518	6	-	6
Amortization	8,863	626	9,489	7,045	1,262	8,307

Geographic Segments

	2008			2007		
	Canada	U.S.	Total	Canada	U.S.	Total
Sales	$ 108,861	$ 51,050	$ 159,911	$ 107,662	$ 40,872	$ 148,534
Property plant and equipment, net	77,646	51,159	128,805	71,928	38,728	110,656
Finite-life intangible assets, net	3,116	4,936	8,052	864	5,045	5,909
Goodwill	17,534	18,950	36,484	17,534	17,714	35,248
Export sales (1)	$ 53,670			$ 59,526		

64% of the Company's sales (66% in 2007) were to U.S. customers.

(1) Export sales are attributed to countries based on the location of the customers.

Note 12. Reclassification

Comparative figures for the financial statements as at September 30, 2007 and March 31, 2008 have been reclassified to comply with the September 30, 2008 presentation.

Management Discussion and Analysis of Financial Position and Operating Results

This Management Discussion and Analysis of Financial Position and Operating Results (MD&A) is intended to provide an overview of how the financial position of Héroux-Devtek Inc. ("Héroux-Devtek" or "the Company") changed between March 31, 2008 and September 30, 2008. It also compares the operating results and cash flows for the three- and six-month periods ended September 30, 2008 to those for the same periods the previous year. It should be read in conjunction with the audited consolidated financial statements dated March 31, 2008 and the related MD&A, both available on the Company's website at www.herouxdevtek.com, and with the interim consolidated financial statements to June 30, 2008 and September 30, 2008. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

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 Company's actual results to differ materially from those expressed in or implied by such statements.

Such factors include, but are not limited to: the impact of general 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; fluctuations in commodity prices or availability; foreign exchange and interest rates; stock market volatility; and the impact of accounting policies issued by Canadian, US and international standard setters. Some of these factors are further discussed under Risks and Uncertainties in the Company's MD&A for the year ended March 31, 2008. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive. Undue reliance should not be placed on forward-looking statements.

Although the Company believes that the expectations conveyed by the forward-looking statements are based on information available 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 Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. Unless otherwise required by applicable securities laws, the Company expressly disclaims any intention, and assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

OVERVIEW

Héroux-Devtek designs, develops, manufactures and repairs systems and components for two main market segments: Aerospace and Industrial. The Aerospace segment comprises the following:

- landing gear products;
- aerostructure products;
- other aerospace products.

The Industrial segment includes:

- industrial gas turbine products;
- other industrial products, including products for the wind energy market.

We discuss the possible impact on the Company's results of the recent worldwide financial turmoil in the outlook section below, but as of September 2008, the Company was still on a positive course. Once again this quarter, all three divisions reported positive net income, including the Gas Turbine Components Division, which is now enjoying the fruits of its turnaround efforts. Despite the recent decline of the Canadian dollar against its US counterpart and in light of the volatility of these currencies, the effect of currency on the Company's results is still a concern.

RESULTS OF OPERATIONS

Consolidated Sales

Consolidated sales for the quarter ended September 30, 2008 grew by 10.9% to $77.3 million from $69.8 million for the same period last year.

The increase in second quarter sales was mainly due to increased throughput in military repair and overhaul and manufacturing sales and, to a lesser degree, higher business jet and helicopter sales. Industrial sales also increased in the second quarter, both in the power and the wind markets. These increases were somewhat offset by lower large commercial sales and the continued slowdown in the regional jet market. The stronger Canadian dollar relative to the US dollar had a $2.8 million or 4.0% negative impact on sales when compared to the second quarter of last year.

For the first six months ended September 30, 2008, consolidated sales totalled $159.9 million, 7.7% higher than sales of $148.5 million last year.

This increase resulted from the same elements mentioned above. Year-to-date, the stronger Canadian dollar reduced sales by $10.2 million or 6.8% compared to last year.

The Company's sales for the Aerospace and Industrial segments were as follows:

Segment	Quarter ended September 30, 2008 ($000)	2007 ($000)	VARIANCE ($000)	%	Six months ended September 30, 2008 ($'000)	2007 ($'000)	VARIANCE ($'000)	%
Aerospace								
Military								
Military sales to government	14,144	11,458	2,686	23.4	26,708	26,431	277	1.0
Military sales to civil customers	20,165	17,466	2,699	15.4	44,546	38,695	5,851	15.1
Total Military	34,309	28,924	5,385	18.6	71,254	65,126	6,128	9.4
Total Commercial	33,817	33,360	457	1.4	70,865	69,076	1,789	2.6
Total Aerospace	68,126	62,284	5,842	9.4	142,119	134,202	7,917	5.9
Total Industrial	9,214	7,474	1,740	23.3	17,792	14,332	3,460	24.1
Total	77,340	69,758	7,582	10.9	159,911	148,534	11,377	7.7

Aerospace Segment

Sales for the Aerospace segment, shown in the table above, can be broken down by product as follows:

Product	Quarter ended September 30, 2008 ($'000)	2007 ($'000)	VARIANCE ($'000)	%	Six months ended September 30, 2008 ($'000)	2007 ($'000)	VARIANCE ($'000)	%
Landing Gear	44,839	41,069	3,770	9.2	91,036	86,927	4,109	4.7
Aerostructure	22,942	20,899	2,043	9.8	50,438	46,523	3,915	8.4
Other aerospace products	345	316	29	9.2	645	752	(107)	(14.2)
Total	68,126	62,284	5,842	9.4	142,119	134,202	7,917	5.9

For the second quarter ended September 30, 2008, overall sales for the Aerospace segment were up 9.4% to $68.1 million from $62.3 million for the same period last year. However, year-over-year overall commercial sales for the same period remained relatively flat, as explained below, while total military sales increased by 18.6%.

During the second quarter, Landing Gear sales increased by $3.8 million or 9.2% relative to the same period last year. This resulted mainly from increased throughput of military repair and overhaul work, as the Company is gradually completing the refurbishing of the Longueuil plant plating department, and the increase in business jet, helicopter and large OEM commercial program sales. These increases were offset by reduced large commercial sales, following the completion of the B-777 retrofit program and the negative impact of the stronger Canadian dollar on US-denominated sales.

Second quarter Aerostructure sales were $22.9 million, $2.0 million or 9.8% higher than last year. This reflects an increase in military sales to civil customers, arising mainly from catch-up on deliveries on the F-15 and F-22 programs, and increased business jet sales.

On a year-to-date basis, total Aerospace sales increased by $7.9 million or 5.9% over the same period last year, to $142.1 million.

The Landing Gear Division improved its revenues, with sales of $91.0 million, $4.1 million or 4.7% higher than last year. Improved military repair and overhaul throughput and increased business jet and helicopter sales are behind this positive variance, offset by the completion of the B-777 retrofit program mentioned above, as well as the negative impact of the stronger Canadian dollar versus the US dollar when compared to last year.

Year-to-date Aerostructure sales increased by $3.9 million, or 8.4%, to $50.4 million for the reasons mentioned above as well as an increase in F-16 sales, including kit sales for the same program. These were negatively impacted by the reduction of a large commercial OEM program.

Industrial Segment

Sales for the Industrial segment were as follows:

Product	Quarter ended September 30,				Six months ended September 30,			
	2008	2007	VARIANCE		2008	2007	VARIANCE	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Gas Turbine	4,723	3,819	904	23.7	8,842	7,390	1,452	19.6
Other Industrial	4,491	3,655	836	22.9	8,950	6,942	2,008	28.9
Total	9,214	7,474	1,740	23.3	17,792	14,332	3,460	24.1

Second quarter sales for the Industrial segment totalled $9.2 million this year, 23.3% higher than last year, while year-to-date sales were up by about the same percentage at $17.8 million, $3.5 million or 24.1% higher than for the first six months of last year. Gas Turbine sales continued the positive trend started last year, with year-over-year increases of 23.7% for the second quarter and 19.6% for the first six months of the year. Other Industrial sales benefitted from a $0.8 million increase in the heavy industry and wind energy markets for the quarter and a year-to-date increase of slightly over $2.0 million. These last two markets are showing good potential and should continue to grow in coming quarters.

Sales by Destination

The Company's sales by destination were as follows:

Destination	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Six months ended September 30, 2008	Six months ended September 30, 2007
Canada	33%	34%	35%	32%
US	66%	64%	64%	66%
International	1%	2%	1%	2%
	100%	100%	100%	100%

The year-to-date change in the sales-by-destination mix can be explained by the winding down of a large commercial retrofit program to a US customer.

Gross Profit

For the quarter ended September 30, 2008, consolidated gross profit as a percentage of sales was 15.9%, up 2.4% from 13.5% last year.

The increase for the quarter is mainly attributable to higher value-added Industrial sales at the Gas Turbine Components Division. Increased sales and a better sales mix at the Landing Gear and Aerostructure divisions explain the rest of the positive change in gross profit, despite being offset by continued pressure from the stronger Canadian dollar on the Landing Gear Division margins.

For the year-to-date period, consolidated gross profit as a percentage of sales stood at 17.1%, up 3.6% from the 13.5% reported last year. Increases in all value-added Industrial sales at the Gas Turbine Components Division and the overall increased volume had a positive impact on margins. Aerostructure margins were impacted by a much-improved year-to-date sales mix in the first quarter of this fiscal year, while the Landing Gear Division gross profit, although showing a marginal increase, was again negatively impacted by the currency fluctuation of the Canadian dollar versus the US dollar. It is also worth noting that the Aerostructure Division was negatively impacted last year by the development phase of the Joint Strike Fighter (JSF) program.

The Canadian dollar had a 2.8% negative impact on the consolidated gross profit margin in the quarter ended September 30, 2008, compared to the same period last year, and a 3.0% negative impact for the year to date. Besides the natural hedging that arises from the purchasing of materials in US dollars, the Company uses forward foreign exchange contracts to mitigate the risks related to fluctuations in the Canadian/US dollar currency fluctuations (see below).

Selling and Administrative Expenses

Second quarter and year-to-date selling and administrative expenses were as follows:

	Quarter ended September 30,		Six months ended September 30,	
	2008	2007	2008	2007
Selling and administrative expenses ($'000)	5,505	4,229	10,823	8,469
% of sales	7.1	6.1	6.8	5.7

Second quarter selling and administrative expenses were $1.3 million higher than last year and 1.0% higher as a percentage of sales. Selling and administrative expenses of $10.8 million for the six months ended September 30, 2008, were $2.4 million or 1.1% of sales higher than last year.

Selling and administrative expenses increased due to a $0.5 million loss on currency translation on net monetary items in the second quarter ended September 30, 2008, compared to a $0.7 million gain for the same period last year. A year-to-date currency translation loss of $0.5 million for this year compared to a $1.3 million gain last year. Selling and administrative expenses also rose to support the overall increased level of business activity.

Operating Income (Loss)

Consolidated operating income for the second quarter ended September 30, 2008, stood at $6.8 million or 8.8% of consolidated sales, compared to $5.2 million or 7.5% of sales for the same period last year. For the six-month period ended September 30, 2008, operating income was $16.6 million or 10.4% of sales, compared to $11.6 million or 7.8% last year.

Aerospace Segment

Aerospace operating income was $5.3 million or 7.8% of sales in the second quarter compared to $5.4 million or 8.6% of sales in the second quarter of last year. Despite higher sales, the increase in gross profit margins was more than offset by the negative impact of the loss on currency translation of net monetary items included in selling and administrative expenses, as explained above.

For the year to date, Aerospace operating income was $13.7 million or 9.6% of consolidated sales, compared to $11.8 million or 8.8% of sales for the same period last year.

Industrial Segment

Operating income of $1.5 million or 16.3% of sales for the second quarter of this year compares to a $0.2 million operating loss for the same period last year, and reflects continued operational improvements, improved pricing and the increase in Industrial Gas Turbine and Wind Energy sales in the second quarter compared to last year.

For the six months ended September 30, 2008, operating income stood at $2.9 million or 16.3% of consolidated sales, compared to an operating loss of $0.2 million for the same period a year ago, for the reasons explained above.

Financial Expenses

Financial expenses for both the quarter and the six-month period ended September 30, 2008, was approximately $0.6 million lower than for the same periods last year, with a lower average net debt position and lower average interest rates than last year. The net debt position is defined as the long-term debt, including the current portion, less cash and cash equivalents.

Income Tax Expense

For the quarter ended September 30, 2008, the Company had a tax expense of $1.8 million compared to an expense of $0.6 million for the same period a year ago.

Year-to-date, the Company had an income tax expense of $4.8 million for the six months ended September 30, 2008, compared to an expense of $1.6 million last year. For the six months ended September 30, 2008, the effective tax rate was 32.8% compared to its Canadian blended statutory rate of 31.1%. The difference can be explained by increased income from the Company's self-sustaining US subsidiaries with higher income tax rate, and the impact of future tax adjustments ($0.3 million), net of the favourable impact of permanent differences ($0.3 million).

The Company's effective income tax rate for the six months ended September 30, 2007, was 17.8% compared to its blended Canadian statutory rate of 32.7%. This difference can be mainly explained by the favourable impact of permanent differences ($0.4 million) and the recognition of $0.7 million (including $0.3 million in the first quarter) in income tax benefits from the utilization of tax losses carried forward for which no income tax benefits had been recognized in prior years.

Net Income

	Quarter ended September 30,		Six months ended September 30,	
	2008	2007	2008	2007
Net income ($'000)	4,056	3,107	9,754	7,258
Earnings per share – basic & diluted ($)	0.13	0.10	0.31	0.23

The Company posted net income of $4.1 million for the second quarter ended September 30, 2008, compared to net income of $3.1 million for the quarter ended

September 30, 2007. As already highlighted in previous communications, results are traditionally lower for the Company's second quarter due to the slowdown resulting from vacations and plant shutdowns. In spite of this, net income was still $0.9 million or 30.5% higher than for the same period last year, due to higher sales and the improved performance at the Gas Turbine Components Division.

Year-to-date net income of $9.8 million is $2.5 million higher than the $7.3 million posted for the first six months of last year. As previously explained, this favourable variance resulted from increased sale volume at all three divisions and improved margins at the Aerostructure and Gas Turbine Components divisions, net of the currency translation impact included in selling and administrative expenses. Second quarter and year-to-date net income this year are on a fully taxable basis while last year's results were favourably impacted by tax loss utilization, as explained above.

Earnings-per-share figures are based on weighted averages of 31,651,611 common shares outstanding for the first six months of this year and 31,587,133 for the same period last year. The increase in the number of shares is essentially due to the issuance of 23,517 common shares pursuant to the Company's stock purchase and ownership incentive plan (see Note 8 to the interim consolidated financial statements).

On October 30, 2008, the date of this MD&A, the Company had 31,666,806 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

The Company generated cash flows from operations and cash flows from operating activities as follows:

	Quarter ended September 30,		Six months ended September 30,	
	2008 ($'000)	2007 ($'000)	2008 ($'000)	2007 ($'000)
Cash flows from operations	10,558	8,285	22,277	17,223
Net change in non-cash items related to operations	3,416	(3,527)	(5,574)	(14,642)
Cash flows relating to operating activities	13,974	4,758	16,703	2,581

For the second quarter ended September 30, 2008, cash flows from operations were $10.6 million, $2.3 million higher than for the same period last year, due mainly to a $0.9 million improvement in net income and higher amortization ($0.8 million) and by the increase in future income taxes ($0.5 million).

The net change of $3.4 million in non-cash items for the quarter ended September 30, 2008, can be explained by a $4.1 million decrease in accounts receivable, with improved collection in spite of higher sales, an increase of $1.5 million in accounts payable and accrued liabilities and other liabilities related to increased inventories, and a decrease of $1.3 million in other current assets. These amounts were somewhat offset by an increase of $5.0 million in inventories, in line with the upcoming business activity (see Consolidated Balance Sheet section below).

The net change of $5.6 million in non-cash items for the six months ended September 30, 2008, can be explained by lower accounts receivable ($1.0 million) and other receivables ($1.7 million), and higher income tax payable ($0.9 million). This favorable variance was offset by higher inventories ($8.8 million) before the inventory adjustment following the implementation of new accounting guidelines (see below).

The net change of $3.5 million in non-cash items for the second quarter ended September 30, 2007, arose mainly from an increase of $4.4 million in inventories in line with the anticipated increase in business activity, a $2.4 million reduction in accounts payable and accrued liabilities, an increase of $1.9 million in income tax receivable and a $2.1 million negative impact of the translation of US-denominated non-cash balance-sheet items. These were partially offset by a $4.9 million reduction in other receivables following the collection of development costs for the JSF, which were invoiced in the first quarter last year, and a $1.5 million reduction in other current assets

The net change of $14.6 million in non-cash items for the first six months ended September 30, 2007, can be mainly explained by a decrease of $17.0 million in accounts payable and accrued liabilities following the payment in the first quarter of last year of capital expenditures outstanding as at March 31, 2007, and payment of raw material received late in the previous fiscal year. It also includes a $4.6 million negative impact from the translation of US-denominated non-cash balance-sheet items. These were somewhat offset by a $6.8 million reduction in accounts receivable driven by improved collections and a $3.0 million decrease in inventories.

Investing Activities

The Company's investing activities were as follows:

	Quarter ended September 30, 2008 ($'000)	2007 ($'000)	Six months ended September 30, 2008 ($'000)	2007 ($'000)
Purchase of property, plant and equipment	(5,977)	(10,391)	(10,016)	(15,108)
Increase in finite-life intangible assets	(315)	(2)	(1,518)	(6)
Cash flows relating to investing activities	(6,292)	(10,393)	(11,534)	(15,114)

Second quarter purchase of property, plant and equipment totalled $6.0 million this year compared to $10.4 million last year. To date, $10.0 million has been invested for capital expenditures compared to $15.1 million last year. Capital expenditures of about $39 million are planned for the current fiscal year, including $14 million for investments following the award in November 2007 of a $115 million, 10-year sales contract to manufacture major landing gear components for the Boeing B-787, Airbus A-320 and

Sukhoi RRJ programs, and more than $2 million to complete the modernization of the plating department at the Landing Gear plant in Longueuil, Quebec (see "Off-Balance-Sheet Items and Commitments", below).

The $1.5 million year-to-date increase in finite-life intangible assets represents the purchase of $0.5 million in computer software and an increase in capitalized development costs ($1.0 million) for Aerospace long-term contracts following the implementation of new accounting guidelines on inventories (see "Changes in Accounting Policies", below).

Financing Activities

The Company's financing activities were as follows:

	Quarter ended September 30,		Six months ended September 30,	
	2008 ($'000)	2007 ($'000)	2008 ($'000)	2007 ($'000)
Increase in long-term debt	2,106	-	2,106	-
Repayment of long-term debt	(736)	(641)	(2,153)	(4,187)
Issuance of common shares	81	56	161	529
Other	-	-	(185)	-
Cash flows relating to financing activities	1,451	(585)	(71)	(3,658)

The increase in long-term debt (quarter and year-to-date) is related to new non-interest-bearing government loan to support capital investment in the aerospace industry.

To date this year, 23,517 common shares have been issued under the Company's share purchase plan, for a total value of $0.2 million. Last year, 83,300 options were exercised at a price of $4.96 per common share for a total of $0.4 million all in the quarter ended June 30, 2007, while no option have yet been exercised this year, the balance of the increase following issuance under the Company's share purchase plan.

On April 14, 2008, the Company increased its $80 million in Credit Facilities to $125 million on essentially the same terms and conditions. The Credit Facilities mature in October 2011 (see Note 7 to the interim consolidated financial statements).

Stock Option Plan

The Company has a stock option plan whereby options to purchase common shares are issued to officers and key employees. At September 30, 2008, the Company had 1,209,221 outstanding stock options at a weighted average exercise price of $6.52 that will expire over the next six years (between June 2009 and August 2014).

During the six months ended September 30, 2008, 65,000 options were cancelled, all in the first quarter (none in the same period last year), having reached their expiry dates.

In the second quarter ended September 30, 2007, 355,000 stock options (none in this fiscal year) were granted at an exercise price of $9.90.

An aggregate of 2,808,257 shares are reserved for issuance under this plan, of which 489,718 had not yet been granted at September 30, 2008. The Company also has a stock purchase and ownership incentive plan for management employees, and a stock appreciation rights plan for its non-employee directors. (See Note 8 to the interim consolidated financial statements).

Consolidated Balance Sheets

The following table itemizes and explains the significant changes to the consolidated balance sheets between March 31, 2008 and September 30, 2008:

Item	Change ($ millions)	Explanation
Cash and cash equivalents	5.6	See consolidated statements of cash flows.
Accounts receivable	(1.0)	Higher sales more than offset by improved collection. The impact of the weakening of the Canadian dollar since March 31, 2008, on US-denominated accounts receivable was $1.1 million at September 30, 2008.
Inventories	3.1	Inventories were reduced ($5.7 million) following the implementation of new accounting guidelines on inventories (see “Changes in Accounting Policies”, below). This was more than offset by the increase in inventories related to the increase in business activity. The impact of the lower Canadian dollar also increased inventories for the Company’s US self-sustaining subsidiaries by $0.2 million.
Other current assets	(2.6)	Essentially reflects the variation in the Company’s balance sheet of short-term derivative financial instruments measured at fair value.

Item	Change ($ millions)	Explanation
Property, plant and equipment, net	4.2	Due to: • Purchase of capital assets ($10.0 million); • Implementation of new accounting guidelines on inventories ($1.7 million) (see “Changes in Accounting Policies”, below); • A higher US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($1.8 million). Net of: • Amortization ($8.7 million); • Recognition in the Company’s balance sheets of loans bearing no interest measured at present value ($0.6 million).
Finite-life intangible assets, net (includes a $4.8 million net backlog)	2.3	Mainly due to: • Implementation of new accounting guidelines on inventories (see “Changes in Accounting Policies”, below) ($1.2 million) • An increase in finite-life intangible assets ($1.0 million), representing the increase in capitalized Aerospace development costs for long-term contracts and following the implementation of new accounting guidelines on inventories; • The higher US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.4 million); • Purchase of computer software ($0.5 million) Net of: • Amortization on the underlying value of the backlog ($0.8 million).
Other assets	(2.5)	Essentially reflects the variation in the Company’s balance sheets of long-term derivative financial instruments measured at fair value.
Accounts payable and accrued liabilities	1.3	Mainly reflects the impact of the weakening of the Canadian dollar since March 31, 2008, on US-denominated accounts payable and accrued liabilities at September 30, 2008 ($0.8 million) and the increase in inventories.
Long-term debt (including current portion)	1.2	Due to: • New non-interest bearing loan ($2.1 million); • A higher US exchange rate used to convert the long-term debt of self-sustaining US subsidiaries, net of the variation in the Company’s balance

Item	Change ($ millions)	Explanation
		sheets of long-term financial instruments measured at fair value at the date of inception ($1.3 million). Net of: • Capital repayments of long-term debt ($2.2 million).
Accumulated other comprehensive loss	(2.3)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries, and the unrealized gains (losses), net of taxes, on the fair value of financial instruments designated as cash flow hedges.
Retained earnings	7.8	See consolidated statements of changes in shareholders' equity and "Changes in Accounting Policies", below.

At September 30, 2008 and March 31, 2008, the Company's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio(1) were as follows:

	September 30, 2008	March 31, 2008
Working capital ratio	2.22:1	2.20:1
Cash and cash equivalents	$30.1 million	$24.4 million
Long-term debt-to-equity ratio	0.39:1	0.40:1
Net debt-to-equity ratio(1)	0.26:1	0.29:1

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

OFF-BALANCE SHEET ITEMS AND COMMITMENTS

The Company had entered into operating leases amounting to $8.7 million as at September 30, 2008 ($9.4 million as at March 31, 2008), essentially for machinery and equipment. All these amounts are repayable over the next seven years. At September 30, 2008, the Company also had purchase commitments totalling $19.7 million ($16.5 million to March 31, 2008), mainly for machinery and equipment and construction in progress, for which deposits of $3.3 million ($2.3 million to March 31, 2008) on machinery and equipment were made and are included in the Company's other current assets. These commitments mainly relate to the modernization of the Longueuil plant plating department and the investments required following the award of new sales contracts, including the $115 million sales contract mentioned above (see "Investing Activities", above).

At September 30, 2008, the Company had entered into forward foreign exchange contracts to sell US $135.5 million at an average exchange rate of 1.0674 (US$145.5 million at an average rate of 1.0922 as at March 31, 2008 and US $109.5 million at an average rate of 1.1752 as at September 30, 2007) for the purpose of foreign exchange risk management, essentially related to its export sales. These contracts mature at various dates between October 2008 and January 2012, with the majority maturing in fiscal 2009 and 2010.

CHANGES IN ACCOUNTING POLICIES

ADOPTED IN THE FIRST QUARTER OF FISCAL YEAR 2009 AND EFFECTIVE APRIL 1, 2008

In the first quarter ended June 30, 2008, the Company adopted four new Handbook sections issued by the Canadian Institute of Chartered Accountants (CICA):

Section 3031, Inventories

In June 2007, the Accounting Standard Board ("AcSB") issued Section 3031, 'Inventories', which replaces Section 3030, 'Inventories'. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") IAS 2, 'Inventories'. The section prescribes the measurement of inventories at the lower of cost and net realizable value. It provides further guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value and circumstances for their subsequent reversal. It also provides more restrictive guidance on the cost methodologies used to assign costs to inventories and describes additional disclosure requirements.

As at April 1 2008, the Company adopted the unit cost method in replacement of the average cost method. The unit cost method is a prescribed cost method under which the actual production costs are charged to each unit produced and recognized to income as the unit is delivered. The excess-over-average production costs concept (production costs incurred in the early stage of a contract, in excess of the average estimated unit cost for the entire contract), is not allowed under the unit cost method. In addition, as a result of the more restrictive guidance on the determination of costs, the Company has revised its manufacturing overhead costs allocation policy, whereby abnormal costs are expensed and the allocation of manufacturing and overhead costs is specifically determined on normal production capacity. Based on these new rules, the Company has applied these changes in accounting policy by adjusting the opening retained earnings and by making certain reclassifications in the Company's balance sheet as at April 1, 2008. Also, the program tooling costs and development costs, which were recorded as part of inventories in prior years, were either written-off to retained earnings or reclassified to property, plant and equipment and finite-life intangible assets, the amortization of these costs being based on the pre-determined contract quantity. The consolidated financial statements for the prior fiscal year were not restated, as permitted by the new Section.

As at April 1, 2008, the effect of these changes in accounting policy, including certain reclassifications, and their related income tax impact on the Company's consolidated balance sheet were as follows:

(000's)	Reported as at March 31, 2008	Impact of changes in accounting policy: Inventories		Restated as at April 1, 2008
		Write-off	Reclassification	
Assets				
Inventories	$86,625	$(2,869)	$ (2,878)	$80,878
Property, plant and equipment, net	124,596	-	1,691	126,287
Finite-life intangible assets	5,787	-	1,187	6,974
Liabilities				
Income taxes payable	$ 2,349	$ (929)	$ -	$ 1,420
Retained earnings	$85,335	$(1,940)	$ -	$83,395

Section 1535, Capital Disclosures

This section establishes standards for disclosing information about an entity's capital and how it is managed.

Section 3862, Financial Instruments - Disclosures

This section modifies the disclosure requirements for financial instruments that were included in Section 3861, 'Financial Instruments – Disclosure and Presentation'. The new standards require entities to provide disclosures in their financial statements that enable users to evaluate:

- the significance of financial instruments for the entity's financial position and performance;
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863, Financial Instruments - Presentation

This section carries forward unchanged the presentation requirements of the old Section 3861, "Financial Instruments – Disclosure and Presentation" (see Note 5 to the September 30, 2008 interim consolidated financial statements).

The new disclosure and presentation requirements under Sections 1535 and 3862 referred to above are further outlined in Notes 3 and 4 to the September 30, 2008 interim consolidated financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. For the Company, the conversion to IFRS will be required for interim and annual financial statements beginning on April 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the mandatory transition date.

The Company is presently working on its preliminary changeover plan, which will be disclosed in the Annual Report for this fiscal year.

CONTROLS AND PROCEDURES

In accordance with the Canadian Securities Administrators Multilateral Instrument 52-109, the Company has filed certificates signed by the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer that, among other things, report on the design of disclosure controls and procedures and on the design of internal controls over financial reporting.

The President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer have determined that there were no changes to the Company's internal controls over financial reporting during the three- and six-month periods ended September 30, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's 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 Company's business, financial condition and results of operations. Such risks and uncertainties include, but are not limited to, those mentioned below, which are more fully described in the Company's MD&A for the year ended March 31, 2008.

- Reliance on large customers
- Availability and cost of raw materials
- Operational risks
- 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

Risks and uncertainties relating to the recent worldwide financial crisis are further discussed in the outlook section below.

OUTLOOK

Backlogs remain strong in the civil aerospace market, but recent events have created short-term uncertainty. First, the global financial crisis and weaker economy may impact existing orders and may also reduce new aircraft orders going forward. Second, the Company is closely monitoring the situation at Boeing where labour conflicts have deferred certain deliveries from the third quarter to the following quarters. Third, it is worth mentioning that the recent deterioration of the Canadian dollar versus the U.S. currency will not have an immediate favourable impact on the sales in light of the Company's hedging policy while it will contribute to the improvement of the Company's competitiveness for new potential sales contracts. Meanwhile, the military aerospace market remains solid. For example, all System Development and Demonstration (SDD) JSF aircraft should be delivered by the end of calendar 2008 and production has begun on the Low Rate Initial Production (LRIP) aircraft. However, a new U.S. administration may reduce funding of future military budgets. In the power generation industry, the wind energy market continues to experience robust demand, while the currently solid industrial gas turbine market may be impacted over the mid-term by the financial crisis given the large-scale nature of underlying projects.

In spite of these risk factors, Héroux-Devtek's backlog remains solid and the Company anticipates an internal sales growth of close to 10% in fiscal 2009. Management is committed to investments in training and lean manufacturing initiatives, while continuing to focus on achieving further productivity improvements to maintain the Company's competitiveness. Very strong customer relationships, favourable positioning in all its key markets and a solid balance sheet are superior attributes that should enable Héroux-Devtek to maintain its current industry leader status.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee and the Board of Directors on October 30, 2008. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.