Management Discussion and Analysis of Financial Position and Operating Results

This management discussion and analysis (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, 2004 and June 30, 2004. It also compares the operating results and cash flows for the first quarter ended June 30, 2004 to those for the same period the previous year. It should be read in conjunction with the audited consolidated financial statements dated March 31, 2004 and the related MD&A, both available on the Company’s website at www.herouxdevtek.com, and with the interim financial statements to June 30, 2004. Héroux-Devtek’s 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 performance 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; foreign exchange or interest rates; stock market volatility; and the impact of accounting policies issued by Canadian and US 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, 2004.

Although the Company believes that the expectations conveyed by the forward-looking statements are based on information available to it on the date such statements were made, there can be no assurance that such expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements.

OVERVIEW

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

Aerospace:

- landing gear products
- aerostructure products
- aircraft engine components

Defence:

- small arms and accessories
- other defence products

The Industrial segment includes:

- industrial gas turbine products
- other industrial products

On April 1, 2004, the Company acquired Progressive Incorporated ("Progressive"), a privately-held Texas-based manufacturer of large structural components for military aircraft. This new business unit has a strong reputation in the industry, and will give the Company's aerostructure sector more depth by providing:

- a better military/commercial product mix (diversification of the customer base);
- increased knowledge of complex manufacturing of structural aircraft components; and
- greater penetration of the US military market.

The Company evolves in two (2) main sectors of activities (Aerospace & Defence and Industrial). However, in the past, the Company has also presented and discussed its results and financial position mainly by its four (4) divisions in its MD&A. Following the acquisition of Progressive, the Company decided to modify its MD&A structure to better reflect its activities, henceforth presenting its results by segment rather than by division. Results for last year's first quarter are presented on the same basis for comparison purposes.

During the first quarter ended June 30, 2004, the economic and industry factors influencing Héroux-Devtek's business remained essentially unchanged from those discussed at year-end 2004. A recovery is still expected in the commercial aerospace market beginning in 2005, impacting on Héroux-Devtek's sales for fiscal 2006. The military aerospace market remains generally strong, with continued interest in unmanned aircraft vehicles ("UAV") and unmanned combat aircraft vehicles ("UCAV"), as well as other potential opportunities that could have an impact on the Company's sales for fiscal 2006. On the industrial side, the downturn in the power generation market continues and is expected to reach its low in calendar year 2004, with renewed growth beginning in 2005. Finally, the strength of the Canadian dollar continues to have a significant negative impact on Héroux-Devtek's results.

RESULTS OF OPERATIONS

Consolidated Sales

Consolidated sales for the quarter ended June 30, 2004 grew by 7.6% to $56.4 million from $52.4 million last year, due to the acquisition of Progressive. The $12.7 million in new sales generated by this new business unit was offset by a stronger Canadian dollar, which had an unfavourable impact of $2.3 million, as well as a sales shortfall of $7.1 million arising primarily at the Landing Gear and Gas Turbine Components divisions. These factors are discussed in more detail below.

The Company's sales by segment were as follows:

Segment	First quarter ended June 30, 2004 ($'000)	June 30, 2003 ($'000)	% Change
Aerospace & Defence	51,518	46,674	10.4
Industrial	4,850	5,711	(15.1)
Total	56,368	52,385	7.6

Aerospace & Defence Segment

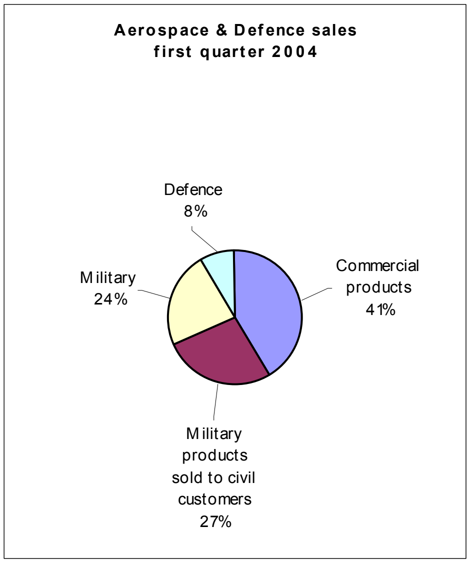
Sales for the Aerospace & Defence segment were as follows:

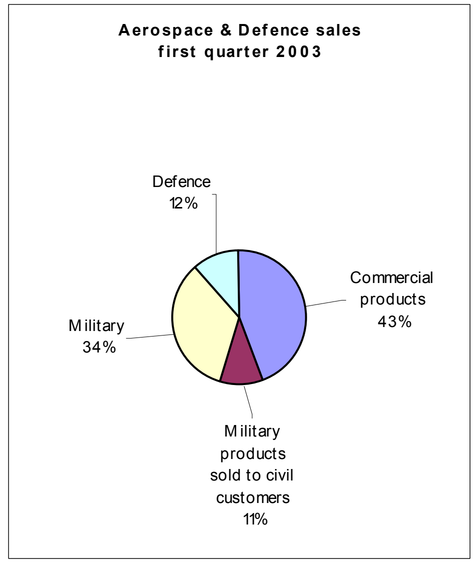
Sector	First quarter ended June 30, 2004 ($'000)	First quarter ended June 30, 2003 ($'000)	% Change
Landing Gear	24,434	31,129	(21.5)
Aerostructure	17,683	5,642	213.4
Aircraft engine component	5,131	4,453	15.2
Defence product	4,270	5,450	(21.7)
Total	51,518	46,674	10.4

Sales for the Aerospace & Defence segment were up 10.4% in the first three months of fiscal 2005 to $51.5 million compared to $46.7 million for the same period of fiscal 2004. This increase was mainly due to the acquisition of Progressive, which contributed sales of $12.7 million.

Longueuil and Dorval plants did not make the expected sales level due to delays in deliveries and to the implementation of new customers' requirements. This caused sales shortfalls of $3.5 million and $1.5 million respectively, for a total of $5.0 million.

Sales for the Landing Gear military sector were down due to reduced demand and the completion of the KC135 and P-3 contracts. Commercial Landing Gear sales slipped 5.4%, reflecting the ongoing slowdown in the commercial aerospace market. Growth in the Aircraft Engine Component sector, which represented an increase of 22.9% in constant US dollars, was mainly due to last year's gain in market share. Finally, the decline in the Defence sector sales arose from low demand in other defence products, with small arms product sales remaining stable year-over-year.





Industrial Segment

Sales for the Industrial segment were as follows:

Sector	First quarter ended June 30, 2004 ($'000)	First quarter ended June 30, 2003 ($'000)	% Change
Industrial Gas Turbine	3,056	4,944	(38.2)
Other Industrial	1,794	767	133.9
Total	4,850	5,711	(15.1)

First quarter sales for the Industrial segment totalled $4.9 million for fiscal 2005, down 15.1% from $5.7 million in fiscal 2004. Industrial Gas Turbine sales remained low, reflecting the persistently weak market, while new parts manufactured for a new customer resulted in a substantial increase in Other Industrial sales for the quarter. Nonetheless, sales shortfall of $2.1 million was experienced in the first quarter, due to operational challenges related to the introduction of this new business, as well as to material shortages.

Sales by Destination

The Company's sales by destination were as follows:

Destination	First quarter ended	
	June 30, 2004	June 30, 2003
Canada	23%	29%
US	72%	63%
International	5%	8%
	100%	100%

The proportion of US sales rose due to the acquisition of Progressive, which generates all of its sales in the United States.

Gross Profit

Expressed as a percentage of sales, consolidated gross profit decreased 3.9% in the first quarter to 7.1% from 11.0% last year. The Canadian dollar accounted for 0.7% of this decline. The sales shortfalls discussed above translated into a negative impact of 3.3% on gross profit.

Selling and Administrative Expenses

First quarter selling and administrative expenses were down from last year, as shown below:

	First quarter ended	
	June 30, 2004	June 30, 2003
Selling and administrative expenses ($'000)	5,330	5,991
% of sales	9.5	11.4

The decrease was due to lower royalties on military product sales at the Landing Gear Division, and a $391,000 loss on foreign exchange booked in the first quarter of last year.

Operating income (loss)

Aerospace & Defence Segment

Expressed as a percentage of sales, operating income for the Aerospace & Defence sector decreased by 4.7% compared to last year. This was mainly due to the low business volume generated by the Longueuil and Dorval plants and to the operational challenges experienced during the quarter, although pricing pressures resulting from the reduced aerospace activity in recent years also contributed to the decrease. These factors were offset by the good performance of Progressive.

Industrial Segment

The Gas Turbine Components Division decreased its operating loss by 15.7% in the first quarter of fiscal 2005, due to the fact that the division incurred significant unabsorbed overhead costs last year during the months preceding the closure of the Tampa operation on June 30, 2003. Last year's consolidation of the division has not yet produced the expected level of productivity improvements and manufacturing efficiencies. An unfavourable product sales mix (a higher ratio of aircraft engine parts to industrial gas turbine sales) also impacted this year's first quarter operating results.

Financial Expenses

Net financial expenses for the first quarter declined slightly from last year, as shown below:

	First quarter ended	
	June 30, 2004 ($'000)	**June 30, 2003 ($'000)**
Interest expense	1,056	899
Interest revenue	(128)	(336)
Gain on financial derivative instrument - net	(487)	-
Financial expenses	441	563

On May 20, 2004, the Company designated its interest rate swap agreement as a hedging instrument to be recorded under the hedge accounting rules. This resulted in a gain of $487,000, representing the change in the fair value of the interest rate swap agreement between April 1, 2004 and May 20, 2004, net of the amortization of the related deferred loss recorded on April 1, 2004. (See under Hedging Relationships in Changes in Accounting Policy, below.)

Net Loss

For the first quarter of fiscal 2005, the Company posted a net loss of $1.3 million, as shown below:

	First quarter ended	
	June 30, 2004	June 30, 2003
Net loss ($'000)	1,316	818
Net loss per share ($)	0.05	0.03

The increase in the net loss resulted from the various factors discussed above. Net loss per share figures are based on weighted averages of 26,864,361 common shares outstanding for the first quarter of this year and 23,479,314 for last year. The increase is due to the issuance of 3,500,000 common shares pursuant to the acquisition of Progressive (see Notes 3 and 4 to the consolidated financial statements).

Last year's first quarter loss was restated and increased by $31,000 to $818,000 due to the change in accounting policy on asset retirement obligations. See Note 2 to the consolidated financial statements.

On July 29, 2004, the date of this MD&A, the Company had 26,924,059 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Internally, the Company generated cash flow from operations and cash flow provided by operating activities as follows:

	First quarter ended	
	June 30, 2004 ($'000)	June 30, 2003 ($'000)
Cash flow from operations	2,279	1,896
Net change in non-cash items related to operations	(10,679)	(3,308)
Cash and cash equivalents used for in operating activities	(8,400)	(1,412)

In the first quarter of fiscal 2005, the net change in non-cash items included a $7.4 million reduction in accounts payable and accrued liabilities and other liabilities, a $4.2 million decrease in customers' advances, and a $2.9 million increase in inventories. These items were offset by a $2.6 million reduction in accounts receivable and a $1.0 million increase in income tax payable during the quarter.

Investing Activities

The Company’s first quarter investing activities were as follows:

	First quarter ended	
	June 30, 2004 ($’000)	**June 30, 2003 ($’000)**
Net change in temporary investments	(4,972)	2,232
Purchase of capital assets	(4,366)	(1,599)
Proceeds on disposal of capital assets	793	74
Business acquisition	(63,554)	-
Cash and cash equivalents provided by (used for) investing activities	(72,099)	707

Héroux-Devtek acquired Progressive on April 1, 2004, for a total purchase price of $74.2 million (US $56.4 million). During the first quarter, the Company paid $63.6 million (US $48.3 million), representing payment of the basic purchase price, the acquisition of a new piece of specialized equipment and a portion of the transaction costs. An amount of $7.8 million (US $5.9 million) representing the tax impacts of the transaction will be paid in the second quarter.

Purchase of capital assets totalled $4.4 million in the first quarter and included $3.6 million for the Gas Turbine Components Division pursuant to the exercise of a purchase option for machinery and equipment under operating leases. The Company’s contractual obligations (off-balance-sheet financing) related to machinery and equipment under operating leases have been reduced accordingly.

Capital assets include $3.2 million of assets for resale related mainly to the closure of the Tampa and Metro operations last year.

Financing Activities

The Company's first quarter financing activities were as follows:

	First quarter ended	
	June 30, 2004 ($'000)	**June 30, 2003 ($'000)**
Increase in long-term debt	36,598	108
Repayment of long-term debt	(8,746)	(1,491)
Repurchase of common capital stock	-	(299)
Issuance of common shares	16,267	-
Other	(80)	(192)
Cash and cash equivalents provided by (used for) financing activities	44,039	(1,874)

On April 1, 2004, the Company drew $36.4 million (US $27.7 million) on its US Syndicated Evergreen Revolving Term Credit Facility to finance the acquisition of Progressive.

During the first quarter, the Company repaid $7.0 million on its Canadian Syndicated Evergreen Revolving Term Credit Facility. The outstanding remaining balance of $7.0 million due on this Term Credit Facility at June 30, 2004, will be repaid in the second quarter.

On February 24, 2004, the Company entered into a bought deal private placement, to finance the acquisition of Progressive. Pursuant to this private placement and in conjunction with the closing of the acquisition of Progressive, the Company, on April 1, 2004, issued 2,975,000 common shares for a cash consideration of $13.6 million, net of $1.0 million in fees and expenses. In addition, the Company's President and Chief Executive Officer and principal shareholder purchased 525,000 common shares for a total net cash consideration of $2.6 million through a concurrent private placement, on the same terms and conditions as the underwritten bought deal. (See Note 21 to the consolidated financial statements for the year ended March 31, 2004.)

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2004 and June 30, 2004:

Item	**Change ($ million)**	**Explanation**
Cash and temporary investments	(31.2)	See statement of cash flows
Accounts receivable	1.0	Due to the acquisition of Progressive, offset by a low business volume in the first quarter
Inventories	21.6	Due to the acquisition of Progressive ($14.7 million), and, to a lesser degree, to late deliveries at the Landing Gear Division
Capital assets	26.4	Due to: • Acquisition of Progressive ($26.5 million) • Purchase of capital assets ($4.4 million) • A higher U.S. exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries ($0.6 million) Net of: • Amortization ($4.2 million) • Disposal of capital assets ($0.9 million)
Other assets	(1.6)	Due to: • Capitalization of $2.0 million in transaction costs at March 31, 2004 related to the Progressive acquisition Partially offset by: • The net deferred loss on the interest rate swap agreement, recorded on April 1, 2004 pursuant to the implementation of AcG-13 (see under Changes in Accounting Policy, below)
Backlog, net	9.4	Represents the underlying value of the net backlog acquired following the acquisition of Progressive (see note 3 of the consolidated financial statements)
Goodwill	21.4	Mainly related to the acquisition of Progressive
Accounts payable and accrued liabilities	(0.8)	Reduction due to payment of transaction costs capitalized at March 31, 2004, to lower business volume offset by the acquisition of Progressive
Customers' advance	(4.2)	Represents unearned amounts received by the Landing Gear and Logistics & Defence division; these advances are liquidated based on units delivered to customers (see Note 10 to the consolidated financial

Item	Change ($ million)	Explanation
		statements dated March 31, 2004)
Income tax payable	10.0	Mainly due to the tax impacts related to the acquisition of Progressive
Long-term debt (including current portion)	28.8	Due to: • New long-term debt assumed to finance the acquisition of Progressive ($36.4 million) • Other new long-term debt ($0.2 million) • A higher U.S. exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries ($0.9 million) Net of: • Repayment of long-term debt ($8.7 million)
Capital stock	16.3	Represents the issuance of 3,500,000 common shares to finance the acquisition of Progressive for a total net cash consideration of $16.2 million, and 22,500 common shares for a total cash consideration of $0.1 million related to the exercise of stock options
Cumulative translation adjustment	0.6	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining U.S. subsidiaries
Retained earnings	(1.3)	See consolidated statement of retained earnings

The Company continues to enjoy a strong balance sheet, which puts it in an excellent position to benefit from the current economic challenges.

The Company's long-term debt-to-equity ratio was 0.65:1 on June 30, 2004 compared to 0.49:1 on March 31, 2004. At June 30, 2004, the balance sheet included cash and cash equivalents of $27.3 million compared to $58.6 million at March 31, 2004.

CHANGES IN ACCOUNTING POLICIES

Hedging Relationships

On April 1, 2004, the Company adopted Accounting Guideline 13, Hedging Relationships (“AcG-13”), which applies to all existing and new hedging relationships. AcG-13 provides additional documentation and designation requirements for hedge accounting and requires regular, periodic assessment of effectiveness. Derivatives that are economic hedges but that do not qualify for hedge accounting are recognized at fair value on the balance sheet, with changes in fair value recorded in earnings until they are designated as qualifying for hedge accounting.

As at April 1, 2004, derivative instruments used by the Company that previously qualified for hedge accounting continue to qualify for hedge accounting under AcG-13, except for the US $10.0 million interest rate swap agreement.

Interest Rate Swap Agreement

As at April 1, 2004, the Company recorded a deferred loss amounting to $727,000 for the interest rate swap agreement. Subsequent changes in the fair value of the interest rate swap agreement are recorded in earnings, and the deferred loss is amortized on an effective yield basis over the remaining life of the agreement.

On May 20, 2004, the interest rate swap agreement was designated for hedge accounting purposes and the change in its fair value since April 1, 2004 representing a gain of $487,000, net of the amortization of the deferred loss recorded as at April 1, 2004. This gain is included in the Company's financial expenses.

As at June 30, 2004, the net deferred loss for an amount of $481,000 is included in the Company's other assets and will be amortized over the remaining life of the interest rate swap agreement, which matures on August 2, 2007.

Forward Foreign Exchange Contract

As part of its adoption of AcG-13, the Company revised its accounting policies regarding foreign currency transactions. Monetary items in foreign currencies included in current assets and liabilities are translated into Canadian dollars at the exchange rate prevailing at year-end. For accounts receivable that qualify for hedge accounting, unrealized gains and losses are included in the Company's balance sheet under "other receivables" or "accounts payable and accrued liabilities". At June 30, 2004, the Company's other receivables included $419,000 for accounts receivable that qualified for hedge accounting. Revenues and expenses in foreign currencies not designated as hedged items are translated using the average exchange rates prevailing during each month of the year. Translation gains and losses are included in the statement of income. Foreign exchange translation gains and losses on foreign currency-denominated derivative financial instruments use to hedge anticipated US dollar-denominated sales are recognized as an adjustment of the revenues when the sale is recorded.

Asset Retirement Obligations

In March 2003, the CICA issued a new section in the CICA Handbook, Section 3110, *Asset Retirement Obligations*. This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over its useful life.

Effective April 1, 2004, the Company adopted this change in accounting policy retroactively.

The Company's asset retirement obligations essentially represent environmental rehabilitation costs related to the Company's manufacturing plant in Longueuil. These costs were estimated at $4.7 million and provided for in prior years, and are included in the Company's accounts payable and accrued liabilities at March 31, 2004.

At June 30, 2004, the impact of this new accounting policy on the Company's balance sheet was as follows:

	($'000)
▪ Increase in capital assets	$1,582
▪ (Increase) in accumulated amortization of capital assets	($1,582)
▪ (Increase) in retained earnings	($178)
▪ (Decrease) in future income taxes included in current assets	($96)
▪ Decrease in accounts payable and accrued liabilities	$274

This new accounting policy will also have a negative impact of $200,000 on the Company's results for each of fiscal years 2005 and 2006, representing additional financial expenses (non-cash items) to be capitalized to the Company's assets retirement obligations.

First Certification of Disclosure by the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO")

In early 2004, the Canadian Securities Administrators released its final rules for Audit Committees, CEO and CFO certifications and auditor oversight. The Company's management and Audit Committee are in the process of developing an implementation plan that can span up to the next nine months and more.

Pursuant to these new rules, the Company's CEO and CFO have released their first certification of disclosure in the Company's interim filings for the first quarter ended June 30, 2004.

Integration of Progressive

The Company has established a plan to integrate Progressive, its new business unit acquired on April 1, 2004. The plan includes the implementation of a complete computerized business information system, scheduled for completion by the end of the current fiscal year. There are risks and uncertainties related to this integration and implementation that could have a material adverse effect on the financial information reported during the transition period. The Company has taken steps to minimize such risks and uncertainties, including in particular an in-depth review of its financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments that have 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, 2004.

- Reliance on large customers
- Operational risk
- 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

Additional Information and Continuous Disclosure

This MD&A was prepared as of July 29, 2004. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.