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:

	Quarter ended September 30,				Six months ended September 30,			
Segment	2008	2007	VARIANCE		2008	2007	VARIANCE	
	($000)	($000)	($000)	%	($’000)	($’000)	($’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:

	Quarter ended September 30,				Six months ended September 30,			
Product	2008	2007	VARIANCE		2008	2007	VARIANCE	
	($’000)	($’000)	($’000)	%	($’000)	($’000)	($’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,		Six months ended September 30,	
	2008	2007	2008	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,		Six months ended September 30,	
	2008 ($'000)	2007 ($'000)	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 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

Item	Change ($ millions)	Explanation
		($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.