Management Discussion and Analysis of Financial Position and Operating Results

The purpose of this management discussion and analysis (MD&A) is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. ("Héroux-Devtek" or "the Company") changed between March 31, 2003 and March 31, 2004. It also compares the operating results and cash flows for the 12-month period ended March 31, 2004 to those for the same period the previous year.

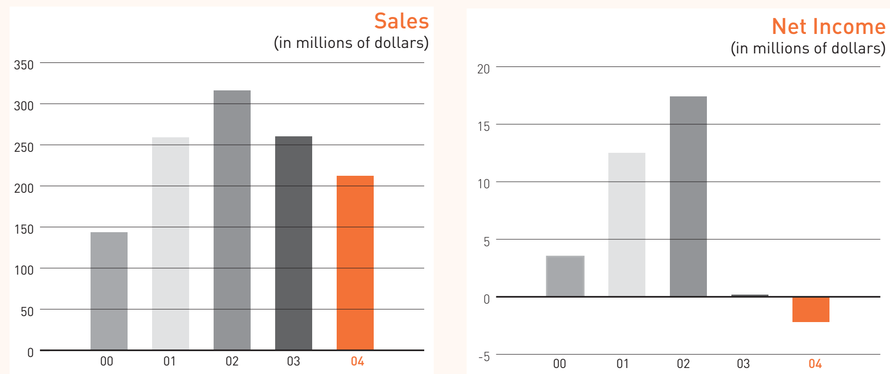
This analysis should be read in conjunction with the audited consolidated financial statements dated March 31, 2004. Héroux-Devtek's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. 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 U.S. standard setters. Some of these factors are further discussed under Risks and Uncertainties in this MD&A.

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 the aerospace and industrial sectors. Its primary products are landing gear, aircraft structural components and components for aircraft and industrial gas turbines.

The Company was founded in 1942 as Héroux Machine Parts Limited, and later changed its name to Héroux Inc. The Company became public in 1986. In 2000, it acquired Devtek Corporation and the two entities were merged to form Héroux-Devtek Inc., one of the largest second-tier manufacturers in the Canadian aerospace industry. On April 1, 2004, subsequent to the 2004 financial year-end, the Company acquired Progressive Incorporated ("Progressive"), a privately-held Texas-based manufacturer of large structural components for military aircraft. This transaction boosts its aerostructure capability and opens access to the important military aerospace sector.

Héroux-Devtek serves two main market segments: aerospace & defence, and the industrial markets. The Company provides the commercial aerospace market with landing gear, airframe structural components and aircraft engine components for business jets and regional jets (less than 100 passengers) and large commercial jets (more than 100 passengers). It also manufactures military aircraft landing gear and supplies parts and repair and overhaul services for military aircraft landing gear. Products for the defence side of the market consist of small arms and related equipment provided to the governments of Canada and other NATO countries.

Héroux-Devtek's main product for the industrial market is large components for gas turbines that generate electricity, with its largest customer being The General Electric Company. It also sells precision components for other industrial applications. The Company's sales by segment are as follows:

	2004	2003
Aerospace & Defence	89.7 %	87.9 %
Industrial	10.3 %	12.1 %
	100.0 %	100.0 %

Héroux-Devtek sells mainly to original equipment manufacturers (OEMs) such as GE, Bombardier and Boeing, and into the aftermarket, where its main customers are the U.S. Air Force and Navy. In fiscal 2004, sales to these main customers represented approximately 63% of the Company's total sales.

Héroux-Devtek is structured around four divisions: Landing Gear, Aerostructure, Gas Turbine Components, and Logistics & Defence. The Landing Gear Division designs, manufactures, repairs and overhauls landing gear and has built a strong and recognized design engineering team. The Aerostructure Division manufactures very large airframe components for the commercial and military aerospace market, with its military capabilities considerably enhanced by the Progressive acquisition on April 1, 2004. Landing Gear and Aerostructure Divisions function under a single management team to take advantage of operating and administrative synergies. The Gas Turbine Components Division manufactures aircraft engine components and large components for the power generation and other industrial markets. Logistics & Defence manufactures small arms for the defence market. Each division is assigned responsibility for its own market development and operating results in order to foster entrepreneurship and employee involvement. The Company's corporate head office provides support to the divisions and retains responsibility for such areas as global strategic development, financing, legal counsel, human resources and public relations.

Business Strategy

Héroux-Devtek's business strategy is to position itself as a key supplier for its customers in the three pillars of its business: landing gear, aerostructure and gas turbines. For the Company, being a key supplier means providing not only manufactured components but also other services such as design, assembly and program management in order to become a complete service provider and allow customers to focus on their core business. In order to achieve this, the Company aims to develop management and technical expertise so as to add value to products at competitive costs. It also seeks to grow to attain a critical mass in each of its market segments, while maintaining a solid financial position.

In practice, this translates into:

- A focused factory approach, with each plant specializing in a specific type of component;
- Standard, compatible information systems across the Company;
- Migration of technical and managerial know-how between divisions;
- A lean manufacturing approach in all its plants;
- Revenue stability through long-term agreements with its customers.

Héroux-Devtek seeks growth externally through acquisitions that can be easily integrated into its existing operations or that bring complementary technology, leading to greater added value. Internally, the Company aims to:

- Develop valued-added, proprietary products through design engineering;
- Establish or enhance its presence in certain product markets, such as the after-market repair and overhaul of commercial and military landing gear, design and manufacturing of small landing gear, and large structural assemblies for commercial and military aircraft OEMs.
- Diversify the customer base for its existing product lines, which generally means finding new OEM customers for its landing gear, airframe structural and aircraft engine components.

Key Performance Indicators

Héroux-Devtek measures its performance on a Company-wide basis through key financial indicators that include sales, gross profit, EBITDA, operating income, working capital, long-term-debt-to-equity ratio, and earnings per share. These items are discussed in the appropriate sections below.

Management also tracks the performance within each division through certain indicators related to operations. These include Return On Net utilized Assets ("RONA"), backlog, value-added as a percentage of sales, percentage of on-time deliveries, non-quality costs, attainment of cost reduction targets, and capacity utilization.

Market Trends

In the aerospace industry, there is a broad trend toward OEMs outsourcing manufacturing activities. OEMs are buying more components from increasingly fewer suppliers. They are tending to buy kits for assembly and large sub-assemblies, and to reduce their manufacturing activities in order to concentrate on design and marketing. OEMs are also tending to increase the sourcing of their products in lower-cost countries. This is expected to be an ongoing trend.

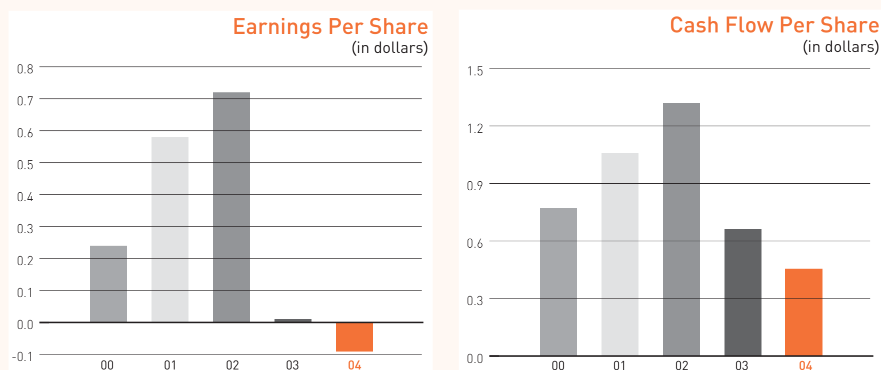
Within these broader trends, the commercial aerospace market has been in a downturn since 2001. Large aircraft orders continued to decline in calendar year 2003. At present, only two companies manufacture large commercial jets, namely Boeing and Airbus. In 2003, Boeing deliveries fell 26% to 281 aircraft from 381 units in 2002, while Airbus deliveries held fairly steady at 305 aircraft. Commercial aerospace deliveries are expected to remain fairly flat in 2004 and 2005, with renewed demand beginning in 2005 and delivery increases in 2006. Parts suppliers such as Héroux-Devtek should begin to see the impact of the upturn beginning in calendar year 2005.

The trend toward regional aircraft as a necessary part of any major airline restructuring crystallized in 2003. Increased use of regional jets is expected to translate into stable volumes over the coming years, as this aerospace segment did not experience the same strong decline as other segments in recent years. However, once airline traffic recovers, the trend may shift toward larger aircraft such as 100-seaters. There are virtually only two players in the regional jet market, Embraer and Bombardier.

In the interim, traffic on regional airlines continued to grow. In 2003, air traffic (measured in revenue passenger miles) grew 29% while the air traffic capacity (measured in available seat miles) increased by 23%.

Corporate jet deliveries declined by 22% from 639 units in 2002 to 499 in 2003. Analysts expect this market to increase modestly in 2004.

The military market remains strong. The total U.S. department of defence's budget request made public on February 2, 2004, has planned an increase of US$112.4 billion for the period extending between 2004 to 2009 hence increasing the actual budget, from US$375.3 billion in 2004 to US$487.7 billion in 2009, including



US$114.0 billion for procurement. Significant growth is expected to come from emerging programs for next generation aircraft, including the Joint Strike Fighter (JSF) and F-22 programs. There continues to be growing interest in unmanned aircraft vehicles ("UAV"), and more specifically in unmanned combat aircraft vehicles ("UCAV") as replacements for fighter aircraft. The U.S. military is also contemplating replacing its aging fleet of tanker aircraft.

With the ongoing downturn in the aerospace industry, competition continues to be fierce at the supplier level. While this puts pressure on margins, it also leads to supplier consolidation. Given its size and financial stability, Héroux-Devtek stands to benefit from this consolidation.

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.

Overall, the strength of the Canadian dollar has been a significant factor for Héroux-Devtek in the past two years. The U.S. dollar is expected to slip farther against other currencies in the current year, possibly including the Canadian dollar. This would negatively affect Héroux-Devtek's results, as a substantial portion of the Company's sales is in U.S. dollars while it reports in Canadian currency.

Major Achievements in 2003-2004

- Progressive Incorporated acquisition

  In February 2004, Héroux-Devtek entered into an asset purchase agreement and plan for merger to acquire privately-held Progressive Incorporated (along with the net assets of Promilling LP) ("Progressive"), a Texas-based manufacturer of large structural components for military aircraft original equipment manufacturers ("OEMs"). The transaction, which was finalized on April 1, 2004, subsequent to year-end, strengthens the Company's Aerostructure Division by providing access to the important military aerospace sector (including the F-35 Joint Strike Fighter (JSF) program) and increasing critical mass in the manufacture of sub-assemblies.

- $140.0 million U.S. Air Force repair and overhaul contract

  In August 2003, the U.S. Air Force renewed the Landing Gear Division's repair and overhaul services contract. The new contract, which is firm for one year with options to renew for the next nine years, confirms the Company's status as a key supplier of aerospace products to the U.S. Air Force, primarily in the area of landing gear repair and overhaul services.

- $20.6 million B777 manufacturing contract

  In September 2003, Héroux-Devtek announced that Vought Aircraft Industries had renewed its B777 manufacturing contract with the Landing Gear Division. Including options, the contract is worth an estimated $20.6 million, with deliveries scheduled until 2010.

- $3.5 million industrial component manufacturing contract with Caterpillar

  In September 2003, Caterpillar chose Héroux-Devtek to manufacture components for its tractor drive systems. This contract represents new business for the Gas Turbine Components Division, as well as diversification into a new, high-potential market in the industrial sector.

- $17 million J-UCAS long-term supply agreement

  In September 2003, The Boeing Company, Phantom Works signed a long-term agreement making Héroux-Devtek's Landing Gear Division the sole source of supply for the landing gear system for the Air Force portion of the Boeing X-45C Joint Unmanned Combat Air System (J-UCAS) Program, and subsequent X-45 models for the Air Force. The $17.0 million basic contract could be worth up to an additional $50.0 million should various options be exercised.

- $6.6 million UAV design and development contract

  In September 2003, the Landing Gear Division was awarded a contract for the design and development of the landing gear for Northrop Grumman's next generation of Global Hawk Unmanned Air Vehicle (UAV) for the U.S. Air Force. This increases the Company's chances of becoming the leading supplier of landing gear for UAVs and UCAVs, a high-potential market.

- $21.6 million in new gas turbine contracts

  In September 2003, Héroux-Devtek' Gas Turbine Components Division was selected by GE Aircraft Engines to manufacture new components for CF34, CFM56, CF6, T700, LM2500 and CFE738 engines. The contract deliveries began in fiscal 2004 and extend through 2007.

- $10.5 million F-35 Joint Strike Fighter (JSF) supply contract

  In February 2004, the Aerostructure Division was chosen by Lockheed Martin to manufacture 43 different structural components while the Landing Gear Division won responsibility for engineering, development and manufacturing of door lock assemblies. The contract is estimated at $10.5 million with a potential extension to a maximum of $99.0 million through 2026.

- Boeing Preferred Supplier certification

  In August 2003, Boeing certified Héroux-Devtek as a "Preferred Supplier". The certification recognizes that the Company has a management system and philosophy that meet Boeing requirements, and culminates a three-year effort to maintain a high level of quality and on-time delivery for all products delivered throughout the Boeing facilities.

- Share buyback program

  In September 2003, the Toronto Stock Exchange approved the Company's program to purchase for cancellation purposes a maximum of 1,172,772 common shares representing approximately 5% of the Company's issued and outstanding shares. This program is the follow-up to the previous year's program to repurchase up to 1,222,195 common shares for cancellation purposes. In fiscal 2004, the Company repurchased 143,100 common shares at an average price of $4.03 under the program, for a total cash consideration of $0.6 million.

Selected Annual Financial Information

The following table presents selected financial information for the past three financial years:

Years ended March 31

($'000, except per share data)	2004	2003	2002
Sales	**213,209**	260,631	316,280
Restructuring charges and goodwill impairment, net of income tax recovery	**(694)**	(6,467)	–
EBITDA	**12,489**	25,543	42,922
Net income (loss)	**(2,212)**	154	17,424
Earnings (loss) per share ($):			
Basic	**(0.09)**	0.01	0.72
Diluted	**(0.09)**	0.01	0.72
Total assets	**283,054**	289,067	299,637
Long-term debt	**59,464**	63,650	59,565
Cash and temporary investments	**58,560**	52,972	55,966

The Company's EBITDA is calculated as follows:

Years ended March 31

($'000)	2004	2003	2002
Net income (loss)	**(2,212)**	154	17,424
Goodwill amortization	**–**	–	1,344
Income taxes (recovery)	**(2,019)**	(281)	10,098
Restructuring charges and goodwill impairment	**1,052**	9,177	–
Financial expenses	**1,791**	1,986	2,228
Amortization	**13,877**	14,507	11,828
EBITDA	**12,489**	**25,543**	**42,922**

The reduced sales business volume and the restructuring charges related to the closing of the Tampa facilities and the transfer and integration of the Tampa operations into the Cincinnati operations were the primary factors behind the lower EBITDA and net income for 2003. See under Results of Operations below and the MD&A for fiscal 2003. A further reduction in sales business volume, the strengthening of the Canadian dollar and the integration of operations entailing three plant closures (Tampa, DALS and Metro) negatively impacted EBITDA and net income in fiscal 2004. See Results of Operations below.

RESULTS OF OPERATIONS

Consolidated Sales

Consolidated sales for the year ended March 31, 2004 were $213.2 million, down 18.2% from sales of $260.6 million for fiscal 2003. The stronger Canadian dollar accounted for 5.9% or $15.5 million of this sales' decrease, including those covered by forward foreign exchange contracts.

Sales for the Company's various divisions were as follows:

Division	2004	2003	% Change
	($'000)	($'000)	
Landing Gear	127,356	161,252	(21.0)
Aerostructure	22,983	23,986	(4.2)
Sub-total	**150,339**	**185,238**	**(18.8)**
Gas Turbine Components	42,339	52,486	(19.3)
Logistics & Defence	20,531	22,907	(10.4)
Total	**213,209**	**260,631**	**(18.2)**

Landing Gear and Aerostructure

Landing Gear

Sales for the division were $127.4 million compared to $161.3 million last year. The stronger Canadian dollar accounted for a decrease of $7.6 million or 4.7% in overall sales, including those covered by forward foreign exchange contracts.

Military sales for the division declined 21.9% year over year to $61.1 million, mainly due to reduced demand under the KC-135R program, completion of the P-3 landing gear retrofit program for the U.S. Navy, and a drop in military repair and overhaul deliveries resulting from lower productivity. Manufacturing-process reengineering initiatives introduced at the end of the third quarter succeeded in increasing productivity in the Repair and Overhaul sector by about 30% by year-end, and are expected to generate further improvement in this sector in fiscal 2005.

Commercial landing gear sales fell by 20.2%, mainly due to the completion of the DALS spare parts contracts for out-of-production aircraft, persistent weak demand for large civil aerospace products, and completion of a large contract for helicopter parts manufactured at the Laval plant. These factors were somewhat offset by growth in engineering sales to $6.0 million from $3.5 million last year, related to military programs being carried out by commercial customers.

The weighting of landing gear sales for 2004 is as follows:

	2004	2003	% Change
	($'000)	($'000)	
Military	61,079	78,239	(21.9)
Commercial	66,277	83,013	(20.2)
Total	**127,356**	**161,252**	**(21.0)**
Manufacturing	94,152	122,027	(22.8)
Repair and overhaul	33,204	39,225	(15.3)
Total	**127,356**	**161,252**	**(21.0)**

In fiscal 2004, Boeing awarded the Landing Gear Division "Preferred Supplier Certification", placing Héroux-Devtek on an envied list of suppliers to the world's largest aircraft manufacturer.

In the fourth quarter of fiscal 2004, the division posted strong sales of $36.7 million, 39.2% more than the previous quarter following the recovery of a substantial portion of the late deliveries seen in the third quarter. Given its backlog and the current state of the industry, the Landing Gear Division expects its business volume to remain essentially unchanged in fiscal 2005.

Aerostructure

At $23.0 million, sales for the division were substantially the same as last year's sales of $24.0 million. The Aerostructure Division faced several challenges during the year that prevented it from capitalizing on its potential. These included the introduction of new manufactured parts for regional and business jet programs, which entailed certain operating inefficiencies. The transfer of the Metro operations to the main Dorval facility during the year took longer than expected and further impacted on the division's potential to increase its market share and benefit from unused capacity. At year-end, the capacity utilization of the Dorval operations remained at about 50%.

On April 1, 2004, Héroux-Devtek boosted its Aerostructure activities through the above-mentioned acquisition of Progressive. The particulars of the acquisition are further discussed under Subsequent Events in the Liquidity and Capital Resources - Financing Activities section below and note 21 to the consolidated financial statements. As a result of this acquisition, the business volume of the Aerostructure Division is expected to increase by approximately $50.0 million in fiscal 2005.

Gas Turbine Components

During fiscal 2004, the division closed its Tampa plants and consolidated its operations at its Cincinnati facilities. The transition plan announced in the fourth quarter of fiscal 2003 was completed on June 30, 2003. A discussion of the charges incurred for the integration is included under Restructuring Charges and Goodwill Impairment below and in Note 3 to the consolidated financial statements.

The division's results nonetheless continued to reflect the severe reduction in industrial gas turbine demand announced last year. Sales fell to $42.3 million from $52.5 million a year earlier, as shown below.

	2004	2003	% Change
	($'000)	($'000)	
Aerospace	20,296	21,051	(3.6)
Industrial Gas Turbine	17,095	26,891	(36.4)
Other Industrial	4,948	4,544	8.9
Total	42,339	52,486	(19.3)

Of the total 19.3% decline, 11.4% can be attributed to the stronger Canadian dollar.

The 36.4% drop in industrial gas turbine sales translates into 26.9% when expressed in U.S. dollars. Industrial gas turbine demand appeared to bottom out during the year, with sales picking up slightly in the fourth quarter.

Sales for the aerospace segment rose by 10.9% in U.S. dollars, reflecting an increase in the Company's share of the GE aircraft engine market. Other industrial sales also increased on the strength of new sales to Caterpillar developed during the year.

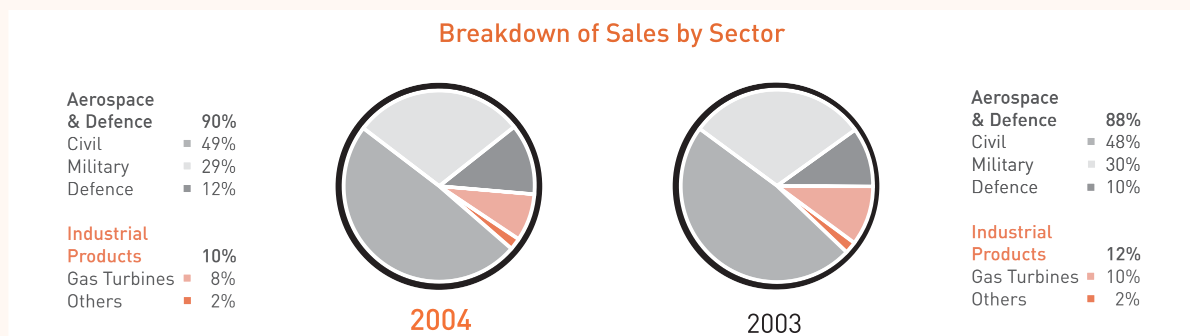
Higher aircraft engine sales and new industrial customers are expected to generate an increase of approximately 25% in the division's sales for the current year.

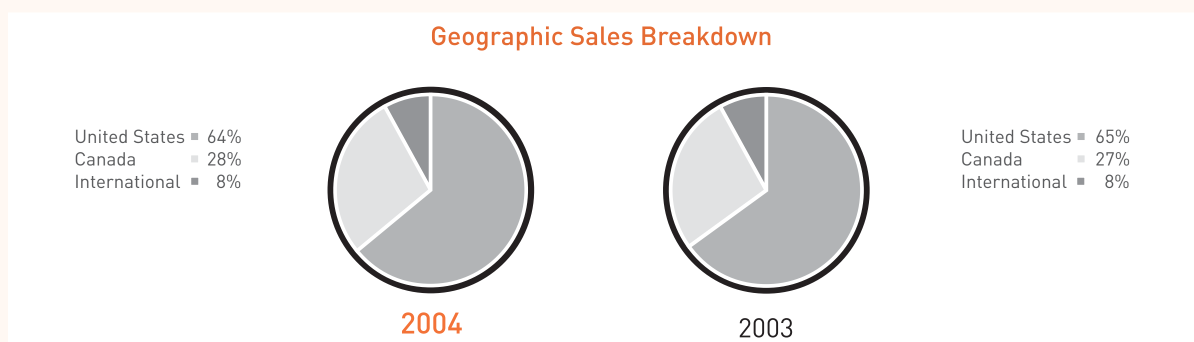
Logistics & Defence

The division reported sales of $20.5 million for fiscal 2004, down 10.4% from $22.9 million last year. The higher sales for fiscal 2003 were due to a special order from the Norway Special Forces.

As expected, the Logistics & Defence Division posted strong fourth quarter sales of $8.2 million. If expected orders materialize, sales could rise by 20% to 25% in fiscal 2005.

Breakdown of Sales by Sector





Sales by Segment

The Company's sales by segment and destination were as follows:

Segment	2004	2003	% Change
	($'000)	($'000)	
Aerospace & Defence			
Civil	105,013	123,982	(15.3)
Military	61,770	78,784	(21.6)
Defence	24,383	26,430	(7.7)
Sub-total	**191,166**	229,196	(16.6)
Industrial			
Gas Turbine Components	17,095	26,891	(36.4)
Other Industrial	4,948	4,544	8.9
Sub-total	**22,043**	31,435	(29.9)
Total	**213,209**	260,631	(18.2)

Destination	2004	2003
Canada	27.6 %	27.3 %
US	64.3 %	64.7 %
International	8.1 %	8.0 %
	100.0 %	100.0 %

Gross Profit

Expressed as a percentage of sales, consolidated gross profit decreased from 12.4% in fiscal 2003 to 9.1% in fiscal 2004.

Fiscal 2004 was a year of rationalization and consolidation during which management took steps to reduce its fixed manufacturing overhead costs by closing three of its plants (Tampa, Metro and DALS) and integrating the related operations into its other facilities. These initiatives were taken early in the year in response to the new economic environment in the civil aerospace and industrial markets.

Nevertheless, gross profit remained depressed overall. This was primarily due to lower sales, which resulted in increased unabsorbed manufacturing overhead costs. The other major factor was the stronger Canadian dollar, which accounted for 2.2% of the total 3.3% drop in gross profit for the year.

Landing Gear and Aerostructure

Landing Gear

Gross profit for the Landing Gear Division, expressed as a percentage of sales, decreased by 5.0%. While the stronger Canadian dollar accounted for a decline of 3.7%, lower sales and an unfavourable sales mix also resulted in a higher level of unabsorbed fixed manufacturing overhead costs. These factors were somewhat offset by a $1.3 million research and development tax credit recorded against cost of sales.

It should also be noted that last year's gross profit was 0.9% higher than it would otherwise have been because the Company wrote off $1.5 million in development cost support program funding consisting of non-interest bearing debt, as the repayment conditions had not been met. This write-off was fully included under cost of sales as it was related to assets that had already been fully depreciated.

Aerostructure

Aerostructure gross profit as a percentage of sales declined by 7.3%, due mainly to lower sales and operating inefficiencies. The division is currently operating at approximately 50% of production capacity, which translates into a high level of unabsorbed fixed manufacturing overhead costs.

During the year, the Aerostructure Division closed its Metro plant and consolidated its operations at its new Dorval facility, leading to savings in fixed manufacturing overhead costs and improved gross profit.

As noted above, the acquisition of Progressive will boost the sales volume of the Aerostructure Division. It will also help improve the division's gross profit, and is expected to contribute $0.12 to $0.15 per share to earnings in fiscal 2005. The division is expected to benefit from shared best manufacturing practices and procurement between its operations.

Gas Turbine Components

Gross profit as a percentage of sales held steady at the same level as last year for the Gas Turbine Components Division. The Cincinnati consolidation only began to have an impact in the second half of the year, as both locations were operated in parallel during the transition period, resulting in significant unabsorbed overhead costs in the first half of the year. In the last half of the year, the division's gross profit as a percentage of sales improved by more than 10% as a direct result of the consolidation.

Nevertheless, the division is still posting low gross profits, due to the 36.4% drop in industrial gas turbine sales and the resulting unfavourable product mix. Operating inefficiencies arising from the transfer of the Tampa operations to Cincinnati were also a factor.

While the division did not return to profitability in the fourth quarter as expected, operating losses were smaller than in the third quarter. The 25% increase in sales expected in fiscal 2005 should result in US $40.0 million in sales for the division. This, combined with improved operating efficiency in the wake of the Cincinnati consolidation, should return the division to profitability in the second half of the current fiscal year.

During the year, the Gas Turbine Components Division incurred non-recurring expenses for the transfer of know-how and workload from Tampa to Cincinnati. These one-time charges of $1.1 million are shown as a separate item on the income statement. (See also Note 3 to the consolidated financial statements and Restructuring Charges and Goodwill Impairment below.)

Logistics & Defence

Gross profit as a percentage of sales for the Logistics & Defence Division increased by 5.3% due to better manufacturing processes and reengineering initiatives introduced last year. Strong fourth quarter sales were also a factor, enabling the division to better absorb its manufacturing overhead costs.

Restructuring Charges and Goodwill Impairment

In the third quarter of 2002-2003, in light of the prevailing economic environment in the United States, a severe reduction in the industrial gas turbine market and the resulting manufacturing capacity utilization of its gas turbine operations, the Company decided to close its gas turbine operation in Tampa and move this production to its Cincinnati operation. A transition plan was put in place, and the Company recorded $9.2 million in restructuring charges and goodwill impairment in fiscal 2003 to provide for the write-down of certain capital assets to be disposed of, a provision for unused leased equipment and other related direct expenses required by the plan.

For the year ended March 31, 2004, the Company incurred $1.1 million in non-recurring expenses for the transfer of know-how and workload from Tampa to Cincinnati. Under GAAP, the charges referred to above could not be included in the restructuring charges taken last year. These one-time expenses, recorded as restructuring charges, include relocation expenses, retention bonuses, training expenses related to the operations in Cincinnati, and other expenses related to the maintenance of the unused production facility in Tampa.

Selling and Administrative Expenses

As a percentage of sales, fiscal 2004 selling and administrative expenses were up slightly from last year, as shown below:

($'000)	2004	2003
Selling and administrative expenses	20,785	21,339
% of sales	9.7	8.2

Selling and administrative expenses are generally relatively fixed. However, for fiscal 2004, they include $146,000 in expenses for the granting of stock options compared to $81,000 in fiscal 2003, as well as $450,000 in professional fees related to a potential acquisition that did not materialize. They also cover a $408,000 loss on U.S. exchange from the translation of foreign currency monetary items included under current assets and liabilities but not covered by forward foreign exchange contracts.

Operating Income

The table below shows operating income for the Company's two market segments. Operating income does not include the one-time restructuring charge and goodwill impairment amounting to $1.1 million and $9.2 million in fiscal 2004 and 2003, respectively.

	2004			2003		
	Sales ($'000)	Operating Income (loss) ($'000)	Operating Income (loss) (% of sales)	Sales ($'000)	Operating Income (loss) ($'000)	Operating Income (loss) (% of sales)
Aerospace & Defence	191,166	2,881	1.5	229,196	17,625	7.6
Industrial	22,043	(4,269)	(19.4)	31,435	(6,589)	(21.0)
Total	**213,209**	**(1,388)**	**(0.7)**	**260,631**	**11,036**	**4.2**

Operating income for the Aerospace & Defence sector fell from 7.6% of sales in 2003 to 1.5% in 2004. Operating income declined in both the civil and military aerospace segments, although defense operating income rose slightly for the year.

Operating loss for the Industrial sector decreased by 1.6% in fiscal 2004. Gas turbine operating loss slipped slightly again during the year, but was compensated for by improvement in other industrial segments, essentially reflecting new business for Caterpillar tractors.

Overall, operating income declined 4.9% from 4.2% in fiscal 2003 to an operating loss of 0.7% in 2004.

Financial Expenses

In 2004, financial expenses amounted to $1.8 million compared to $2.0 million last year. Financial expenses are net of interest revenue of $1.1 million for the year, compared to $1.3 million in fiscal 2003.

Income Taxes

The income tax recovery for fiscal 2004 represents 47.7% of the loss before income taxes. The recovery amount includes $1.3 million in non-taxable research and development tax credit recorded during the year for the Landing Gear Division, which accounts for 11.2% of the income tax recovery rate. Last year, the income tax recovery amounted to $281,000 and included a favourable future tax adjustment of $600,000. Last year's income tax recovery rate was also impacted by the non-deductibility of $1.2 million in goodwill impairment related to the restructuring charges.

Net Income

For fiscal 2004, the Company posted a net loss of $2.2 million, as shown in the table below.

	2004 ($'000)	2003 ($'000)
Net income (loss) before restructuring charges and goodwill impairment	(1,518)	6,621
Restructuring charges and goodwill impairment, net of income tax recovery	(694)	(6,467)
Net income (loss)	**(2,212)**	**154**
Earnings (loss) per share	**(0.09)**	**0.01**

Earnings (loss) per share figures are based on weighted averages of 23,437,928 common shares outstanding in 2004 and 24,212,864 in 2003.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2004, the Company had cash and cash equivalents of $58.6 million, compared to $53.0 million at March 31, 2003.

In February 2004, the Company extended its $100.0 million Syndicated Evergreen Revolving Credit Facilities on a secured basis. The Company can use these facilities to support its operations, facilitate future acquisitions or manage its foreign exchange risk. At March 31, 2004, $34.3 million was utilized on the credit facilities (see Note 11 to the consolidated financial statements).

Operating Activities

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

	2004 ($'000)	2003 ($'000)
Cash flow from operations	**10,608**	16,003
Net change in non-cash items related to operations	**10,563**	733
Cash flow provided by operating activities	**21,171**	**16,736**

In 2004, cash flow from operations was negatively impacted by the $2.4 million difference in net income year-over-year. Last year's cash flow from operations was also higher due to $5.1 million in non-cash items included in the restructuring charges and goodwill impairment, offset by the write-off of $1.5 million in non-interest-bearing loans.

In 2004, the net change in non-cash items related to operations consisted mainly of a $6.1 million increase in customers' advances related to contracts for the Landing Gear and Logistics & Defence divisions, a $4.8 million decrease in accounts receivable arising from lower sales, and a $2.2 million reduction in income tax receivable recovered by the Gas Turbine Components Division. These amounts were offset by a $3.5 million decrease in accounts payable and accrued liabilities. These items are included under Consolidated Balance Sheets below and in Note 16 to the consolidated financial statements.

Investing Activities

Investing activities provided cash flow of $32.9 million in 2004, having used $17.5 million last year.

Purchase of capital assets totalled $15.2 million for the year, net of $1.4 million in capital leases, compared to $23.5 million last year, net of $8.1 million in capital leases. This total included $5.8 million invested by the Landing Gear Division, including $4.0 million to maintain its production capacity. A further $4.1 million was invested in the Aerostructure Division, mainly to complete the installation of a new, large, specialized piece of equipment and to acquire a 5-axis, high-speed machining centre in the fourth quarter. Finally, $5.2 million was invested in the Gas Turbine Components Division, including $3.5 million in early purchase options exercised for machinery and equipment under operating leases.

The Company withdrew the $45.2 million invested in temporary investments with a term of over three months and used these funds mainly in the acquisition of Progressive, finalized on April 1, 2004. Last year, temporary investments used cash flow of $2.9 million during the year.

In 2004, the Company sold certain surplus capital assets at its Tampa plant for net proceeds of $1.5 million. Surplus capital assets with a book value of $3.4 million representing land, buildings, machinery and equipment from the Tampa and Metro operations remain up for sale.

The Company expects to invest approximately $15.0 million to purchase capital assets in fiscal 2005.

Financing Activities

During the year, the Company renewed its Syndicated Evergreen Revolving Credit Facilities allowing it to borrow up to $100.0 million on a secured basis. At March 31, 2004, $34.3 million of the credit facilities was utilized, compared to $36.5 million last year.

During the year, the Company repurchased 143,100 of its common shares at an average price of $4.03 per share for a total cash consideration of $579,000. This repurchase was made pursuant to the Company's share buyback program extending from August 2003 to August 2004, and an earlier program extending from August 2002 to August 2003. In fiscal 2003, the Company repurchased a total of 934,278 common shares under the initial program, for a total cash consideration of $4.5 million. See Note 13 to the Consolidated Financial Statements for more details on the share buyback programs.

Pension Plans

Some of the Company's employees are covered by defined benefit pension plans. The funded status of these plans is as follows:

	March 31, 2004 ($'000)	March 31, 2003 ($'000)
Deficit	**12,576**	12,189
Accrued liabilities	**6,836**	**6,414**

The pension plan deficit of $12.6 million at March 31, 2004 includes $9.0 million in pension plan obligations related to unregistered pension plans, primarily for ex-executives of the Company, that do not require funding of the deficit. Funding occurs as pension benefits are paid to the retired executives.

Subsequent Events

On April 1, 2004, the Company concluded the previously mentioned acquisition of Progressive, a Texas-based manufacturer of large structural components for the military sector, with current annual sales of approximately $50.0 million. The purchase price was $74.2 million (US$56.4 million), including $14.7 million to cover tax impacts, new equipment and transaction costs. In conjunction with the purchase of Progressive, the Company closed private placements of subscription receipts, issuing 3.5 million common shares at $4.90 for net cash consideration of $16.2 million (see Note 21 to the consolidated financial statements).

The impact of the financing and the acquisition on the Company's financial position is as follows:

	$ million
Use of Syndicated Evergreen Revolving Credit Facilities	36.4
Common share issue	16.2
Cash	21.6
	74.2

On a pro forma basis, the impact of the transactions on the Company's financial position is as follows:

	Actual March 31, 2004 ($ million)	Pro forma March 31, 2004 ($ million)
Cash	**58.6**	**37.0**
Long-term debt, including current portion	**63.5**	**99.9**
Shareholders' equity	**120.3**	**136.5**
Financial ratios:		
• Working capital	**1.87**	**1.76**
• Long-term-debt-to-equity	**0.49**	**0.70**
• Long-term-debt-less-cash-to-equity	**0.01**	**0.43**

Company management intends to repay approximately $15.0 million of the utilized portion of the Evergreen Syndicated Revolving Credit Facilities within the first six months of the current fiscal year. Management considers the Company's current liquid assets and available credit facility adequate to support its operations and manage its foreign exchange risk.

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2004 and March 31, 2003:

Item	Change ($ million)	Explanation
Cash and temporary investments	5.6	See statement of cash flows
Accounts receivable	(4.8)	Essentially related to the reduced business volume discussed above
Income tax receivable	(2.2)	Collection of an income tax recovery for the Gas Turbine Components Division; represents the recovery of tax benefits related to the carry-back of tax losses to prior years
Inventories	(2.9)	Related to reduced business volume
Capital assets	(3.6)	Due to: • Amortization of capital assets ($13.9 million) • A lower U.S. exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries ($2.6 million) • Write-off of surplus capital assets accounted for as part of the restructuring charges ($2.3 million) Net of: • Purchase of capital assets ($15.2 million)
Other assets	1.9	Due to: • Recording of certain transaction costs accrued at March 31, 2004 related to the Progressive acquisition • Costs related to the renewal of the Syndicated Evergreen Credit Facilities Net of: • Amortization of deferred financing costs
Accounts payable and accrued liabilities	(2.9)	Related to: • Disbursement of certain restructuring charges related to the Gas Turbine Components Division • Reduced business volume
Customers' advance	6.1	Represents unearned contract payments collected 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 statements)
Long-term debt (including current portion)	(3.5)	Due to: • Capital repayments ($3.1 million) • A lower U.S. exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries ($2.9 million) Net of: • New capital lease obligations ($1.4 million) • New non-interest-bearing loans ($1.1 million)
Capital stock	(0.4)	Represents the repurchase of 143,100 common shares at average book value
Contributed surplus	0.1	Represents the counterpart of the expense relating to the granting of stock options
Cumulative translation adjustment	(1.9)	Represents the impact of the lower U.S. exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries
Retained earnings	(2.4)	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 0.49:1 on March 31, 2004 compared to 0.51:1 on March 31, 2003. At year-end 2004, the balance sheet included cash and cash equivalents of $58.6 million. At March 31, 2003, cash and cash equivalents stood at $53.0 million, including $45.2 million in temporary investments.

A summary of the Company's contractual obligations, including payments due for each of the next five years and thereafter, is as follows:

Contractual Obligations	Payments due by period				
($'000)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Loans bearing no interest	15,509	1,644	2,823	4,140	6,902
Capital leases (including interest expenses)	15,933	3,180	6,268	6,186	299
Operating leases – Machinery and equipment	11,334	3,021	5,790	2,382	141
Operating leases – Building	981	228	412	341	–
Sub-total contractual obligations	**43,757**	**8,073**	**15,293**	**13,049**	**7,342**
Secured Syndicated Evergreen Revolving Credit Facilities, if not extended next year					
Operating credit facilities	7,262	–	7,262	–	–
Term credit facilities	27,060	–	5,412	21,648	–
Total contractual Obligations	**78,079**	**8,073**	**27,967**	**34,697**	**7,342**

Off-Balance Sheet Items and Commitments

The Company has entered into operating leases amounting to $11.3 million as of March 31, 2004, mainly for machinery and equipment. These amounts are mainly repayable over the next five years (see Note 18 to the consolidated financial statements).

At March 31, 2004, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US $103.1 million at an average exchange rate of 1.4089. These contracts related to its export sales and mature at various dates between April 2004 and October 2008 (see Note 4 to the consolidated financial statements). This compares to US $60.5 million in forward foreign exchange contracts held at March 31, 2003 at an average exchange rate of 1.5063.

Critical Accounting Estimates

Design to manufacture programs and major assembly manufacturing programs

The Company's management use estimates to value the inventory and cost of sales related to the design to manufacture programs and major assembly manufacturing programs. In fact, non recurring costs (development costs, pre-production and tooling costs) and the excess over production costs (excess of the production costs incurred in the early stage of a program in excess of the average estimated production unit cost for the entire program) are included in the inventory. These costs are expected to be recovered from the sales of the related program, as the production costs get lower than the average production unit cost.

Two major assumptions are made when capitalizing the non-recurring costs and the excess over production costs in inventory:

- Estimated average production unit cost
- Production accounting quantities

The estimated average production unit cost includes raw material, direct labour and manufacturing overhead cost and is based on the learning curve concept. This anticipates a predictable decrease in direct labour costs as tasks and production techniques become more efficient through repetition. To evaluate the average production unit cost, management based its analysis mainly on historical performance, economic trends, labour agreements, and information provided by customers and suppliers. It also takes into consideration inflation rates, foreign exchange rates, labour productivity, employment levels and salaries.

Production accounting quantities for a particular program are essentially established at the inception of the program or contract date and are based on Management's assessments of the anticipated demand for the related aircraft or product, taking mainly into account firm order and committed order backlog and options as well as prevailing market and economic conditions.

Management reviews the major assumptions on a quarterly basis and a more detailed review is made at fiscal year-end. The effect of any revision to the assumptions is accounted for by way of a cumulative catch-up adjustment in the period or year in which the revision takes place.

A 1% change in the estimated future costs to produce the remaining quantities on all Design to Manufacture programs and all major assembly manufacturing programs would have an impact of approximately $0.7 million on the Company's cost of sales, including $0.4 million relating to cumulative catch-up adjustments for prior years.

Goodwill

Goodwill is tested for impairment annually, or more frequently if events or circumstances indicate that the asset might be impaired. The Company selected its fourth quarter as its annual testing period for its goodwill. A goodwill impairment charge is recorded when the discounted value of the expected future cash flows of the related entire reporting unit is less than its carrying value. Future cash flows are forecasted based on the Company's best estimates of revenues, production costs, manufacturing overhead and other costs. These estimates are made by reviewing existing contracts, expected future orders, current cost structure, anticipated cost variations, labour agreements and general market conditions, and are subject to review and approval by senior management of the Company. The future cash flows are discounted using a weighted average cost of capital rate.

Pension plans and other employee post-retirement benefits

Certain critical assumptions are used in the determination of the pension plans and other employee post-retirement benefit costs and obligations. In particular, the discount rate and the expected long-term rate of return on plan assets used are important assumptions to measure these costs and obligations. Other assumptions include the rate of the employees' compensation increase as well as demographic factors such as retirement ages of employees, mortality rates and turnover. These assumptions are reviewed annually.

A lower discount rate increases the benefit costs and obligations. A 1% change in the discount rate would have an impact of approximately $0.5 million and $3.2 million respectively on the Company's pension plan expense and accrued benefit obligation.

A lower expected rate of return on pension plan assets increases the benefit costs. A 1% change in the return assumption would have an impact of approximately $135,000 on the Company's pension plan expense.

Income taxes

The Company accounts for future income tax assets mainly from losses carry-forward and deductible temporary differences. Company's management assesses and reviews the realization of these future income tax assets at least annually, at year-end, to determine whether a valuation allowance or provision is required. Based on that assessment, it is determined whether it is more likely than not that all or a portion of the future income tax assets will be realized. Factors, taken into account, include future income based on internal forecasts, losses in recent years and their expiry dates, history of losses carry-forward as well as reasonable tax planning strategies.

CHANGES IN ACCOUNTING POLICIES

Impairment and Disposal of Long-lived Assets

Effective April 1, 2003, the Company adopted prospectively the new accounting policies in regard to the impairment and disposal of long-lived assets.

Impairment of Long-lived Assets

In December 2002, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 3063, *Impairment of Long-lived Assets*. This section provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets. It replaces requirement for impairment in Property, Plant and Equipment, Section 3061. The section requires an impairment loss for a long-lived asset to be held and used be recognized when its carrying amount exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. An impairment loss for a long-lived asset to be held and used should be measured as the amount by which its carrying amount exceeds its fair value. In accordance with the new CICA recommendation, Section 3063 was applied prospectively for years beginning on or after April 1, 2003.

Disposal of Long-lived Assets

In December 2002, the CICA also issued revised Handbook Section 3475, *Disposal of Long-lived Assets and Discontinued Operations*. This new section provides guidance on the recognition, measurement and disclosure of the disposal of long-lived assets. This section was applied to disposal activities initiated by a Company's commitment to a plan after May 1, 2003.

The result of these changes in accounting policies had no impact on the carrying value of the Company's property, plant and equipment.

Future changes in accounting policies

Hedging relationships

On April 1, 2004, the Company has adopted Accounting Guideline 13 (Ac-G13), Hedging relationships, which is effective for fiscal years beginning on or after July 1, 2003. The guideline applies to all existing and new hedging relationships and provides additional documentation and designation requirements for hedge accounting and requires regular, periodic assessment of effectiveness. Derivatives that are economic hedges, but do not qualify for hedge accounting, are recognized at fair value on the balance sheet with changes in fair value recorded in earnings.

The Company has completed the implementation of Accounting Guideline 13. As at April 1,2004 hedges that previously qualified for hedge accounting continue to qualify for hedge accounting under the guideline except for the interest rate swap. As at April 1, 2004 the Company recorded a deferred loss amounting to $727 regarding this swap. Subsequent changes in fair value of the interest rate swap will be recorded in earnings and the deferred loss will be amortized on an effective yield basis over the remaining life of the interest rate swap.

As part of its adoption of guideline AcG-13 as at April 1, 2004, the Company has revised its accounting policies regarding foreign currency transactions. Monetary items in foreign currencies included in current assets and liabilities will be translated into Canadian dollars at the exchange rate prevailing at year-end. For accounts receivable which qualify for hedge accounting, gains and losses are deferred on the balance sheet under "other receivables" or "accounts payable and accrued liabilities". 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 used 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 time. This section will come into effect for the Company in fiscal 2005.

Effective April 1, 2004, the Company will adopt retroactively these changes in accounting policies in regard to account for asset retirement obligations. The Company is currently evaluating the impact of this new accounting policy.

RISKS AND UNCERTAINTIES

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

Reliance on Large Customers

The Company has exposure due to its reliance on certain large contracts and customers. The Company's three largest customers account for more than half its sales. Any loss or delay in certain orders from any of these customers could have a negative impact on the Company's results.

Operational Risk

The activities conducted by the Company are subject to operational risks including competition from other businesses, performance of key suppliers, product performance warranty, regulatory risks, successful integration of new acquisitions, dependence on key personnel and reliance on information systems, all of which could affect the ability of the Company to meet its obligations.

General Economic Conditions

Unfavourable economic conditions may adversely affect the business of the Company. For example, the large civil aerospace industry, which represents approximately 15% of the Company's sales, continues to experience considerable uncertainty, especially the market for planes with more than 100 seats. Furthermore, the industrial power generation market, which collapsed in 2002, is not expected to recover before 2006. This could adversely affect the Company's financial condition and results of operations. Although long-term growth will likely eventually resume, the timing of that resumption is uncertain, and these sectors will remain cyclical. In addition, curtailment of production activities due to unfavourable economic conditions could result in the Company incurring significant costs associated with temporary layoffs or termination of employees.

Military Spending
Although significant increases in military budgets, particularly in the United States, were announced in the recent years for a period of up to 2009, these expenses are approved by government on a yearly basis and are subject to the political climate and changing priorities.

Foreign Currency Fluctuations
The Company is exposed to risks resulting from foreign currency fluctuations arising either from carrying on businesses in Canada in foreign currencies or through operations in the United States. In an effort to mitigate those risks, the Company makes use of derivative contracts to hedge this exposure.

Liquidity and Access to Capital Resources
The Company requires continued access to capital markets to support its activities. To satisfy its financing needs, the Company relies on long-term and short-term debt and cash flow generated from operations. Any impediments to the Company's ability to access capital markets, including significant changes in market interest rates, general economic conditions or the perception in the capital markets of the Company's financial condition or prospects, could have a material adverse effect on the Company's financial condition and results of operations.

Restrictive Debt Covenants
The indentures governing certain of the Company's indebtedness and syndicated credit facilities contain covenants that, among other things, restrict the Company's ability to:

- sell all or substantially all its assets;
- incur secured indebtedness;
- engage in mergers or consolidations; and
- engage in transactions with affiliates.

These restrictions could impair the Company's ability to finance its future operations or its capital needs, or to engage in other business activities that may be in its interest.

Changing Interest Rates
The Company's profitability may be directly affected by the level of and fluctuations in interest rates. The Company uses derivatives as an integral part of its asset/liability management program to reduce its overall financial risk.

External Business Environment
The Company faces a number of external risk factors, more specifically, general economic conditions, government policies and changing priorities or possible spending cuts by governments.

Warranty Casualty Claim Losses
The products manufactured by the Company are complex and sophisticated and may contain defects that are difficult to detect and correct. Errors may be found in the Company's products after they are delivered to the customer. If so, the Company may not be able to correct such errors. The occurrence of errors and failures in the Company's products could result in warranty claims or the loss of customers. Any claims, errors or failures could have an adverse effect on the Company's operating results and business. In addition, due to the nature of the Company's business, the Company may be subject to liability claims involving the Company's products or products for which the Company provided services. The Company cannot be certain that its insurance coverage will be sufficient to cover one or more substantial claims. Furthermore, there can be no assurance that the Company will be able to obtain insurance coverage at acceptable levels and cost in the future.

Environmental Matters
The Company's activities are subject to environmental laws and regulations associated with risks to human health and the environment. Changes to these laws and regulations could have a significant adverse effect on the Company's operations and financial situation. The Company monitors these risks through environmental management systems and policies.

Collective Bargaining Agreements
The Company is party to some collective bargaining agreements, which are subject to expiration at various times in the future. If the Company is unable to renew these agreements or others as they become subject to renegotiation from time to time, it could result in work stoppages and other labour disturbances, which could have a material adverse effect on the Company's business.

Selected Quarterly Financial Information

($'000 except per share data)		Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
For the fiscal year ended March 31, 2004:						
Sales		213,209	52,385	53,159	45,237	62,428
Net income (loss)		(2,212)	(787)	(855)	(1,595)	1,025
Earnings per share ($):	Basic	(0.09)	(0.03)	(0.04)	(0.07)	0.04
	Diluted	(0.09)	(0.03)	(0.04)	(0.07)	0.04
For the fiscal year ended March 31, 2003:						
Sales		260,631	69,160	62,299	59,394	69,778
Net income (loss)		154	3,017	2,890	(6,814)	1,061
Earnings per share ($):	Basic	0.01	0.12	0.12	(0.28)	0.04
	Diluted	0.01	0.12	0.12	(0.28)	0.04

In fiscal 2004, consolidated sales in the third quarter were negatively impacted by a stronger Canadian dollar and by late deliveries, at the Landing Gear and Gas Turbine divisions, recuperated in the fourth quarter.

In fiscal 2003, sales in the fourth quarter were positively impacted by increased deliveries ($45.2 million) at the Landing Gear Division.

Fourth Quarter 2004 Results

As anticipated, the Company posted stronger results due to improved deliveries, mainly at the Landing Gear and Logistics & Defence divisions. The Gas Turbine Components Division also increased deliveries in the fourth quarter, but continues to work on improving manufacturing productivity following the transfer of the Tampa operations to Cincinnati. The performance of the Aerostructure Division continued to reflect low demand and significant unused manufacturing capacity.

Fourth quarter sales totalled $62.4 million, 38.0% higher than third quarter sales but still somewhat lower than last year's fourth quarter sales of $69.8 million.

Net income for the fourth quarter was $1.0 million, down slightly from $1.1 million last year.

Additional information and Continuous Disclosure

This MD&A was prepared as of May 5, 2004. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

At May 5, 2004, the total number of issued and outstanding common shares was 26,901,559.