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, 2007 and March 31, 2008. It also compares the operating results and cash flows for the year ended March 31, 2008 to those for the previous year.

This analysis should be read in conjunction with the consolidated financial statements dated March 31, 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 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; availability of commodities and fluctuations in commodity prices; foreign exchange or 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 this MD&A. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

Although the 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. Unless otherwise required by applicable securities laws, the Company expressly disclaims any intention, and assumes no obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

Héroux-Devtek and its subsidiaries specialize in the design, development, manufacture, repair and overhaul of systems and components used principally in the aerospace and industrial sectors. As such, a significant portion of the Company's sales are made to a limited number of customers mainly located in the United States and Canada.

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, the Company acquired Progressive Incorporated ("Progressive"), a privately-held Texas-based manufacturer of large structural components for military aircraft, thereby boosting its aerostructure capability and gaining access to the important aerostructure military sector.

Héroux-Devtek serves two main segments: Aerospace and Industrial. The Company supplies both the commercial and military sectors of the Aerospace market with landing gear (including spare parts and repair and overhaul services) and airframe structural components including kits. However, as already announced last year, the Company gradually exited the aircraft engine components market in fiscal 2008. In the commercial sector, the Company is active in the business jet, regional aircraft, helicopter and large commercial jet markets. On the military side, the Company provides parts and services for all major military aircraft, mainly in the United States.

Héroux-Devtek's main product for the Industrial segment is large components for power-generating equipment, with its largest customer being The General Electric Company (GE). It also sells precision components for other industrial applications and the heavy equipment industry sector.

The Company's sales by segment are as follows:

	2008	**2007**
Aerospace	91%	91%
Industrial	9%	9%
	100%	100%

Héroux-Devtek sells mainly to original equipment manufacturers (OEMs) such as Lockheed-Martin, Bombardier, Goodrich and Boeing, and into the aftermarket, where its main customers are the US Air Force (USAF) and US Navy. In fiscal 2008, sales to these six customers represented approximately 68% of total sales.

The Aerospace segment comprises the Landing Gear and Aerostructure divisions. The Industrial segment comprises large power generation components and other industrial products produced by the Gas Turbine Components Division. The Landing Gear Division designs, manufactures, repairs and overhauls landing gears and has built a strong, well-recognized design engineering team. The Aerostructure Division manufactures airframe components ranging in size from small to large, for the commercial and military aerospace markets. The Gas Turbine Components Division manufactures large components for the power generation and other industrial markets.

Business Management

The Company's segments or Divisions are decentralized operations that encourage entrepreneurship and the involvement of every employee. Each Division has the management,

engineering, manufacturing and marketing resources required to meet the needs of its specific market segments. The growth and profitability of each Division is the responsibility of a Vice President - General Manager who reports directly to the Company's President and Chief Executive Officer, while the Vice President Finance of each Division reports directly to the Company's Executive Vice President and Chief Financial Officer.

The Company's Corporate Office is responsible for the Company's public financial and other reporting and disclosure requirements and for all financial and major business development decisions. It also provides each Division with support in establishing budget and strategic plans, developing new products and markets, and with assistance for public relations, financial controls and reporting, legal counsel, human resources and information technology.

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 power generating equipment. 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 and services;
- 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;
- A balanced sales mix between civil and military aerospace markets and industrial sales; and
- Building and maintaining a culture of entrepreneurship through the participation, dedication and commitment of its employees.

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 value-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 to medium landing gear and complete structural assemblies for commercial and military aircraft OEMs; and
- Diversify the customer base for its existing product lines, which generally means finding new OEM customers for its landing gear, airframe structural components and industrial products.

Key Performance Indicators

Héroux-Devtek measures its performance on a company-wide basis through key financial indicators that include sales, gross profit, earnings before interest, tax, depreciation and amortization (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 performance 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.

Risk Management

The Company's Risk Management process includes essentially the identification and assessment of business risks and opportunities and the implementation of strategies and controls to manage, monitor and communicate these risks. To help achieve its risk management objectives, the Company has included risk management activities and controls in the operational responsibilities of management in each Division. The Company's Board of Directors is ultimately responsible for identifying and assessing the Company’s principal business risks, reviewing overall business risks and ensuring the implementation of appropriate systems to manage these risks. The Human Resources and Corporate Governance Committee and the Audit Committee, composed of independent Directors, assist the Board of Directors in its general management responsibilities.

The Company operates in industry segments subject to various risks and uncertainties. Some of these risks are inherent to the nature of the Company's operations. See *Risks and Uncertainties* below.

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 sourcing components for their products wherever they can on the global market, in order to benefit from the best cost-quality-delivery parameters. This is expected to be an ongoing trend.

The commercial aerospace market has rebounded successfully over the last years. In calendar 2007, Boeing and Airbus together delivered 894 large commercial aircraft, a 7% increase over the 832 units delivered in 2006.[1]

The market for regional jets with 70 or more seats is still very good, with deliveries rising steadily. In other regional aircraft, turboprops continue to regain popularity in 2007[2].

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[1] Source: Boeing and Airbus press releases, 2007 and 2006 results.

[2] Source: Merril Lynch forecast, January 2008.

The business jet market is still very strong, with deliveries up 28% in 2007 to 1,138 aircraft compared to 886 in 2006.[3] This market is supported by the strong world economy.

The military market remains strong, with the US government still planning to increase military spending in 2009[4]. In Canada, the government pursued its "Canada First" replacement program, awarding Lockheed-Martin a contract for seventeen C-130J aircraft[5].

In the power generation market, energy demand remains strong and power plant requirements are increasing[6].

Finally, the continued strength of the Canadian dollar has had a significant negative impact on Héroux-Devtek in the past few years, given that a substantial portion of the Company's sales is, and will remain, in US dollars, while it reports in Canadian currency.

Major Achievements of Fiscal 2008

- Award of a contract by Sikorsky Aircraft Corporation for the Landing Gear Division to design, develop, manufacture, assemble, test and deliver helicopter landing gear and tail bumpers for the CH53K Heavy Lift program's Systems Design and Development (SDD) phase. Total revenue from this contract is expected to exceed $95 million.

- Award of $14.5 million in contracts with the USAF for the production of landing gear components, mainly for the C-130, C-5, F-16, KC-135, E-3 and B-1B.

- Signature of an estimated $115 million strategic 10-year agreement with Messier-Dowty to manufacture major landing gear components for three large commercial aircraft programs.

- Award of an estimated $110 million contract by Bombardier Aerospace for a five-year period to manufacture structural detail components for Bombardier's entire portfolio of regional and business aircraft. The agreement, which extends and broadens the current mandate, represents the single largest contract from Bombardier in Héroux-Devtek's 65-year history.

- An increase in the Company's Senior Secured Syndicated Banks Credit Facilities from $80 million to $125 million subsequent to fiscal year-end

Progressive Plant Expansion

The Company finalized the construction of 72,000 square feet building announced last year to its main plant in Arlington, Texas, to support work on the Joint Strike Fighter (JSF) and other aircraft programs.

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[3] Source: GAMA (General Aviation Manufacturers Association) press release, February 2008.
[4] U.S. Department of Defense (DOD) press release, February 2008.
[5] Canadian Department of National Defense (DND) press release, January 2008
[6] U.S. Department of Energy, March 2008

Major Customer Supply Award

Subsequent to year-end, the Company received a silver level Boeing Performance Excellence Award for its outstanding delivery and quality performance in calendar 2007.

Selected Annual Financial Information

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

Years ended March 31 **($'000, except per share data)**	**2008**	**2007**	**2006**
Sales	307,882	283,286	256,197
EBITDA	44,286	31,050	20,907
Net income (loss) from continuing operations	19,019	8,906	(406)
Net income from discontinued operations	-	-	8,661
Net income	19,019	8,906	8,255
Earnings (loss) per share from continuing operations ($) – basic	0.60	0.28	(0.01)
Earnings (loss) per share from continuing operations ($) – diluted	0.59	0.28	(0.01)
Earnings per share ($) – basic	0.60	0.28	0.29
Earnings per share ($) – diluted	0.59	0.28	0.29
Total assets	356,454	339,461	309,531
Long-term debt	72,242	67,086	50,637
Cash and cash equivalents	24,431	20,124	20,863

The Company's EBITDA from continuing operations is calculated as follows:

Years ended March 31 **($'000)**	**2008**	**2007**	**2006**
Net income (loss) from continuing operations	19,019	8,906	(406)
Income tax expense (recovery)	3,750	1,685	(425)
Financial expenses	4,999	3,681	4,221
Amortization	16,518	16,778	17,517
EBITDA	44,286	31,050	20,907

The turnaround initiated in fiscal 2006 continued again this year, with both the Landing Gear and Aerostructure divisions again improving their top and bottom lines. This year, however, the Company's results were also boosted by the turnaround at the Gas Turbine division, which improved its production efficiency and output while exiting the Aircraft Engine market and returned to profitability by year-end.

Consolidated Sales

Consolidated sales for the year ended March 31, 2008 rose 8.7% to $307.9 million from $283.3 million last year, due mainly to increased Landing Gear large commercial, business jet and military sales, Aerostructure military sales and industrial Gas Turbine sales. These increases were somewhat offset by a reduction in regional jet market sales and the exit of the Aircraft Engine market. The negative impact of the stronger Canadian dollar, against the US currency, reduced sales by $21.3 million or 7.5% compared to last year.

The Company's sales by segment were as follows:

	2008 ($'000)	**2007 ($'000)**	**% Change**
Aerospace			
Military			
Military sales to government	56,777	58,273	(2.6)
Military sales to civil customers	95,512	80,193	19.1
Total Military	152,289	138,466	10.0
Total Commercial	126,631	118,858	6.5
Total Aerospace	278,920	257,324	8.4
Total Industrial	28,962	25,962	11.6
Total	**307,882**	**283,286**	**8.7**

Comparative figures for the Aerospace segment of last year have been reclassified to comply with this year's presentation.

Aerospace Segment

Sales for the Aerospace segment were as follows:

	2008 ($'000)	**2007 ($'000)**	**% Change**
Landing Gear	181,876	165,317	10.0
Aerostructure	95,053	87,906	8.1
Aircraft Engine Components	1,991	4,101	(51.4)
Total	**278,920**	**257,324**	**8.4**

The increase in fiscal 2008 was primarily due to higher manufacturing military sales by the Company's Landing Gear division for the KC-135, C-130, B-1B and E-3 programs, new design and engineering work on the Sikorski CH-53K helicopter program and higher large commercial sales for the B-777, A-330/340 and A-380 programs. It also reflects an increase in Aerostructure military program sales, mostly due to the F-16 program but also to schedule recovery on A-330/340 program sales, somewhat offset by lower regional jet sales for the Aerostructure division. The decline in Aircraft Engine Component sales essentially reflects the exit of this market.

Industrial Segment

Sales for the Industrial segment were as follows:

	2008 ($'000)	**2007 ($'000)**	**% Change**
Gas Turbine	15,154	12,551	20.7
Other Industrial	13,808	13,411	3.0
Total	**28,962**	**25,962**	**11.6**

The increase in industrial sales was driven by value-added power generation sales, which rebounded this year, and from increased sales to the heavy equipment industry sector, powered by growing mining and oil and gas activities. The other industrial segment was relatively flat, with wind market sales slightly lower than last year due to material shortages. The Company nevertheless still sees good potential in the wind energy market.

Sales by Destination

Sales by destination remained at the same level as last year, as shown below:

	2008 (%)	**2007 (%)**
Canada	31	31
US	68	68
International	1	1
Total	**100**	100

Gross Profit

Consolidated gross profit improved from 11.3% to 15.2% of sales in fiscal 2008 in spite of a 1.1% negative impact attributable to the continued strength of the Canadian dollar relative to the US currency. Gross profit was favourably impacted by the previously-mentioned improved sales volume for Landing Gear large commercial and business jet and military manufacturing sales, as well as by overall increased productivity and better margins at the Aerostructure division. The Gas Turbine division continued its turnaround and significantly improved its gross profit margin due to increased power generation and heavy industrial sales coupled with increased production efficiency and better absorption of manufacturing overhead costs.

The impact of the stronger Canadian dollar against the US currency on the Company's gross profit margin, expressed as a percentage of sales, is mitigated by the use of forward foreign exchange contracts and the natural hedging from the purchase of material paid in US dollars.

In the fourth quarter ended March 31, 2008, the Company wrote-off a loan bearing no interest of $1.3 million ($851,000 net of income taxes) which was accounted for as a reduction of cost of sales for that year. This loan was initially granted as a Government incentive to favour and support the development of an aerospace program. This write-off was made as the forgiveness of this loan by the related Government was granted, following the conclusion that the conditions of repayments of this loan could not be met (see Note 6 to the consolidated financial statements).

Excluding this one time item, the gross profit as a percentage of sales for fiscal 2008 would have been 14.7%.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	2008	2007
Selling and administrative expenses ($'000)	18,879	17,694
% of sales	6.1	6.2

Selling and administrative expenses of $18.9 million were $1.2 million higher than last year, but 0.1% lower as a percentage of sales due to higher expenses to support sales growth net of a higher gain on the foreign currency translation of the Company's net monetary items credited against these expenses. This gain stood at $771,000 this year compared to $100,000 last year.

Operating Income (Loss)

Consolidated operating income increased from $14.3 million or 5.0% of sales last year to $27.8 million or 9.0% of sales this year.

Aerospace Segment

Aerospace operating income was $27.4 million or 9.8% of sales this year, compared to $16.2 million or 6.3% of sales last year, mainly reflecting higher sales and the improved performance of both the Aerostructure and Landing Gear divisions as explained above, along with the exit of the lower-margin aircraft engine market.

Industrial Segment

Operating income of $0.4 million or 1.4% of sales for the Industrial segment compares to last year's loss of $1.9 million or (7.3)% of sales and reflects the above-mentioned turnaround at the Gas Turbine division. Increases in sales and pricing and, production efficiency and better absorption of manufacturing overhead costs contributed to this change.

Financial Expenses	**2008 ($'000)**	**2007 ($'000)**
Interest	4,321	3,606
Interest accretion on loans bearing no interest	743	-
Amortization of deferred financing costs	183	259
Standby fees	157	188
Accretion expense of asset retirement obligations	204	187
Amortization of net deferred loss related to a financial derivative instrument	51	133
Interest revenue	(660)	(692)
Total	**4,999**	**3,681**

The $1.3 million increase in net financial expenses reflects the higher average long-term debt arising from additional working capital and capital expenditure investments required to support the Company's sales growth. This increase was partially compensated for by interest rate reductions in the U.S. and Canada in fiscal 2008.

Income Tax Expense and Income Tax Receivable

Income Tax Expense

The income tax expense for fiscal 2008 amounted to $3.8 million compared to $1.7 million for the previous year. The Company's effective income tax rate for fiscal 2008 was 16.5% compared to the Company's Canadian blended statutory income tax rate of 32.5%. The main factors positively affecting the income tax expense for fiscal 2008 were $0.7 million in permanent differences and the recognition of $2.4 million in income tax benefits from the utilization of tax losses carried forward for which no income tax benefits had been recognized in prior years. The remainder represents favourable future tax adjustments of $0.5 million, net of the impact of the reduction in the federal income tax rate ($0.3 million) announced in the last quarter of fiscal 2008.

The income tax expense for fiscal 2007 amounted to $1.7 million. For fiscal 2007, the Company's effective income tax rate was 15.9% compared to the Company's Canadian blended statutory income tax rate of 32.6%. The income tax expense for fiscal 2007 was favourably impacted mainly by $0.7 million in permanent differences, $1.1 million in income tax benefits from previous years, including tax losses carried forward for which no income tax benefits had been recognized, and $0.1 million attributable to changes in enacted rates.

At March 31, 2008, there were no operating losses carried forward and other temporary differences for which no related income tax assets have been recognized in the consolidated financial statements (see Note 16 to the consolidated financial statements).

Income Tax Receivable (Payable)

Income tax receivable increased $2.9 million compared to last year, mainly due to research and development tax credits. The $2.3 million income tax payable represents the income tax payable on this year's taxable income, net of the utilization of prior years' tax losses.

Net Income

For fiscal 2008, the Company posted net income of $19.0 million compared to net income of $8.9 million last year.

	2008 ($ million)	2007 ($ million)
Net income from operations, before other items	15.7	7.8
Other items		
Loans bearing no interest – forgiveness of debt included as a reduction in the cost of sales, net of income taxes	0.9	-
Income tax benefits, from utilization of prior years' tax losses	2.4	1.1
Net income	**19.0**	**8.9**

	2008	2007
Net income ($ million)	19.0	8.9
Earnings per share – basic ($)	0.60	0.28
Earnings per share – diluted ($)	0.59	0.28

Earnings per share figures are based on weighted-averages of 31,609,638 common shares outstanding for fiscal 2008 and 31,511,345 for the previous year. This year's increase is essentially due to the issuance of 27,702 common shares under the Company's stock purchase and ownership incentive plan and 83,300 common shares pursuant to the exercise of stock options (see Note 15 to the consolidated financial statements).

On May 30, 2008, the date of this MD&A, the Company had 31,646,243 common shares and 1,274,221 stock options outstanding with a weighted average of 4.5 years to maturity.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2008, the Company had cash and cash equivalents of $24.4 million, compared to $20.1 million a year earlier.

Operating Activities

The Company generated cash flows from operations and used cash and cash equivalents for its operating activities as follows:

	2008 ($'000)	2007 ($'000)
Cash flows from operations	37,848	29,771
Net change in non-cash items related to operations	(12,147)	(14,351)
Cash flows relating to operating activities	**25,701**	**15,420**

The $8.1 million increase in cash flows from operations for fiscal 2008 can mainly be explained by the $10.1 million increase in net income, somewhat offset by the lower future income taxes variance. In fiscal 2008, the $12.1 million net change in non-cash items is primarily due to the $18.9 million reduction in accounts payable and accrued liabilities and other liabilities, which included $5.3 million in outstanding amounts for raw materials and capital expenditures at the end of last fiscal year, and a $3.7 million negative effect of changes in the exchange rate on U.S.-denominated non-cash balance-sheet items. These were partially offset by a $10.7 million reduction in inventories following the Company's concerted effort to reduce the number of days in inventories and the invoicing of capitalized development costs for the JSF program (see Consolidated Balance Sheet section below).

In fiscal 2007, the $14.4 million net change in non-cash items was primarily due to the $20.9 million increase in inventories in preparation for rising business activity, and included capitalized development costs for the JSF program. Other changes in the net change in non-cash items for fiscal 2007 included the $2.9 million increase in accounts receivable in line with the increased fourth quarter sales and the $2.9 million decrease in income tax payable. These were offset by a $3.5 million reduction in income tax receivable following the collection of income tax receivable due from prior years, a $3.3 million decrease in other receivables, and a $5.8 million increase in accounts payable and accrued liabilities and other liabilities due mainly to certain capital expenditures made before the March 31, 2007 year-end.

Investing Activities

The Company's investing activities were as follows:

	2008 ($'000)	2007 ($'000)
Purchase of property, plant and equipment and finite-life intangible assets	(38,134)	(29,145)
Proceeds on disposal of property, plant and equipment	291	2,617
Business acquisition, additional payments	-	(1,577)
Cash flows relating to investing activities	**(37,843)**	**(28,105)**

Capital investments for fiscal 2008 stood at $38.1 million, including $26.2 million to complete the plant expansion for the JSF program at the Aerostructure plant in Arlington, Texas and to continue work on modernizing the plating department at the Landing Gear plant in Longueuil, Quebec, scheduled for completion in the third quarter of fiscal 2009 (See Notes 9 and 19 to the consolidated financial statements and under Off-balance Sheet Items and Commitments, below).

In fiscal 2007, capital investments amounted to $29.1 million, with investments at the Longueuil and Texas plants, as explained above. Proceeds on the disposal of property, plant and equipment for fiscal 2007 included $2.2 million in proceeds from the sale of the Tampa, Florida facility in the second quarter of fiscal 2007. This facility was closed some years ago and the Tampa operations transferred to the Company's operations in Cincinnati, Ohio.

Business acquisition investments represent profitability performance payments in relation to the acquisition of Progressive (see Note 4 to the consolidated financial statements) on April 1, 2004. The $1.6 million for fiscal 2007 represented the last payment for this acquisition.

Capital expenditures for fiscal 2009 are expected to be about $35 million, of which $14 million will be for investments following the award in November 2007 of a $115 million sales contract to manufacture major landing gear components for certain large commercial aircraft programs.

Financing Activities

The Company's financing activities were as follows:

	2008 ($'000)	**2007 ($'000)**
Increase in long-term debt	25,192	16,900
Repayment of long-term debt	(8,990)	(4,491)
Issuance of common shares	640	173
Other	(743)	(516)
Cash flows relating to financing activities	**16,099**	**12,066**

The increase in long-term debt mainly reflects drawings against the Senior Secured Revolving Credit Facilities (Credit Facilities) for additional working capital requirements and capital expenditures to support the Company's sales growth. It also includes the addition of new loans bearing no interest to support capital expenditures made in the Aerospace segment and from new obligations under capital leases (See Note 9 to the consolidated financial statements).

Subsequent to fiscal year 2008, on April 14, 2008, the Company announced that it had increased its $80 million in Credit Facilities to $125 million, under essentially the same terms and conditions.

In fiscal 2007, the Company successfully concluded the amendment and extension of its Credit Facilities for a five-year period whereby the previous Bank's revolving operating and term credit facilities were combined into Credit Facilities of $80 million to mature in about five years, on October 4, 2011, with no extension. These facilities are secured by all the assets of the Company and its subsidiaries and are subject to certain restrictive covenants and corporate guarantees granted by the Company and its subsidiaries. This agreement was concluded with a syndication of banks comprising National Bank of Canada, which also acted as the administrative agent, Bank of Nova Scotia, Toronto Dominion Bank and Laurentian Bank of Canada.

At March 31, 2008, the Company was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants in fiscal 2009.

Pension Plans

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

	2008 ($'000)	**2007 ($'000)**
Deficit	14,489	14,316
Accrued benefit liability (included in other liabilities)	6,330	6,462

The pension plan deficit of $14.5 million at March 31, 2008 includes $8.2 million in pension plan obligations related to unregistered pension plans, primarily for former executives of Devtek Corporation, which was acquired by the Company in June 2000 and whose pension plan deficits do not require funding. Funding occurs as pension benefits are paid to the retired executives.

Capital Stock, Stock Option Plan and Stock Purchase and Ownership Incentive Plan (Stock Purchase Plan)

At March 31, 2008, the Company had 31,639,019 common shares outstanding (31,528,017 as at March 31, 2007).

During fiscal 2008, the Company issued 111,002 common shares at a weighted-average price of $5.77 for a total cash consideration of $640,152, including 83,300 common shares issued pursuant to the exercise of stock options for a total cash consideration of $413,168. The other 27,702 common shares were issued under the Company's stock purchase plan for a total cash consideration of $226,984.

During fiscal 2007, the Company issued 39,418 common shares at a weighted-average price of $4.39 for a total cash consideration of $173,000, including 12,000 common shares issued pursuant to the exercise of stock options for a total cash consideration of $38,000. The other 27,418 common shares were issued under the Company's stock purchase plan for a total cash consideration of $135,000.

At March 31, 2008, 1,274,221 stock options were issued and outstanding with a weighted-average of 4.5 years to maturity and a weighted-average exercise price of $6.68 (see Note 15 to the consolidated financial statements).

Foreign Exchange

The Company is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its self-sustaining foreign operations and from transactions denominated in foreign currency. The year-end and average exchange rates were as follows at March 31, 2008 and 2007 and for the fiscal years then ended:

Canada / US Exchange Rates		2008	2007
Year-end exchange rates used to translate assets and liabilities	1$ Canadian/ US $ equivalent	1.0265	1.1546
	US $ equivalent	0.974	0.866
Average exchange rates used to translate revenues (sales) and expenses	1$ Canadian/ US $ equivalent	1.0322	1.1377
	US $ equivalent	0.969	0.879

The Company makes use of derivative contracts to hedge foreign currency fluctuation exposure risks in an effort to mitigate these risks. At March 31, 2008, the Company had forward foreign exchange contracts totalling US $145.5 million at an average exchange rate of 1.0922 maturing over the next four fiscal years, with the majority maturing over the next two fiscal years. (See under Off-Balance-Sheet Items and Commitments, below.)

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2007 and March 31, 2008:

Item	Change ($ million)	Explanation
Cash and cash equivalents	4.3	See consolidated statements of cash flows.
Accounts receivable	(2.0)	Increased level of activity more than offset by improved accounts receivable collection. Also due to the impact of the rise in the Canadian dollar since March 31, 2007, on US-denominated accounts receivable ($4.2 million)
Income tax receivable	2.9	Represents the research and development tax credits for fiscal 2008
Inventories	(11.1)	Reflects the invoicing of the capitalized JSF development costs during the first quarter of this fiscal year, the lower exchange rate used to convert the Company's U.S. subsidiaries inventories ($2.9 million) and a concerted effort to reduce the number of days in inventories.
Future income taxes (short-term assets)	0.9	Includes the $0.5 million future income tax impact from the recognition in the Company's balance sheet of the financial instruments measured at fair value – see 'Changes in Accounting Policies' below.

Item	Change ($ million)	Explanation
Other current assets	7.2	Essentially reflects the recognition in the Company's balance sheets of financial instruments measured at fair value ($6.7 million) – see 'Changes in Accounting Policies', below, and The increase ($0.5 million) in deposits for machinery and equipment purchase commitments – see Note 19 to the consolidated financial statements.
Property, plant and equipment, net	14.9	Due to: – Purchase of capital assets ($37.9 million) Net of: – Amortization ($15.0 million) – Net proceeds ($0.4 million) – A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($4.4 million). – Recognition in the Company's balance sheets of financial instruments measured at fair value ($3.2 million) – see 'Changes in Accounting Policies', below
Finite-life intangible assets, net	(1.9)	Due to: – Purchase of information technology software (software) ($0.3 million) Net of: – Amortization of software ($1.2 million) – Amortization of the underlying value of the net backlog acquired as part of the acquisition of Progressive ($0.4 million) – Lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.6 million).
Other assets	2.8	Essentially reflects the recognition on the Company's balance sheets of financial instruments measured at fair value – see 'Changes in Accounting Policies', below.
Accounts payable and accrued liabilities	(16.6)	Mainly reflects the impact of payment of increased raw material purchases at the end of the fourth quarter last year and the outstanding payment of capital expenditures ($5.3 million), both made in the first quarter of fiscal 2008. Also due to the impact of the rise in the Canadian dollar since March 31, 2007, on US-denominated accounts payable and accrued liabilities ($2.6 million) and the reduction in the

Item	Change ($ million)	Explanation
		number of days in accounts payable and accrued liabilities.
Income tax payable	2.3	Represents the income tax payable on the fiscal 2008 taxable income, net of the tax benefits from the utilization of prior years' tax losses.
Future income taxes (short-term liabilities)	4.1	Represents the future income tax impact from the recognition in the Company's balance sheet of the financial instruments measured at fair value – see 'Changes in Accounting Policies' below ($2.2 million) and from the increase in non-deductible reserves ($1.9 million).
Long-term debt (including current portion)	3.5	Due to: • Proceeds from new debt: o Loans bearing no interest to support capital investment in the Aerospace segment ($7.4 million); o Obligations under capital leases ($9.6 million) for capital investments in the Company's US subsidiaries, and o US Credit Facilities ($8.2 million) to support additional working capital requirements and capital expenditures in line with the Company's sales growth. Net of: • Capital repayment of long-term debt ($9.0 million); • Deferred financing costs presented as a reduction of long-term debt following the implementation of the new accounting rules ($0.6 million); • Recognition on the Company's balance sheets of financial instruments measured at fair value – see 'Changes in Accounting Policies', below ($6.8 million), and • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($4.0 million) • Forgiveness of a government loan bearing no interest ($1.3 million) – see Note 6 to the consolidated financial statements
Other liabilities	2.1	Essentially reflects the recognition on the Company's balance sheets of financial instruments measured at fair value – see 'Changes in Accounting Policies', below.
Future income taxes (long-term liabilities)	1.6	Reflects mainly the future income tax impact from the recognition in the Company's balance sheets of the financial instruments measured at fair value – see 'Changes in

Item	Change ($ million)	Explanation
		Accounting Policies' below.
Accumulated other comprehensive loss	(1.9)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries and the unrealized net gains (losses), net of taxes, on the fair value of the financial instruments designated as cash flow hedges – see 'Changes in Accounting Policies', below.
Retained earnings	20.8	See consolidated statements of changes in shareholders' equity.

The Company's working capital ratio was 2.20:1 at March 31, 2008 compared to 1.89:1 at March 31, 2007, while the long-term debt-to-equity ratio was 0.40:1 at March 31, 2008 compared to 0.42:1 at March 31, 2007. At March 31, 2008, the balance sheet included cash and cash equivalents of $24.4 million. At March 31, 2007, cash and cash equivalents stood at $20.1 million.

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

	Payments due by period				
Contractual obligations ($'000)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Loans bearing no interest (including the effective interest expenses)	**17,836**	1,700	3,919	3,754	8,463
Capital leases (including interest expenses)	**13,570**	3,991	3,786	3,105	2,688
Operating leases – Machinery and equipment	**8,178**	1,793	3,056	2,538	791
Operating leases – Buildings and facilities	**1,227**	416	486	325	-
Subtotal, contractual obligations	**40,811**	7,900	11,247	9,722	11,942
Credit Facilities	**53,140**	-	-	53,140	-
Total contractual obligations	**93,951**	**7,900**	**11,247**	**62,862**	**11,942**

Off-Balance-Sheet Items and Commitments

The Company had entered into operating leases amounting to $9.4 million as at March 31, 2008, mainly for machinery and equipment. All these amounts are repayable over the next seven years (see Note 19 to the consolidated financial statements). At March 31, 2008, the Company also had machinery-and-equipment and construction-in-progress purchase commitments totalling $16.5 million (see Note 19 to the consolidated financial statements).

At March 31, 2008, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US $145.5 million at an average exchange rate of 1.0922. These contracts relate mainly to its export sales, and mature at various dates between April 2008 and January 2012 (see Note 5 to the consolidated financial statements). This compares to US $129.5 million in forward foreign exchange contracts held at March 31, 2007 at an average exchange rate of 1.2110.

Changes in Accounting Policies

In April 2005, the Accounting Standards Board issued three new accounting standards: Section 1530 "Comprehensive Income", Section 3855 "Financial Instruments – Recognition and Measurement" and Section 3865 "Hedges”. The Company adopted these new accounting standards effective April 1, 2007.

A new statement entitled ‘’consolidated statement of changes in shareholders’ equity’’ has been added to the Company’s interim and annual consolidated financial statements and includes the changes in capital stock, contributed surplus and retained earnings, as well as comprehensive income and accumulated other comprehensive income (loss).

Section 1530 introduces comprehensive income, which comprises net income and other comprehensive income (loss) ("OCI") and represents changes in shareholders’ equity during a period from transactions and other events and circumstances from non-owner sources (not related to shareholders). OCI may include unrealized gains and losses, net of taxes, arising from the translation of the financial statements of self-sustaining foreign operations, as well as unrealized gains and losses, net of taxes, arising from changes in fair value of available-for-sale financial assets and the effective portion of changes in fair value of cash flow hedging instruments.

Section 3855 requires that financial instruments be recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. On initial recognition, all financial instruments subject to Section 3855, including embedded derivatives financial instruments that are not closely related to the host contract, are measured at fair value. The Company has selected April 1, 2003, as the date for identification of embedded derivatives. After initial recognition, the measurement of financial instruments depends on their classification: held for trading ("HFT"), available-for-sale ("AFS"), loans and receivables ("L&R"), held-to-maturity ("HTM") or other than HFT liabilities.

Financial assets and financial liabilities classified as HFT are measured at fair value, with gains and losses recognized to income for the period in which they arise. Financial assets classified as L&R or HTM and financial liabilities classified as other than HFT are measured at amortized cost using the effective interest method.

Financial assets classified as AFS are measured at fair value. Unrealized gains and losses, including changes in foreign exchange rates, are recognized directly to OCI, except for impairment losses, which are recognized to income, until the financial assets are derecognized, at which time the cumulative gains or losses previously recognized in accumulated OCI are recognized in income for the period.

The Company has made the following classification of its financial instruments:

- Cash and cash equivalents are classified as HFT.
- Amounts receivable are classified as L&R.
- Amounts payable in current liabilities, long-term debt (including current portion) and other liabilities are classified as other than HFT liabilities.

Section 3865 specifies that in a cash flow hedge relationship, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized to OCI, while the ineffective portion is recognized to income. The amounts recognized to OCI are reclassified to income in the period during which the hedged item affects income.

The Company elected to continue to apply hedge accounting for its forward foreign exchange contracts and for its interest rate swap agreement as cash flow hedges.

The impact of the implementation of these new accounting standards was recognized as an adjustment to the carrying amount of the related financial instruments and recorded in shareholders' equity as at April 1, 2007. This transition adjustment resulted in an increase of $5.6 million recorded to accumulated OCI and an increase of $1.7 million recorded to retained earnings. The impact of these changes on the Company's consolidated balance sheet accounts at April 1, 2007, can be summarized as follows:

($ million)	**April 1, 2007 Increase (decrease)**
Current assets - Other current assets	5.2
Long-term assets - Property, plant and equipment, net	(1.0)
Long-term assets - Other assets	4.1
Current liabilities - Accounts payable and accrued liabilities	0.6
Current liabilities - Future income taxes	1.5
Current liabilities – Current portion of long-term debt	(0.1)
Long-term liabilities - Long-term debt	(3.5)
Long-term liabilities - Other liabilities	0.4
Long-term liabilities - Future income taxes	2.0
Accumulated other comprehensive income	5.6
Retained earnings	1.7

The adoption of these new standards also impacted the Company for the fiscal year ended March 31, 2008. During the fiscal year 2008, this impact represented a reduction of $435,000 of the amortization expense, an increase of $743,000 of financial expenses for loans bearing no interest

and a reduction of $47,000 of the cost of sales, totalling a net reduction of $174,000 of the Company's net income. However, the adoption of these new standards had no impact on the Company's cash flows relating to operating activities for the fiscal year ended March 31, 2008.

Critical Accounting Estimates

- *Design-to-manufacture contracts and major assembly manufacturing contracts*

Company management uses estimates to value inventory and cost of sales related to design-to-manufacture contracts and major assembly manufacturing contracts. In fact, non-recurring costs (development, pre-production and tooling costs) and excess-over-production costs (production costs incurred in the early stage of a contract in excess of the average estimated production unit cost for the entire contract) are included in inventories. Recovery of these costs is expected from related contract sales as production costs decline to below the average production unit cost.

Two major assumptions are made when capitalizing non-recurring costs and the excess-over-production costs in inventories:
- Estimated average production unit cost; and
- Production accounting quantities.

The estimated average production unit cost includes raw materials, 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 bases 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 contract are essentially established at the inception of the contract or contract date, and are based on management's assessments of the anticipated demand for the related aircraft or product, taking into account mainly 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 contracts and all major assembly-manufacturing contracts 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 and intangible assets*

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 goodwill. A goodwill impairment charge is recorded when the discounted value of the expected future cash flows of the entire related reporting unit is less than its carrying value. Future cash flows are forecast based on management'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 the Company's senior management. Future cash flows are discounted using an estimated weighted average cost of capital rate.

- *Pension plans and other employee post-retirement benefits*

Certain critical assumptions are used to determine pension plan 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 are important assumptions used to measure these costs and obligations. Other assumptions include the rate of increase in employee compensation, as well as demographic factors such as employee retirement ages, mortality rates and turnover. These assumptions are reviewed annually.

A lower discount rate increases benefit costs and obligations. A 1% change in the discount rate would have an impact of approximately $0.2 million and $4.0 million, respectively, on the Company's pension plan expense and accrued benefit obligations.

A lower expected rate of return on pension plan assets also increases benefit costs. A 1% change in the return assumption would have an impact of approximately $207,000 on the Company's pension plan expense.

- *Income tax*

The Company accounts for future income tax assets mainly from loss carry-forwards and deductible temporary differences. Company management assesses and reviews the realization of these future income tax assets at least annually, at year-end, to determine whether a valuation allowance is required. Based on that assessment, it determines 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 and a history of loss carry-forwards, as well as reasonable tax planning strategies.

FUTURE CHANGES IN ACCOUNTING POLICIES

Inventories

In June 2007, the AcSB released Section 3031, 'Inventories', which replaces Section 3030, 'Inventories'. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") IAS 2, 'Inventories'. For the Company, this accounting standard is effective for interim and annual financial statements beginning on April 1, 2008. 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.

Capital disclosures

In December 2006, the AcSB issued Section 1535, 'Capital Disclosures', which establishes standards for disclosing information about an entity's capital and how it is managed. For the Company, the new accounting standard is effective for interim and annual financial statements beginning on April 1, 2008.

Financial instruments – Disclosure and Presentation

In December 2006, the AcSB issued Section 3862 'Financial Instruments – Disclosure' and Section 3863 'Financial Instruments – Presentations', which modify the disclosure requirements for financial instruments. These sections are effective, for the Company, for interim and annual financial statements beginning on April 1, 2008.

The new standards require entities to provide disclosure in their financial statements that enable users to evaluate:

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

Goodwill and intangible assets

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

International Financial Reporting Standards

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. For the Company, the conversion to IFRS will be required for interim and annual financial statements beginning on April 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS, such as IAS 2, 'Inventories' and IAS 38, 'Intangible Assets', thus mitigating the impact of adopting IFRS at the mandatory transition date.

Company management is currently assessing the impact of these new standards and of the adoption of IFRS on its consolidated financial statements.

INTERNAL CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' Multilateral Instrument 52-109 ("MI 52-109"), the Company has filed certificates signed by the Chief Executive Officer and Chief Financial Officer that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design of internal controls over financial reporting. The implementation of MI 52-109 represents a continuous improvement process, which has prompted the Company to ensure that all relevant processes and controls were formalized.

Disclosure controls and procedures

Disclosure controls and procedures have the general objective of seeking to ensure that information disclosable by the Company in its reports, regulatory statements, filings and other communications is recorded, processed, summarized and reported on a timely basis. This information also includes controls to ensure compliance with Canadian disclosure requirements beyond the Company's consolidated financial statements.

The Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company has been made known to them and has been properly disclosed in the annual regulatory filings.

At March 31, 2008, an evaluation of the effectiveness of the Company's disclosure controls and procedures was also carried out, as defined in MI 52-109. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation took into account the Company's disclosure policy and its disclosure committee.

Internal controls over financial reporting

The Company's Chief Executive Officer and Chief Financial Officer have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

At March 31, 2008, the evaluation of the design of the Company's internal controls over financial reporting was carried out, as defined in MI 52-109. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the internal controls over financial reporting are designed to provide reasonable assurance that the Company's financial reporting is reliable and that the Company's consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles.

However, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments subject to various risks and uncertainties that could have a material adverse effect on the Company's business, financial condition and results of operations. These risks and uncertainties include, but are not limited to, those mentioned below.

Reliance on Large Customers

The Company has exposure due to its reliance on certain large contracts and customers. The Company's six largest customers account for approximately 68% of its sales. Any loss or delay in certain orders from any of these customers could have a negative impact on the Company's results.

The Company mitigates this risk through the increase of long-term sales contracts, when possible, with its main customers.

Availability and Cost of Raw Materials

The main raw materials purchased by the Company are aluminium, steel and titanium. Supply and cost of these materials is somewhat outside the Company's control. Difficulty in procuring raw materials in sufficient quantities and in a timely fashion, along with cost increases for these materials, could also have a material adverse effect on the Company's operations and financial condition.

In the past two years, as this situation has escalated with the improvement of the global economy and the explosive growth of the Chinese economy in particular, the Company has begun to take steps to mitigate this risk. It now includes clauses in its long-term sales contracts of importance to share the risk of raw materials availability and cost with its customers. It also negotiates long-term supply agreements with its suppliers of raw materials, and has increased its monitoring of the supply chain to ensure timely deliveries.

Operational Risks

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

However, the Company has implemented certain risk-mitigation strategies and controls, in light of these operational risks, which include the following:

- Processes to ensure proper bid approvals, planning, execution and use of quality standards at all stages of new design or built-to-print products and assemblies and, repair and overhaul services. This includes the risk assessment of achieving the targeted revenues and related product costs as well as the development of long-term agreements and competitive bidding processes with main suppliers.

- Use of proper cash flow arrangements through the use of customer advances, with certain customers, and foreign exchange hedging.

General Economic Conditions

Unfavourable economic conditions may adversely affect the Company's business. For example, the large civil aerospace industry has experienced considerable uncertainty in prior years, especially the market for planes with more than 100 seats. In fiscal 2006, the regional jet market was negatively impacted by lower demand. Furthermore, the industrial power generation market collapsed in 2002 and is now recovering. This could adversely affect the Company's financial condition and results of operation. 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 recent years, 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 business 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.

The Company's foreign exchange hedging policy requires it to mitigate the foreign currency exposure, essentially to the US currency, arising from its Canadian operations.

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

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 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 operation.

However, subsequent to the fiscal year-end, on April 14, 2008, the Company increased its Senior Syndicated Bank Credit Facilities from $80 million to $125 million, maturing on October 4, 2011.

Restrictive Debt Covenants

The indentures governing certain of the Company's indebtedness and, in particular, its Credit Facilities, contain covenants that, among other things, restrict the Company's ability to:

- sell all or substantially all of its assets;
- incur secured indebtedness;
- engage in mergers or consolidations;
- invest in capital expenditures over a certain amount per year; or
- 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. When appropriate, the Company considers using derivatives as an integral part of its asset/liability management program to mitigate or reduce its overall financial risk.

External Business Environment

The Company faces a number of external risk factors, specifically including 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 customers. 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 its products or products for which it provides 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. See under 'Operational Risks', above.

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 that expire 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.

Subsequent to the fiscal year ended March 31, 2008, the Company renewed the collective labour agreements at its Laval and Longueuil plants for four- and three-year periods, respectively. The Company now has collective labour agreements in place with all its unionized employees for at least the next two fiscal years.

Skilled Labour

Héroux-Devtek's ability to meet its future goals and objectives depends in part on its ability to attract and retain the necessary skilled labour. The skilled labour market in the aerospace industry is expected to continue to be highly competitive in the future. The Company's inability to attract and retain skilled labour, particularly engineers, machinists and programmers, could adversely affect its financial condition and results of operations.

The Company is addressing this risk by developing its human resource strengths internally and by working to retain the skilled employees that it currently has and attract the best talent by fostering a strong sense of corporate culture. Héroux-Devtek therefore does not anticipate a substantial increase in its manpower requirements over the next few years.

SELECTED QUARTERLY FINANCIAL INFORMATION

($'000 except per share data)	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
For the fiscal year ended March 31, 2008					
Sales	**307,882**	78,776	69,758	76,260	83,088
Net income, from operations before other items	**15,748**	3,851	2,687	4,387	4,823
Other items					
Loans bearing no interest – forgiveness of debt, net of income taxes	**851**	-	-	-	851
Income tax benefits, from utilization of prior years tax losses	**2,420**	300	420	900	800
Net income	**19,019**	4,151	3,107	5,287	6,474
Earnings per share ($) – basic	**0.60**	0.13	0.10	0.17	0.20
Earnings per share ($) – diluted	**0.59**	0.13	0.10	0.17	0.20
For the fiscal year ended March 31, 2007					
Sales	**283,286**	66,317	62,669	71,519	82,781
Net income	**8,906**	688	1,496	2,198	4,524
Earnings per share ($) – basic and diluted	**0.28**	0.02	0.05	0.07	0.14

Each quarter in fiscal 2008 has showed improvements in both the top and bottom lines when compared to the corresponding quarters of fiscal 2007.

Fourth Quarter 2008 Results

Traditionally a strong period, the fourth quarter of fiscal 2008 was yet again strong for the Company. Sales for the Landing Gear and Gas Turbine divisions increased in the quarter ended March 31, 2008, compared to the same period last year, while the Aerostructure division was negatively impacted by a reduction in regional jet sales. With improved sales volumes and production efficiencies, all divisions improved their gross profit margins and net income. The stronger Canadian dollar had a negative impact on fourth quarter sales and gross profit of 10.8% and 1.5% respectively compared to the same period last year. In the quarter ended March 31, 2008, the Company also benefited from $1.3 million of income ($851,000 net of income taxes), following the forgiveness of a loan bearing no interest (see Note 6 to the consolidated financial statements) which increased the gross profit by 1.5% and from $800,000 in income tax benefits from utilization of prior years' tax losses.

Cash flow from operations yielded $12.0 million compared to $12.1 million for the fourth quarter last year, while the positive change in non-cash items related to operations added $7.0 million to cash flow this year compared to $4.7 million in the last quarter in fiscal 2007. The $7.0 million cash inflow for the quarter ended March 31, 2008, came from a $7.4 million decline in

inventories and a $2.9. million increase in accounts payable and accrued liabilities and other liabilities, partially offset by an increase of $5.2 million in accounts receivable, in line with the higher fourth quarter sales (see Consolidated Balance Sheet section above).

Outlook

- Héroux-Devtek's principal markets are still in growth mode. The commercial aerospace market should remain strong for three more years, although caution is warranted in light of a weakening U.S. economy and surging crude oil prices. On the military side, while U.S. budgets were higher again this year, a new administration may reduce funding in the future. In Canada, recent major government purchases of military aircraft are expected to generate significant benefits for Héroux-Devtek. The industrial segment also promises good growth in sectors supplied by Héroux-Devtek. Industrial gas turbine demand should increase for several years and wind energy is growing at 20% per year. The Company also supplies the construction and resource sectors, both of which have remained strong, but can be affected by commodity price fluctuations.

- The Company has planned capital expenditures of $35 million for fiscal 2009, including $14 million for investments following the award in November 2007 of a $115 million sales contract to manufacture major landing gear components for certain large commercial aircraft programs and more than $2 million to complete the modernization of the plating department at the Landing Gear plant in Longueuil, Quebec.

- The collective agreements with employees at the Longueuil and Laval plants (all in Quebec) had been successfully renewed as of the date of this MD&A. The Company now has collective labour agreements in place with all its unionized employees for at least the next two fiscal years.

- Héroux-Devtek also intends to examine acquisition opportunities that complement its existing core Landing Gear and Aerostructure operations, supported by an increase in its Credit Facilities from $80 million to $125 million, in April 2008.

- With strong customer relationships and a solid backlog, the Company is anticipating internal revenue growth of approximately 10% this year. Given the strength of the Canadian dollar, further productivity gains are needed for Héroux-Devtek to remain globally competitive.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee on May 29, 2008 and by the Board of Directors on May 30, 2008. Updated information on the Company can be found on the SEDAR website, at www.sedar.com.