Quarterly report 1

FIRST QUARTER ENDED
JUNE 30, 2006

message to shareholders

On behalf of the Board of Directors, I would like to take this opportunity to present the financial results for Héroux-Devtek's first quarter ended June 30, 2006.

I am pleased to say that we reported net income of $0.7 million for the quarter, which represents the third consecutive quarter that we have been profitable and a positive step towards our objective of being profitable in fiscal 2007. Our net income from continuing operations was $0.7 million for the quarter compared to a net loss of $2.4 million for the same quarter last year.

Once again our results were achieved in the face of high prices for raw materials and a stronger Canadian dollar. The appreciation of the Canadian dollar alone reduced sales for the quarter by $4.0 million, or 7.4%, and reduced gross profit by 0.9% of sales.

Earnings were impacted positively by sales growth of 23.0% and improved productivity, particularly at our Landing Gear division. The combined effect of these items was reflected in our gross profit as it more than doubled, from 3.8% last year to 8.2% this year.

In the quarter, we began to see the cumulative impact of the contracts we have been awarded over the past couple of years in the Aerospace segment. As a result, sales for this segment increased by 24.6%. Industrial sales growth, which was 8.6%, was driven by sales to the wind energy market.

We were pleased by the announcement of the Federal Government's "Canada First" program this past June. This will provide a real boost to the Canadian military aerospace market. Given our capabilities and strategic alliances in this market, particularly with Lockheed Martin and Boeing, we fully expect Héroux-Devtek to benefit substantially from this program.

In June, we were also awarded Lockheed Martin's "Supplier Recognition Award" to mark ten years of on-time delivery of landing gear for the C-130J Super Hercules and signed a memorandum of understanding with them to cooperate on certain potential projects. Following the quarter, we obtained two new contracts from Lockheed worth $26.5 million.

We are clearly on a path that is returning us to profitability, and one that moves us towards our goal of developing a profitable business that is sustainable and more resistant to market down cycles. Based on recent backlog levels and the continued execution of the business plan, we anticipate internal sales growth of approximately 10% for the current fiscal year, along with a return to profitability.

Signed by
Gilles Labbé
President and Chief Executive Officer
August 3, 2006

NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS FOR THE QUARTERS ENDED JUNE 30, 2006 AND 2005.

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if the external auditors have not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that they have not been reviewed by the external auditors.

The accompanying unaudited interim consolidated financial statements of the Company for the quarters ended June 30, 2006 and 2005, have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the Company's management.

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

Dated this 2nd day of August 2006

CONSOLIDATED BALANCE SHEETS

As at June 30, 2006 and March 31, 2006
(In thousands of dollars) (Unaudited)

	Notes	June 2006	March 2006
Assets	5		
Current assets			
Cash and cash equivalents		$ 8,348	$ 20,863
Accounts receivable		40,860	43,964
Income tax receivable		5,711	6,014
Other receivables		4,440	7,950
Inventories		78,277	71,785
Prepaid expenses		2,220	1,739
Future income taxes		9,058	8,883
Other current assets		1,359	1,146
		150,273	162,344
Property, plant and equipment, net		95,355	98,973
Finite-life intangible assets, net		8,851	9,243
Other assets		649	758
Future income taxes		6,651	6,476
Goodwill		37,409	37,879
		$ 299,188	$ 315,673
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 66,393	$ 76,812
Income tax payable		2,360	2,899
Future income taxes		3,312	1,239
Current portion of long-term debt	5	11,610	11,064
		83,675	92,014
Long-term debt	5	46,020	50,637
Other liabilities		7,340	7,340
Future income taxes		11,670	13,398
		148,705	163,389
Shareholders' equity			
Capital stock	6	103,476	103,447
Contributed surplus	6	599	544
Cumulative translation adjustment		(9,945)	(7,372)
Retained earnings		56,353	55,665
		150,483	152,284
		$ 299,188	$ 315,673

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

CONSOLIDATED STATEMENTS OF INCOME

For the periods ended June 30, 2006 and 2005
(In thousands of dollars, except per share data) (Unaudited)

	Notes	2006	2005
Sales		$ 66,317	$ 53,917
Cost of sales		56,733	47,570
Amortization		4,141	4,286
Gross profit		5,443	2,061
Selling and administrative expenses		3,918	4,153
Operating income (loss)		1,525	(2,092)
Financial expenses	5	874	1,114
Income (loss) before income tax recovery and discontinued operations		651	(3,206)
Income tax recovery		(37)	(774)
Net income (loss) from continuing operations		688	(2,432)
Net income from discontinued operations	3	–	8,844
Net income		$ 688	$ 6,412
Earnings (loss) per share from continuing operations – basic and diluted		$ 0.02	$ (0.09)
Earnings per share from discontinued operations – basic and diluted		–	0.33
Earnings per share – basic and diluted		$ 0.02	$ 0.24
Weighted average number of shares outstanding during the quarters		31,492,855	26,959,538

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the periods ended June 30, 2006 and 2005
(In thousands of dollars) (Unaudited)

	Notes	2006	2005
Balance at beginning of period		$ 55,665	$ 47,410
Net Income		688	6,412
Balance at end of period		$ 56,353	$ 53,822

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended June 30, 2006 and 2005
(In thousands of dollars) (Unaudited)

	Notes	2006	2005
Cash and cash equivalents provided by (used for):			
Operating activities			
Net income (loss) from continuing operations		$ 688	$ (2,432)
Items not requiring an outlay of cash:			
Amortization		4,141	4,286
Future income taxes		(179)	323
Gain on sale of property, plant and equipment		–	(6)
Amortization of deferred financing costs		21	82
Amortization of net deferred loss related to a financial derivative instrument		87	35
Accretion expense of asset retirement obligations		47	47
Stock-based compensation	6	55	44
Cash flows from continuing operations		4,860	2,379
Net change in non-cash items related to operations	8	(11,228)	(7,501)
Cash and cash equivalents used for operating activities		(6,368)	(5,122)
Investing activities			
Purchase of property, plant and equipment and finite-life intangible assets		(2,063)	(1,178)
Proceeds on disposal of property, plant and equipment		–	6
Business acquisition	2	(1,577)	–
Proceeds from the sale of a business	3	–	19,172
Cash and cash equivalents provided by (used for) investing activities		(3,640)	18,000
Financing activities			
Repayment of long-term debt	5	(2,380)	(16,656)
Issuance of common shares	6	29	32
Cash and cash equivalents used for financing activities		(2,351)	(16,624)
Effect of changes in exchange rates on cash and cash equivalents		(156)	122
Cash and cash equivalents used for discontinued operations		–	(799)
Change in cash and cash equivalents		(12,515)	(4,423)
Cash and cash equivalents at beginning of period		20,863	9,550
Cash and cash equivalents at end of period		$ 8,348	$ 5,127
Supplemental information:			
Interest paid		$ 673	$ 1,010
Income taxes paid		$ 569	$ 688

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended June 30, 2006 and 2005
(All dollar amounts in thousands, except share data) (Unaudited)

NOTE 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods in their application as the most recent annual financial statements. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim financial statements. Such adjustments are of a normal and recurring nature. The results of operations for the interim periods are not necessarily indicative of the operating results for the full year. The interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report for the fiscal year ended March 31, 2006.

NOTE 2. BUSINESS ACQUISITION

On April 1, 2004, the Company concluded the asset purchase agreement and plan for merger signed on February 24, 2004 to acquire all outstanding common shares of Progressive Incorporated (along with the net assets of Promilling LP), (“Progressive”), a Texas-based manufacturer of large structural components in the military sector. The earnings of Progressive have been accounted for in the Company’s consolidated statement of income (loss) since the acquisition date and are included in the Aerospace segment. The total initial purchase price representing $74,193 (US$56,356) at the acquisition date (April 1, 2004) was adjusted upward by $687 to $74,880 up to June 30, 2006 to reflect the adjustments to the initial estimated tax impacts on the acquisition transaction, net of the additional payments made related to additional profitability performance for fiscal years 2004, 2005 and 2006. At June 30, 2006, the total adjusted purchase price can be detailed as follows:

Total Adjusted Purchase Price		
Basic purchase price	$	64,532
Tax impacts		3,421
Acquisition of a large specialized manufacturing equipment		4,246
Transaction costs and other		2,681
	$	74,880

As part of the asset purchase agreement and plan for merger, additional payments of up to $15,798 in total (US$6,000 for fiscal years 2004 and 2005 and US$6,000 for fiscal year 2006), could also be made based on additional profitability performance. At June 30, 2006, all additional payments amounting to $5,769 (US$4,725) were made of which $1,577 (US$1,388) were made in the quarter ended June 30, 2006. The basic purchase price was adjusted accordingly.

NOTE 3. DISCONTINUED OPERATIONS: SALE OF LOGISTICS AND DEFENCE DIVISION, DIEMACO

On February 10, 2005, the Company entered into an agreement with Colt Defense LLC, a U.S. Company, for the sale of its Logistics & Defence Division, Diemaco. Diemaco is a manufacturer of small arms for military and law enforcement agencies. The final sale price amounted to $19,035. The sale transaction closed on May 20, 2005. The gain on the sale transaction amounted to $8,385, net of income taxes of $2,521.

All assets and liabilities in the Company’s consolidated balance sheets along with revenues and expenses in the Company’s consolidated statements of income (loss) and the cash and cash equivalents in the Company’s consolidated statements of cash flows related to the Logistics and Defence Division, Diemaco were segregated and presented as discontinued operations.

NOTE 3. DISCONTINUED OPERATIONS: SALE OF LOGISTICS AND DEFENCE DIVISION, DIEMACO (cont'd)

Sales, income before income taxes and net income related to Diemaco's operations for the period from April 1, 2005 to May 20, 2005 last year, were as follows:

Sales	$	2,440
Income before taxes	$	418
Net income (including the gain on sale of Diemaco of $8,568)	$	8,844

All the activities of the Logistics & Defence Division, Diemaco operations were excluded from the Company's Aerospace segment and Canadian geographical segment in the segmented information disclosure.

NOTE 4. FINANCIAL INSTRUMENTS: FORWARD FOREIGN EXCHANGE CONTRACTS

At June 30, 2006, the Company entered into forward foreign exchange contracts whereby it will sell at an average exchange rate of 1.2511 an amount of US$140,250 (US$146,500 at an average rate of 1.2617 as at March 31, 2006 and US$126,500 at an average rate of 1.3215 as at June 30, 2005) for the purpose of foreign exchange risk management related to its export sales and maturing at various dates between July 1, 2006 and December 31, 2009.

NOTE 5. LONG-TERM DEBT

	June 30, 2006	March 31, 2006
Secured Syndicated Revolving Credit Facilities of up to $80,000 ($80,000 at March 31, 2006) (see below), either in Canadian or U.S. currency equivalent, maturing March 21, 2007 if not extended, extendible annually, which bear interest at Libor plus 1.5% for the U.S. operating and term facilities at June 30, 2006 (representing an effective interest rate of 6.7%) and Libor plus 1.5% at March 31, 2006 for the U.S. operating and term facilities (representing an effective interest rate of 6.2%). At June 30, 2006 the Company used U.S.$5,000 (U.S.$5,000 at March 31, 2006) on operating facilities and used U.S.$25,656 (U.S.$25,656 at March 31, 2006) on term facilities.	$ 34,218	$ 35,806
Loans bearing no interest, repayable in variable annual instalments, with various expiry dates until 2013.	15,518	17,268
Obligations under capital leases bearing interest between 5.4% and 8.1% maturing between July 2006 and October 2009, with amortization periods varying between five to eight years, secured by the related property, plant and equipment.	7,894	8,627
	57,630	61,701
Less: current portion	11,610	11,064
	$ 46,020	$ 50,637

Secured Syndicated Revolving Credit Facilities

The Secured Syndicated Revolving Credit Facilities ("Credit Facilities") allow the Company and its subsidiaries to borrow up to $80,000 (either in Canadian and U.S. currency equivalent) from a group of banks and their American subsidiaries or branches and are used for working capital, capital expenditures and other general corporate purposes and consist of revolving operating credit facilities of up to $30,000 ($30,000 at March 31, 2006) and revolving term credit facilities of up to $50,000 ($50,000 at March 31, 2006), each having up to a maximum of 21 month revolving period, extendible annually, secured by all assets of the Company, and its subsidiaries and are subject to certain restrictive covenants and corporate guarantees granted by the Company and its subsidiaries. Last year, in the third quarter ended December 31, 2005, the Company concluded the annual extension of its Credit Facilities from March 21, 2006 to March 21, 2007.

In the event that the Credit Facilities are not extended at the end of the revolving period (March 21, 2007), the revolving operating credit facilities will mature. As to the revolving term credit facilities, they will convert at the end of the revolving period into a three-year term loan with an amortization period of five years.

NOTE 5. LONG-TERM DEBT (cont'd)

These Credit Facilities are extendible annually within the period from July 1st and October 31st of each year.

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

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

The financial expenses, for the quarters ended June 30, are comprised of:

	2006	2005
Interest	$ 808	$ 989
Amortization of deferred financing costs	69	76
Standby fees	48	67
Amortization of net deferred loss related to financial derivative instrument	87	35
Interest revenue	(138)	(53)
Financial expenses	$ 874	$ 1,114

NOTE 6. CAPITAL STOCK

Authorized capital stock

The authorized capital stock of the Company consists of the following:
An unlimited number of voting common shares, without par value;
An unlimited number of first preferred shares, issuable in series; and
An unlimited number of second preferred shares, issuable in series.

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

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

	June 30, 2006	March 31, 2006
31,495,497 common shares (31,488,599 at March 31, 2006)	$ 103,476	$ 103,447

Issuance of common shares

During the quarter ended June 30, 2006, the Company issued 6,898 common shares at a weighted average price of $4.22 for a total net cash consideration of $29 under the stock purchase and ownership incentive plan (see below).

During the quarter ended June 30, 2005, the Company issued 8,708 common shares at a weighted average price of $3.69 for a total net cash consideration of $32 under the stock purchase and ownership incentive plan (see below).

Stock option plan

The Company has a stock option plan where options to purchase common shares are issued to directors, officers and key employees. The Company expenses all granting of stock options based on their earned period, using the Black-Scholes valuation model to determine their fair value. The expense related to stock options recorded in the quarter ended June 30, 2006 amounted to $55 ($44 for the quarter ended June 30, 2005).

During the quarter ended June 30, 2006, no stock options were granted or cancelled.

During the quarter ended June 30, 2005, 65,000 stock options were granted at a value of $4.28 per share that are vesting over a three-year period and can be exercised over a seven-year period and 135,800 stock options were cancelled.

At June 30, 2006, the Company had 873,021 outstanding stock options at an average strike price of $5.72 which will expire over the next seven years (between June 2007 and August 2012).

NOTE 6. CAPITAL STOCK (cont'd)

Stock purchase and ownership incentive plan

The Company has a stock purchase and ownership incentive plan to induce management employees to hold, on a long-term basis, common shares of the Company.

Under this plan, eligible employees can subscribe monthly, by salary deductions, up to 10% of their base salary, a number of common shares issued by the Company corresponding to their monthly contribution. The subscription price of the issued common shares represents 90% of the average closing price of the Company's common share on the TSX over the five trading days preceding the common share subscription. Also, the Company matches 50% of the employee's contribution by attributing to the employee, on a monthly basis, additional common shares acquired on the TSX at market price. However, the Company's matching attribution cannot exceed 4% of the employee's annual base salary. Common shares attributed to the employee, as well as the subscribed common shares, will be earned and released over a three-year period, the first period beginning July 1, 2005.

A trustee is in charge of the administration of the plan, including market purchases and subscriptions to the Company's common shares for and on behalf of the participating employees.

The aggregate number of shares reserved for issuance under this plan represent 90,000 common shares and has been taken out from the common shares already reserved for the Company's stock option plan.

During the quarter ended June 30, 2006, 6,898 common shares were issued (58,938 since the beginning of the plan) and 2,982 common shares were attributed to the participating employees (26,440 since the beginning of the plan). For the quarter ended June 30, 2006, the expense related to the attributed common shares amounting to $14 is recorded as compensation expense and is included in the Company's selling and administrative expenses.

During the quarter ended June 30, 2005, 8,708 common shares were issued and 3,988 common shares were attributed to the participating employees. For the quarter ended June 30, 2005, the expense related to the attributed common shares amounting to $16 is recorded as compensation expense and is included in the Company's selling and administrative expenses.

Stock Appreciation Right plan

The Company has a stock appreciation right plan (SAR) under which rights are issued to its non-employee directors. The SAR enables the participants to receive by way of bonus, on the exercise date of a SAR, a cash amount equal to the excess of the market price of the Company's common share over the granted price of the SAR. The SARs are expensed on an earned basis and their costs are determined based on the Company's common shares quoted market value over their granted price. No expense was recorded for SAR during the quarters ended June 30, 2006 and 2005. During the quarters ended June 30, 2006 and 2005, no SAR were granted.

At June 30, 2006, on a cumulative basis, 60,000 SAR were still outstanding at a weighted-average value of $5.56 which expires at various dates between fiscal years 2009 and 2013.

NOTE 7. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

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

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

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

NOTE 7. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS (cont'd)

	2006	2005
Defined benefit pension costs	$ 311	$ 372
Defined contribution pension costs	325	283
	$ 636	$ 655

NOTE 8. NET CHANGE IN NON-CASH ITEMS RELATED TO OPERATIONS

The net change in non-cash items related to operations for the quarters ended June 30 can be detailed as follows:

	2006	2005
Accounts receivable	$ 3,104	$ 3,480
Income tax receivable	303	(2,211)
Other receivables	3,510	309
Inventories	(6,492)	(6,072)
Prepaid expenses	(481)	(989)
Other current assets	(213)	49
Accounts payable and accrued liabilities, and other liabilities	(9,370)	(2,659)
Income tax payable	(539)	273
Effect of changes in exchange rate	(1,050)	319
	$ (11,228)	$ (7,501)

NOTE 9. SEGMENTED INFORMATION FOR THE QUARTERS ENDED JUNE 30

Activity Segments	2006			2005		
	Aerospace	Industrial	Total	Aerospace	Industrial	Total
Sales	$ 60,362	$ 5,955	$ 66,317	$ 48,435	$ 5,482	$ 53,917
Operating income (loss)	2,171	(646)	1,525	(2,149)	57	(2,092)
Financial expenses			874			1,114
Income (loss) before income tax recovery and discontinued operations			651			(3,206)
Assets from continuing operations	279,343	19,845	299,188	273,548	19,135	292,683
Goodwill	36,410	999	37,409	34,397	1,097	35,494
Purchase of property, plant and equipment	1,765	39	1,804	958	112	1,070
Purchase of finite-lige intangible assets	259	–	259	108	–	108
Goodwill acquired	440	–	440	–	–	–
Amortization	3,684	457	4,141	3,769	517	4,286

NOTE 9. SEGMENTED INFORMATION FOR THE QUARTERS ENDED JUNE 30 (cont'd)

Geographic Segments

	2006			2005		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Sales	$ 48,670	$ 17,647	$ 66,317	$ 33,750	$ 20,167	$ 53,917
Property plant and equipment, net	59,202	36,153	95,355	59,446	41,471	100,917
Finite-life intangible assets, net	1,965	6,886	8,851	2,634	8,331	10,965
Goodwill	17,534	19,875	37,409	16,523	18,971	35,494
Export sales (1)	$ 29,626			$ 18,874		

68% of the Company's sales (70% in 2005) were to US customers.

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

NOTE 10. SUBSEQUENT EVENT: MACHINERY AND EQUIPMENT ACQUISITION COMMITMENTS

Subsequent to the end of the first quarter ended June 30, 2006, the Company released purchase orders relating to machinery and equipment, which have not been delivered to the Company's facilities, for a total of $5,260.

The total outstanding purchases now amount to $12,646 ($7,386 to June 30, 2006 and March 31, 2006) for which $1,359 ($1,359 to June 30, 2006 and $933 to March 31, 2006) deposits on machinery and equipment were made and included in the Company's other current assets.

NOTE 11. RECLASSIFICATION

Comparative figures for the financial statements as at June 30, 2005 have been reclassified to comply with the June 30, 2006 presentation.

management discussion and analysis of financial position and operating results

This Management Discussion and Analysis of Financial Position and Operating Results (MD&A) is intended to provide an overview of how the financial position of Héroux-Devtek Inc. ("Héroux-Devtek" or "the Company") has changed between March 31, 2006 and June 30, 2006. It also compares the operating results and cash flows for the first quarter ended June 30, 2006 to those for the same period in the previous year. It should be read in conjunction with the audited consolidated financial statements dated March 31, 2006 and the related MD&A, both available on the Company's website at www.herouxdevtek.com, and with the interim consolidated financial statements of June 30, 2006. 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; fluctuations in commodity prices or availability; foreign exchange and interest rates; stock market volatility; and the impact of accounting policies issued by Canadian and US standard setters. Some of these factors are further discussed under Risks and Uncertainties in the Company's MD&A for the year ended March 31, 2006.

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

OVERVIEW

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

- landing gear products
- aerostructure products
- aircraft engine components

The Industrial segment includes:

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

During the first quarter ended June 30, 2006, the economic and industry factors influencing Héroux-Devtek's business remained essentially unchanged from those discussed at March 31, 2006, our last fiscal year-end. The recovery in the civil aerospace market had a favourable impact on Héroux-Devtek's sales for fiscal 2006, mainly in the large civil aircraft, business jets and turboprop (commuter) markets, which continued in the first quarter. The military aerospace market remains generally strong. On the industrial side, wind energy helped counterbalance the slowdown in Gas Turbine sales. Finally, the strength of the Canadian dollar continued to have a significant negative impact on Héroux-Devtek's results.

RESULTS OF OPERATIONS

CONSOLIDATED SALES

Consolidated sales for the quarter ended June 30, 2006 grew by 23% to $66.3 million from $53.9 million for the same period last year.

The increase in first quarter sales was mainly due to the continued improved sales for commercial products, consisting of landing gear products for large aircraft and business jets, as well as growth in military repair and overhaul sales.

The decrease in military products sold to civil customers reflects mainly the reduction of aircraft engine components contracts.

The strength of the Canadian dollar relative to the US dollar (US dollar denominated sales) reduced sales by $4.0 million or 7.4%.

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

Segments	***Quarters ended June 30***			
	2006 ($'000)	2005 ($'000)	($'000)	Variance %
Aerospace				
Military	14,684	10,886	3,798	34.9
Civil				
Military products sold to civil customers	13,213	14,713	(1,500)	(10.2)
Commercial products	32,465	22,836	9,629	42.2
Total Civil	45,678	37,549	8,129	21.6
Total Aerospace	60,362	48,435	11,927	24.6
Total Industrial	5,955	5,482	473	8.6
Total	66,317	53,917	12,400	23.0

Aerospace Segment

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

Product	***Quarters ended June 30***			
	2006 ($'000)	2005 ($'000)	($'000)	Variance %
Landing Gear	40,704	28,648	12,056	42.1
Aerostructure	18,348	14,755	3,593	24.3
Aircraft Engine Components	1,310	5,032	(3,722)	(74.0)
Total	60,362	48,435	11,927	24.6

For the first quarter ended June 30, 2006, overall sales for the Aerospace segment were up 24.6% to $60.4 million compared to $48.4 million for the same period last year.

During the first quarter, Landing Gear sales increased by $12.1 million or 42.1% relative to the same period last year. This resulted from continued growth in sales for large civil and business jets, and the full quarter impact of the supply of materials under the US Air Force (USAF) repair and overhaul contract, which started last August.

First quarter Aerostructure sales were higher than last year due to a higher built rate on business jet and turboprop (commuter) contracts, although this was somewhat offset by reduced regional jet sales due to the reduction of the Bombardier RJ200 program.

Increased military sales made to civil customers representing $2.5 million in the first quarter also explained the variation in the Aerostructure sales.

Aircraft engine components sales further declined in the first quarter, as anticipated. Sales were $1.3 million compared to $5.0 million for the corresponding quarter last year. In the last quarter of the fiscal year ended March 31, 2006, these sales totalled $1.9 million. Management is expecting to exit this market by the end of the current fiscal year based on a mutual agreement with the customer.

Industrial Segment

Sales for the Industrial segment were as follows:

Product	***Quarters ended June 30***			
	2006 ($'000)	2005 ($'000)	($'000)	Variance %
Gas Turbine	2,450	3,045	(595)	(19.5)
Other Industrial	3,505	2,437	1,068	43.8
Total	5,955	5,482	473	8.6

First quarter sales for the Industrial segment totalled $5.9 million this year, about 9% higher than last year. A year-over-year decline of $0.6 million in Industrial Gas Turbine sales, where the expected modest growth has not yet materialized, was partially offset by stronger Wind Energy sales, which totalled $1.2 million in the first quarter compared to $0.1 million in the same period last year.

Sales by Destination

The Company's sales by destination were as follows:

	Quarters ended June 30	
	2006	2005
Canada	29%	28%
US	68%	70%
International	3%	2%
	100%	100%

The slight increase in sales in Canada for the year to date reflects improved commercial Landing Gear and Aerostructure sales to Canadian customers relative to the same period last year.

GROSS PROFIT

For the quarter ended June 30, 2006, consolidated gross profit as a percentage of sales was 8.2%, up from 3.8% last year in spite of a 0.9% negative impact attributable to the continued strength of the Canadian dollar relative to the US currency.

Gross profit was also favourably impacted by improved margin on certain contracts and by overall increased sales, which contributed to a better absorption of manufacturing overhead costs. Improved productivity at the Landing Gear division was also a positive factor.

In the first quarter of last year, gross profit was impacted by certain late deliveries and a sales shortfall at the Landing Gear division.

SELLING AND ADMINISTRATIVE EXPENSES

First quarter selling and administrative expenses went down this year, as shown below:

	Quarters ended June 30	
	2006	2005
Selling and administrative expenses ($'000)	3,918	4,153
% of sales	5.9	7.7

First quarter selling and administrative expenses were lower this year in spite of higher variable selling costs in line with increased sales, as these costs were offset by a $0.9 million gain on currency translation that reduced selling and administrative expenses by the same amount.

OPERATING INCOME (LOSS)

Aerospace Segment

Aerospace operating income was $2.2 million or 3.6% of sales in the first quarter compared to an operating loss of $2.1 million in the first quarter of last year, essentially reflecting higher sales and improved performance at the Landing Gear Division.

Industrial Segment

The operating loss of $0.6 million in the first quarter of this year compares to a $0.1 million operating income for the same period last year and reflects continued overall low business volume at the Gas Turbine Components division, where expected modest growth in the industrial Gas Turbine has not yet materialized.

FINANCIAL EXPENSES

	Quarters ended June 30	
	2006 ($'000)	2005 ($'000)
Interest	808	989
Amortization of deferred financing costs	69	76
Standby fees	48	67
Amortization of net deferred loss related to financial derivative instrument	87	35
Interest revenue	(138)	(53)
Financial expenses – net	874	1,114

For the first quarter ended June 30, 2006, financial expenses were $0.9 million, $0.2 million lower than for the same period last year. The decrease is mainly attributable to lower debt, resulting from debt capital repayments made last year following the sale of Diemaco in May 2005 for proceeds of $19.0 million and the treasury issue of 4.5 million common shares in November 2005 for net proceeds of $15.7 million.

INCOME TAX RECOVERY

In the first quarter ended June 30, 2006, the income tax recovery was favourably impacted by $0.2 million in permanent differences and $0.1 million in net future tax adjustments. This was partially offset by the $0.1 million negative impact on the Company's net future tax assets following a decrease in the Canadian federal income tax rate announced last May.

DISCONTINUED OPERATIONS

Last year, on May 20, 2005, the Company concluded the sale of its Logistics & Defence Division, Diemaco, to Colt Defense LLC. The final total sale price was $19.0 million. All assets and liabilities related to Diemaco were reclassified as discontinued assets and liabilities in the consolidated balance sheets. Diemaco's revenues, expenses and net income are shown under discontinued operations in the consolidated statements of income (loss), and the impact of Diemaco's operations on the Company's cash and cash equivalents is presented under discontinued operations in the consolidated statements of cash flows (see below and Note 3 to the interim consolidated financial statements).

NET INCOME (LOSS)

	Quarters ended June 30	
	2006	2005
Net income (loss) from continuing operations ($'000)	688	(2,432)
Net income from discontinued operations ($'000)	-	8,844
Net income ($'000)	688	6,412
Income (loss) per share from continuing operations ($)	0.02	(0.09)
Earnings per share from discontinued operations ($)	-	0.33
Earnings per share ($)	0.02	0.24

The Company posted net income from continuing operations of $0.7 million in the first quarter ended June 30, 2006, compared to the net loss from continuing operations of $2.4 million for the quarter ended June 30, 2005. The difference mainly reflects the improved sales and performance at the Landing Gear division.

Net income was $0.7 million for the quarter ended June 30, 2006, compared to $6.4 million for the same period last year. In fiscal 2006, net income for the first quarter included the $8.6 million gain on the sale of the Company's Logistics and Defence Division (Diemaco), net of income taxes of $2.3 million, and Diemaco's net income from operations of $0.2 million for the period of April 1, 2005 to May 20, 2005, the closing date of the sale transaction.

Earnings (loss) per share figures are based on weighted averages of 31,492,855 common shares outstanding for the first quarter of this year and 26,959,538 for the same period last year. The increase in the number of shares is essentially due to the treasury issue of 4.5 million common shares last November, and the issuance of common shares pursuant to the Company's stock purchase and ownership incentive plan (see Note 6 to the interim consolidated financial statements).

On August 2, 2006, the date of this MD&A, the Company had 31,509,512 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES

Internally, the Company generated cash flows from continuing operations and used cash flows for operating activities as follows:

	Quarters ended June 30	
	2006 ($'000)	2005 ($'000)
Cash flows from continuing operations	4,860	2,379
Net change in non-cash items related to operations	(11,228)	(7,501)
Cash and cash equivalents used for operating activities	(6,368)	(5,122)

For the first quarter ended June 30, 2006, cash flows from continuing operations was $4.9 million, $2.5 million higher than for the same period last year, due mainly to a $3.1 million improvement in net income.

The net change of $11.2 million in non-cash items for the first quarter ended June 30, 2006, was mainly caused by a $6.5 million increase in inventories in line with the increased level of activity, and a $9.2 million reduction in accounts payable and accrued liabilities and other liabilities following a return to more standard levels. These were somewhat offset by decreases of $3.1 million in accounts receivable and $3.5 million in other receivables.

In the first quarter ended June 30, 2005, the net change in non-cash items included a $2.7 million reduction in accounts payable and accrued liabilities and other liabilities, a $2.2 million increase in income tax receivable and a $6.1 million increase in inventories. The increase in inventories was directly related to the overall increase in business activity and the sales shortfall experienced in the first quarter of the year, explained earlier. These items were partially offset by a $3.5 million reduction in accounts receivable during the quarter ended June 30, 2005.

INVESTING ACTIVITIES

The Company's investing activities were as follows:

	Quarters ended June 30	
	2006 ($'000)	2005 ($'000)
Purchase of property, plant and equipment and finite-life intangible assets	(2,063)	(1,178)
Proceeds on disposal of property, plant and equipment	-	6
Business acquisition	(1,577)	-
Proceeds on sale of Logistics and Defence Division, Diemaco	-	19,172
Cash and cash equivalents provided by (used for) investing activities	(3,640)	18,000

First quarter purchase of property, plant and equipment and finite-life intangible assets (capital expenditures) was $2.1 million this year compared to $1.2 million last year. In all, capital expenditures of about $25 million are planned for the current fiscal year.

The $1.6 million business acquisition in the first quarter ended June 30, 2006, represents the last additional payments made in relation to profitability performance for fiscal 2006, related to the acquisition of Progressive on April 1, 2004. See Note 2 to the interim consolidated financial statements.

On May 20, 2005, the Company concluded the sale of its Logistics and Defence Division, Diemaco. The final total sale price amounted to $19.0 million. (See Note 3 to the interim consolidated financial statements).

FINANCING ACTIVITIES

The Company's financing activities were as follows:

	Quarters ended June 30	
	2006 ($'000)	2005 ($'000)
Repayment of long-term debt	(2,380)	(16,656)
Issuance of common shares	29	32
Cash and cash equivalents used for financing activities	(2,351)	(16,624)

During the first quarter of the previous fiscal year, subsequent to the sale of the Logistics and Defence Division, Diemaco, the Company repaid $15.3 million on its Secured Syndicated Revolving Term Credit Facilities (Credit Facilities).

EXTENSION OF SECURED SYNDICATED REVOLVING CREDIT FACILITIES (CREDIT FACILITIES)

Last year, in the third quarter ended December 31, 2005, the Company concluded the annual extension of its Credit Facilities from March 21, 2006 to March 21, 2007. These Credit Facilities allow the Company to borrow up to $80 million (either in Canadian or equivalent US currency), including up to $30 million and $50 million for the revolving operating credit facilities and revolving term credit facilities respectively, based essentially on the same terms and conditions. The Credit Facilities are used for working capital, capital expenditures and other general corporate purposes. In the event that the Credit Facilities are not extended at the end of the revolving period (March 21, 2007), the revolving operating credit facilities will mature. The revolving term credit facilities will convert at the end of the revolving period into a three-year term loan with a five-year amortization period. The Credit Facilities are extendible annually from July 1st to October 31st of each year.

The Company was in compliance with all its restrictive debt covenants at June 30, 2006, and expects to remain so for the balance of the current fiscal year.

STOCK OPTION PLAN

The Company has a stock option plan whereby options to purchase common shares are issued to directors, officers and key employees. At June 30, 2006, the Company had 873,021 outstanding stock options at an average strike price of $5.72 that will expire over the next seven years (between June 2007 and August 2012). The Company also has a stock purchase and ownership incentive plan for management employees and a stock appreciation rights plan for its non-employee directors. (See Note 6 to the interim consolidated financial statements).

CHANGES TO THE COMPANY’S STOCK OPTION PLAN

On February 1, 2006, the Human Resources and Corporate Governance Committee recommended to the Board of Directors (the “Board”) the approval of certain changes to the Company’s stock option plan, which were approved the same day by the Board. The purpose of these changes is to increase the number of common shares that may be issued under the stock option plan and under the stock purchase and ownership incentive plan from an aggregate of 2,277,118 common shares (of which 300,319 common shares remain available for future grants at March 31, 2006, including 90,000 reserved for the stock purchase and ownership incentive plan) to 3,148,257 common shares (representing about 10% of the common shares outstanding at March 31, 2006, and of which 340,000 will be reserved for the stock purchase and ownership incentive plan).

These changes were approved by the Toronto Stock Exchange subject to final approval by the Company’s shareholders at the next annual general meeting on August 3, 2006.

CONSOLIDATED BALANCE SHEETS

The following table itemizes and explains the significant changes to the consolidated balance sheets between March 31, 2006 and June 30, 2006:

Item	Change ($ million)	Explanation
Cash and cash equivalents	(12.5)	See consolidated statements of cash flows
Accounts receivable	(3.1)	Increased level of business activity more than offset by improved accounts receivable collection
Other receivables	(3.5)	Collection of other receivables related to tooling invoiced to customers
Inventories	6.5	Mainly related to increased business activity for the upcoming quarters
Property, plant and equipment, net	(3.6)	Due to: • Purchase of capital assets ($2.1 million) Net of: • Amortization ($4.1 million) • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($1.6 million)
Finite-life intangible assets, net (includes a $6.0 million net backlog)	(0.4)	Represents mainly the amortization on the underlying value of the net backlog acquired as part of the acquisition of Progressive, net of the lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries
Goodwill	(0.5)	Due to the variation between actual additional payments made to the sellers in the first quarter in relation to the profitability performance of Progressive and the estimated payments accrued for at the last fiscal year-end ($0.4 million), net of the lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.9 million)
Accounts payable and accrued liabilities	(10.4)	Impact of increased raw material purchases at the end of the fourth quarter of last year and a return to a more standard payables level.
Long-term debt (including current portion)	(4.1)	Due to: • Net capital repayments of long-term debt ($2.4 million); and • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($1.7 million)
Cumulative translation adjustment	(2.6)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries
Retained earnings	0.7	See consolidated statements of retained earnings

At June 30, 2006 and March 31, 2006, the Company's working capital ratio, cash and cash equivalents and long-term debt-to-equity ratio were as follows:

	June 30, 2006	March 31, 2006
Working capital ratio	1.80:1	1.76:1
Cash and cash equivalents	$8.3 million	$20.9 million
Long-term debt-to-equity ratio	0.31:1	0.33:1

CHANGES IN ACCOUNTING POLICIES

Changes in accounting policies adopted in the fiscal year ended March 31, 2006 and future changes in accounting policies are discussed in the MD&A included in the Company's annual report for fiscal 2006.

SUBSEQUENT EVENT: MACHINERY AND EQUIPMENT ACQUISITION COMMITMENTS

Subsequent to the end of the first quarter ended June 30, 2006, the Company released purchase orders relating to machinery and equipment, which have not been delivered to the Company's Kitchener, Ontario (Landing Gear Division) and Arlington, Texas (Aerostructure Division) facilities (see Note 10, to the interim consolidated financial statements).

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments that have a variety of risk factors and uncertainties that could have a material adverse effect on the Company's business, financial condition and results of operations. Such risks and uncertainties include, but are not limited to, those mentioned below, which are more fully described in the Company's MD&A for the year ended March 31, 2006.

- Reliance on large customers
- Availability and cost of raw materials
- Operational risks
- General economic conditions
- Military spending
- Foreign currency fluctuations
- Liquidity and access to capital resources
- Restrictive debt covenants
- Changing interest rates
- External business environment
- Warranty casualty claim losses
- Environmental matters
- Collective bargaining agreements
- Skilled labour

OUTLOOK

As already reported in our MD&A for the year ended March 31, 2006, the Company expects its business to continue to improve through the remainder of this year as we continue to execute our business plan. Military sales should remain solid. Sales for large commercial aircraft, business jets and turboprops (commuters) should increase as the civil market continues to improve, while regional jet product sales could remain at a lower level. The Company's recent move into the wind energy markets is starting to bear fruit and will contribute positively to future industrial product sales. However, aircraft engine component sale will continue to decline in the coming quarters, as the Company prepares to exit this market segment by the end of the current fiscal year.

Based on the existing backlog, Company management is expecting internal sales growth of approximately 10% per year over the next three years and an improvement in the Company's overall performance, with a return to profitability in the current fiscal year.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and the Board of Directors on August 2, 2006. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

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