Growing together

Quarterly report 1

FIRST QUARTER ENDED
JUNE 30, 2007

Message to Shareholders

On behalf of the Board of Directors, I am pleased to present the financial results for Héroux-Devtek's first quarter ended June 30, 2007.

We had a solid first quarter in all of our operations. Our Aerospace and Industrial segments have both contributed to the year-over-year improvement while benefits from initiatives undertaken in previous years to streamline and improve our operations played an important role in enhancing profit margins.

The Aerostructure Division was particularly strong reflecting the increase in commercial turboprops parts and military electronic enclosures sales as well as increased deliveries on the Joint Strike Fighter (JSF) development program. Our Landing Gear Division further benefits from buoyant market conditions in large commercial aircraft and business jets. Finally, the positive trend in gas turbine sales that started in the second quarter of fiscal 2007 continued in fiscal 2008.

Overall, sales for the period were $78.8 million, 18.8% higher than sales of $66.3 million reported for the same quarter last year. First quarter Aerostructure sales were up 39.7% compared with the same period last year to reach $25.6 million, while Landing Gear sales increased by 12.7% to $45.9 million. Sales from our Industrial segment were also up by 18.8% due to the improvement in the gas turbine market. However, the strong Canadian dollar continued to have a negative effect in the first quarter, reducing total sales by $0.9 million or 1.4% compared to the same period last year.

Gross profit was favourably impacted by higher sales volume and improved margins on certain contracts at the Landing Gear and Aerostructure divisions and by the continued turnaround at the Gas Turbine division. However, improvement in Aerostructure division gross profit was somewhat slowed, again this quarter, by the development phase of the JSF program. The stronger Canadian dollar had basically no major impact on the consolidated gross profit margin in the quarter ended June 30, 2007, compared to the same period last year. The Company uses forward foreign exchange contracts to mitigate the risks related to the Canadian currency fluctuations towards the US currency.

First quarter operating income reached $6.4 million, or 8.1% of sales, compared with $1.5 million, or 2.3% of sales last year, with marked improvements in both the Aerospace and Industrial segments. Consequently, net income increased to $4.2 million or $0.13 per share, fully diluted, compared with $0.7 million or $0.02 per share, fully diluted, for the same period last year.

During the quarter, our Landing Gear division was awarded a contract by Sikorsky Aircraft Corporation to participate in the CH-53K Heavy Lift Helicopter program. Under the terms of the agreement, Héroux-Devtek will design, develop, fabricate, assemble, test and deliver the landing gears and tail bumper assemblies for the CH-53K Heavy Lift's Systems Design and Development phase which includes the production of 8 systems. The Production phase will start in 2013 and could lead to 156 deliveries to the U.S. Marine Corps under current program expectations. Orders for this phase will be awarded in a separate contract. Total revenues for Héroux-Devtek for the two phases could exceed $95 million.

The solid order bookings enjoyed by large commercial aircraft manufacturers bodes well for Héroux-Devtek. In addition, with the power generation market further improving and the military aerospace market remaining solid, business activities at both our Aerospace and Industrial segments should pursue their upward trends. It is, however, important to keep in mind that our second quarter has traditionally been a somewhat slower period owing to seasonal factors, such as plant shutdowns and summer vacations. Nevertheless, we continue to expect achieving approximately 10% internal sales growth in fiscal 2008 as well as further profitability gains from the lean manufacturing initiatives implemented in recent years. In light of the continued strength of the Canadian dollar toward the US currency, we must continue to improve or make productivity gains to maintain our competitiveness.

(signed by)

Gilles Labbé

President and Chief Executive Officer

August 1, 2007

NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS FOR THE QUARTERS ENDED JUNE 30, 2007 AND 2006.

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, 2007 and 2006, 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 1st day of August 2007.

CONSOLIDATED BALANCE SHEETS

As at June 30, 2007 and March 31, 2007
(In thousands of dollars) (Unaudited)

	Notes	June 2007	March 2007
Assets	4		
Current assets			
Cash and cash equivalents		**$ 10,387**	$ 20,124
Accounts receivable		**40,412**	46,850
Income tax receivable		**2,542**	2,523
Other receivables		**11,156**	4,665
Inventories		**85,295**	92,728
Prepaid expenses		**1,348**	974
Future income taxes		**7,884**	8,226
Other current assets	2	**12,248**	2,041
		171,272	178,131
Property, plant and equipment, net	2	**106,452**	109,682
Finite-life intangible assets, net		**6,789**	7,722
Other assets	2	**7,070**	51
Goodwill		**36,505**	38,093
		$ 328,088	$ 333,679
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	2	**$ 68,268**	$ 82,615
Income tax payable		**313**	-
Future income taxes	2	**5,545**	2,542
Current portion of long-term debt	2,4	**4,369**	6,691
		78,495	91,848
Long-term debt	2,4	**58,453**	66,262
Other liabilities	2	**6,242**	6,462
Future income taxes	2	**11,337**	8,259
		154,527	172,831
Shareholders' equity			
Capital stock	5	**104,093**	103,620
Contributed surplus	5	**769**	691
Accumulated other comprehensive loss	2	**(1,768)**	(8,034)
Retained earnings	2	**70,467**	64,571
		173,561	160,848
		$ 328,088	$ 333,679

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

CONSOLIDATED STATEMENTS OF INCOME

For the periods ended June 30, 2007 and 2006

(In thousands of dollars, except per share data) (Unaudited)

	Notes	2007	2006
Sales		$ 78,776	$ 66,317
Cost of sales		63,921	56,733
Amortization	2	4,235	4,141
Gross profit		10,620	5,443
Selling and administrative expenses		4,240	3,918
Operating income		6,380	1,525
Financial expenses, net	2,4	1,246	874
Income before income tax expense (recovery)		5,134	651
Income tax expense (recovery)	2	983	(37)
Net income		$ 4,151	$ 688
Earnings per share – basic and diluted		$ 0.13	$ 0.02
Weighted-average number of shares outstanding during the quarters		31,551,999	31,492,855

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of dollars) (Unaudited)

For the period ended June 30, 2007

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Cumulative translation adjustment	Retained earnings	Comprehensive income (loss)
Balance at March 31, 2007,							
as previously reported		**$103,620**	**$ 691**	**$ -**	**$ (8,034)**	**$ 64,571**	**$ -**
Change in accounting policies:	2						
Loans bearing no interest		-	-	-	-	1,745	-
Cumulative translation adjustment		-	-	(8,034)	8,034	-	-
Accumulated gains on derivative financial instruments designated as cash flow hedges, net of taxes of $2,753		-	-	5,597	-	-	-
Balance at March 31, 2007, adjusted		**103,620**	**691**	**(2,437)**	**-**	**66,316**	**-**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (cont'd)

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Cumulative translation adjustment	Retained earnings	Comprehensive income (loss)
Balance at March 31, 2007, adjusted		**103,620**	**691**	**(2,437)**	**-**	**66,316**	**-**
Common shares issued	**5**						
Under the stock option plan		**413**	**-**	**-**	**-**	**-**	**-**
Under the stock purchase and ownership plan		**60**	**-**	**-**	**-**	**-**	**-**
Stock-based compensation expense	**5**	**-**	**78**	**-**	**-**	**-**	**-**
Net income		**-**	**-**	**-**	**-**	**4,151**	**4,151**
Net gains on derivative financial instruments designated as cash flow hedges, net of taxes of $2,922		**-**	**-**	**6,043**	**-**	**-**	**6,043**
Net gains on derivative financial instruments designated as cash flow hedges in prior periods transferred to net income in the current period, net of taxes of $436		**-**	**-**	**(906)**	**-**	**-**	**(906)**
Cumulative translation adjustment		**-**	**-**	**(4,468)**	**-**	**-**	**(4,468)**
Balance at June 30, 2007		**$104,093**	**$ 769**	**$ (1,768)**	**$ -**	**$ 70,467**	**$ 4,820**

For the period ended June 30, 2006

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Cumulative translation adjustment	Retained earnings	Comprehensive income (loss)
Balance at March 31, 2006, as previously reported		$ 103,447	$ 544	$ -	$ (7,372)	$ 55,665	$ -
Change in accounting policies:							
Cumulative translation adjustment		-	-	(7,372)	7,372	-	-
Balance at March 31, 2006, adjusted		103,447	544	(7,372)	-	55,665	-
Common shares issued	**5**						
Under the stock option plan		-	-	-	-	-	-
Under the stock purchase and ownership plan		29	-	-	-	-	-
Stock-based compensation	**5**	-	55	-	-	-	-
Net income		-	-	-	-	688	-
Cumulative translation adjustment		-	-	(2,573)	-	-	-
Balance at June 30, 2006		$ 103,476	$ 599	$ (9,945)	$ -	$ 56,353	$ -

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended June 30, 2007 and 2006

(In thousands of dollars) (Unaudited)

	Notes		2007		2006
Cash and cash equivalents provided by (used for):					
Operating activities					
Net income		**$**	**4,151**	$	688
Items not requiring an outlay of cash:					
Amortization	**2**		**4,235**		4,141
Future income taxes	**2**		**153**		(179)
Amortization of deferred financing costs			**46**		21
Amortization of net deferred loss related to a financial derivative instrument			**33**		87
Accretion expense of asset retirement obligations and loans bearing no interest			**242**		47
Stock-based compensation expense	**5**		**78**		55
Cash flows from operations			**8,938**		4,860
Net change in non-cash items related to operations	**7**		**(11,115)**		(11,228)
Cash flows relating to operating activities			**(2,177)**		(6,368)
Investing activities					
Purchase of property, plant and equipment and finite-life intangible assets			**(4,721)**		(2,063)
Business acquisition – additional payments			-		(1,577)
Cash flows relating to investing activities			**(4,721)**		(3,640)
Financing activities					
Repayment of long-term debt	**4**		**(3,546)**		(2,380)
Issuance of common shares	**5**		**473**		29
Cash flows relating to financing activities			**(3,073)**		(2,351)
Effect of changes in exchange rates on cash and cash equivalents			**234**		(156)
Change in cash and cash equivalents			**(9,737)**		(12,515)
Cash and cash equivalents at beginning of period			**20,124**		20,863
Cash and cash equivalents at end of period		$	**10,387**	$	8,348
Supplemental information:					
Interest paid		**$**	**810**	$	673
Income taxes paid		**$**	**294**	$	569

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, 2007 and 2006

(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, 2007.

NOTE 2. CHANGES IN ACCOUNTING POLICIES

In April 2005, the Accounting Standards Board ("AcSB") issued three new accounting standards: Section 1530 "Comprehensive Income"; Section 3855 "Financial Instruments – Recognition and Measurement"; and Section 3865 "Hedges". Effective April 1, 2007, the Company adopted these new accounting standards. The comparative consolidated financial statements have not been restated. The effect of adopting the new accounting standards as at April 1, 2007 is presented as changes in accounting policies in the consolidated statement of changes in shareholders' equity.

Section 1530 introduces comprehensive income, which comprises net income and other comprehensive income (loss) ("OCI") and represents the changes in shareholders’ equity during a period from transactions and other events and circumstances from non-owner sources (not related to shareholders). OCI includes 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 and long-term debt (including current portion) 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.

On adoption of these new standards, the transition rules require that the Company adjust the accumulated other comprehensive income (loss) as if the rules had always been applied in the past, without restating comparative figures for prior years. Accordingly, the following adjustments were recorded in the consolidated financial statements as at April 1, 2007:

	April 1, 2007
Current assets – Other current assets	$ 5,220
Long-term assets – Property, plant and equipment, net	(1,003)
Long-term assets – Other assets	4,145
Current liabilities – Accounts payable and accrued liabilities	590
Current liabilities – Future income taxes	1,544
Current liabilities – Current portion of long-term debt	(113)
Long-term liabilities – Long-term debt	(3,475)
Long-term liabilities – Future income taxes	2,049
Long-term liabilities – Other liabilities	425
Accumulated other comprehensive income	5,597
Retained earnings	1,745

The adoption of these new standards also impacted the Company's first quarter results, ended June 30, 2007. This impact represented a reduction of $114 of the amortization expense and a $191 increase of financial expenses totalling a net reduction of $52 of the Company's net income for that period. However, this adoption of new standards had no impact on the Company's cash flows from operations and cash flows relating to operating activities for the first quarter ended June 30, 2007.

NOTE 3. FINANCIAL INSTRUMENTS: FORWARD FOREIGN EXCHANGE CONTRACTS

At June 30, 2007, the Company entered into forward foreign exchange contracts whereby it will sell at an average exchange rate of 1.2055 an amount of US$112,250 (US$129,500 at an average rate of 1.2110 as at March 31, 2007 and US$140,250 at an average rate of 1.2511 as at June 30, 2006) for the purpose of foreign exchange risk management related essentially to its export sales and maturing at various dates between July 1, 2007 and December 31, 2010.

NOTE 4. LONG-TERM DEBT

	June 30, 2007	March 31, 2007
Senior Secured Syndicated Revolving Credit Facilities ("Credit Facilities") of up to $80,000 (see below), either in Canadian or U.S. currency equivalent, maturing on October 4, 2011, with no extension, which bear interest at bankers' acceptance plus 1,0% for the Canadian Credit Facilities at June 30, 2007 (representing an effective interest rate of 5,6%) and at Libor plus 1,0% at June 30, 2007 for the U.S. Credit Facilities (representing an effective interest rate of 6,3%) and bankers' acceptance plus 1,4% for the Canadian Credit facilities at March 31, 2007 (representing and effective interest rate of 5,7%), and Libor plus 1,4% at March 31, 2007 for the U.S. Credit Facilities (representing an effective interest rate of 5,6%).		
At June 30, 2007, the Company used $12,000 ($12,000 at March 31, 2007) and U.S.$35,000 (U.S.$35,000 at March 31, 2007) on the Credit Facilities.	**$ 49,289**	$ 52,411
Loans bearing no interest, repayable in variable annual instalments, with various expiry dates until 2013.	**9,164**	15,518
Obligations under capital leases bearing interest between 5,4% and 8,1% maturing between July 2007 and October 2009, with amortization periods varying between five to eight years, secured by the related property, plant and equipment, net of interest of $359 ($419 in fiscal 2007).	**5,147**	5,848
Deferred financing costs, net	**(778)**	(824)
	62,822	72,953
Less: current portion	**4,369**	6,691
	$ 58,453	$ 66,262

The implementation of the new accounting standards (see note 2 – Changes in accounting policies) reduced the loans bearing no interest by $3,588 as at April 1, 2007.

Secured Syndicated Revolving Credit Facilities

Last fiscal year, during the third quarter ended December 31, 2006, the Company successfully concluded the amendment and extension of its Credit Facilities for a five-year period whereas the previous revolving operating and term facilities were combined into Senior Secured Revolving Credit Facilities that will mature in five years, on October 4, 2011, with no extension. Consequently, at June 30, 2007, the outstanding debt relating to these Credit Facilities, amounting to $49,289 was included in the Company's long-term debt.

These 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, are 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.

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).

NOTE 4. LONG-TERM DEBT (cont'd)

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

		2007		2006
Interest expense	$	**1,208**	$	809
Amortization of deferred financing costs		**46**		21
Standby fees		**58**		48
Accretion expense of asset retirement obligations		**51**		47
Amortization of net deferred loss related to financial derivative instrument		**33**		87
Interest revenue		**(150)**		(138)
Financial expenses	$	**1,246**	$	874

The implementation of the new accounting standards (see note 2 – Changes in accounting policies) increased the interest expense by $191 for the first quarter ended June 30, 2007.

NOTE 5. 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, 2007	March 31, 2007
31,618,738 common shares (31,528,017 at March 31, 2007)	**$ 104,093**	$ 103,620

Issuance of common shares

During the quarter ended June 30, 2007, the Company issued 90,721 common shares at a weighted average price of $5.21 for a total net cash consideration of $473 of which 83,300 common shares were issued following the exercise of stock options for a total consideration of $413 and the remainder of 7,421 common shares were issued under the Company's stock purchase and ownership incentive plan for a total cash consideration of $60 (see below).

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).

Stock option plan

The Company has a stock option plan where options to purchase common shares are issued to 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, 2007 amounted to $78 ($55 for the quarter ended June 30, 2006).

During the quarters ended June 30, 2007 and 2006, no stock options were granted or cancelled.

At June 30, 2007, the Company had 1,007,221 outstanding stock options at a weighted exercise average price of $6.35 which will expire over the next seven years (between September 2007 and August 2013).

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.

NOTE 5. CAPITAL STOCK (cont'd)

During the quarter ended June 30, 2007, 7,421 common shares were issued (86,879 since the beginning of the plan) and 3,288 common shares were attributed to the participating employees (38,587 since the beginning of the plan). For the quarter ended June 30, 2007, the expense related to the attributed common shares amounting to $30 was recorded as compensation expense and is included in the Company's selling and administrative expenses.

During the quarter ended June 30, 2006, 6,898 common shares were issued and 2,982 common shares were attributed to the participating employees. For the quarter ended June 30, 2006, the expense related to the attributed common shares amounting to $14 was 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 SARs during the quarters ended June 30, 2007 and 2006. During the quarters ended June 30, 2007 and 2006, no SARs were granted.

At June 30, 2007, on a cumulative basis, 88,000 SARs were still outstanding at a weighted-average value of $5.42 which expire at various dates between fiscal years 2009 and 2013.

NOTE 6. 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:

		2007		2006
Defined benefit pension costs	**$**	**371**	$	311
Defined contribution pension costs		**226**		325
	$	**597**	$	636

NOTE 7. 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:

		2007		2006
Accounts receivable	**$**	**6,438**	$	3,104
Income tax receivable		**(19)**		303
Other receivables		**(6,491)**		3 ,510
Inventories		**7,433**		(6,492)
Prepaid expenses		**(374)**		(481)
Other current assets		**(1,287)**		(213)
Accounts payable and accrued liabilities, and other liabilities		**(14,652)**		(9,370)
Income tax payable		**313**		(539)
Effect of changes in exchange rate		**(2,476)**		(1,050)
	$	**(11,115)**	$	(11,228)

NOTE 8. SEGMENTED INFORMATION FOR THE QUARTERS ENDED JUNE 30

Activity Segment

	2007			2006		
	Aerospace	**Industrial**	**Total**	Aerospace	Industrial	Total
Sales	**$ 71,703**	**$ 7,073**	**$ 78,776**	$ 60,362	$ 5,955	$ 66,317
Operating income (loss)	**6,425**	**(45)**	**6,380**	2,171	(646)	1,525
Financial expenses			**1,246**			874
Income before income tax expense (recovery)			**5,134**			651
Assets	**307,533**	**20,555**	**328,088**	279,343	19,845	299,188
Goodwill	**35,551**	**954**	**36,505**	36,410	999	37,409
Purchase of property, plant and equipment	**4,497**	**220**	**4,717**	1,765	39	1,804
Purchase of finite-life intangible assets	**4**	**-**	**4**	259	-	259
Goodwill acquired	**-**	**-**	**-**	440	-	440
Amortization	**3,573**	**662**	**4,235**	3,684	457	4,141

Geographic Segments

	2007			2006		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Sales	**$ 57,063**	**$ 21,713**	**$ 78,776**	$ 48,670	$ 17,647	$ 66,317
Property plant and equipment, net	**67,725**	**38,727**	**106,452**	59,202	36,153	95,355
Finite-life intangible assets, net	**1,164**	**5,625**	**6,789**	1,965	6,886	8,851
Goodwill	**17,534**	**18,971**	**36,505**	17,534	19,875	37,409
Export sales[(1)]	**$ 31,960**			$ 29,626		

67% of the Company's sales (68% in 2006) were to US customers.

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

NOTE 9. RECLASSIFICATION

Comparative figures for the consolidated financial statements as at June 30, 2006 and March 31, 2007, have been reclassified to comply with the June 30, 2007 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") changed between March 31, 2007 and June 30, 2007. It also compares the operating results and cash flows for the first quarter ended June 30, 2007 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, 2007 and the related MD&A, both available on the Company's website at www.herouxdevtek.com, and with the interim consolidated financial statements to June 30, 2007. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

In the interest of providing shareholders and potential investors with information regarding Héroux-Devtek, including management's assessment of future plans and operations, certain statements in this MD&A are forward-looking statements subject to risks, uncertainties and other important factors that could cause the Company's actual results to differ materially from those expressed in or implied by such statements.

Such factors include, but are not limited to: the impact of general economic conditions in Canada and the United States; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices or availability; foreign exchange and interest rates; stock market volatility; and the impact of accounting policies issued by Canadian 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, 2007. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive. Undue reliance should not be placed on forward-looking statements.

Although the Company believes that the expectations conveyed by the forward-looking statements are based on information available on the date such statements were made, there can be no assurance that such expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. Unless otherwise required by applicable securities laws, the Company expressly disclaims any intention, and assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

OVERVIEW

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

- landing gear products;
- aerostructure products;
- aircraft engine components.

The Industrial segment includes:

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

The Company is continuing on the positive trend initiated with the quarter ended December 31, 2005 and is posting positive results for the seventh consecutive quarter. General economic and industrial factors remained basically unchanged since last year and, as previously announced, the Company all but exited the aircraft engine components market. It should also be noted that, the strength of the Canadian dollar could continue to have a significant negative impact on Héroux-Devtek's results, especially in light of the recent trend in the quarter ended June 30, 2007.

RESULTS OF OPERATIONS

Consolidated Sales

Consolidated sales for the quarter ended June 30, 2007 grew by 18.8% to $78.8 million from $66.3 million for the same period last year.

The increase in first quarter sales was mainly due to continued improved sales for commercial products, consisting of landing gear products for large aircraft, business jets and turboprops, as well as growth in sales of military products. The ongoing strength of the Canadian dollar against the US dollar once again had a negative impact on US dollar denominated sales, reducing total sales by $0.9 million or 1.4%, compared to last year.

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

Segment	**Quarter ended June 30**			
	2007	2006	**VARIANCE**	
	($'000)	($'000)	**($'000)**	**%**
Aerospace				
Military				
Military sales to government	**14,848**	14,684	**164**	**1.1**
Military sales to civil customers	**18,658**	13,213	**5,445**	**41.2**
Total Military	**33,506**	27,897	**5,609**	**20.1**
Total Commercial	**38,197**	32,465	**5,732**	**17.7**
Total Aerospace	**71,703**	60,362	**11,341**	**18.8**
Total Industrial	**7,073**	5,955	**1,118**	**18.8**
Total	**78,776**	66,317	**12,459**	**18.8**

RESULTS OF OPERATIONS (cont'd)

Aerospace Segment

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

Product	**Quarter ended June 30**			
	2007	2006	**VARIANCE**	
	($'000)	($'000)	**($'000)**	**%**
Landing Gear	**45,858**	40,704	**5,154**	**12.7**
Aerostructure	**25,624**	18,348	**7,276**	**39.7**
Aircraft Engine Components	**221**	1,310	**(1,089)**	**(83.1)**
Total	**71,703**	60,362	**11,341**	**18.8**

For the first quarter ended June 30, 2007, overall sales for the Aerospace segment were up 18.8% to $71.7 million compared to $60.4 million for the same period last year.

During the first quarter, Landing Gear sales increased by $5.2 million or 12.7% relative to the same period last year. This resulted from continued growth in sales for large commercial and business jets.

First quarter Aerostructure sales were $25.6 million, $7.3 million or 39.7% higher than last year. This reflects the increase in commercial turboprops parts and military electronic enclosures sales. It also reflects the increase in deliveries on the JSF development program compared to last year.

As previously mentioned, the Company has essentially exited the aircraft engine components market, which explains the $0.2 million in sales for this quarter. Residual sales are expected for the remainder of the year.

Industrial Segment

Sales for the Industrial segment were as follows:

Product	**Quarter ended June 30**			
	2007	2006	**VARIANCE**	
	($'000)	($'000)	**($'000)**	**%**
Gas Turbine	**3,683**	2,450	**1,233**	**50.3**
Other Industrial	**3,390**	3,505	**(115)**	**(3.3)**
Total	**7,073**	5,955	**1,118**	**18.8**

First quarter sales for the Industrial segment totalled $7.1 million this year, 18.8% higher than last year. The positive trend in gas turbine sales that started in the second quarter of fiscal 2007 continued in fiscal 2008, with sales improving by $1.2 million year-over-year.

Sales by Destination

The Company's sales by destination were as follows:

Destination	**Quarter ended June 30**	
	2007	2006
Canada	**30%**	29%
US	**68%**	68%
International	**2%**	3%
	100%	100%

Increased Canadian commercial sales explain the year-over-year variance.

RESULTS OF OPERATIONS (cont'd)

Gross Profit

For the quarter ended June 30, 2007, consolidated gross profit as a percentage of sales was 13.5%, up 5.3% from 8.2% last year.

Gross profit was favourably impacted by higher sales volume and improved margins on certain contracts at the Landing Gear and Aerostructure divisions and by the continued turnaround at the Gas Turbine division. However, improvement in Aerostructure division gross profit was somewhat slowed, again this quarter, by the development phase of the JSF program. The stronger Canadian dollar had basically no major impact on the consolidated gross profit margin in the quarter ended June 30, 2007, compared to the same period last year. The Company uses forward foreign exchange contracts to mitigate the risks related to the Canadian currency fluctuations towards the US currency (see below).

The implementation of the changes in accounting policies (see below) reduced the amortization expense in the first quarter this year by $114,000 and increased marginally the gross profit by 0.1%.

Selling and Administrative Expenses

First quarter selling and administrative expenses were as follows:

	Quarter ended June 30	
	2007	2006
Selling and administrative expenses ($'000)	**4,240**	3,918
% of sales	**5.4**	5.9

First quarter selling and administrative expenses were $0.3 million higher than last year but 0.5% lower as a percentage of sales. Selling and administrative expenses were reduced by a $0.6 million gain on currency translation in the first quarter of fiscal 2008 compared to a gain of $0.9 million for the same period last year.

Operating Income (Loss)

Aerospace Segment

Aerospace operating income was $6.4 million or 9.0% of sales in the first quarter compared to $2.2 million or 3.6% of sales in the first quarter of last year, essentially reflecting higher sales and improved performance at both the Landing Gear and Aerostructure divisions. It also reflects improved margins, following the exit of the aircraft engine components market.

Industrial Segment

The operating loss of $0.1 million for the first quarter of this year compares to a $0.6 million operating loss for the same period last year, and reflects continued operational improvements, the improvement in margins and the increase in industrial sales experienced in the first quarter compared to last year.

Financial Expenses

	Quarter ended June 30	
	2007	2006
	($'000)	($'000)
Interest expense	**1,208**	809
Amortization of deferred financing costs	**46**	21
Standby fees	**58**	48
Accretion expense of asset retirement obligations	**51**	47
Amortization of net deferred loss related to financial derivative instrument	**33**	87
Interest revenue	**(150)**	(138)
Financial expenses – net	**1,246**	874

RESULTS OF OPERATIONS (cont'd)

For the first quarter ended June 30, 2007, financial expenses were $1.2 million, $0.4 million higher than for the same period last year. The increase is attributable to the Company's higher average debt level.

The implementation of the changes in accounting policies (see below) increased the financial expenses by $191,000 in the first quarter this year.

Income Tax Expense

The Company's effective income tax rate for the first quarter ended June 30, 2007 was 19.1% compared to its blended Canadian statutory rate of 32.7%. This difference can be mainly explained by the favourable impact of permanent differences, which reduced the income tax rate by 3.8% and by the recognition of $300,000 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.

At June 30, 2007, the Company had tax losses carried forward and other temporary differences of $6.8 million (7.8 million at March 31, 2007) for which no related income tax assets or benefits have been recognized yet in the consolidated financial statements.

Net Income

	Quarter ended June 30	
	2007	2006
Net income ($'000)	**4,151**	688
Earnings per share – basic & diluted ($)	**0.13**	0.02

The Company posted net income of $4.2 million for the first quarter ended June 30, 2007, compared to net income of $0.7 million for the quarter ended June 30, 2006. These results reflect increased sales volume and improved gross profit margins in all our divisions.

The implementation of the changes in accounting policies (see below) reduced the net income by $52,000 in the first quarter this year.

Earnings per share figures are based on weighted averages of 31,551,999 common shares outstanding for the first quarter of this year and 31,492,855 for the same period last year. The increase in the number of shares is essentially due to the issuance of 7,421 common shares pursuant to the Company's stock purchase and ownership incentive plan and the issuance of 83,300 common shares following the exercise of stock options (see Note 5 to the interim consolidated financial statements).

On August 1, 2007, the date of this MD&A, the Company had 31,620,983 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

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

	Quarter ended June 30	
	2007	2006
	($'000)	($'000)
Cash flows from operations	**8,938**	4,860
Net change in non-cash items related to operations	**(11,115)**	(11,228)
Cash flows relating to operating activities	**(2,177)**	(6,368)

LIQUIDITY AND CAPITAL RESOURCES (cont'd)

For the first quarter ended June 30, 2007, cash flows from operations were $8.9 million, $4.1 million higher than for the same period last year, due mainly to a $3.5 million improvement in net income.

The net change of $11.1 million in non-cash items for the first quarter ended June 30, 2007, arose mainly from a decrease in accounts payable and accrued liabilities and other liabilities of $14.7 million following payment in the first quarter of fiscal 2008 of capital expenditures outstanding as at March 31, 2007, payment of raw material received late in the last fiscal year and a return to more normal payable level. Other receivables increased by $6.5 million, with this variance mainly explained by the invoicing of development costs for the JSF contract following the completion of established milestones. These changes were partly offset by a $6.4 million reduction in accounts receivable resulting from improved collection, and a $7.4 million reduction in inventories.

The implementation of the change in accounting policies (see below) had no impact on the cash flows from operations and cash flows relating to operating activities for the first quarter ended June 30, 2007.

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 $9.4 million reduction in accounts payable and accrued liabilities and other liabilities. These were somewhat offset by decreases of $3.1 million in accounts receivable and $3.5 million in other receivables.

Investing Activities

The Company's investing activities were as follows:

	Quarter ended June 30	
	2007	2006
	($'000)	($'000)
Purchase of property, plant and equipment and finite-life intangible assets	**(4,721)**	(2,063)
Business acquisition, additional payments	**-**	(1,577)
Cash flows relating to investing activities	**(4,721)**	(3,640)

First quarter purchase of property, plant and equipment and finite-life intangible assets (capital expenditures) totalled $4.7 million this year compared to $2.1 million last year. In all, capital expenditures of about $37 million are planned for the current fiscal year, including $23 million which are related to the completion of the new manufacturing facility in Arlington, Texas, for the JSF program and for the renovation of the plating facility at the landing gear plant in Longueuil, Quebec.

The $1.6 million business acquisition in the first quarter ended June 30, 2006, represents the final additional payments made regarding fiscal 2006 profitability performance in relation to the acquisition of Progressive on April 1, 2004.

Financing Activities

The Company's financing activities were as follows:

	Quarter ended June 30	
	2007	2006
	($'000)	($'000)
Repayment of long-term debt	**(3,546)**	(2,380)
Issuance of common shares	**473**	29
Cash flows relating to financing activities	**(3,073)**	(2,351)

LIQUIDITY AND CAPITAL RESOURCES (cont'd)

There was no increase to the Company's long-term debt in the quarters ended June 30, 2007 and 2006. The year-over-year increase in common shares issued resulted from the exercise of 83,300 options at a price of $4.96 per common share for a total of $0.4 million.

Extension of Secured Syndicated Revolving Credit Facilities (Credit Facilities)

Last year, in the third quarter ended December 31, 2006, the Company successfully concluded the amendment and extension of its Credit Facilities for a five-year period, whereby the previous banks' revolving operating and term credit facilities were combined into Senior Secured Revolving credit facilities of $80 million that will 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.

Consequently, at June 30, 2007, the outstanding debt relating to these credit facilities amounting to $49.3 million was included in the Company's long-term debt. As of June 30, 2006, the outstanding amount relating to the operating portion of the former credit facilities, amounting to $5.6 million, was included in the current portion of the long-term debt.

The Company was in compliance with all its restrictive debt covenants at June 30, 2007, 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 officers and key employees. At June 30, 2007, the Company had 1,007,221 outstanding stock options at a weighted average exercise price of $6.35 that will expire over the next seven years (between September 2007 and August 2013).

An aggregate of 2,808,257 shares are reserved for issuance under this plan, of which 691,718 had not yet been granted at June 30, 2007. 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 5 to the interim consolidated financial statements).

CONSOLIDATED BALANCE SHEETS

The following table itemizes and explains the significant changes to the consolidated balance sheets between March 31, 2007 and June 30, 2007:

Item	Change ($ millions)	Explanation
Cash and cash equivalents	(9.7)	See consolidated statements of cash flows.
Accounts receivable	(6.4)	Increased level of business activity more than offset by improved accounts receivable collection. The impact of the stronger Canadian dollar, since March 31, 2007, on US denominated accounts receivable ($1.7 million) also explains this reduction.
Other receivables	6.5	Mainly reflects the invoicing of JSF development costs during the first quarter.
Inventories	(7.4)	Mainly reflects the invoicing of JSF development costs during the first quarter and improved focus on overall inventory levels.

Item	Change ($ millions)	Explanation
Other current assets	10.2	Essentially reflects the recognition in the Company's balance sheet of financial instruments measured at fair value – see below, Changes in accounting policies.
Property, plant and equipment, net	(3.2)	Due to: • Purchase of capital assets ($4.7 million); Net of: • Amortization ($3.9 million); • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($3.1 million). It also reflects the recognition in the Company's balance sheet of financial instruments measured at fair value – see below, Changes in accounting policies.
Finite-life intangible assets, net (includes a $5.3 million net backlog)	(0.9)	Represents mainly the amortization on the underlying value of the net backlog acquired as part of the acquisition of Progressive and the lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries.
Other assets	7.0	Essentially reflects the recognition in the Company's balance sheet of the financial instruments measured at fair value – see below, Changes in accounting policies.
Goodwill	(1.6)	Due to the lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries.
Accounts payable and accrued liabilities	(14.3)	Mainly reflects the impact of the payment of increased raw material purchased at the end of the fourth quarter of last year and, the payment of outstanding capital expenditures, both made in the first quarter of this fiscal year. The impact of the stronger Canadian dollar, since March 31, 2007, on US denominated accounts payable and accrued liabilities ($2.0 million) also explains this reduction.
Future income taxes (current liabilities)	3.0	Reflects mainly the future income tax impact of the recognition in the Company's balance sheet of the financial instruments measured at fair value – see below, Changes in accounting policies.
Long-term debt (including current (including current portion)	(10.1)	Due to: • Capital repayments of long-term debt ($3.5 million); and • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($3.2 million). It also reflects the recognition in the Company's balance sheet of financial instruments measured at fair value – see below, Changes in accounting policies.

Item	Change ($ millions)	Explanation
Future income taxes (Long-term liabilities)	3.1	Reflects mainly the future income tax impact of the recognition in the Company's balance sheet of the financial instruments measured at fair value – see below, Changes in accounting policies.
Accumulated other comprehensive loss	6.3	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries and the unrealized gains, net of taxes, on the fair value of the financial instruments designated as cash flow hedges – see below, Changes in accounting policies.
Retained earnings	5.9	See consolidated statements of changes in shareholders' equity and Changes in accounting policies, below.

At June 30, 2007 and March 31, 2007, the Company's working capital ratio, cash and cash equivalents and long-term debt-to-equity ratio were as follows:

	June 30, 2007	March 31, 2007
Working capital ratio	2.18:1	1.94:1
Cash and cash equivalents	$10.4 million	$20.1 million
Long-term debt-to-equity ratio	0.34:1	0.41:1

OFF-BALANCE SHEET ITEMS AND COMMITMENTS

The Company had entered into operating leases amounting to $11.7 million as at June 30, 2007 ($12.9 million as at March 31, 2007), essentially for machinery and equipment. All these amounts are repayable over the next seven years. At June 30, 2007, the Company also had purchase commitments totalling $18.8 million ($20.2 million to March 31, 2007), mainly for machinery and equipment and construction in progress, for which $3.3 million ($2.0 million to March 31, 2007) deposits on machinery and equipment were made and are included in the Company's other current assets. These commitments mainly relate to the Longueuil plant modernization of the plating department and the construction of a new manufacturing facility in Arlington, Texas.

At June 30, 2007, the Company had entered into forward foreign exchange contracts to sell US$112.3 million at an average exchange rate of 1.2055 (US$129.5 million at an average rate of 1.2110 as at March 31, 2007 and US$140.3 million at an average rate of 1.2511 as at June 30, 2006) for the purpose of foreign exchange risk management, essentially related to its export sales. These contracts mature at various dates between July 2007 and December 2010, with the majority maturing in fiscal 2008 and 2009.

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". Effective April 1, 2007, the Company adopted these new accounting standards.

CHANGES IN ACCOUNTING POLICIES (cont'd)

A new statement entitled "consolidated statement of changes in shareholders' equity" was added to the Company's interim 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 the changes in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources (not related to shareholders). OCI includes 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 and long-term debt (including current portion) 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 1st 2007 can be summarized as follow:

CHANGES IN ACCOUNTING POLICIES (cont'd)

	April 1, 2007 Increase (decrease) ($ million)
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
Long-term liabilities - Long-term debt	(3.6)
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 implementation of these new accounting standards reduced the Company's consolidated net income by $52,000 for the first quarter this year, while it had no impact on cash flows from operations and on cash flows relating to operating activities for the same period.

Impact on June 30, 2007 first quarter consolidated net income

	($ '000)
• Decrease in amortization expense	114
• Increase in financial expenses	(191)
	(77)
• Income tax impact	25
• Reduction in net income	(52)

These accounting standards and the impact of these changes on the Company's consolidated financial statements are discussed in Note 2 - Changes in Accounting Policies (see also the new Consolidated Statement of Changes in Shareholders' Equity).

CONTROLS AND PROCEDURES

In accordance with the Canadian Securities Administrators Multilateral Instrument 52 109, the Company has filed certificates signed by the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer that, among other things, report on the design of disclosure controls and procedures and the design of internal control over financial reporting.

The President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer have evaluated that there were no changes to the Company's internal controls over financial reporting during the first quarter ended June 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

SUBSEQUENT EVENT: FINANCIAL INSTRUMENTS – Interest rate SWAP

Subsequent to the end of the first quarter ended June 30, 2007, in order to limit the effect of interest rate variations over the portion of its long-term debt in US currency, the Company entered into a four-year interest rate swap agreement for an amount of US $15 million that fixes the Libor US rate at 5.53% and matures on August 1, 2011.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments with a variety of risk factors and uncertainties that could have a material adverse effect on the Company's business, financial condition and results of operations. Such risks and uncertainties include, but are not limited to, those mentioned below, which are more fully described in the Company's MD&A for the year ended March 31, 2007.

- 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

With strong activity in all its market segments, Héroux-Devtek expects sales to continue to trend upward in the coming quarters. As reported in the MD&A for the year ended March 31, 2007, the Company expects to achieve approximately 10% internal sales growth in fiscal 2008, as well as further profitability gains from its lean manufacturing initiatives. This being said, it should be noted that the second quarter is traditionally somewhat slower due to vacations and plant shutdowns.

While markets are currently strong and the business cycle is on an upswing, the Company wishes to underscore that, in light of the continued strength of the Canadian dollar toward the US currency, it must continue to improve or make productivity gains to maintain its competitiveness. In addition, with nearly 70% of its sales to the US, the Company continues to manage its exposure to the US currency through the use of forward foreign exchange contracts.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and the Board of Directors on August 1, 2007. 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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