Héroux-Devtek — Quarterly Report

FIRST QUARTER ENDED JUNE 30, 2009

MESSAGE TO SHAREHOLDERS

First quarter ended June 30, 2009

On behalf of the Board of Directors, I am pleased to present the financial results for Héroux-Devtek's first quarter ended June 30, 2009. As anticipated, results reflect lower sales in the commercial aerospace and industrial markets offset by the solid performance of our military aerospace activities.

Consolidated sales amounted to $82.2 million, versus $82.6 million last year. Aerospace sales rose 1.6% to $75.2 million compared with $74.0 million a year ago. Sales of the Landing Gear Division increased by 4.2% to $48.1 million reflecting higher military sales and favourable currency fluctuations, partially offset by the deceleration of production schedules for business jet, helicopter and, to a lesser extent, large commercial aircraft programs. Aerostructure sales declined 2.7% to $26.7 million, as greater sales from the ramp-up of the Joint Strike Fighter (JSF) program and favourable currency movements were more than offset by reduced aftermarket sales as well as by reduced business jet and regional jet activity. Industrial sales totalled $7.0 million, a decrease of 18.7% over sales of $8.6 million last year. As a result of a weaker economy, the power generation industry, including wind energy, and the heavy equipment industry are experiencing softer market conditions.

Fluctuations in the value of the Canadian dollar versus the US currency increased first quarter sales by $7.3 million, or 8.8%, compared with last year while it had basically no impact on gross profit in dollars but a negative impact of 1.3% on the gross profit margin, expressed as a percentage of sales. The impact of currency movements on the Company's gross profit is mitigated by the use of forward foreign exchange sales contracts and the natural hedging from the purchase of materials made in US dollars.

Operating income stood at $7.5 million, or 9.1% of sales, compared with $9.8 million, or 11.9% of sales, a year ago. In the Aerospace segment, operating income was $6.7 million, or 8.9% of sales, compared with $8.4 million, or 11.4% of sales, last year essentially reflecting a less favourable sales mix at the Aerostructure Division and the negative impact of reduced production schedules in the commercial aerospace market. Reflecting a lower sales volume, operating income for the Industrial segment reached $0.8 million, or 11.4% of sales, compared with $1.4 million, or 16.3% of sales, last year, although still healthy by historical standards.

As a result, the Company reported net income of $4.5 million, or $0.15 per share, fully diluted, compared with net income of $5.7 million, or $0.18 per share, fully diluted, a year ago.

During the quarter, the Aerostructure Division was awarded a multi-year contract by Lockheed Martin Aeronautics Company to fabricate, assemble and deliver complex structural components and assemblies for the outer wing, inner wing, and forward fuselage for all three JSF variants in support of Low Rate Initial Production lots 3 through 7 over the next five years. This contract begins in the second half of calendar year 2009 and continues through the first half of 2014, at which time the JSF program enters its first multi-year procurement phase. Based on best estimated quantity production rates, the value of the contract is estimated to be in excess of $50 million. This agreement is in addition to a $135-million, multi-year contract awarded in 2007 for forged aluminum bulkheads and other complex components and confirms Héroux-Devtek's status as the largest JSF aerostructure supplier for Lockheed Martin.

In addition, Noranco Inc. awarded the Aerostructure Division a multi-year contract related to electronic chassis components for the JSF aircraft. The Magtron business unit will perform operations, including brazing, heat treatment, and testing of complex avionic housings for all three JSF variants over the next eight years, beginning in calendar 2010. Based on best estimated quantity production rates, the value of the contract is estimated to be in excess of $10 million. This contract expands Héroux-Devtek's reach on the JSF program across all three sites of the Aerostructure Division.

The commercial aerospace market remains affected by persistent economic uncertainty. Given reduced levels of new orders, as well as cancellations or deferrals, production schedules are being reduced in the business jet, helicopter and, to a lesser extent, large commercial aircraft segment. The military aerospace market remains solid with major programs progressing as expected, particularly the JSF program. Still, the new US administration may reduce funding of subsequent military budgets. The power generation industry is impacted over the short-term by the financial crisis given the significant capital requirements of these projects, although wind energy still holds considerable potential over the mid-term.

In light of the Canadian dollar's recent volatility, we will seek further productivity gains and continue to streamline our cost base to remain globally competitive. To this effect, we are proactively implementing cost reductions measures to reflect a more difficult environment. Time schedules have been reduced at some facilities while our three main business units in Longueuil, Kitchener and Texas have not been significantly affected.

Decelerations of production schedules as well as order cancellations and push-outs in the commercial aerospace market have reduced Héroux-Devtek's funded backlog to $468 million as at June 30, 2009, down from $485 million three months earlier. Despite strong customer relationships and a backlog that nevertheless remains solid, we are not anticipating any significant sales growth for fiscal 2010 considering the prevailing economic environment. It is also important to remember that our second quarter has traditionally been a

somewhat slower period owing to seasonal factors, such as plant shutdowns and summer vacations.

Gilles Labbé
President and Chief Executive Officer
August 6, 2009

Héroux-Devtek Inc.

Notice of Disclosure of Non-Auditor Review of Interim Financial Statements for the quarters ended June 30, 2009 and 2008.

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, 2009 and 2008, 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 6th day of August, 2009.

CONSOLIDATED BALANCE SHEETS
As at June 30, 2009 and March 31, 2009
(In thousands of Canadian dollars) (Unaudited)

	Notes	June 2009	March 2009
Assets	9		
Current assets			
Cash and cash equivalents		$ 15,203	$ 39,759
Accounts receivable		45,874	52,190
Income tax receivable		6,553	5,630
Other receivables	14	4,849	3,739
Inventories	4	102,954	95,647
Prepaid expenses		2,610	2,011
Future income taxes		8,424	11,172
Other current assets	5	1,487	-
		187,954	210,148
Property, plant and equipment, net	6	147,668	155,481
Finite-life intangible assets, net		10,943	11,190
Other assets	7	4,051	362
Goodwill		38,242	39,993
		$ 388,858	$ 417,174
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		$ 65,812	$ 83,575
Accounts payable – other	8	6,270	18,559
Income tax payable		386	3,241
Future income taxes		3,771	3,568
Current portion of long-term debt	9	4,612	4,221
		80,851	113,164
Long-term debt	9	82,407	83,047
Other liabilities	10	10,405	15,982
Future income taxes		12,362	8,490
		186,025	220,683
Shareholders' equity			
Capital stock	11	101,567	102,822
Contributed surplus	11	1,492	1,375
Accumulated other comprehensive loss		(8,684)	(12,124)
Retained earnings		108,458	104,418
		202,833	196,491
		$ 388,858	$ 417,174

Commitments (Note 14)

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

CONSOLIDATED STATEMENTS OF INCOME
For the quarters ended June 30, 2009 and 2008
(In thousands of Canadian dollars, except share and per share data) (Unaudited)

	Notes		2009		2008
Sales		$	**82,160**	$	82,571
Cost of sales, including amortization expense of **$5,290** ($4,664 in 2008)	4		**68,821**		67,450
Gross profit			**13,339**		15,121
Selling and administrative expenses	11		**5,868**		5,318
Operating income			**7,471**		9,803
Financial expenses, net	9		**1,178**		1,171
Income before income tax expense			**6,293**		8,632
Income tax expense			**1,751**		2,934
Net income		$	**4,542**	$	5,698
Earnings per share – basic		$	**0.15**	$	0.18
Earnings per share – diluted		$	**0.15**	$	0.18
Weighted-average number of shares outstanding during the quarters			**30,945,533**		31,645,381

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the quarters ended June 30, 2009 and 2008
(In thousands of Canadian dollars) (Unaudited)

	Notes	Capital stock	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive income (loss)
Balance at March 31, 2009		$102,822	$1,375	$(12,124)	$104,418	$ -
Common shares issued or repurchased:	11	-	-	-	-	-
Under the stock purchase and ownership incentive plan		80	-	-	-	-
Repurchase of common shares under the Company's normal course issuer bid		(1,335)	-	-	(502)	-
Stock-based compensation expense	11	-	117	-	-	-
Net income		-	-	-	4,542	4,542
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $3,801		-	-	8,099	-	8,099
Net (gains) losses on derivative financial instruments designated as cash flow hedges in prior years transferred to net income in the current period, net of taxes of $829		-	-	1,867	-	1,867
Cumulative translation adjustment		-	-	(6,526)	-	(6,526)
Balance at June 30, 2009		$101,567	$1,492	$(8,684)	$108,458	$ 7,982

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive income (loss)
Balance at March 31, 2008, as previously reported		$104,260	$1,115	$(9,932)	$85,335	$ -
Changes in accounting policy:						
Inventories		-	-	-	(1,940)	-
Balance at March 31, 2008, adjusted		104,260	1,115	(9,932)	83,395	-
Common shares issued	11					
Under the stock purchase and ownership incentive plan		80	-	-	-	-
Stock-based compensation expense	11	-	120	-	-	-
Net income		-	-	-	5,698	5,698
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $653		-	-	1,357	-	1,357
Net (gains) losses on derivative financial instruments designated as cash flow hedges in prior years transferred to net income in the current period, net of taxes of $975		-	-	(2,025)	-	(2,025)
Cumulative translation adjustment		-	-	(330)	-	(330)
Balance at June 30, 2008		$104, 340	$1,235	$(10,930)	$89,093	$ 4,700

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the quarters ended June 30, 2009 and 2008
(In thousands of Canadian dollars) (Unaudited)

	Notes	2009	2008
Cash and cash equivalents provided by (used for):			
Operating activities			
Net income		$ 4,542	$ 5,698
Items not requiring an outlay of cash:			
Amortization		5,290	4,664
Future income taxes		1,551	927
(Gain) on sale of property, plant and equipment		(2)	-
Amortization of deferred financing costs	9	42	42
Accretion expense on asset retirement obligations and non-interest bearing loans	9	290	268
Stock-based compensation expense	11	117	120
Cash flows from operations		11,830	11,719
Net change in non-cash working capital items related to operations	13	(25,443)	(9,175)
Cash flows related to operating activities		(13,613)	2,544
Investing activities			
Additions to property, plant and equipment	6	(4,229)	(4,039)
Net increase in finite-life intangible assets		(545)	(1,203)
Proceeds on disposal of property, plant and equipment		2	-
Cash flows related to investing activities		(4,772)	(5,242)
Financing activities			
Repayment of long-term debt	9	(1,834)	(1,417)
Repurchase of common shares	11	(1,837)	-
Issuance of common shares	11	80	80
Cash flows related to financing activities		(3,591)	(1,337)
Effect of changes in exchange rates on cash and cash equivalents		(2,580)	51
Change in cash and cash equivalents during the period		(24,556)	(3,984)
Cash and cash equivalents at beginning of period		39,759	24,431
Cash and cash equivalents at end of period		$ 15,203	$ 20,447
Supplemental information:			
Interest paid		$ 762	$ 789
Income taxes paid		$ 3,918	$ 1,786

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

HÉROUX DEVTEK

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the quarters ended June 30, 2009 and 2008
(All dollar amounts in thousands of Canadian dollars, 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, 2009.

Note 2. Changes in Accounting policies

Adopted as at April 1, 2009

Goodwill and intangible assets
In February 2008, the Accounting Standard Board ("AcSB") issued Section 3064, *Goodwill and Intangible Assets*, which resulted in the withdrawal of Section 3062, *Goodwill and Other Intangible Assets*, Section 3450, *Research and Development Costs* and of Emerging Issues Committee ("EIC") Abstract 27, *Revenues and Expenditures during the pre-operating period*, and which also resulted in the amendment of Accounting Guidelline ("AcG") 11, *Enterprises in the Development Stage*. This Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with IFRS IAS 38, *Intangible Assets*.

The Company adopted this change in accounting policies as at April 1, 2009 with no effect on the Company's consolidated financial statements.

Future changes in accounting policies

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

Business combinations, consolidated financial statements and non-controlling interests
In January 2009, the AcSB released Section 1582, *Business Combinations*, which resulted in the withdrawal of Section 1581, *Business Combinations*. It provides the Canadian equivalent to IFRS 3, *Business Combinations.* For the Company, this Section applies prospectively to business combinations for which the acquisition is subsequent to fiscal 2011. Earlier application is permitted. Section 1582 must be applied together with Section 1601 and Section 1602 if it is implemented for a fiscal year beginning before April 1, 2011.

In January 2009, the AcSB also released Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interest,* which resulted in the withdrawal of Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements of the parent, subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of IAS 27, *Consolidated and Separate Financial Statements*.

For the Company, these sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after April 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. These sections must be applied together with Section 1582, *Business Combinations* if they are implemented for a fiscal year beginning before April 1, 2011.

The Company is evaluating the effect of these new standards on its consolidated financial statements.

Note 3. Financial instruments

The classification of financial instruments between held-for-trading ("HFT") loans and receivables ("L&R") and hedging items and their carrying amounts and fair values were as follows as at:

	June 30, 2009					March 31, 2009				
	Carrying value				Fair Value	Carrying value				Fair Value
	HFT	L&R	Hedging items	Total (1)		HFT	L&R	Hedging items	Total (1)	
Financial assets										
Cash and cash equivalents	$15,203	$ -	$ -	$15,203	$15,203	$39,759	$ -	$ -	$39,759	$39,759
Accounts receivable(2)	-	45,874	-	45,874	45,874	-	52,190	-	52,190	52,190
Other receivables(3)	-	462	-	462	462	-	832	-	832	832
Other current assets (4)	-	-	1,487	1,487	1,487	-	-	-	-	-
Other assets(6)	-	-	4,051	4,051	4,051	-	-	362	362	362
	$15,203	$46,336	$5,538	$67,077	$67,077	$39,759	$53,022	$ 362	$93,143	$93,143

	June 30, 2009					March 31, 2009				
	Carrying value				Fair Value	Carrying value				Fair Value
	HFT	Other than HFT	Hedging items	Total (1)		HFT	Other Than HFT	Hedging items	Total (1)	
Financial liabilities										
Accounts payable and accrued liabilities(5)	$ -	$40,362	$ -	$ 40,362	$ 40,362	$ -	$53,557	$ -	$53,557	$53,557
Accounts payable – other (4)	-	1,399	4,792	6,191	6,191	-	9,917	8,642	18,559	18,559
Long-term debt, including current portion	-	87,495	-	87,495	88,121	-	87,786	-	87,786	90,076
Long-term liabilities – Other liabilities(6)	-	-	5,073	5,073	5,073	-	-	10,444	10,444	10,444
	$ -	$129,256	$9,865	$139,121	$139,747	$ -	$151,260	$19,086	$170,346	$172,636

(1) Represents only the carrying values of financial assets and liabilities included in the corresponding balance sheet caption.
(2) Comprising trade receivables.
(3) Comprising certain other receivables.
(4) Includes the fair value of short-term derivative financial instruments.
(5) Comprising trade accounts payable and accrued liabilities, including interest and certain payroll-related liabilities.
(6) Includes the fair value of long-term derivative financial instruments.

At June 30, 2009, the Company had entered into forward foreign exchange sales contracts to sell US $165,250 at a weighted-average exchange rate of 1.1440 (US$162,750 at a weighted-average exchange rate of 1.1396 as at March 31, 2009 and US $141,750 at a weighted-average exchange rate of 1.0787 as at June 30, 2008) for the purpose of foreign exchange risk

management, essentially related to its export sales. These contracts mature at various dates between July 2009 and March 2014, with the majority maturing in fiscal 2010 and 2011.

At June 30, 2009, the Company had also entered into forward foreign exchange sales contracts totalling US$11,300 at a weighted-average exchange rate of 1.2397 maturing over the next four fiscal years (the majority of which over the next two fiscal years) to cover foreign exchange risk related to certain embedded derivatives.

Note 4. Inventories

Inventories consist of:

	June 30, 2009	March 31, 2009
Raw materials	$ 49,449	$ 51,586
Work in progress and finished goods	83,492	78,273
Less: Progress billings	29,987	34,212
	$102,954	$ 95,647

The amount of inventories recognized as cost of sales for the quarters ended June 30 is detailed as follows:

	2009	2008
Aerospace segment	$58,189	$ 57,406
Industrial segment	4,231	6,474
	$62,420	$ 63,880

The change in write-downs related to inventories for the quarters ended June 30 is detailed as follows:

	2009	2008
Write-downs recognized as cost of sales	$1,492	$ 1,247
Reversal of write-downs recognized as a reduction of cost of sales	$1,043	$ 842

The inventory write-down reversal is determined following the revaluation, each quarter end, of the net realizable value of inventories based on the related sales contracts and production costs. It also includes the charges against the reserve for products delivered during the year for which a net realizable value reserve was required and recorded in prior periods.

Note 5. Other Current Assets

The Company's other current assets are summarized as follows:

	June 30, 2009	March 31, 2009
Derivative financial instruments – forward foreign exchange contracts	$1,482	$ -
Other	5	-
	$1,487	$ -

Note 6. Property, plant and equipment

The additions to property, plant and equipment of $4,229 for the quarter ended June 30, 2009, presented in the consolidated statements of cash flows include $8,518 of machinery and equipment which were received and accounted for in the last quarter of fiscal year 2009, but paid during the quarter ended June 30, 2009. They are also presented net of $6,302 (none in last year's first quarter ended June 30, 2008) of machinery and equipment which were acquired through capital leases during the quarter ended June 30, 2009.

Note 7. Other assets

The Company's other assets are summarized as follows:

	June 30, 2009	March 31, 2009
Derivative financial instruments – forward foreign exchange contracts	$4,051	$ 362

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Note 8. Accounts payable – other

The Company's accounts payable – other are summarized as follows:

	June 30, 2009	March 31, 2009
Derivative financial instruments – forward foreign exchange contracts	$4,792	$ 8,642
Machinery and equipment	1,399	9,917
Other	79	-
	$6,270	$18,559

Note 9. Long-term debt

	June 30, 2009	March 31, 2009
Senior Secured Syndicated Revolving Credit Facilities ("Credit Facilities") of up to $125,000, either in Canadian or U.S. currency equivalent, maturing on October 4, 2011, which bear interest at bankers' acceptance plus 1.0% for the Canadian Credit Facilities at June 30, 2009 (representing an effective interest rate of 1.4%; 1.7% as at March 31, 2009) and at Libor plus 1.0% at June 30, 2009 for the U.S. Credit Facilities (representing an effective interest rate of 1.3%; 1.5% as at March 31, 2009). At June 30 and March 31, 2009, the Company used $nil and US$43,000 on the Credit Facilities.	$ 50,009	$ 54,235
Non-interest bearing loans, repayable in variable quarterly instalments, with various expiry dates until 2025.	18,617	19,042
Obligations under capital leases bearing interest between 4.2% and 9.3% maturing from August 2009 to May 2016, with amortization periods ranging from five to eight years, secured by the related property, plant and equipment, net of interest of $3,297 ($2,355 at March 31, 2009).	18,869	14,509
Deferred financing costs, net	(476)	(518)
	87,019	87,268
Less: current portion	4,612	4,221
	$ 82,407	$ 83,047

Senior Secured Syndicated Revolving Credit Facilities

The Senior Secured Revolving Credit Facilities will mature on October 4, 2011.

These Credit Facilities allow the Company and its subsidiaries to borrow up to $125,000 (either in Canadian and U.S. currency equivalent – see below), from a group of banks and their U.S. 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 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 U.S.).

Financial expenses, for the quarters ended June 30, comprise the following:

	2009	2008
Interest	$ 829	$ 1,029
Interest accretion on non-interest bearing loans	233	215
Amortization of deferred financing costs	42	42
Standby fees	22	21
Accretion expense on asset retirement obligations	57	53
Gain on financial instruments classified as HFT - Interest income	(5)	(189)
Financial expenses, net	$ 1,178	$ 1,171

Note 10. Other liabilities

The Company's other liabilities are summarized as follows:

	June 30, 2009	March 31, 2009
Pension plan and other post-retirement benefits	$5,090	$ 5,288
Derivative financial instruments – interest rate swaps	1,658	2,030
Derivative financial instruments – forward foreign exchange contracts	3,415	8,414
Other	242	250
	$10,405	$15,982

Note 11. 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, 2009	March 31, 2009
30,785,068 common shares at June 30, 2009 (31,171,688 at March 31, 2009)	$101,567	$102,822

Issuance of common shares

During the quarter ended June 30, 2009, the Company issued 20,380 common shares at a weighted average price of $3.93 for a total net cash consideration of $80. These shares were all issued under the Company's stock purchase and ownership plan.

During the quarter ended June 30, 2008, the Company issued 11,287 common shares at a weighted-average price of $7.06 for a total net cash consideration of $80. These shares were all issued under the Company's stock purchase and ownership plan.

Normal course issuer bid

On November 24, 2008, the Company launched a normal course issuer bid ("NCIB") under which the Company may repurchase up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding common shares. The NCIB terminates on November 23, 2009, or on such earlier date as the Company may complete its repurchases.

During the quarter ended June 30, 2009, the Company repurchased 407,000 shares at an average price of $4.51, for a total net cash consideration of $1,837 under the normal course issuer bid. The excess ($502) of the cost of the common shares over their average book value ($1,335) was accounted for as a reduction of the Company's retained earnings.

Since November 24, 2008, the Company repurchased a total of 941,000 common shares at an average price of $4.18.

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 Binomial valuation model to determine their fair value. The expense related to stock options in the quarter ended June 30, 2009 amounting to $117 ($120 for the quarter ended June 30, 2008) is recorded as compensation expense and is included in the selling and administrative expenses, with a corresponding amount to the contributed surplus in the Company's Shareholders' equity.

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During the quarters ended June 30, 2009 and 2008, no stock options were granted and 75,000 options were cancelled (65,000 in 2008) following their expiry dates.

At June 30, 2009, the Company had 1,309,221 outstanding stock options at a weighted-average exercise price of $6.07 which will expire over the next six years (between February 2010 and November 2015).

Stock purchase and ownership incentive plan

On September 2, 2004, the Board of Directors of the Company approved a stock purchase and ownership incentive plan to induce management employees to hold, on a long-term basis, common shares of the Company.

During the quarter ended June 30, 2009, 20,380 common shares were issued (194,209 since the beginning of the plan) and 8,644 common shares attributed to the participating employees (83,269 since the beginning of the plan). The expense related to the attributed common shares amounting to $38 is recorded as compensation expense and is included in the Company's selling and administrative expenses.

During the quarter ended June 30, 2008, 11,287 common shares were issued and 4,652 common shares were attributed to the participating employees. The expense related to the attributed common shares amounting to $37 is recorded as compensation expense and is included in the Company's selling and administrative expenses.

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Stock appreciation rights plan
The Company has a stock appreciation rights ("SAR") plan under which rights are issued to its non-employee directors. The SAR enables the participants to receive by way of bonuses, 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.

During the quarters ended June 30, 2009 and 2008, no SARs were granted. 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. During the quarters ended June 30, 2009 and 2008, no expense was recorded for SARs.

During the quarters ended June 30, 2009 and 2008, no SARs were exercised or cancelled.

At June 30, 2009, on a cumulative basis, 123,000 SARs were still outstanding at a weighted-average granted value of $6.59 (95,500 SARs at a weighted-average granted value of $6.53 as at June 30, 2008) which expire on various dates from fiscal 2010 to 2015.

Note 12. Pension and other retirement benefit plans

Description of 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 based on either 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 amount is not significant, they are not included in the figures below.

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

	2009	2008
Defined benefit pension costs	**$ 349**	$ 304
Defined contribution pension costs	**524**	497
	$ 873	$ 801

Note 13. Net change in non-cash working capital items related to operations
The net change in non-cash working capital items related to operations for the quarters ended June 30 are detailed as follows:

	2009	2008
Accounts receivable	**$ 6,316**	$ (3,110)
Income tax receivable	**(923)**	139
Other receivables	**(1,110)**	1,088
Inventories	**(7,307)**	(3,791)
Prepaid expenses	**(599)**	(133)
Other current assets	**(5)**	(168)
Accounts payable and accrued liabilities and, other liabilities	**(16,678)**	(3,580)
Accounts payable – other	**79**	-
Income tax payable	**(2,855)**	530
Effect of changes in exchange rate[1]	**(2,361)**	(150)
	$ (25,443)	$ (9,175)

[1] Reflects the total impact of changes in exchange rate during the related period on non-cash working capital items listed above for the Company's U.S. subsidiaries.

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Note 14. Commitments

The Company has released purchase orders relating to machinery and equipment which have not been delivered yet to the Company's facilities. These outstanding purchase orders at June 30, 2009 amounted to $8,932 ($4,709 – March 31, 2009) for which $2,913 ($1,115 – March 31, 2009) of deposits on machinery and equipment were made and included in the Company's other receivables.

Note 15. Segmented information

Quarters ended June 30
Activity segments

	2009			2008		
	Aerospace	**Industrial**	**Total**	Aerospace	Industrial	Total
Sales	**$ 75,183**	**$ 6,977**	**$ 82,160**	$ 73,993	$ 8,578	$ 82,571
Operating income	**6,674**	**797**	**7,471**	8,402	1,401	9,803
Financial expenses, net			**1,178**			1,171
Income before income tax expense			**6,293**			8,632
Assets	**356,953**	**31,905**	**388,858**	330,104	22,979	353,083
Goodwill	**37,201**	**1,041**	**38,242**	34,778	913	35,691
Additions to property, plant and equipment	**3,748**	**481**	**4,229**	2,684	1,355	4,039
Net increase in finite-life intangible assets	**545**	**-**	**545**	1,203	-	1,203
Amortization	**4,611**	**679**	**5,290**	4,050	614	4,664

Geographic segments

	2009			2008		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Sales	**$ 55,546**	**$ 26,614**	**$ 82,160**	$ 55,349	$ 27,222	$ 82,571
Property plant and equipment, net	**92,170**	**55,498**	**147,668**	75,631	50,102	125,733
Finite-life intangible assets, net	**5,938**	**5,005**	**10,943**	1,216	6,405	7,621
Goodwill	**17,534**	**20,708**	**38,242**	17,534	18,157	35,691
Export sales (1)	**$ 31,332**			$ 25,329		

69% of the Company's sales (63% in 2008) were to U.S. customers.

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

Note 16. Reclassification

Comparative figures for the consolidated financial statements as at June 30, 2008 and March 31, 2009 have been reclassified to conform to the June 30, 2009 presentation.

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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, 2009 and June 30, 2009. It also compares the operating results and cash flows for the first quarter ended June 30, 2009 to those for the same period in the previous year. It should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2009 and the related MD&A, both available on the Company's website at www.herouxdevtek.com, and with the unaudited interim consolidated financial statements to June 30, 2009. 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 particularly in Canada and the United States; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity prices; foreign exchange or interest rate fluctuations; stock market volatility; and the impact of accounting policies issued by Canadian, US and international standard setters. Some of these factors are further discussed under Risks and Uncertainties in the Company's MD&A for the year ended March 31, 2009. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

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

OVERVIEW

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

- landing gear products;
- aerostructure products;
- other aerospace products.

The Industrial segment includes:

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

The impact of the worldwide financial turmoil and economic situation is discussed later in this MD&A (see under Impact of the International Financial Crisis and Economic Situation). For the quarter ended June 30, 2009, this has affected particularly the Company's commercial sales in the Aerospace and Industrial segments. However, this impact on sales was mainly offset by the military sector sales and the weakening of the Canadian dollar relative to the US dollar in this quarter, compared to the same quarter last year.

RESULTS OF OPERATIONS

Consolidated Sales

Consolidated sales for the quarter ended June 30, 2009 decreased by 0.5% to $82.2 million from $82.6 million for the same period last year.

The decrease in the first quarter sales this year was mainly due to decelerations of production schedules and push-outs experienced in the commercial aerospace business jet and helicopter markets, and to deteriorating market conditions in the Industrial market. This decrease was mainly offset by the increase in military sales and the favourable impact on sales of the fluctuations in the value of the Canadian dollar versus the US dollar in the quarter. The weakening of the Canadian dollar relative to the US dollar had a favourable impact of $7.3 million or 8.8% on the first quarter sales this year, when compared to last year's first quarter.

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

Segment	Quarters ended June 30			
	2009	2008	VARIANCE	
	($'000)	($'000)	($'000)	%
Aerospace				
Military				
Military sales to government	16,567	14,367	2,200	15.3
Military sales to civil customers	31,319	24,381	6,938	28.5
Total Military	47,886	38,748	9,138	23.6
Total Commercial	27,297	35,245	(7,948)	(22.6)
Total Aerospace	75,183	73,993	1,190	1.6
Total Industrial	6,977	8,578	(1,601)	(18.7)
Total	82,160	82,571	(411)	(0.5)

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			
	2009	2008	VARIANCE	
	($'000)	($'000)	($'000)	%
Landing Gear	48,118	46,197	1,921	4.2
Aerostructure	26,742	27,496	(754)	(2.7)
Other aerospace products	323	300	23	7.7
Total	75,183	73,993	1,190	1.6

For the first quarter ended June 30, 2009, overall sales for the Aerospace segment were up 1.6% to $75.2 million from $74.0 million for the same period last year.

During the first quarter, Landing Gear sales increased by $1.9 million or 4.2% to $48.1 million relative to the same period last year. This resulted mainly from the positive impact of the weakening Canadian dollar relative to the US dollar and increased military repair and overhaul sales. The improved throughput in Landing Gear on manufacturing military sales during the quarter also had a positive impact. These were partially offset by decelerations of production schedules which reduced commercial business jet and helicopter sales and, to a lesser degree, large commercial sales.

First quarter Aerostructure sales were $26.7 million, $0.8 million or 2.7% lower than last year. Additional sales coming from the Joint Strike Fighter (JSF) F-35 ramped-up program were more than offset by reduced aftermarket sales and by reduced commercial business jet and regional jet sales. The Canadian dollar fluctuations relative to the US dollar in the first quarter this year also had a positive impact on Aerostructure sales, compared to the same period last year.

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Industrial Segment

Sales for the Industrial segment were as follows:

Product	Quarters ended June 30			
	2009	2008	VARIANCE	
	($'000)	($'000)	($'000)	%
Gas Turbine	3,963	4,120	(157)	(3.8)
Other Industrial	3,014	4,458	(1,444)	(32.4)
Total	6,977	8,578	(1,601)	(18.7)

First quarter sales for the Industrial segment totalled $7.0 million this year, 18.7% lower than last year. Due to market conditions, overall industrial sales were negatively impacted in Gas Turbine, Wind Energy and heavy equipment sales. This decrease in sales was partially offset by the favourable Canadian dollar fluctuation relative to the US dollar in the first quarter this year.

Sales by Destination

The Company's sales by destination were as follows:

Destination	Quarters ended June 30	
	2009	2008
Canada	29%	36%
US	69%	63%
International	2%	1%
	100%	100%

The change in the sales-by-destination mix in the quarter reflects the increase in Landing Gear military sales to US customers and the overall decrease in commercial sales to Canadian customers.

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Gross Profit

For the quarter ended June 30, 2009, consolidated gross profit as a percentage of sales was 16.2%, down 2.1% from 18.3% last year.

In the first quarter of this year, gross profit was negatively impacted by the decelerations of production schedules and push-outs in the commercial business, particularly in the Aerostructure division. Reduced Industrial sales only marginally affected margins due to the effective cost reduction plan implemented. This decrease in gross profit margin was somewhat offset by improved margins at the Landing Gear Division mainly due to the overall increase in sales and higher production efficiency during the quarter. In addition, last year's first quarter gross profit was impacted by a more favourable sales mix.

For the quarter ended June 30, 2009, the Canadian dollar fluctuations relative to the US dollar had basically no impact on gross profit in dollars but a negative impact of 1.3% on the gross profit margin, expressed as a percentage of sales, compared to the same period last year. Besides the natural hedging from the purchase of materials made in US dollars, the Company uses forward foreign exchange sales contracts to mitigate the risks related to Canadian currency fluctuations against the US currency and its impact on the Company's gross profit.

Selling and Administrative Expenses

First quarter selling and administrative expenses were as follows:

	Quarters ended June 30	
	2009	2008
Selling and administrative expenses ($'000)	5,868	5,318
% of sales	7.1	6.4

First quarter selling and administrative expenses were $0.6 million higher than last year and 0.7% higher as a percentage of sales. Selling and administrative expenses were increased by a $0.3 million loss on currency translation on net monetary items in this quarter, compared to a break-even for the same period last year.

Operating Income

Aerospace Segment

Aerospace operating income was $6.7 million or 8.9% of sales in the first quarter this year, compared to $8.4 million or 11.4% of sales for the comparative quarter last year. The reduction in operating income this year mainly reflects the negative impact on margin from the reduced commercial aerospace sales and less favourable sales mix explained above.

Industrial Segment

The operating income of $0.8 million or 11.4% of sales for the first quarter of this year compares to $1.4 million or 16.3% of sales for the same period last year. It reflects the impact from market conditions on Industrial sales and the related gross profit margin explained above.

Financial Expenses

Financial expenses for both quarters ended June 30, 2009 and 2008, were $1.2 million, with the Company's debt level being basically the same for both periods. The favourable impact of lower interest rates on debt this quarter was offset by reduced interest revenues.

Income Tax Expense

The Company had an income tax expense of $1.8 million for the quarter ended June 30, 2009, compared to an expense of $2.9 million last year. The Company's effective income tax rate was 27.8% compared to its Canadian blended statutory rate of 30.8%. The difference can be explained by the favourable impact on the Company's effective income tax rate coming from future income tax adjustments due to changes in the Canadian income tax rate ($0.2 million) and permanent differences ($0.1 million), and the negative impact of a higher US income tax rate for the Company's US subsidiaries ($0.1 million).

The Company's effective income tax rate for the first quarter ended June 30, 2008 was 34%, compared to its Canadian blended statutory rate of 31.1%. The difference can be explained by the increased income from the Company's US subsidiaries with higher income tax rate and the impact of future tax adjustments ($0.3 million), net of the favourable impact of permanent differences ($0.2 million).

Net Income

	Quarters ended June 30	
	2009	2008
Net income ($'000)	4,542	5,698
Earnings per share – basic & diluted ($)	0.15	0.18

The Company posted net income of $4.5 million for the first quarter ended June 30, 2009, compared to net income of $5.7 million for the quarter ended June 30, 2008. This reduction in net income reflects essentially the decrease in sales and different sales mix in the Aerostructure and Gas Turbine Components divisions.

Earnings per share figures are based on weighted averages of 30,945,533 common shares outstanding for the first quarter of this year and 31,645,381 for the same period last year. The decrease in the number of shares is essentially due to the 941,000 shares redeemed under the normal course issuer bid launched by the Company since

November 2008 to June 30, 2009, less the issuance of common shares, including 20,380 shares during the quarter ended June 30, 2009, under the Company's stock purchase and ownership incentive plan (see note 11 to the Interim Consolidated Financial Statements).

On August 5, 2009, the date of this MD&A, the Company had 30,660,893 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

The Company generated cash flows from operations and had cash flows relating to its operating activities as follows:

	Quarters ended June 30	
	2009 ($'000)	2008 ($'000)
Cash flows from operations	11,830	11,719
Net change in non-cash items related to operations	(25,443)	(9,175)
Cash flows relating to operating activities	(13,613)	2,544

For the first quarter ended June 30, 2009, cash flows from operations were $11.8 million, $0.1 million higher than for the same period last year. The net change of $25.4 million in non-cash items can be explained by a $16.7 million reduction in accounts payable and accrued liabilities and other liabilities, the inventory increase of $7.3 million due to certain aerospace program decelerations and push-outs along with the purchase of certain raw materials for military and new commercial aerospace contracts, and the payment of income taxes of $2.9 million.

The net change of $9.2 million in non-cash items for the quarter ended June 30, 2008, can be explained by a $3.1 million increase in accounts receivable reflecting higher sales by quarter-end as of that date, a $3.8 million increase in inventories (before the inventory adjustment following the new accounting guidelines last year) in line with upcoming business activity in the first quarter last year, and a reduction of $3.6 million in accounts payable and accrued liabilities and other liabilities. These amounts were somewhat offset by a decrease of $1.1 million in other receivables.

Investing Activities

The Company's investing activities were as follows:

	Quarters ended June 30	
	2009 ($'000)	2008 ($'000)
Additions to property, plant and equipment	(4,229)	(4,039)
Net increase in finite-life intangible assets	(545)	(1,203)
Proceeds on disposal of property, plant and equipment	2	-
Cash flows relating to investing activities	(4,772)	(5,242)

First quarter additions to property, plant and equipment totalled $4.2 million this year, compared to $4.0 million last year. In the first quarter this year, this amount includes the payment of property, plant and equipment received and accounted for in the last quarter of fiscal 2009, net of the capital expenditures financed through capital leases (see Consolidated Balance Sheets section below and note 6 to the Interim Consolidated Financial Statements). Capital expenditures of about $20 million are planned for the current fiscal year, mostly for normal maintenance projects and also for certain investments related to the JSF program in our Texas facilities.

In the first quarter this year, the $0.5 million net increase in finite-life intangible assets represents mainly the increase of capitalized development costs for aerospace long-term contracts compared to $1.2 million last year, mainly due to the implementation of new accounting guidelines on inventories.

Financing Activities

The Company's financing activities were as follows:

	Quarters ended June 30	
	2009 ($'000)	2008 ($'000)
Repayment of long-term debt	(1,834)	(1,417)
Repurchase of common shares	(1,837)	-
Issuance of common shares	80	80
Cash flows relating to financing activities	(3,591)	(1,337)

During the quarter ended June 30, 2009, the Company redeemed 407,000 common shares under the normal course issuer bid launched in November 2008 at an average price of $4.51 (see Note 11 to the Interim Consolidated Financial Statements).

Stock Option Plan

The Company has a stock option plan whereby options to purchase common shares are issued to officers and key employees. At June 30, 2009, the Company had 1,309,221 outstanding stock options at a weighted-average exercise price of $6.07 that will expire over the next six years.

During the quarter ended June 30, 2009, 75,000 options were cancelled (65,000 during the same quarter last year), having reached their expiry dates.

An aggregate of 2,808,257 shares are reserved for issuance under this plan, of which 314,718 had not yet been granted at June 30, 2009. 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 11 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, 2009 and June 30, 2009:

Item	Change ($ millions)	Explanation
Cash and cash equivalents	(24.6)	See consolidated statements of cash flows.
Accounts receivable	(6.3)	This includes the impact of the strengthening of the Canadian dollar since March 31, 2009, on US denominated accounts receivable ($3.0 million).
Inventories	7.3	Inventories were impacted by certain aerospace program decelerations and push-outs, along with the purchase of certain raw materials for military and new commercial contracts, net of the impact of a lower US exchange rate to convert the net assets of self-sustaining US subsidiaries ($2.5 million).
Other current assets	1.5	Essentially reflects the variation in the Company's balance sheets of short-term derivative financial instruments measured at fair value.
Property, plant and equipment, net	(7.8)	Due to: • Purchase of capital assets ($2.0 million); Net of: • Amortization ($5.1 million); • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($4.7 million).
Finite-life intangible assets, net (includes a $4.8 million net backlog)	(0.2)	Due to: • Net increase in finite-life intangible assets ($0.5 million), representing capitalized aerospace development costs for long-term contracts. Net of: • The amortization ($0.2 million) of the underlying value of the net backlog and the lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.5 million).
Other assets	3.7	Essentially reflects the variation in the Company's balance sheets of long-term derivative financial instruments measured at fair value.

Item	Change ($ millions)	Explanation
Accounts payable and accrued liabilities	(17.8)	Mainly reflects an overall reduction of days in accounts payable and accrued liabilities. It also reflects the impact of the lower US exchange rate used to convert the US denominated accounts payable and accrued liabilities ($1.9 million).
Accounts payable - other	(12.3)	Mainly reflects the payment of property, plant and equipment received and accounted for in the last quarter of fiscal year 2009 and the variation in the Company's balance sheets of short-term derivative financial instruments measured at fair value.
Long-term debt (including current portion)	(0.2)	Due to: • New capital lease obligations related to equipment ($6.3 million); • Interest accretion on non-interest bearing loans ($0.2 million); Net of: • Capital repayments of long-term debt ($1.8 million); and • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($4.9 million)
Other long-term liabilities	(5.6)	Mainly reflects the variation in the Company's balance sheet of long-term derivative financial instruments measured at fair value.
Capital stock	(1.2)	Reflects the common shares issued under the Company's stock purchase and ownership plan ($0.1 million) net of the book value of the common shares repurchased under the Company's Normal Course Issuer Bid ($1.3 million).
Accumulated other comprehensive loss	3.4	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries, and the unrealized gains (losses), net of taxes, on the fair value of financial instruments designated as cash flow hedges.
Retained earnings	4.0	See consolidated statements of changes in shareholders' equity.

At June 30, 2009 and March 31, 2009, the Company's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio were as follows:

	June 30, 2009	March 31, 2009
Working capital ratio	2.32:1	1.86:1
Cash and cash equivalents	$15.2 million	$39.8 million
Long-term debt-to-equity ratio	0.41:1	0.42:1
Net debt-to-equity ratio[(1)]	0.35:1	0.24:1

(1): Defined as total long-term debt, including the current portion, less cash and cash equivalents, over shareholders' equity.

OFF-BALANCE SHEET ITEMS AND COMMITMENTS

The Company had entered into operating leases amounting to $8.2 million as at June 30, 2009 ($9.2 million as at March 31, 2009), essentially for machinery and equipment. All these amounts are repayable over the next seven years. At June 30, 2009, the Company also had purchase commitments totalling $8.9 million ($4.7 million to March 31, 2009), mainly for machinery and equipment, for which deposits of $2.9 million ($1.1 million to March 31, 2009) on machinery and equipment were made and are included in the Company's other receivables. These commitments include purchase commitments related to the JSF program (see "Investing Activities", above).

At June 30, 2009, the Company had entered into forward foreign exchange sales contracts to sell US$165.3 million at a weighted-average exchange rate of 1.1440 (US$162.8 million at a weighted-average exchange rate of 1.1396 as at March 31, 2009 and US$141.8 million at a weighted-average exchange rate of 1.0787 as at June 30, 2008) for the purpose of foreign exchange risk management, essentially related to its export sales. These contracts mature at various dates between July 2009 and March 2014, with the majority maturing in fiscal 2010 and 2011.

At June 30, 2009, the Company had also entered into forward foreign exchange sales contracts totalling US$11.3 million at a weighted-average exchange rate of 1.2397 maturing over the next four fiscal years (the majority of which over the next two fiscal years) to cover foreign exchange risk related to certain embedded derivatives.

IMPACT OF THE INTERNATIONAL FINANCIAL CRISIS AND ECONOMIC SITUATION

In light of the financial and economic market situation, the Company is carefully monitoring its strategy and risk management. Although the results of the Company are positive, some effects are becoming apparent, prompting management to take a conservative approach in its daily decisions.

In the first quarter ended June 30, 2009, the Company's results were impacted by certain decelerations of product schedules and push-outs on commercial aerospace programs as well as by the impact from softer conditions in industrial markets. However, the Company's backlog is still strong but the prevailing business environment,

and the push-backs or cancellations of certain additional purchase orders, could have an adverse impact on upcoming results. It is worth mentioning that the Company is striving to maintain a well-balanced portfolio between commercial and military aerospace sales, which should help it better manage any potential slowdown. This being said, the impact of OEM announcements over recent quarters will adversely impact the aerospace commercial market while the military side of the Company's business is still solid.

From a financial standpoint, the Company has a healthy balance sheet. The Company is presently meeting all of its financial covenants and expects to do so for the next twelve months. Capital expenditure requirements are closely monitored by management. The Company does not expect to have any liquidity issues, considering that the banks' Credit Facilities are extended by a syndicate of four Canadian banks, with acceptable credit ratings, and that the major customers of the Company are worldwide leaders in their respective fields.

Considering the above, the Company maintains its near-term outlook (see Outlook section below) and does not foresee any short-term elements that could jeopardize the going concern of its operations. That being said, and understanding that the Company does not have all the visibility that it usually has in its markets, the Company will nevertheless continue to closely monitor the situation (see Risks and Uncertainties and Outlook sections below).

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the Accounting Standard Board ("AcSB") confirmed that Canadian GAAP for publicly accountable entities will be converged with IFRS effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB is expected to continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. First reporting under IFRS is required for our interim and annual financial statements beginning on April 1, 2011. We have developed a changeover plan to convert our Consolidated Financial Statements to IFRS, as described in our fiscal year 2009 annual report. Our IFRS project is progressing according to plan. We continue to monitor standards to be issued by the IASB, but it is difficult to predict the IFRS that will be effective at the end of our first IFRS reporting period, as the IASB work plan anticipates the completion of several projects in calendar years 2010 and 2011. We also continue to provide training to key employees and monitor the impact of the transition on our business practices, systems and internal controls over financial reporting. We will provide updates as further progress is achieved and conclusions are reached.

CONTROLS AND PROCEDURES

The purpose of internal controls over financial reporting is to provide reasonable assurance as to the reliability of the Company's financial reporting and the preparation of its financial statements in accordance with Canadian GAAP.

No changes that were made to our internal controls over financial reporting during the quarter ended June 30, 2009, have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments with a variety of risk factors and uncertainties that could have a material adverse effect on the Company's business, financial condition and results of operations. Such risks and uncertainties include, but are not limited to, those mentioned below, which are more fully described in the Company's MD&A for the year ended March 31, 2009.

- Reliance on large customers
- Availability and cost of raw materials
- Operational risks
- Impact of Terrorist activity
- 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

The commercial aerospace market remains affected by persistent economic uncertainty. Given reduced levels of new orders, as well as cancellations or deferrals, production schedules are being reduced in the business jet, helicopter and, to a lesser extent, large commercial aircraft segments. The military aerospace market remains solid with major programs progressing as expected, particularly the JSF program, for which the US Department of Defense recently recommended increasing the number of aircraft to be purchased for the US government's 2010 fiscal year. Still, the new US administration may reduce funding of subsequent military budgets. The power generation industry is impacted over the short-term by the financial crisis and economic situation given the significant capital requirements of these projects. The industrial gas turbine market is also affected by low natural gas prices, while infrastructure issues associated with the distribution of power has softened activity in the wind energy market, which still holds considerable potential over the mid-term.

Given decelerations of production schedules as well as order cancellations and push-outs experienced in the commercial aerospace market, Héroux-Devtek's funded (firm orders) backlog has declined to $468 million as at June 30, 2009, down from $485 million three months earlier. Despite strong customer relationships and a backlog that nevertheless remains solid, the Company is not anticipating any significant sales growth for fiscal 2010 considering the prevailing economic environment. It is also important to remember that the second quarter has traditionally been a somewhat slower period owing to seasonal factors, such as plant shutdowns and summer vacations.

Furthermore, in light of the recent volatility of the Canadian dollar and the uncertainty surrounding its continuous fluctuation versus the US currency, the Company will seek further productivity gains and streamline its cost base to remain globally competitive. To this effect, during the first quarter, the Company proactively implemented a cost reduction plan to cope with prevailing economic conditions. However, time schedules have been reduced at some facilities while the three main business units in Longueuil, Kitchener and Texas have not been significantly affected.

Capital expenditures for fiscal 2010 are expected to be approximately $20 million, mostly for normal maintenance projects but also certain investments related to the JSF program. After investing more than $100 million over the last three years, the Company plans to optimize these state-of-the-art investments in the coming quarters.

Héroux-Devtek still intends to pursue acquisition opportunities that complement its existing core Landing Gear and Aerostructure operations, supported by a healthy balance sheet and Credit Facilities extending up to $125 million.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee and the Board of Directors on August 5, 2009. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.